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**UNITED STATES – ANTI-DUMPING AND COUNTERVAILING MEASURES ON LARGE
RESIDENTIAL WASHERS FROM KOREA**

AB-2016-2

Report of the Appellate Body

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ABBREVIATIONS USED IN THIS REPORT

Abbreviation	Description
AD	anti-dumping / anti-dumping duty
Anti-Dumping Agreement	Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994
BCI	business confidential information
BCI Procedures	Additional working procedures adopted by the Panel for the protection of BCI, attached as Annex A-2 to the Panel Report
CONNUM	control number
CVD	countervailing duty
DPM	Differential Pricing Methodology that replaced the Nails II methodology
DSB	Dispute Settlement Body
DSU	Understanding on Rules and Procedures Governing the Settlement of Disputes
GATT 1994	General Agreement on Tariffs and Trade 1994
GOK	Government of Korea
HRD	human resources development
IGE	Informal Group of Experts
joint request	Joint request of the United States and Korea for additional procedures for the protection of BCI
LGE	LG Electronics, Inc.
LRWs	large residential washers
Nails II methodology	Methodology that was used by the USDOC to determine whether to apply the W-T comparison methodology
Panel	Panel in these proceedings
Panel Report	Panel Report, <i>United States – Anti-Dumping and Countervailing Measures on Large Residential Washers from Korea</i> , WT/DS464/R, 11 March 2016
R&D	research and development
<i>Refrigerators</i> anti-dumping investigation	USDOC [A-580-865] Antidumping Duty Investigation of Bottom Mount Combination Refrigerator-Freezers from the Republic of Korea
RSTA	Korea's Restriction of Special Taxation Act
RSTA Article 10(1)(3) tax credit programme	The tax credit programme under Article 10(1)(3) of the RSTA entitled "Tax Deduction for Research and Manpower Development"
RSTA Article 26 tax credit programme	The tax credit programme under Article 26 of the RSTA entitled "Tax Deduction for Facilities Investment"
RSTA Enforcement Decree	Presidential Decree No. 22037 enforcing the RSTA, issued on 18 February 2010
Samsung	Samsung Electronics Co., Ltd
SCM Agreement	Agreement on Subsidies and Countervailing Measures

Abbreviation	Description
SCM Committee	Committee on Subsidies and Countervailing Measures
SEL	Samsung Electronics Logitech
Seoul overcrowding area	The "overcrowding control region" of the Seoul metropolitan area pursuant to Article 23 of the RSTA Enforcement Decree as defined in Article 9 and Table 1 of the Enforcement Decree of the Seoul Metropolitan Area Readjustment Planning Act
SES	Samsung Electronics Service
SGEC	Samsung Gwangju Electronics Co., Ltd
SMEs	small and medium enterprises
T-T	transaction-to-transaction
USDOC	United States Department of Commerce
Vienna Convention	Vienna Convention on the Law of Treaties, Done at Vienna, 23 May 1969, UN Treaty Series, Vol. 1155, p. 331
<i>Washers</i> anti-dumping investigation	USDOC [A-580-868] Antidumping Duty Investigation of Large Residential Washers from the Republic of Korea
<i>Washers</i> countervailing duty investigation	USDOC [C-580-869] Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea
Working Procedures	Working Procedures for Appellate Review, WT/AB/WP/6, 16 August 2010
W-T	weighted average-to-transaction
WTO	World Trade Organization
WTO Agreement	Marrakesh Agreement Establishing the World Trade Organization
W-W	weighted average-to-weighted average

PANEL EXHIBITS CITED IN THIS REPORT

Exhibit No.	Short title (if any)	Description
KOR-1		USDOC [A-580-868] Notice of Final Determination of Sales at Less Than Fair Value: Large Residential Washers From the Republic of Korea, <i>United States Federal Register</i> , Vol. 77, No. 247 (26 December 2012), pp. 75988-75992
KOR-2	<i>Washers</i> final CVD determination	USDOC [C-580-869] Large Residential Washers From the Republic of Korea: Final Affirmative Countervailing Duty Determination, <i>United States Federal Register</i> , Vol. 77, No. 247 (26 December 2012), pp. 75975-75978
KOR-18	<i>Washers</i> AD I&D memorandum	USDOC [A-580-868] Issues and Decision Memorandum for the Antidumping Duty Investigation of Large Residential Washers from the Republic of Korea (18 December 2012)
KOR-21		Oxford Dictionaries online, definition of "pattern" < http://www.oxforddictionaries.com/us/definition/american_english/pattern >, accessed 18 September 2014
KOR-25		USDOC, Differential Pricing Analysis; Request for Comments, <i>United States Federal Register</i> , Vol. 79, No. 90 (9 May 2014), pp. 26720-26723
KOR-32	<i>Washers</i> preliminary AD determination	USDOC [A-580-868] Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Large Residential Washers From the Republic of Korea, <i>United States Federal Register</i> , Vol. 77, No. 150 (3 August 2012), pp. 46391-46401

Exhibit No.	Short title (if any)	Description
KOR-33	<i>Xanthan gum</i> calculation memorandum	USDOC [A-570-985] Memorandum regarding Less Than Fair Value Investigation of Xanthan Gum from the People's Republic of China: Post-Preliminary Analysis and Calculation Memorandum for Neimenggu Fufeng Biotechnologies Co., Ltd and Shandong Fufeng Fermentation Co., Ltd (4 March 2013)
KOR-36		<i>Dictionnaires de français Larousse</i> online, definition of " <i>configuration</i> " < http://www.larousse.fr/dictionnaires/francais/configuration >, accessed 18 September 2014
KOR-37		<i>Diccionario de la lengua española de Real Academia Española</i> online, definition of " <i>pauta</i> " < http://lema.rae.es/drae/?val=pauta >, accessed 18 September 2014
KOR-41 (BCI)	<i>Washers</i> final AD calculation for Samsung memorandum	USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers from Korea – Samsung Final Determination Calculation Memorandum (18 December 2012) (contains BCI)
KOR-42 (BCI)	<i>Washers</i> final AD calculation for LGE memorandum	USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers from Korea – Final Determination Margin Calculation for LG Electronics Inc. and LG Electronics USA, Inc. (18 December 2012) (contains BCI)
KOR-43		USDOC, Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part, <i>United States Federal Register</i> , Vol. 79, No. 62 (1 April 2014), pp. 18262-18276
KOR-44 (BCI)		USDOC [C-580-869] Remand Redetermination, <i>Samsung Electronics Co., Ltd v. United States</i> , Final Results of Redetermination Pursuant to Court Order, USCIT, Court No. 13-00099, Slip Op. 14-39 (11 April 2014) (contains BCI)
KOR-45	<i>Washers</i> preliminary AD calculation for LGE memorandum	USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers (Washing Machines) from Korea – Preliminary Determination Margin Calculation for LG Electronics Inc. and LG Electronics USA, Inc. (27 July 2012)
KOR-46	<i>Washers</i> preliminary AD calculation for Samsung memorandum	USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers (Washing Machines) from Korea – Preliminary Determination Margin Calculation for Samsung Electronics Co., Ltd and Samsung Electronics America, Inc. (27 July 2012)
KOR-72 (BCI)	Samsung <i>Washers</i> CVD questionnaire response	Response dated 9 April 2012 of Samsung Electronics Co., Ltd to the USDOC's questionnaire of 15 February 2012 in the <i>Washers</i> CVD investigation [C-580-869] (excerpts) (contains BCI)
KOR-75 (BCI)	GOK <i>Washers</i> CVD questionnaire response	Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the <i>Washers</i> CVD investigation [C-580-869] (excerpts) (contains BCI)
KOR-76	GOK <i>Washers</i> CVD questionnaire response	Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the <i>Washers</i> CVD investigation [C-580-869] (including excerpts of Article 10 of the RSTA and Article 9 of the RSTA Enforcement Decree)
KOR-77	<i>Washers</i> final CVD I&D memorandum	USDOC [C-580-869] Issues and Decision Memorandum for the Final Determination in the Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea (18 December 2012)
KOR-78 (BCI)	<i>Washers</i> CVD GOK questionnaire verification memorandum	USDOC [C-580-869] Memorandum to File regarding Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea – Verification of the Questionnaire Responses Submitted by the Government of the Republic of Korea (22 October 2012) (contains BCI)
KOR-79 (BCI)	<i>Washers</i> CVD Samsung questionnaire verification memorandum	USDOC [C-580-869] Memorandum to File regarding Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea – Verification of the Questionnaire Responses Submitted by Samsung Electronics Co., Ltd, Samsung Electronics [Logitech], and Samsung Electronics Service (22 October 2012) (contains BCI)

Exhibit No.	Short title (if any)	Description
KOR-81	GOK <i>Washers</i> CVD questionnaire response	Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the <i>Washers</i> CVD investigation [C-580-869] (excerpts) (BCI-redacted version)
KOR-82 (BCI)	GOK <i>Washers</i> CVD case brief	Case Brief of the Government of Korea, Large Residential Washers from the Republic of Korea [C-580-869] (31 October 2012) (excerpt) (contains BCI)
KOR-85	<i>Washers</i> preliminary CVD determination	USDOC [C-580-869] Large Residential Washers From the Republic of Korea: Preliminary Affirmative Countervailing Duty Determination and Alignment of Final Determination With Final Antidumping Determination, <i>United States Federal Register</i> , Vol. 77, No. 108 (5 June 2012), pp. 33181-33194
KOR-90	Samsung <i>Washers</i> CVD case brief	Case Brief of Samsung Electronics Co., Ltd, Large Residential Washers from the Republic of Korea [C-580-869] (2 November 2012) (excerpt)
KOR-91	GOK <i>Washers</i> CVD supplemental questionnaire response	Response of the Government of Korea to the USDOC's first supplemental questionnaire in the <i>Washers</i> CVD investigation [C-580-869] (containing exhibit S-25, "Excerpts from Seoul Metropolitan Area Readjustment Planning Act (with its Enforcement Decree)" (Korean/English))
KOR-96		USDOC [A-580-868] Large Residential Washers From the Republic of Korea: Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014, <i>United States Federal Register</i> , Vol. 80, No. 45 (9 March 2015), pp. 12456-12458 USDOC [A-580-868] Memorandum regarding Large Residential Washers from Korea: Decision Memorandum for the Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014 (3 March 2015) USDOC [A-580-868] Memorandum to File regarding 2012-2014 Administrative Review of Large Residential Washers from Korea – Preliminary Results Margin Calculation for LGE (2 March 2015) (BCI-redacted version)
KOR-98 (BCI)	<i>Refrigerators</i> AD I&D memorandum <i>Refrigerators</i> AD Samsung cost verification memorandum	USDOC [A-580-865] Issues and Decision Memorandum for the Antidumping Duty Investigation of Bottom Mount Refrigerator-Freezers from the Republic of Korea (16 March 2012) (excerpts) USDOC [A-580-865] Memorandum to File regarding Verification of the Cost Response of Samsung Electronics Co., Ltd and Samsung Gwangju Electronics Co., Ltd in the Antidumping Duty Investigation of Bottom Mount Combination Refrigerator-Freezers from the Republic of Korea (21 December 2011) (excerpts) (contains BCI annexes)
KOR-99 (BCI)	<i>Washers</i> AD Samsung cost verification memorandum	USDOC [C-580-868] Memorandum to File regarding Verification of the Cost Response of Samsung Electronics Co., Ltd in the Less-Than-Fair-Value Investigation of Large Residential Washers from the Republic of Korea (17 October 2012) (contains BCI)
KOR-100 (BCI)	<i>Washers</i> preliminary AD calculation for LGE memorandum	USDOC [A-580-868] Memorandum to File regarding 2012-2014 Administrative Review of Large Residential Washers from Korea: Preliminary Results Margin Calculation for LGE (2 March 2015) (contains BCI annexes)
KOR-115 (BCI)	<i>Washers</i> CVD GOK questionnaire verification exhibit 10	Excerpts of exhibit 10 provided by Samsung to the USDOC in the <i>Washers</i> CVD GOK questionnaire verification (contains BCI)
KOR-121	<i>Washers</i> anti-dumping order	USDOC [A-201-842, A-580-868] Large Residential Washers From Mexico and the Republic of Korea: Antidumping Duty Orders, <i>United States Federal Register</i> , Vol. 78, No. 32 (15 February 2013), pp. 11148-11150
KOR-126 (BCI)	<i>Washers</i> CVD GOK questionnaire verification exhibit 12	Excerpts of exhibit 12 provided by Samsung to the USDOC in the <i>Washers</i> CVD GOK questionnaire verification (contains BCI)

Exhibit No.	Short title (if any)	Description
KOR-141		USDOC [A-580-868] Large Residential Washers From the Republic of Korea: Final Results of the Antidumping Duty Administrative Review; 2012-2014, <i>United States Federal Register</i> , Vol. 80, No. 179 (16 September 2015), pp. 55595-55596 USDOC [A-580-868] Issues and Decision Memorandum for the Final Results of the Antidumping Duty Administrative Review of Large Residential Washers from the Republic of Korea (8 September 2015)
USA-5		Oxford English Dictionary online, definition of "differ" < http://www.oed.com/view/Entry/52452?rskey=CRXlmt&result=2&print >, accessed 4 February 2014
USA-7		Oxford English Dictionary online, definition of "significantly" < http://www.oed.com/view/Entry/179570?redirectedFrom-significantly&print >, accessed 4 February 2014
USA-15		Negotiating Group on MTN Agreements and Arrangements, Amendments to the Anti-Dumping Code, Communication from the Delegation of Hong Kong, Addendum, GATT Document MTN.GNG/NG8/W/51/Add.1, 22 December 1989
USA-16		Negotiating Group on MTN Agreements and Arrangements, Communication from Japan, GATT Document MTN.GNG/NG8/W/30, 20 June 1988
USA-17		Negotiating Group on MTN Agreements and Arrangements, Communication from Japan Concerning the Anti-Dumping Code, GATT Document MTN.GNG/NG8/W/81, 9 July 1990
USA-18		Negotiating Group on MTN Agreements and Arrangements, Meeting of 16-18 October 1989, MTN.GNG/NG8/13
USA-25	CVD preamble regulations	USDOC, Countervailing Duties: Final Rule, <i>United States Federal Register</i> , Vol. 63, No. 227 (25 November 1998), pp. 65348-65418
USA-26 (BCI)		USDOC [C-580-869] Memorandum to File regarding Final Countervailing Duty Determination: Large Residential Washers from the Republic of Korea (18 December 2012) (contains BCI)
USA-29	IGE Report	Report by the Informal Group of Experts to the Committee on Subsidies and Countervailing Measures, Note from the Informal Group of Experts (revision), G/SCM/W/415/Rev.2, 15 May 1998
USA-31		<i>The New Shorter Oxford English Dictionary on Historical Principles</i> , 4th edn, L. Brown (ed.) (Clarendon Press, 1993), Vol. 1, pp. 644-645 and 1078-1079, and Vol. 2, pp. 2527-2528
USA-48		<i>The New Shorter Oxford English Dictionary on Historical Principles</i> , 4th edn, L. Brown (ed.) (Clarendon Press, 1993), Vol. 1, p. 1614
USA-100		Response dated 10 April 2012 of Samsung Electronics Co., Ltd to the USDOC's questionnaire of 15 February 2012 in the <i>Washers</i> CVD investigation [C-580-869] (excerpts) (BCI-redacted version)

CASES CITED IN THIS REPORT

Short Title	Full Case Title and Citation
<i>Argentina – Footwear (EC)</i>	Appellate Body Report, <i>Argentina – Safeguard Measures on Imports of Footwear</i> , WT/DS121/AB/R, adopted 12 January 2000, DSR 2000:I, p. 515
<i>Canada – Aircraft</i>	Appellate Body Report, <i>Canada – Measures Affecting the Export of Civilian Aircraft</i> , WT/DS70/AB/R, adopted 20 August 1999, DSR 1999:III, p. 1377
<i>Canada – Dairy</i>	Appellate Body Report, <i>Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products</i> , WT/DS103/AB/R, WT/DS113/AB/R, and Corr.1, adopted 27 October 1999, DSR 1999:V, p. 2057

Short Title	Full Case Title and Citation
<i>Canada – Renewable Energy / Canada – Feed-in Tariff Program</i>	Appellate Body Reports, <i>Canada – Certain Measures Affecting the Renewable Energy Generation Sector / Canada – Measures Relating to the Feed-in Tariff Program</i> , WT/DS412/AB/R / WT/DS426/AB/R, adopted 24 May 2013, DSR 2013:I, p. 7
<i>China – Broiler Products</i>	Panel Report, <i>China – Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States</i> , WT/DS427/R and Add.1, adopted 25 September 2013, DSR 2013:IV, p. 1041
<i>China – GOES</i>	Appellate Body Report, <i>China – Countervailing and Anti-Dumping Duties on Grain Oriented Flat-Rolled Electrical Steel from the United States</i> , WT/DS414/AB/R, adopted 16 November 2012, DSR 2012:XII, p. 6251
<i>China – HP-SSST (Japan) / China – HP-SSST (EU)</i>	Appellate Body Reports, <i>China – Measures Imposing Anti-Dumping Duties on High-Performance Stainless Steel Seamless Tubes ("HP-SSST") from Japan / China – Measures Imposing Anti-Dumping Duties on High-Performance Stainless Steel Seamless Tubes ("HP-SSST") from the European Union</i> , WT/DS454/AB/R and Add.1 / WT/DS460/AB/R and Add.1, adopted 28 October 2015
<i>China – Publications and Audiovisual Products</i>	Appellate Body Report, <i>China – Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products</i> , WT/DS363/AB/R, adopted 19 January 2010, DSR 2010:I, p. 3
<i>EC – Asbestos</i>	Appellate Body Report, <i>European Communities – Measures Affecting Asbestos and Asbestos-Containing Products</i> , WT/DS135/AB/R, adopted 5 April 2001, DSR 2001:VII, p. 3243
<i>EC – Bed Linen</i>	Appellate Body Report, <i>European Communities – Anti-Dumping Duties on Imports of Cotton-Type Bed Linen from India</i> , WT/DS141/AB/R, adopted 12 March 2001, DSR 2001:V, p. 2049
<i>EC – Salmon (Norway)</i>	Panel Report, <i>European Communities – Anti-Dumping Measure on Farmed Salmon from Norway</i> , WT/DS337/R, adopted 15 January 2008, and Corr.1, DSR 2008:I, p. 3
<i>EC – Selected Customs Matters</i>	Appellate Body Report, <i>European Communities – Selected Customs Matters</i> , WT/DS315/AB/R, adopted 11 December 2006, DSR 2006:IX, p. 3791
<i>EC and certain member States – Large Civil Aircraft</i>	Appellate Body Report, <i>European Communities and Certain Member States – Measures Affecting Trade in Large Civil Aircraft</i> , WT/DS316/AB/R, adopted 1 June 2011, DSR 2011:I, p. 7
<i>EC and certain member States – Large Civil Aircraft</i>	Panel Report, <i>European Communities and Certain Member States – Measures Affecting Trade in Large Civil Aircraft</i> , WT/DS316/R, adopted 1 June 2011, as modified by Appellate Body Report, WT/DS316/AB/R, DSR 2011:II, p. 685
<i>Japan – Alcoholic Beverages II</i>	Appellate Body Report, <i>Japan – Taxes on Alcoholic Beverages</i> , WT/DS8/AB/R, WT/DS10/AB/R, WT/DS11/AB/R, adopted 1 November 1996, DSR 1996:I, p. 97
<i>Japan – DRAMS (Korea)</i>	Panel Report, <i>Japan – Countervailing Duties on Dynamic Random Access Memories from Korea</i> , WT/DS336/R, adopted 17 December 2007, as modified by Appellate Body Report WT/DS336/AB/R, DSR 2007:VII, p. 2805
<i>Korea – Commercial Vessels</i>	Panel Report, <i>Korea – Measures Affecting Trade in Commercial Vessels</i> , WT/DS273/R, adopted 11 April 2005, DSR 2005:VII, p. 2749
<i>US – Anti-dumping and Countervailing Duties (China)</i>	Appellate Body Report, <i>United States – Definitive Anti-Dumping and Countervailing Duties on Certain Products from China</i> , WT/DS379/AB/R, adopted 25 March 2011, DSR 2011:V, p. 2869
<i>US – Anti-Dumping and Countervailing Duties (China)</i>	Panel Report, <i>United States – Definitive Anti-Dumping and Countervailing Duties on Certain Products from China</i> , WT/DS379/R, adopted 25 March 2011, as modified by Appellate Body Report WT/DS379/AB/R, DSR 2011:VI, p. 3143
<i>US – Continued Zeroing</i>	Appellate Body Report, <i>United States – Continued Existence and Application of Zeroing Methodology</i> , WT/DS350/AB/R, adopted 19 February 2009, DSR 2009:III, p. 1291
<i>US – Corrosion-Resistant Steel Sunset Review</i>	Appellate Body Report, <i>United States – Sunset Review of Anti-Dumping Duties on Corrosion-Resistant Carbon Steel Flat Products from Japan</i> , WT/DS244/AB/R, adopted 9 January 2004, DSR 2004:I, p. 3

Short Title	Full Case Title and Citation
<i>US – Cotton Yarn</i>	Appellate Body Report, <i>United States – Transitional Safeguard Measure on Combed Cotton Yarn from Pakistan</i> , WT/DS192/AB/R, adopted 5 November 2001, DSR 2001:XII, p. 6027
<i>US – Countervailing Duty Investigation on DRAMS</i>	Appellate Body Report, <i>United States – Countervailing Duty Investigation on Dynamic Random Access Memory Semiconductors (DRAMS) from Korea</i> , WT/DS296/AB/R, adopted 20 July 2005, DSR 2005:XVI, p. 8131
<i>US – Countervailing Measures on Certain EC Products</i>	Appellate Body Report, <i>United States – Countervailing Measures Concerning Certain Products from the European Communities</i> , WT/DS212/AB/R, adopted 8 January 2003, DSR 2003:I, p. 5
<i>US – Gambling</i>	Appellate Body Report, <i>United States – Measures Affecting the Cross-Border Supply of Gambling and Betting Services</i> , WT/DS285/AB/R, adopted 20 April 2005, DSR 2005:XII, p. 5663 (and Corr.1, DSR 2006:XII, p. 5475)
<i>US – Lamb</i>	Appellate Body Report, <i>United States – Safeguard Measures on Imports of Fresh, Chilled or Frozen Lamb Meat from New Zealand and Australia</i> , WT/DS177/AB/R, WT/DS178/AB/R, adopted 16 May 2001, DSR 2001:IX, p. 4051
<i>US – Large Civil Aircraft (2nd complaint)</i>	Appellate Body Report, <i>United States – Measures Affecting Trade in Large Civil Aircraft (Second Complaint)</i> , WT/DS353/AB/R, adopted 23 March 2012, DSR 2012:I, p. 7
<i>US – Lead and Bismuth I</i>	GATT Panel Report, <i>United States – Imposition of Countervailing Duties on Certain Hot-Rolled Lead and Bismuth Carbon Steel Products Originating in France, Germany and the United Kingdom</i> , SCM/185, 15 November 1994, unadopted
<i>US – Lead and Bismuth II</i>	Appellate Body Report, <i>United States – Imposition of Countervailing Duties on Certain Hot-Rolled Lead and Bismuth Carbon Steel Products Originating in the United Kingdom</i> , WT/DS138/AB/R, adopted 7 June 2000, DSR 2000:V, p. 2595
<i>US – Lead and Bismuth II</i>	Panel Report, <i>United States – Imposition of Countervailing Duties on Certain Hot-Rolled Lead and Bismuth Carbon Steel Products Originating in the United Kingdom</i> , WT/DS138/R and Corr.2, adopted 7 June 2000, upheld by Appellate Body Report WT/DS138/AB/R, DSR 2000:VI, p. 2623
<i>US – Line Pipe</i>	Appellate Body Report, <i>United States – Definitive Safeguard Measures on Imports of Circular Welded Carbon Quality Line Pipe from Korea</i> , WT/DS202/AB/R, adopted 8 March 2002, DSR 2002:IV, p. 1403
<i>US – Offset Act (Byrd Amendment)</i>	Appellate Body Report, <i>United States – Continued Dumping and Subsidy Offset Act of 2000</i> , WT/DS217/AB/R, WT/DS234/AB/R, adopted 27 January 2003, DSR 2003:I, p. 375
<i>US – Softwood Lumber IV</i>	Appellate Body Report, <i>United States – Final Countervailing Duty Determination with Respect to Certain Softwood Lumber from Canada</i> , WT/DS257/AB/R, adopted 17 February 2004, DSR 2004:II, p. 571
<i>US – Softwood Lumber V</i>	Appellate Body Report, <i>United States – Final Dumping Determination on Softwood Lumber from Canada</i> , WT/DS264/AB/R, adopted 31 August 2004, DSR 2004:V, p. 1875
<i>US – Softwood Lumber V (Article 21.5 – Canada)</i>	Appellate Body Report, <i>United States – Final Dumping Determination on Softwood Lumber from Canada – Recourse to Article 21.5 of the DSU by Canada</i> , WT/DS264/AB/RW, adopted 1 September 2006, DSR 2006:XII, p. 5087
<i>US – Softwood Lumber VI (Article 21.5 – Canada)</i>	Appellate Body Report, <i>United States – Investigation of the International Trade Commission in Softwood Lumber from Canada – Recourse to Article 21.5 of the DSU by Canada</i> , WT/DS277/AB/RW, adopted 9 May 2006, and Corr.1, DSR 2006:XI, p. 4865
<i>US – Stainless Steel (Mexico)</i>	Appellate Body Report, <i>United States – Final Anti-Dumping Measures on Stainless Steel from Mexico</i> , WT/DS344/AB/R, adopted 20 May 2008, DSR 2008:II, p. 513
<i>US – Steel Safeguards</i>	Appellate Body Report, <i>United States – Definitive Safeguard Measures on Imports of Certain Steel Products</i> , WT/DS248/AB/R, WT/DS249/AB/R, WT/DS251/AB/R, WT/DS252/AB/R, WT/DS253/AB/R, WT/DS254/AB/R, WT/DS258/AB/R, WT/DS259/AB/R, adopted 10 December 2003, DSR 2003:VII, p. 3117

Short Title	Full Case Title and Citation
<i>US – Tyres (China)</i>	Appellate Body Report, <i>United States – Measures Affecting Imports of Certain Passenger Vehicle and Light Truck Tyres from China</i> , WT/DS399/AB/R, adopted 5 October 2011, DSR 2011:IX, p. 4811
<i>US – Upland Cotton</i>	Appellate Body Report, <i>United States – Subsidies on Upland Cotton</i> , WT/DS267/AB/R, adopted 21 March 2005, DSR 2005:I, p. 3
<i>US – Upland Cotton</i>	Panel Report, <i>United States – Subsidies on Upland Cotton</i> , WT/DS267/R, Add.1 to Add.3 and Corr.1, adopted 21 March 2005, as modified by Appellate Body Report WT/DS267/AB/R, DSR 2005:II, p. 299
<i>US – Wheat Gluten</i>	Appellate Body Report, <i>United States – Definitive Safeguard Measures on Imports of Wheat Gluten from the European Communities</i> , WT/DS166/AB/R, adopted 19 January 2001, DSR 2001:II, p. 717
<i>US – Zeroing (EC)</i>	Appellate Body Report, <i>United States – Laws, Regulations and Methodology for Calculating Dumping Margins ("Zeroing")</i> , WT/DS294/AB/R, adopted 9 May 2006, and Corr.1, DSR 2006:II, p. 417
<i>US – Zeroing (Japan)</i>	Appellate Body Report, <i>United States – Measures Relating to Zeroing and Sunset Reviews</i> , WT/DS322/AB/R, adopted 23 January 2007, DSR 2007:I, p. 3

WORLD TRADE ORGANIZATION
APPELLATE BODY

**United States – Anti-Dumping and
Countervailing Measures on Large
Residential Washers from Korea**

United States, *Appellant/Appellee*
Korea, *Other Appellant/Appellee*

Brazil, *Third Participant*
Canada, *Third Participant*
China, *Third Participant*
European Union, *Third Participant*
India, *Third Participant*
Japan, *Third Participant*
Norway, *Third Participant*
Saudi Arabia, *Third Participant*
Thailand, *Third Participant*
Turkey, *Third Participant*
Viet Nam, *Third Participant*

AB-2016-2

Appellate Body Division:

Graham, Presiding Member
Bhatia, Member
Ramírez-Hernández, Member

1 INTRODUCTION

1.1. The United States and Korea each appeals certain issues of law and legal interpretations developed in the Panel Report, *United States – Anti-Dumping and Countervailing Measures on Large Residential Washers from Korea*¹ (Panel Report). The Panel was established on 22 January 2014 to consider a complaint by Korea² with respect to the consistency of the United States' measures imposing definitive anti-dumping and countervailing duties on imports of large residential washers (LRWs) from Korea with the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (Anti-Dumping Agreement), the Agreement on Subsidies and Countervailing Measures (SCM Agreement), and the General Agreement on Tariffs and Trade 1994 (GATT 1994).

1.2. On 3 September 2014, after consultations with the parties, the Panel adopted additional working procedures for the protection of business confidential information (BCI Procedures).³ On 12 December 2014, the Panel rejected China's request for enhanced third party rights.⁴ On 13 February 2015, the Panel also rejected the European Union's request to amend certain aspects of its working procedures and found that there was no need to modify its BCI Procedures in light of the "reservations" raised by the European Union.⁵

1.3. With regard to the United States' measures imposing definitive anti-dumping duties on imports of LRWs from Korea⁶, Korea challenged before the Panel certain aspects of the methodologies used by the United States Department of Commerce (USDOC) to determine whether to apply the weighted average-to-transaction (W-T) comparison methodology. Specifically, Korea challenged: (i) the so-called "Nails II methodology"⁷ used in the anti-dumping

¹ WT/DS464/R, 11 March 2016.

² Request for the Establishment of a Panel by Korea of 5 December 2013, WT/DS464/4.

³ Panel Report, para. 1.10 and Annex A-2.

⁴ China had indicated that it was a party to a parallel panel proceeding (WT/DS471) and accordingly requested enhanced third party rights. (Panel Report, paras. 1.11-1.12)

⁵ Panel Report, paras. 1.13-1.14.

⁶ The anti-dumping measures that the Panel referred to are those cited in paragraphs 2.4.a-2.4.e of the Panel Report.

⁷ The methodology that was used by the USDOC to determine whether to apply the W-T comparison methodology, introduced in the Polyethylene Retail Carrier Bags from Taiwan anti-dumping investigation in March 2010.

investigation conducted by the USDOC concerning imports of LRWs from Korea⁸ (*Washers* anti-dumping investigation); (ii) the so-called "Differential Pricing Methodology" that replaced the Nails II methodology as of March 2013 (DPM) "as such"; (iii) the DPM "as applied" in the first administrative review of the anti-dumping order imposing anti-dumping duties on LRWs from Korea issued by the USDOC on 15 February 2013⁹ (*Washers* anti-dumping order); and (iv) the ongoing and future application of the DPM in connection with the *Washers* anti-dumping investigation. Korea also challenged the USDOC's use of "zeroing" in the context of the W-T comparison methodology.¹⁰ Specifically, Korea challenged: (i) "as such" the rule or norm pursuant to which the USDOC engages in zeroing; and (ii) zeroing "as applied" in the *Washers* anti-dumping investigation.¹¹

1.4. With regard to the United States' measures imposing definitive countervailing duties on imports of LRWs from Korea in connection with the *Washers* countervailing duty investigation¹², Korea challenged under the SCM Agreement the USDOC's determinations that two tax credit programmes¹³ were specific. Moreover, Korea raised claims under the SCM Agreement and the GATT 1994 challenging the manner in which the USDOC calculated the *ad valorem* subsidy rate for Samsung Electronics Co., Ltd (Samsung)¹⁴ under those programmes.¹⁵

1.5. In the Panel Report, circulated to Members of the World Trade Organization (WTO) on 11 March 2016, the Panel found as follows concerning the anti-dumping measures at issue:

- a. with regard to the *Washers* anti-dumping investigation:
 - i. the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by applying the W-T comparison methodology to transactions other than those constituting the patterns of transactions that the USDOC had determined to exist¹⁶;
 - ii. Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by determining the existence of a "pattern of export prices which differ significantly" among purchasers, regions or time periods on the basis of purely quantitative criteria, without any qualitative assessment of the reasons for the relevant price differences¹⁷;
 - iii. the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by merely focusing on the difference between the margin of dumping calculated using the weighted average-to-weighted average

⁸ USDOC [A-580-868] Antidumping Duty Investigation of Large Residential Washers from the Republic of Korea.

⁹ USDOC [A-201-842, A-580-868] Large Residential Washers From Mexico and the Republic of Korea: Antidumping Duty Orders, *United States Federal Register*, Vol. 78, No. 32 (15 February 2013), pp. 11148-11150 (Panel Exhibit KOR-121).

¹⁰ Zeroing occurs in the context of establishing margins of dumping using the W-T comparison methodology when the USDOC sets at zero any negative comparison result when the results from multiple comparisons between the weighted average normal value and each of the individual export transactions are aggregated. (Panel Report, para. 7.172)

¹¹ Panel Report, para. 2.2.

¹² USDOC [C-580-869] Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea. The countervailing duties that the Panel referred to are those cited in paragraphs 2.4.f-2.4.i of the Panel Report.

¹³ The two tax credit programmes are established under Article 10(1)(3) of Korea's Restriction of Special Taxation Act (RSTA), entitled "Tax Deduction for Research and Manpower Development" (RSTA Article 10(1)(3) tax credit programme), and under Article 26 of the RSTA, entitled "Tax Deduction for Facilities Investment" (RSTA Article 26 tax credit programme), respectively.

¹⁴ The amount of subsidy under the RSTA Article 10(1)(3) tax credit programme was conferred on Samsung and its three Korean subsidiaries, i.e. Samsung Gwangju Electronics Co., Ltd (SGEC), Samsung Electronics Service (SES), and Samsung Electronics Logitech (SEL), whereas the amount of subsidy under the RSTA Article 26 tax credit programme was conferred on Samsung and its two Korean subsidiaries, SGEC and SEL. (USDOC [C-580-869] Memorandum to File regarding Final Countervailing Duty Determination: Large Residential Washers from the Republic of Korea (18 December 2012) (Panel Exhibit USA-26 (BCI)), p. 5)

¹⁵ Panel Report, para. 2.3.

¹⁶ Panel Report, para. 8.1.a.i.

¹⁷ Panel Report, para. 8.1.a.ii.

(W-W) comparison methodology and the margin of dumping calculated using the W-T comparison methodology, and by failing to consider whether the factual circumstances surrounding the relevant price differences were suggestive of something other than "targeted dumping"¹⁸; and

- iv. Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by failing to explain why the relevant price differences could not be taken into account appropriately by the transaction-to-transaction (T-T) comparison methodology¹⁹;

b. with regard to the DPM:

- i. the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement because it applies the W-T comparison methodology to "non-pattern transactions" when the aggregated value of sales to purchasers, regions, and time periods that pass the "Cohen's *d* test"²⁰ accounts for 66% or more of the value of total sales²¹;
- ii. Korea failed to establish that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by determining the existence of "a pattern of export prices which differ significantly" among purchasers, regions or time periods on the basis of purely quantitative criteria, without any qualitative assessment of the reasons for the relevant price differences²²;
- iii. the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement because, in applying the "meaningful difference test"²³, the DPM focuses on the difference between the margin of dumping calculated using the W-W comparison methodology and the margin of dumping calculated using the W-T comparison methodology or the "mixed" comparison methodology.²⁴ The Panel also found that the DPM fails to provide for any consideration of whether the factual circumstances surrounding the relevant price differences are suggestive of something other than "targeted dumping"²⁵;
- iv. Korea failed to establish that the DPM is inconsistent with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement when, having concluded that the W-W comparison methodology cannot appropriately take into account the observed pattern of significantly different prices, it does not also consider whether the relevant price differences could be taken into account appropriately by the T-T comparison methodology²⁶;
- v. the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement because, by aggregating random and unrelated price

¹⁸ Panel Report, para. 8.1.a.iii.

¹⁹ Panel Report, para. 8.1.a.iv.

²⁰ The Cohen's *d* test is used by the USDOC as part of the DPM to evaluate the extent of price differences. The Cohen's *d* test is described in greater detail in paragraph 5.9 of this Report.

²¹ Panel Report, para. 8.1.a.vi.

²² Panel Report, para. 8.1.a.v.

²³ Under the "meaningful difference test", the USDOC examines whether the W-W comparison methodology can appropriately account for identified differences in prices. The meaningful difference test is described in greater detail in paragraph 5.12 of this Report.

²⁴ As we explain below, where the value of the transactions that pass the Cohen's *d* test accounts for more than 33% but less than 66% of the value of total sales, the USDOC combines the application of the W-T comparison methodology to certain transactions (i.e. those transactions that pass the Cohen's *d* test) with the application of the W-W comparison methodology to other transactions (i.e. those transactions that do not pass the Cohen's *d* test). This was referred to as the "mixed" comparison methodology by the Panel. Where the value of the transactions that pass the Cohen's *d* test accounts for 66% or more of the value of total sales, the USDOC applies the W-T comparison methodology to all sales.

²⁵ Panel Report, para. 8.1.a.vii.

²⁶ Panel Report, para. 8.1.a.viii.

variations, the DPM does not properly establish "a pattern of export prices which differ significantly among different purchasers, regions or time periods"²⁷;

- vi. Korea failed to establish that the United States' use of "systemic disregarding"²⁸ under the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement²⁹; and
 - vii. Korea failed to establish that the United States' use of "systemic disregarding" under the DPM is inconsistent "as such" with Article 2.4 of the Anti-Dumping Agreement³⁰; and
- c. with regard to zeroing:
- i. the United States' use of zeroing when applying the W-T comparison methodology is inconsistent "as such" with Article 2.4.2 of the Anti-Dumping Agreement³¹;
 - ii. the United States' use of zeroing when applying the W-T comparison methodology is inconsistent "as such" with Article 2.4 of the Anti-Dumping Agreement³²;
 - iii. the USDOC acted inconsistently with Article 2.4.2 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation³³;
 - iv. the USDOC acted inconsistently with Article 2.4 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation³⁴; and
 - v. the United States' use of zeroing when applying the W-T comparison methodology in administrative reviews is inconsistent "as such" with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994.³⁵

1.6. In addition, the Panel found as follows concerning the countervailing duties at issue:

- a. the USDOC's original and remand determinations that the "RSTA Article 10(1)(3) tax credit programme"³⁶ is *de facto* specific because Samsung received subsidies under that programme in disproportionately large amounts are inconsistent with Article 2.1(c) of the SCM Agreement³⁷;

²⁷ Panel Report, para. 8.1.a.ix.

²⁸ As we explain below, "systemic disregarding" occurs when the W-T comparison methodology applied to the transactions that pass the Cohen's *d* test is combined with the W-W comparison methodology applied to the transactions that do not pass the Cohen's *d* test and, if the latter yields an overall negative comparison result, the same is disregarded or set to zero.

²⁹ Panel Report, para. 8.1.a.x.

³⁰ Panel Report, para. 8.1.a.xi.

³¹ Panel Report, para. 8.1.a.xii.

³² Panel Report, para. 8.1.a.xiii.

³³ Panel Report, para. 8.1.a.xiv.

³⁴ Panel Report, para. 8.1.a.xv.

³⁵ Panel Report, para. 8.1.a.xvi. The Panel, however, declined to make any findings regarding Korea's allegations concerning the USDOC's use of average export prices rather than actual export prices in calculating standard deviation and the USDOC's alleged "sufficiency test". (Ibid., para. 8.2) Moreover, the Panel did not consider it necessary to address Korea's claims against zeroing under Articles 1 and 2.1 of the Anti-Dumping Agreement and Article VI:1 of the GATT 1994 in the *Washers* anti-dumping investigation, in "subsequent connected stages", and "as such". Nor did it consider it necessary to address Korea's claims against zeroing under Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994 in "subsequent connected stages" of the *Washers* anti-dumping investigation. The Panel also did not consider it necessary to address Korea's "as applied" and "ongoing conduct" claims concerning the DPM. (Ibid., para. 8.3)

³⁶ See *supra*, fn 13.

³⁷ Panel Report, para. 8.1.b.i.

- b. the USDOC acted inconsistently with Article 2.1(c) of the SCM Agreement by failing to take account of the two mandatory factors referred to in the final sentence of that provision in its determination of *de facto* specificity³⁸;
- c. Korea failed to establish that the USDOC's determination of regional specificity in respect of the "RSTA Article 26 tax credit programme"³⁹ is inconsistent with Article 2.2 of the SCM Agreement⁴⁰;
- d. Korea failed to establish that the USDOC's failure to tie the subsidies claimed by Samsung under the RSTA Article 10(1)(3) and Article 26 tax credit programmes to Samsung's digital appliance products (including LRWs) is inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994⁴¹; and
- e. Korea failed to establish that the USDOC acted inconsistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by limiting the denominator to the sales value of products produced by Samsung in Korea when allocating the benefit conferred to Samsung under the RSTA Article 10(1)(3) tax credit programme.⁴²

1.7. In accordance with Article 19.1 of the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), and having found that the United States had acted inconsistently with certain provisions of the Anti-Dumping Agreement, the SCM Agreement, and the GATT 1994, the Panel recommended that the United States bring its measures into conformity with its obligations under those Agreements.⁴³

1.8. On 19 April 2016, the United States notified the Dispute Settlement Body (DSB), pursuant to Articles 16.4 and 17 of the DSU, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel and filed a Notice of Appeal⁴⁴ and appellant's submission pursuant to Rule 20 and Rule 21, respectively, of the Working Procedures for Appellate Review⁴⁵ (Working Procedures). On 25 April 2016, Korea notified the DSB, pursuant to Articles 16.4 and 17 of the DSU, of its intention to appeal certain issues of law covered in the Panel Report and certain legal interpretations developed by the Panel and filed a Notice of Other Appeal⁴⁶ and other appellant's submission pursuant to Rule 23 of the Working Procedures. On 9 May 2016, Korea and the United States each filed an appellee's submission.⁴⁷ On 9 May 2016, China filed a third participant's submission.⁴⁸ On 10 May 2016, Brazil, Canada, the European Union, Japan, Norway, and Viet Nam each filed a third participant's submission.⁴⁹ On 17 June 2016, India, Saudi Arabia, Thailand, and Turkey each notified its intention to appear at the oral hearing as a third participant.⁵⁰

1.9. On 22 April 2016, the Appellate Body Secretariat transmitted the Working Schedule for Appeal drawn up by the Appellate Body Division hearing this appeal, setting out the deadlines for filing written submissions.

1.10. On 5 April 2016, Korea and the United States had jointly addressed a letter to the Chair of the Appellate Body, attaching a request that the Division that would eventually hear an appeal in this dispute adopt, pursuant to Rule 16(1) of the Working Procedures, additional procedures for the protection of BCI on the record of this dispute (joint request). Korea and the United States

³⁸ Panel Report, para. 8.1.b.ii.

³⁹ See *supra*, fn 13.

⁴⁰ Panel Report, para. 8.1.b.iii.

⁴¹ Panel Report, para. 8.1.b.iv.

⁴² Panel Report, para. 8.1.b.v.

⁴³ Panel Report, para. 8.5.

⁴⁴ WT/DS464/7.

⁴⁵ WT/AB/WP/6, 16 August 2010.

⁴⁶ WT/DS464/8.

⁴⁷ Pursuant to Rules 22 and 23(4) of the Working Procedures.

⁴⁸ Pursuant to Rule 24(1) of the Working Procedures.

⁴⁹ Pursuant to Rule 24(1) of the Working Procedures.

⁵⁰ India, Saudi Arabia, Thailand, and Turkey each submitted its delegation list for the oral hearing to the Appellate Body Secretariat and the participants and third participants in this dispute. For the purposes of this appeal, we have interpreted these actions as notifications expressing the intention of India, Saudi Arabia, Thailand, and Turkey to attend the oral hearing pursuant to Rule 24(4) of the Working Procedures.

requested the Division to adopt additional procedures for the protection of BCI on the basis of the BCI procedures adopted by the Panel, and attached draft procedures to the joint request. They explained that BCI procedures in this appeal would serve "the interest of fairness and orderly procedure in the conduct of an appeal", according to Rule 16(1) of the Working Procedures. On 8 April 2016, the European Union addressed a letter to the Chair of the Appellate Body commenting on the joint request. The European Union expressed the view that BCI procedures at the appellate stage should not be based on the Panel's BCI procedures.

1.11. By letter dated 19 April 2016, the United States sought guidance from the Appellate Body on how to proceed with filing its appellant's submission, which was to be filed that day and contained information that was designated as BCI in the Panel proceedings. In a letter issued on the same day, the Chair of the Appellate Body, on behalf of the Division hearing this appeal, informed the United States, Korea, and the third parties that, pending a final decision on the joint request, the Division had decided to provide provisional additional protection to information marked as BCI in the United States' appellant's submission and in an eventual other appellant's submission by Korea.⁵¹

1.12. On 21 April 2016, the Chair of the Appellate Body addressed a letter on behalf of the Division hearing this appeal to the participants, asking them to substantiate further why certain information contained in their submissions and in the Panel record warranted special protection at the appellate stage beyond that already provided under the confidentiality standards set out in Articles 17.10 and 18.2 of the DSU, and the Rules of Conduct.⁵² Korea and the United States responded to this request with separate communications on 26 April 2016. On the same date, the Division invited the third participants to provide further comments on the joint request and on Korea's and the United States' responses of 26 April 2016. On 27 April 2016, the European Union provided comments and, on 28 April 2016, China indicated that it had no objection to the requested additional protection of BCI.

1.13. On 9 May 2016, the Division hearing this appeal issued a Procedural Ruling on the protection of BCI on the record in this dispute, which is contained in Annex D of the Addendum to this Report, WT/DS464/AB/R/Add.1.

1.14. By letter dated 19 May 2016 to the Chair of the Appellate Body, Korea requested authorization, pursuant to Rule 18(5) of the Working Procedures, to correct certain clerical errors in its Notice of Other Appeal, other appellant's submission, and appellee's submission. In accordance with Rule 18(5), the Division, by letter dated 20 May 2016, provided the United States, the third participants, and third parties with an opportunity to comment in writing on the request by 23 May 2016. No objections to Korea's request were received and, on 25 May 2016, the Division authorized Korea to correct the clerical errors in its Notice of Other Appeal, other appellant's submission, and appellee's submission, as identified in its letter of 19 May 2016.

1.15. In a letter from the Appellate Body dated 15 June 2016, the United States and Korea were asked to keep their opening statements at the oral hearing to 30 minutes each and the third participants to keep their opening statements to a maximum of five minutes each. In a communication dated 16 June 2016, China requested the Division to allocate further five minutes for its opening statement. China also stated that it looked forward to a full opportunity to engage on the relevant issues during the hearing, in light of its direct and immediate interest in the issues

⁵¹ This provisional additional protection prescribed that: (i) no person may have access to BCI except a Member of the Appellate Body or its Secretariat, an employee of a participant, third participant or third party, and an outside advisor for the purposes of this dispute to a participant, third participant or third party; (ii) an outside advisor is not permitted access to BCI if that advisor is an officer or employee of an enterprise engaged in the production, export, or import of the products that were the subject of the investigations at issue in this dispute; (iii) a participant, third participant or third party having access to BCI shall not disclose that information other than to those persons authorized to receive it pursuant to these provisional procedures; and (iv) each participant and third participant shall have responsibility in this regard for its employees, as well as any outside advisors used for the purposes of this dispute.

⁵² The Rules of Conduct for the Understanding on Rules and Procedures Governing the Settlement of Disputes, as adopted by the DSB on 3 December 1996 (WT/DSB/RC/1), are directly incorporated into the Working Procedures for Appellate Review (WT/AB/WP/6), as Annex II thereto. (See WT/DSB/RC/2, WT/AB/WP/W/2)

raised in this appeal.⁵³ By letter dated 17 June 2016, the Presiding Member explained that, in light of the many issues raised in this appeal and in order to be able to complete the hearing within a reasonable time-frame, the Division did not consider that it would be appropriate to extend the time allocated for opening statements.

1.16. On 17 June 2016, the Chair of the Appellate Body notified the Chair of the DSB that the Appellate Body would not be able to circulate its Report in this appeal within the 60-day period stipulated in Article 17.5 of the DSU, or within the 90-day period pursuant to the same provision, and informed the Chair of the DSB that the circulation date of the Appellate Body Report in this appeal would be communicated to the participants and third participants after the oral hearing.⁵⁴ The Chair of the Appellate Body explained that this was due to a number of factors, including the substantial workload of the Appellate Body in 2016, scheduling difficulties arising from overlap in the composition of the Divisions hearing the different appeals, the number and complexity of the issues raised in this and concurrent appellate proceedings, together with the demands that these concurrent appeals place on the WTO Secretariat's translation services, and the shortage of staff in the Appellate Body Secretariat. On 7 July 2016, the Chair of the Appellate Body notified the Chair of the DSB that the Report in this appeal would be circulated to WTO Members no later than Wednesday, 7 September 2016.⁵⁵

1.17. The oral hearing in this appeal was held on 20-21 June 2016.⁵⁶ The participants and six third participants (Brazil, Canada, China, Japan, Norway, and Viet Nam) made opening oral statements. The participants and third participants responded to questions posed by the Appellate Body Division hearing this appeal.

2 ARGUMENTS OF THE PARTICIPANTS

2.1. The claims and arguments of the participants are reflected in the executive summaries of their written submissions provided to the Appellate Body.⁵⁷ The Notices of Appeal and Other Appeal, and the executive summaries of the participants' claims and arguments, are contained in Annexes A and B of the Addendum to this Report, WT/DS464/AB/R/Add.1.

3 ARGUMENTS OF THE THIRD PARTICIPANTS

3.1. The arguments of the third participants that filed a written submission are reflected in the executive summaries of those submissions provided to the Appellate Body⁵⁸ and are contained in Annex C of the Addendum to this Report, WT/DS464/AB/R/Add.1.

4 ISSUES RAISED IN THIS APPEAL

4.1. With regard to the anti-dumping measures, the following issues are raised in this appeal:

- a. whether the Panel erred in its interpretation and application of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement in relation to the Nails II methodology and the DPM. In particular:
 - i. whether the Panel erred in its interpretation of the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 in finding that "the relevant 'pattern' ... comprises only low-priced export transactions to each particular 'target' (be that a

⁵³ China explained that several issues of interpretation raised in this appeal are directly relevant to the parallel panel proceedings in the dispute *United States – Certain Methodologies and their Application to Anti-Dumping Proceedings involving China* (DS471).

⁵⁴ WT/DS464/9.

⁵⁵ WT/DS464/10.

⁵⁶ On 25 April 2016, the United States had informed the Appellate Body that it would have significant difficulty participating in an oral hearing scheduled during the week of 6 June 2016 or 4 July 2016, due to the unavailability of key members of the United States' delegation during those periods.

⁵⁷ Pursuant to the Appellate Body's communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings" (WT/AB/23, 11 March 2015).

⁵⁸ Pursuant to the Appellate Body's communication on "Executive Summaries of Written Submissions in Appellate Proceedings" and "Guidelines in Respect of Executive Summaries of Written Submissions in Appellate Proceedings" (WT/AB/23, 11 March 2015).

purchaser, or a region, or a time period), while other higher-priced export transactions to other purchasers, regions, or time periods are 'non-pattern' transactions"⁵⁹ (raised by the United States);

- ii. whether the Panel erred in finding that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 because, by aggregating random and unrelated price variations, it does not properly establish "a pattern of export prices which differ significantly among purchasers, regions or time periods" (raised by the United States);
 - iii. whether the Panel erred in finding that the United States acted inconsistently with the second sentence of Article 2.4.2 because the USDOC applied the W-T comparison methodology to all export transactions, including transactions other than those constituting the patterns of transactions that it had determined to exist in the *Washers* anti-dumping investigation (raised by the United States);
 - iv. whether the Panel erred in finding that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 because it applies the W-T comparison methodology to "non-pattern transactions" when the aggregated value of sales to purchasers, regions, and time periods that pass the Cohen's *d* test accounts for 66% or more of the value of total sales (raised by the United States);
 - v. whether the Panel erred in finding that Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation because the USDOC determined the existence of "a pattern of export prices which differ significantly" based on purely quantitative criteria, without any qualitative assessment of the "reasons" for the relevant price differences (raised by Korea);
 - vi. whether the Panel erred in finding that Korea failed to establish that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 because it determines the existence of "a pattern of export prices which differ significantly" based on purely quantitative criteria, without any qualitative assessment of the "reasons" for the relevant price differences (raised by Korea);
 - vii. whether the Panel erred in finding that Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation because the USDOC did not explain why the relevant price differences could not be taken into account appropriately by the T-T comparison methodology (raised by Korea); and
 - viii. whether the Panel erred in finding that Korea failed to establish that the DPM is inconsistent with the second sentence of Article 2.4.2 because when, having concluded that the W-W comparison methodology cannot appropriately take into account the observed price differences, it does not also consider whether the relevant price differences could be taken into account appropriately by the T-T comparison methodology (raised by Korea);
- b. whether the Panel erred in finding that the use of "systemic disregarding" in the context of the DPM, whereby, when the W-T comparison methodology applied to "pattern transactions" is combined with the W-W comparison methodology applied to "non-pattern transactions", an overall negative comparison result arising from the application of the W-W comparison methodology is disregarded or set to zero, is not inconsistent "as such" with Article 2.4 and the second sentence of Article 2.4.2 of the Anti-Dumping Agreement (raised by Korea); and
 - c. whether the Panel erred in its interpretation and application of Articles 2.4, 2.4.2, and 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994 when it found that the use of zeroing when applying the W-T comparison methodology is inconsistent

⁵⁹ United States' appellant's submission, para. 34.

"as such" with these provisions and that the United States acted inconsistently with Article 2.4 and the second sentence of Article 2.4.2 by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation (raised by the United States).

4.2. With regard to the countervailing duties, the following issues are raised in this appeal:

- a. whether the Panel erred in its interpretation and application of Article 2.2 of the SCM Agreement by upholding the USDOC's determination that the RSTA Article 26 tax credit programme was regionally specific (raised by Korea);
- b. whether the Panel failed to conduct an objective assessment of the matter before it in articulating its findings on regional specificity, thereby acting inconsistently with its duties under Article 11 of the DSU (raised by Korea);
- c. whether the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products (raised by Korea);
- d. whether the Panel failed to conduct an objective assessment of the matter before it in finding that tax credits bestowed under Article 10(1)(3) of the RSTA are not research and development (R&D) subsidies, thereby acting inconsistently with its duties under Article 11 of the DSU (raised by Korea); and
- e. whether the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's attribution of the tax credits received by Samsung under Article 10(1)(3) of the RSTA to the sales value of Samsung's products manufactured in Korea only (raised by Korea).

5 ANALYSIS OF THE APPELLATE BODY

5.1. We first address the claims raised on appeal under the Anti-Dumping Agreement and the related claims under the GATT 1994, before turning to the claims on appeal under the SCM Agreement and the related claims under the GATT 1994.

5.1 Claims under the Anti-Dumping Agreement and related claims under the GATT 1994

5.1.1 Background

5.1.1.1 The Nails II methodology and the *Washers* anti-dumping investigation

5.2. The *Washers* anti-dumping investigation was initiated on 19 January 2012 and concerned LRWs produced by three Korean companies, including LG Electronics, Inc. (LGE) and Samsung.⁶⁰ During the investigation, the USDOC applied the Nails II methodology to determine whether "targeted dumping" was occurring and whether to use the W-T comparison methodology to determine dumping margins for LGE and Samsung.

5.3. The Nails II methodology applied a two-stage test run on a model basis, with each model being assigned a control number (CONNUM).⁶¹ First, following an allegation of "targeted dumping" by a member of the domestic industry, the "standard deviation test" aimed to establish whether there were price differences by considering whether the weighted average price to one "targeted" group (i.e. customer, time period, or region) in a particular CONNUM was below a benchmark price equal to one standard deviation below the weighted average mean price in that CONNUM. Second,

⁶⁰ USDOC [A-580-868] Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Large Residential Washers From the Republic of Korea, *United States Federal Register*, Vol. 77, No. 150 (3 August 2012) (*Washers* preliminary AD determination) (Panel Exhibit KOR-32), p. 46391.

⁶¹ Panel Report, fn 54 to para. 7.10. See also USDOC [A-580-868] Issues and Decision Memorandum for the Antidumping Duty Investigation of Large Residential Washers from the Republic of Korea (18 December 2012) (*Washers* AD I&D memorandum) (Panel Exhibit KOR-18), pp. 19-20.

the "gap test" aimed to establish whether the observed price differences were significant. Where the gap between the weighted average price of the sales to the "targeted" group and the next highest weighted average price of sales to a "non-targeted" group exceeded the average gap among the weighted average prices between the "non-targeted" groups, those sales were considered to have passed the gap test.

5.4. If both tests were met⁶², the USDOC evaluated the difference between the weighted average dumping margin calculated using the W-W comparison methodology (without zeroing) and that calculated using the W-T comparison methodology (with zeroing). The W-T comparison methodology was applied to all export sales where there was a meaningful difference between the two results.

5.5. During the *Washers* anti-dumping investigation, a domestic producer of LRWs had alleged that "targeted dumping" was occurring with respect to LRWs produced in, and exported from, Korea by LGE and Samsung.⁶³ LGE and Samsung asserted that the alleged "targeted" sales corresponded to, *inter alia*, normal promotional practices.⁶⁴ The USDOC, however, took the view that it was not required "to consider why [the price] differences exist".⁶⁵ Applying the Nails II methodology, the USDOC found "a pattern of U.S. prices ... that differs significantly among certain time periods, customers, and regions" for LGE as well as for Samsung.⁶⁶ The identified "pattern" was "defined by all of the respondent's U.S. sales".⁶⁷ Moreover, the USDOC explained that using the W-W comparison methodology "conceal[ed] differences" between the export prices and that there was a "meaningful difference" between the margin of dumping calculated using the W-W comparison methodology and the margin of dumping calculated using the W-T comparison methodology.⁶⁸ Consequently, the USDOC applied the W-T comparison methodology with zeroing to all of LGE's and Samsung's export transactions to establish margins of dumping for these two exporters.⁶⁹

5.6. On 26 December 2012, the USDOC issued a Notice of Final Determination finding that LRWs were being sold or were likely to be sold in the United States at less than fair value.⁷⁰ On this basis, and on the basis of the material injury determination of the United States International Trade Commission, the USDOC issued, on 15 February 2013, the *Washers* anti-dumping order.⁷¹

⁶² The alleged "targeted" group was found to have passed the standard deviation test when more than 33% of the sales to the "targeted" group passed this test. Moreover, if the sales passing the gap test accounted for more than 5% of the producer's sales by volume (for the basis being tested, i.e. purchasers, regions, or time periods), the USDOC considered the price differences to be significant.

⁶³ *Washers* preliminary AD determination (Panel Exhibit KOR-32), pp. 46391 and 46394.

⁶⁴ *Washers* AD I&D memorandum (Panel Exhibit KOR-18), pp. 15-18.

⁶⁵ *Washers* AD I&D memorandum (Panel Exhibit KOR-18), p. 23.

⁶⁶ *Washers* preliminary AD determination (Panel Exhibit KOR-32), p. 46395.

⁶⁷ *Washers* AD I&D memorandum (Panel Exhibit KOR-18), p. 34.

⁶⁸ Panel Report, para. 7.54 (quoting *Washers* preliminary AD determination (Panel Exhibit KOR-32), p. 46395, and referring to USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers (Washing Machines) from Korea – Preliminary Determination Margin Calculation for LG Electronics Inc. and LG Electronics USA, Inc. (27 July 2012) (*Washers* preliminary AD calculation for LGE memorandum) (Panel Exhibit KOR-45), pp. 3-4; and USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers (Washing Machines) from Korea – Preliminary Determination Margin Calculation for Samsung Electronics Co., Ltd and Samsung Electronics America, Inc. (27 July 2012) (*Washers* preliminary AD calculation for Samsung memorandum) (Panel Exhibit KOR-46), p. 3); and para. 7.56 (quoting *Washers* AD I&D memorandum (Panel Exhibit KOR-18), p. 20, and referring to USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers (Washing Machines) from Korea – Samsung Final Determination Calculation Memorandum (18 December 2012) (*Washers* final AD calculation for Samsung memorandum) (Panel Exhibit KOR-41 (BCI)), p. 2; and USDOC [A-580-868] Memorandum to File regarding Antidumping Duty Investigation of Large Residential Washers from Korea – Final Determination Margin Calculation for LG Electronics Inc. and LG Electronics USA, Inc. (18 December 2012) (*Washers* final AD calculation for LGE memorandum) (Panel Exhibit KOR-42 (BCI)), p. 2).

⁶⁹ Panel Report, para. 7.11 (referring to *Washers* AD I&D memorandum (Panel Exhibit KOR-18), pp. 33-34); and para. 7.173 (referring to Korea's response to Panel question No. 1.2, para. 13).

⁷⁰ USDOC [A-580-868] Notice of Final Determination of Sales at Less Than Fair Value: Large Residential Washers From the Republic of Korea, *United States Federal Register*, Vol. 77, No. 247 (26 December 2012), pp. 75988-75992 (Panel Exhibit KOR-1).

⁷¹ Panel Exhibit KOR-121.

5.1.1.2 The DPM and the first administrative review of the *Washers* anti-dumping order

5.7. The USDOC initiated an administrative review of the *Washers* anti-dumping order on 1 April 2014.⁷² In this administrative review, the USDOC applied the DPM, which replaced the Nails II methodology as of March 2013⁷³, to determine whether to apply the W-T comparison methodology to establish dumping margins for LGE.⁷⁴

5.8. Unlike the Nails II methodology, where an allegation of "targeted dumping" from the domestic industry was required, the USDOC applies the DPM on its own motion.⁷⁵ The DPM consists of three main components.⁷⁶

5.9. First, the "Cohen's *d* test" evaluates the extent of the difference between the mean price of a test group that comprises the sales to a particular purchaser, region, or time period and the mean price of a comparison group that comprises all other sales of comparable merchandise.⁷⁷ The Cohen's *d* test is applied by the USDOC when the test and comparison groups each have at least two observations (i.e. two transactions) and when the sales quantity for the comparison group accounts for at least 5% of the total sales quantity of the comparable merchandise. The Cohen's *d* coefficient is then calculated to evaluate the extent to which the net prices to a particular purchaser, region, or time period differ significantly from the net prices of all other sales of comparable merchandise. The extent of the difference is quantified by one of three fixed thresholds defined by the Cohen's *d* test: small (0.2); medium (0.5); or large (0.8). The difference is considered significant if the Cohen's *d* coefficient is equal to or exceeds the large threshold.

5.10. Unlike the Nails II methodology, the DPM is not concerned with prices that are "targeted" at a *particular* customer, region, or time period. Rather, the focus is on any differences in prices, irrespective of whether such prices are *above* or *below* the average and without the prior identification of a specific purchaser, region, or time period. The DPM thus analyses any given export transaction in three different ways (by purchaser, region, and time period) in order to identify six possible types of price variation, namely: (i) higher prices to a particular purchaser; (ii) lower prices to a particular purchaser; (iii) higher prices in a particular region; (iv) lower prices in a particular region; (v) higher prices during a particular time period; and (vi) lower prices during a particular time period.⁷⁸

5.11. Second, the "ratio test" assesses the extent of the significant price differences for all sales as measured by the Cohen's *d* test. When the result of the ratio test is above 66%, in the sense that the value of the transactions to purchasers, regions, and time periods that pass the Cohen's *d* test accounts for 66% or more of the value of the total sales, the application of the W-T comparison methodology (with zeroing) is being considered for all export transactions. When it is between 33% and 66%, a combined application of the W-T comparison methodology and the W-W comparison methodology is being considered (this is referred to as the "mixed" comparison methodology by the Panel). When it is below 33%, the application of the W-T comparison methodology is not being considered.

⁷² USDOC, Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part, *United States Federal Register*, Vol. 79, No. 62 (1 April 2014) (Panel Exhibit KOR-43), pp. 18262 and 18264.

⁷³ Panel Report, para. 7.89 (referring to USDOC [A-570-985] Memorandum regarding Less Than Fair Value Investigation of Xanthan Gum from the People's Republic of China: Post-Preliminary Analysis and Calculation Memorandum for Neimenggu Fufeng Biotechnologies Co., Ltd and Shandong Fufeng Fermentation Co., Ltd (4 March 2013) (*Xanthan gum* calculation memorandum) (Panel Exhibit KOR-33)).

⁷⁴ Unlike LGE, Samsung did not participate in this administrative review.

⁷⁵ Panel Report, fn 268 to para. 7.138. See also USDOC, Differential Pricing Analysis; Request for Comments, *United States Federal Register*, Vol. 79, No. 90 (9 May 2014) (Panel Exhibit KOR-25), p. 26722.

⁷⁶ Panel Report, para. 7.107. These steps are described in detail at Panel Report, para. 7.100 (quoting *Xanthan gum* calculation memorandum (Panel Exhibit KOR-33), pp. 3-5).

⁷⁷ Groups of purchasers are defined using reported customer code information. Regions are defined by reported destination codes (i.e. zip codes) and are grouped into regions based on standard definitions published by the United States Census Bureau, a sub-agency of the USDOC. Time periods are defined by quarter. Finally, comparable merchandise is defined using CONNUMs, as well as other characteristics of the sales, other than purchaser, region, and time period. (See Panel Report, para. 7.100 (quoting *Xanthan gum* calculation memorandum (Panel Exhibit KOR-33), pp. 3-5))

⁷⁸ Panel Report, para. 7.138.

5.12. Third, the "meaningful difference test" examines whether the use of the W-W comparison methodology can appropriately account for the differences found to exist in the first two stages of the analysis. By applying this test, the USDOC compares the weighted average dumping margin obtained using the W-T comparison methodology with that resulting from the use of the W-W comparison methodology. If there is a meaningful difference between the two results, this demonstrates that the W-W comparison methodology cannot account for the identified price differences. A difference is considered meaningful if there is a 25% relative change in the weighted average dumping margin or if the weighted average dumping margin moves across the *de minimis* threshold. If the meaningful difference test is met and the result of the ratio test is above 66%, the W-T comparison methodology is applied to all export transactions. By contrast, if the meaningful difference test is met and the result of the ratio test is between 33% and 66%, the W-T comparison methodology is applied to those sales that pass the Cohen's *d* test and the W-W comparison methodology is applied to the remaining sales.⁷⁹

5.13. Applying the DPM in the first administrative review of the *Washers* anti-dumping order, the USDOC determined that 47.12% of LGE's sales passed the Cohen's *d* test.⁸⁰ The result of the ratio test was thus between 33% and 66%. The USDOC further determined that the meaningful difference test was met.⁸¹ Consequently, the USDOC applied the W-T comparison methodology (with zeroing) to those sales that passed the Cohen's *d* test and the W-W comparison methodology (without zeroing) to the remaining sales of LGE. When combining the overall comparison results of the W-T and the W-W comparison methodologies, the USDOC disregarded the overall negative comparison result arising from the W-W comparison methodology (this is referred to as "systemic disregarding"). The preliminary results of the first administrative review of the *Washers* anti-dumping order were presented on 9 March 2015 and the final results were published on 8 September 2015.⁸²

5.1.2 Article 2.4.2 of the Anti-Dumping Agreement

5.14. Article 2.4.2 of the Anti-Dumping Agreement reads:

Subject to the provisions governing fair comparison in paragraph 4, the existence of margins of dumping during the investigation phase shall normally be established on the basis of a comparison of a weighted average normal value with a weighted average of prices of all comparable export transactions or by a comparison of normal value and export prices on a transaction-to-transaction basis. A normal value established on a weighted average basis may be compared to prices of individual export transactions if the authorities find a pattern of export prices which differ significantly among different purchasers, regions or time periods, and if an explanation is provided as to why such differences cannot be taken into account appropriately by the use of a weighted average-to-weighted average or transaction-to-transaction comparison.

5.15. The first sentence of Article 2.4.2 provides for two symmetrical comparison methodologies that "shall normally" be used by investigating authorities to establish "margins of dumping": (i) the W-W comparison methodology, whereby dumping margins are established on the basis of a comparison of a weighted average normal value with a weighted average of prices of all

⁷⁹ Where the result of the ratio test is below 33%, the USDOC does not apply the W-T comparison methodology.

⁸⁰ USDOC [A-580-868] Memorandum to File regarding 2012-2014 Administrative Review of Large Residential Washers from Korea: Preliminary Results Margin Calculation for LGE (2 March 2015) (*Washers* preliminary AD calculation for LGE memorandum) (Panel Exhibit KOR-100 (BCI)), p. 1.

⁸¹ *Washers* preliminary AD calculation for LGE memorandum (Panel Exhibit KOR-100 (BCI)), p. 2.

⁸² Panel Report, para. 7.170 (referring to USDOC [A-580-868] Large Residential Washers From the Republic of Korea: Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014, *United States Federal Register*, Vol. 80, No. 45 (9 March 2015), pp. 12456-12458 / USDOC [A-580-868] Memorandum regarding Large Residential Washers from Korea: Decision Memorandum for the Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014 (3 March 2015) / USDOC [A-580-868] Memorandum to File regarding 2012-2014 Administrative Review of Large Residential Washers from Korea – Preliminary Results Margin Calculation for LGE (2 March 2015) (BCI-redacted version) (Panel Exhibit KOR-96); and USDOC [A-580-868] Issues and Decision Memorandum for the Final Results of the Antidumping Duty Administrative Review of Large Residential Washers from the Republic of Korea (8 September 2015) (Panel Exhibit KOR-141)).

comparable export transactions; and (ii) the T-T comparison methodology, whereby normal value and export prices are compared on a transaction-specific basis. As the Appellate Body has explained, the W-W and T-T comparison methodologies "fulfil the same function" and there is no "hierarchy between the two".⁸³ Accordingly, the Appellate Body found:

An investigating authority may choose between the two depending on which is most suitable for the particular investigation. Given that the two methodologies are alternative means for establishing "margins of dumping" and that there is no hierarchy between them, it would be illogical to interpret the transaction-to-transaction comparison methodology in a manner that would lead to results that are systematically different from those obtained under the weighted average-to-weighted average methodology.⁸⁴

5.16. The second sentence of Article 2.4.2 provides for a comparison methodology that is asymmetrical: the W-T comparison methodology, whereby a weighted average normal value is compared to prices of individual export transactions. This comparison methodology may be used if the following two conditions are met: first, "the authorities find a pattern of export prices which differ significantly among different purchasers, regions or time periods"; and, second, "an explanation is provided as to why such differences cannot be taken into account appropriately by the use of a weighted average-to-weighted average or transaction-to-transaction comparison."⁸⁵

5.17. The second sentence of Article 2.4.2 allows investigating authorities to address pricing behaviour that is focused on, or "targeted" to, purchasers, regions, or time periods by having recourse to the W-T comparison methodology. The function of the second sentence of Article 2.4.2 is, therefore, to enable investigating authorities to identify so-called "targeted dumping" and to address it appropriately.⁸⁶ The Appellate Body has stated that "[t]his provision allows Members, in structuring their anti-dumping investigations, to address three kinds of 'targeted' dumping, namely dumping that is targeted to certain purchasers, targeted to certain regions, or targeted to certain time periods."⁸⁷ The Appellate Body has further suggested that the second sentence of Article 2.4.2 allows investigating authorities to "unmask targeted dumping".⁸⁸

5.18. Whereas the first sentence of Article 2.4.2 provides that investigating authorities "shall normally" use the W-W or the T-T comparison methodology, the second sentence of Article 2.4.2 stipulates that a weighted average normal value "may be compared" to prices of individual export transactions, provided the two above-mentioned conditions are met. In particular, the requirement in the second sentence of Article 2.4.2 that an explanation be provided contemplates that there may be circumstances in which an investigating authority identifies a "pattern of export prices which differ significantly among different purchasers, regions or time periods", but where "such differences" could be taken into account appropriately by the W-W or T-T comparison methodology.⁸⁹ It follows that the W-T comparison methodology is an "exception" to the comparison methodologies in the first sentence that are normally to be used. In *US – Zeroing (Japan)*, the Appellate Body stated that "[t]he asymmetrical methodology in the second sentence is clearly an exception to the comparison methodologies which normally are to be

⁸³ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93.

⁸⁴ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93.

⁸⁵ See also Appellate Body Reports, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 86; and *US – Zeroing (Japan)*, para. 131. The Panel referred to these two conditions as the "pattern clause" and the "explanation clause", respectively. Moreover, the Panel referred to the first part of the second sentence of Article 2.4.2, which sets out that "[a] normal value established on a weighted average basis may be compared to prices of individual export transactions" as the "methodology clause". (Panel Report, para. 7.9)

⁸⁶ The second sentence of Article 2.4.2 does not expressly refer to "targeted dumping". However, the notion of "targeted dumping" appears to be implied in the reference in the second sentence of Article 2.4.2 to "a pattern of export prices which differ significantly among different purchasers, regions or time periods".

⁸⁷ Appellate Body Report, *EC – Bed Linen*, para. 62.

⁸⁸ Appellate Body Reports, *US – Zeroing (Japan)*, para. 135; *US – Stainless Steel (Mexico)*, para. 127. In *US – Stainless Steel (Mexico)*, the Appellate Body also stated that "[t]he second sentence of Article 2.4.2 provides an asymmetrical comparison methodology to address a so-called pattern of 'targeted' dumping found among certain purchasers, in certain regions, or during certain time periods." (Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 122)

⁸⁹ Appellate Body Report, *US – Zeroing (Japan)*, para. 131. The Appellate Body explained that "[t]he second requirement ... contemplates that there may be circumstances in which targeted dumping could be adequately addressed through the normal symmetrical comparison methodologies." (Ibid.)

used."⁹⁰ In the same vein, in *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body stated that the W-T comparison methodology "may be used only in exceptional circumstances" and that it is "an exception".⁹¹

5.19. We start our analysis with the United States' claims that the Panel erred in its interpretation of the relevant "pattern" and in finding that the DPM does not properly establish a "pattern", before addressing the United States' claims pertaining to the scope of application of the W-T comparison methodology. We then turn to Korea's claims concerning the identification of a pattern of prices which differ "significantly" and its claims regarding the explanation to be provided under the second sentence of Article 2.4.2. Finally, we examine Korea's claims regarding the use of "systemic disregarding" in the context of the DPM and then the United States' claims regarding the use of zeroing in the application of the W-T comparison methodology.

5.1.3 The relevant "pattern" for the purposes of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.20. The first condition set forth in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement is that the investigating authority identify "a pattern of export prices which differ significantly among different purchasers, regions or time periods". The Panel's reasoning and conclusions regarding the relevant "pattern" are interspersed throughout its Report. First, the Panel agreed with the parties that the term "pattern" refers to a "regular and intelligible form or sequence discernible in certain actions or situations" and that random price variation does not constitute a pattern.⁹² On this basis, the Panel found that, "[i]f particular prices are observed to differ in respect of a particular purchaser, region or time period, those prices may be treated as a regular and intelligible form or sequence relating to that purchaser, region or time period."⁹³ The Panel further considered that the relevant "pattern" is composed of a subset of export transactions set aside for specific consideration in the second sentence of Article 2.4.2.⁹⁴ The Panel clarified that, if particular prices are observed to differ by purchaser, region, or time period, those prices may be treated as a "pattern". The Panel stated that, although those prices are identified by reference to *other* prices pertaining to other purchasers, regions, or time periods, those other prices are not part of the relevant "pattern".⁹⁵ The Panel did not specify, however, whether the subset of export transactions set aside for specific consideration necessarily comprises export prices which differ significantly because they are significantly *lower* than other export prices or whether a pattern could comprise prices which differ significantly because they are significantly *higher* than other export prices.

5.21. Moreover, in the specific context of the DPM, which seeks to identify prices that differ significantly because they are higher or lower than other export prices, the Panel considered that "prices that are too high and prices that are too low do not belong to the same pattern".⁹⁶ In light

⁹⁰ Appellate Body Report, *US – Zeroing (Japan)*, para. 131.

⁹¹ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, paras. 86 and 97, respectively.

⁹² Panel Report, para. 7.45 (referring to Korea's first written submission to the Panel, paras. 86 and 132-133; Oxford Dictionaries online, definition of "pattern" <http://www.oxforddictionaries.com/us/definition/american_english/pattern>, accessed 18 September 2014 (Panel Exhibit KOR-21); and United States' first written submission to the Panel, paras. 59 and 73).

⁹³ Panel Report, para. 7.46. The Panel explained that the price differences are "regular" and "intelligible" because they pertain only to that particular purchaser, region, or time period. The Panel further noted that a form or sequence of price differences may be intelligible if there is regularity to that form or sequence that may be detected in respect of a particular purchaser, region, or time period. (Ibid., paras. 7.46-7.47) Elsewhere in its Report, the Panel also stated:

[I]n the context of the second sentence, the relevant form or sequence is determined by reference to purchasers, regions or time periods. If particular prices are observed to differ by purchaser, region or time period, those prices may be treated as a regular and intelligible form or sequence relating to that purchaser, region or time period. The price differences are "regular" and "intelligible" because they pertain only to a particular purchaser, region or time period.

(Ibid., para. 7.28) Specifically, the Panel accepted Korea's argument that, to be "intelligible", the price differences must have some relationship to one another. As the Panel observed, "[t]his relationship exists when the significantly differing prices relate to the same purchaser, region or time period." (Ibid., fn 79 to para. 7.28 (referring to Korea's first written submission to the Panel, para. 132))

⁹⁴ Panel Report, para. 7.24. See also paras. 7.27-7.28.

⁹⁵ Panel Report, para. 7.28.

⁹⁶ Panel Report, para. 7.144.

of the use of the words "or" and "among" in the phrase "among different purchasers, regions or time periods" in the second sentence of Article 2.4.2, the Panel also found that a pattern cannot be found to exist *across* purchasers, regions, and time periods, "cumulatively".⁹⁷ The Panel considered that a pattern of prices which differ significantly among different purchasers must be found in "the price variation within a group of purchasers, as between one or more particular purchasers in relation to all other purchasers of the same group" (with the same being true for a pattern of prices which differ significantly among different regions or time periods).⁹⁸

5.22. On appeal, the United States claims that the Panel erred in its interpretation of the relevant "pattern" under the second sentence of Article 2.4.2 because it concluded that "the relevant 'pattern' ... comprises only low-priced export transactions to each particular 'target' (be that a purchaser, or a region, or a time period), while other higher-priced export transactions to other purchasers, regions, or time periods are 'non-pattern' transactions."⁹⁹ In particular, the United States submits that a pattern includes both lower and higher export prices that "differ significantly' from each other".¹⁰⁰ In the context of the DPM, the United States also argues that the focus does not need to be on export sales that are priced *lower* than other export sales; rather, a pattern may also be identified by considering prices that are *higher* than other export prices.¹⁰¹ At the oral hearing, the United States further clarified that identifying a pattern does not require an assessment of how export prices relate to normal value.¹⁰² Moreover, the United States submits that the relevant "pattern" is one that would transcend multiple purchasers, regions, or time periods.¹⁰³ According to the United States, the phrase "among different purchasers, regions or time periods" in the second sentence of Article 2.4.2 is to be construed as allowing an investigating authority to find a pattern of export prices which differ significantly among different purchasers, different regions, *or* different time periods, *or* any combination of these categories.¹⁰⁴

5.23. For its part, Korea argues that the pattern is the group of prices that stand out in some discernible way from the other prices, but does not exclude the possibility that a pattern could comprise export prices that differ significantly because they are *higher* than other export prices.¹⁰⁵ At the oral hearing, Korea also agreed with the United States that export prices are not benchmarked against normal value to identify a pattern in accordance with the second sentence of Article 2.4.2.¹⁰⁶ Regarding the issue of whether a pattern can transcend multiple purchasers, regions, or time periods, Korea submits that the pattern focuses on purchasers, regions, and time periods, which Korea sees as three "fundamentally independent and distinct" categories.¹⁰⁷

5.24. Turning to our analysis, we observe that, according to the second sentence of Article 2.4.2, the investigating authority is required to "find a pattern of export prices which differ significantly among different purchasers, regions or time periods". Assuming the requisite explanation under the second sentence of Article 2.4.2 is provided by the investigating authority, the identification of the pattern is the trigger for the application of the W-T comparison methodology.

⁹⁷ Panel Report, para. 7.141. See also para. 7.142.

⁹⁸ Panel Report, para. 7.142.

⁹⁹ United States' appellant's submission, para. 34. See also paras. 48 and 55. In particular, the United States argues that, by relying on the object and purpose of the second sentence of Article 2.4.2, rather than the object and purpose of the Anti-Dumping Agreement as a whole, the Panel failed to apply properly the customary rules of interpretation of public international law to interpret the relevant "pattern". (United States' appellant's submission, para. 54) We note that the Panel relied on the object and purpose of the second sentence of Article 2.4.2 in its analysis of the scope of application of the W-T comparison methodology and that the United States makes a similar argument when turning to this issue on appeal. (Panel Report, para. 7.26; United States' appellant's submission, para. 68) We thus address this argument below when we address the issue of the scope of application of the W-T comparison methodology.

¹⁰⁰ United States' appellant's submission, para. 53. (emphasis original) At the oral hearing, the United States clarified that the pattern is not always required to include all export transactions, but that it may.

¹⁰¹ United States' appellant's submission, paras. 240-242. We recall that, unlike the Nails II methodology, the DPM seeks to identify lower and higher export prices compared to other prices.

¹⁰² See also United States' appellant's submission, para. 241.

¹⁰³ United States' appellant's submission, para. 52.

¹⁰⁴ United States' appellant's submission, para. 247.

¹⁰⁵ Korea's appellee's submission, paras. 119-120. By contrast, Brazil and China submit that a pattern cannot be composed of high-priced sales. (Brazil's third participant's submission, para. 5; China's third participant's submission, para. 26)

¹⁰⁶ The European Union and Brazil disagreed with this proposition at the oral hearing. In particular, the European Union stated that the term "significantly" implies that the weighted average of the prices found to differ is below normal value.

¹⁰⁷ Korea's appellee's submission, para. 125 et seq., spec. paras. 125, 128, and 134.

5.25. The word "pattern" is not explicitly defined in the text of the Anti-Dumping Agreement. We agree with the Panel that, in the context of the second sentence of Article 2.4.2, a "pattern" can be defined as "[a] regular and intelligible form or sequence discernible in certain actions or situations".¹⁰⁸ As the United States notes¹⁰⁹, this definition of the word "pattern" is frequently used in conjunction with the word "of", such as is the case in the second sentence of Article 2.4.2 where the reference is to a "pattern of export prices".¹¹⁰ Moreover, this definition accords with the French and Spanish versions of the Anti-Dumping Agreement. The French version refers to the term "*configuration*", which can be defined as a "[f]orme extérieure d'un ensemble; relief" (the exterior shape of a system; relief); and the Spanish version refers to the term "*pauta*", which can be defined as an "[i]nstrumento o norma que sirve para gobernarse en la ejecución de algo" (an instrument or norm that serves to govern the execution of something).¹¹¹ Understanding the word "pattern" as a regular and intelligible form means that there must be regularity to the sequence of "export prices which differ significantly" and this sequence must be capable of being understood.¹¹² In particular, the word "intelligible" excludes the possibility of a pattern merely reflecting random price variation, something that is not challenged on appeal.¹¹³

5.26. The relevant "pattern" in the second sentence of Article 2.4.2 is one of export prices which *differ* significantly. The verb "differ", which can be defined as "[t]o have contrary or diverse bearings, tendencies, or qualities; to be not the same; to be unlike, distinct, or various, in nature, form, or qualities, or in some specified respect"¹¹⁴, expresses a relative concept. As such, prices that are found to differ necessarily differ from other prices. However, by its terms, the second sentence of Article 2.4.2 refers to a pattern of "prices which differ". This wording indicates that the focus in the pattern is on the prices that are found to differ, not on all prices. Therefore, whereas an investigating authority would analyse the prices of all export sales made by the relevant exporter or producer to identify a pattern¹¹⁵, the distinguishing factor that allows that authority to discern which export prices form part of the pattern would be that the prices in the pattern differ significantly from the prices not in the pattern.

5.27. Our interpretation accords with the ordinary meaning of the word "pattern" as used in the context of the second sentence of Article 2.4.2. As explained, the pattern is a *regular* and *intelligible* form or sequence of "export prices which differ significantly", which means that there must be regularity to the sequence of prices and that this sequence must be capable of being understood. We consider that a pattern that would comprise both the prices found to differ significantly from other prices and those other prices (namely, a pattern comprising all the transactions to all purchasers, in all regions, and in all time periods) would effectively be composed of prices that do not form a regular and intelligible sequence.

5.28. In addition, an interpretation of the term "pattern" as comprising only those prices which differ significantly from other prices gives meaning and effect to the second sentence of

¹⁰⁸ Panel Report, para. 7.45 (referring to Korea's first written submission to the Panel, para. 86; Oxford Dictionaries online, definition of "pattern" <http://www.oxforddictionaries.com/us/definition/american_english/pattern>, accessed 18 September 2014 (Panel Exhibit KOR-21); and United States' first written submission to the Panel, para. 59). The participants agree with this definition. (United States' appellant's submission, para. 38; Korea's appellee's submission, para. 108)

¹⁰⁹ United States' appellant's submission, para. 38.

¹¹⁰ Emphasis added.

¹¹¹ *Dictionnaires de français Larousse* online, definition of "*configuration*" <<http://www.larousse.fr/dictionnaires/francais/configuration>>, accessed 18 September 2014 (Panel Exhibit KOR-36); *Diccionario de la lengua española de Real Academia Española* online, definition of "*pauta*" <<http://lema.rae.es/drae/?val=pauta>>, accessed 18 September 2014 (Panel Exhibit KOR-37), respectively.

¹¹² The definition of the word "intelligible" includes "[c]apable of being understood; comprehensible". (Oxford English Dictionary online, definition of "intelligible"

<<http://www.oed.com/view/Entry/97408?redirectedFrom=intelligible#eid>>, accessed 18 July 2016)

¹¹³ Panel Report, para. 7.45 (referring to United States' first written submission to the Panel, para. 73; and Korea's first written submission to the Panel, paras. 132-133).

¹¹⁴ Oxford English Dictionary online, definition of "differ" <<http://www.oed.com/view/Entry/52452?rskey=CRXlmt&result=2&print>>, accessed 4 February 2014 (Panel Exhibit USA-5).

¹¹⁵ We consider that the determination of dumping under any of the three comparison methodologies set out in Article 2.4.2 necessarily starts with an analysis based on the prices of all export sales made by the relevant exporter or producer. In the context of identifying a pattern of export prices among, for example, different purchasers, an investigating authority would examine the prices of export sales made to one or more purchasers as compared to the prices of export sales made to the other purchasers.

Article 2.4.2, whose function is to allow investigating authorities to identify and address "targeted dumping". Indeed, by comprising only the transactions found to differ from other transactions, the pattern focuses on the "targeted" transactions. This is also consistent with the Appellate Body's statements in *US – Zeroing (Japan)* that "[t]he prices of transactions that fall within [the] pattern must be found to differ significantly from other export prices" and that "[t]his universe of export transactions would necessarily be more limited than the universe of export transactions to which the symmetrical comparison methodologies in the first sentence of Article 2.4.2 would apply."¹¹⁶

5.29. We thus agree with the Panel that, under the second sentence of Article 2.4.2, "a sub-set of export transactions is set aside for specific consideration."¹¹⁷ We further agree with the Panel that, once prices are identified as being different from other prices, "they constitute the relevant 'pattern'" and that, "[a]lthough those prices are identified by reference to other prices pertaining to other purchasers, regions or time periods, those other prices are not part of the relevant 'pattern'.¹¹⁸ The text of the second sentence of Article 2.4.2 does not expressly specify whether the prices need to differ significantly because they are *lower* than other prices, or whether they may differ because they are *higher* than other prices. Nor does the text of the second sentence of Article 2.4.2 specify whether those prices found to differ need to be below normal value. However, the Anti-Dumping Agreement as a whole is concerned with injurious "dumping"¹¹⁹, and Article 2.4.2 sets out the methodologies that investigating authorities may use to establish margins of dumping. Article VI:1 of the GATT 1994 and Article 2.1 of the Anti-Dumping Agreement refer to export prices that are *lower* than normal value as "dumped" prices. Significantly, the function of the second sentence of Article 2.4.2 is to allow investigating authorities to identify and address "targeted dumping". Therefore, although we recognize that a pattern may be identified in a variety of factual circumstances, we consider that the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 comprises prices that are significantly *lower* than other export prices among different purchasers, regions or time periods. We fail to see how an investigating authority could identify and address "targeted dumping" by considering significantly higher export prices. If the prices found to differ significantly are higher than other export prices, the other (lower) export prices would not "mask" the (higher) dumped prices found to form the pattern.

5.30. Turning to the issue of whether a pattern can be found to exist *across* purchasers, regions, or time periods, we recall that, pursuant to the second sentence of Article 2.4.2, a pattern involves export prices which differ significantly in relation to specified sub-groups, namely, "among different purchasers, regions or time periods". As the Panel noted, these terms determine how the relevant "pattern" must be identified.¹²⁰

5.31. Starting with the text of the second sentence of Article 2.4.2, we observe that, depending on the context in which it is used, the conjunction "or" can be exclusive or inclusive.¹²¹ We further observe that, as the Panel considered, the term "among" refers to something "*in relation to the rest of the group [it belongs] to*".¹²² The use of this word in the second sentence of Article 2.4.2 emphasizes membership of a group, and something belongs to a group when it shares certain common characteristics with the other members of that group or has some form of relationship with them. As such, the word "among" serves to specify the dimensions in relation to which export prices which differ significantly may be discerned (i.e. purchasers, regions, or time periods). This understanding of the word "among" suggests that each category should be considered on its own, in the sense that a pattern of prices which differ significantly among different purchasers must be

¹¹⁶ Appellate Body Report, *US – Zeroing (Japan)*, para. 135. (emphasis original)

¹¹⁷ Panel Report, para. 7.24.

¹¹⁸ Panel Report, para. 7.28.

¹¹⁹ See Appellate Body Report, *US – Continued Zeroing*, para. 284.

¹²⁰ Panel Report, para. 7.141.

¹²¹ Appellate Body Report, *US – Line Pipe*, para. 164. We note Korea's argument that the Anti-Dumping Agreement repeatedly uses the conjunction "and" when it wishes to have multiple items being considered together. (Korea's appellee's submission, para. 130) However, we are not convinced that how the terms "and" and "or" are used elsewhere in the Anti-Dumping Agreement is relevant to the interpretation of the term "or" as used in the present context.

¹²² Panel Report, para. 7.142. (emphasis original) We note that the United States does not challenge this definition of the term "among".

found in the price variation within purchasers, as between one or more particular purchasers and the other purchasers (with the same applying to regions and time periods, respectively¹²³).

5.32. Importantly, the terms "or" and "among" in the second sentence of Article 2.4.2 draw meaning from the immediate context in which they appear. In particular, the need to identify a pattern provides contextual support for an interpretation of the terms "or" and "among" as requiring the investigating authority to consider each category (purchasers, regions, and time periods) on its own. As we have explained, the sequence of "export prices which differ significantly" must be both regular and intelligible. As such, a pattern cannot merely reflect random price variation. This means that an investigating authority is required to identify a regular series of price variations relating to one or more particular purchasers, or one or more particular regions, or one or more particular time periods to find a pattern. A single "pattern" comprising prices that are found to be significantly different from other prices *across* different categories would effectively be composed of prices that do not form a regular and intelligible sequence.

5.33. Therefore, we consider that the words "or" and "among" as used in the phrase "among different purchasers, regions or time periods" cannot be interpreted to mean that the three categories can be considered cumulatively to find one single pattern. This means that some transactions that differ among purchasers, taken together with some transactions that differ among regions, and some transactions that differ among time periods, cannot form a single pattern. Accordingly, "a pattern" has to be identified among different purchasers, or among different regions, or among different time periods, and cannot transcend these categories. In *EC – Bed Linen*, the Appellate Body also understood the three categories to work independently from one another. In that case, the Appellate Body noted that there are "three kinds of 'targeted' dumping, namely dumping that is targeted to certain purchasers, targeted to certain regions, or targeted to certain time periods".¹²⁴ As the Panel correctly observed, the Appellate Body did not identify any other types of "targeted dumping".¹²⁵

5.34. Finally, we note the United States' argument that the word "among" is used once in the second sentence of Article 2.4.2 and is not repeated before each category, which would suggest that those categories may be considered collectively in identifying a pattern. According to the United States, for the Panel's reading of the word "among" to be correct, one would expect that word to appear before the mention of each category, i.e. "*among* different purchases [*sic*], *among* different regions or *among* different time periods".¹²⁶ We consider, however, that this repetition would have conveyed an identical meaning to that of the existing text. We thus agree with the Panel that, "[i]f particular prices are observed to differ in respect of a particular purchaser, region or time period, those prices may be treated as a regular and intelligible form or sequence relating to that purchaser, region or time period" and that "[t]he price differences are 'regular' and 'intelligible' because they pertain only to that particular purchaser, region or time period."¹²⁷ We further agree with the Panel that "a 'pattern' can only be found in prices that differ significantly either among purchasers, or among regions, or among time periods."¹²⁸

5.35. Consequently, in order to find a pattern, the export prices to one or more particular purchasers must differ significantly from the prices to the other purchasers, or the export prices in one or more particular regions must differ significantly from the prices in the other regions, or the export prices during one or more particular time periods must differ significantly from the prices during the other time periods. Our interpretation does not exclude the possibility that the same exporter or producer could be practicing more than one of the three types of "targeted dumping". We also do not exclude the possibility that a pattern of significantly differing prices to a certain

¹²³ A pattern of prices which differ significantly among different regions must be found in the price variation within regions, as between one or more particular regions and the other regions, and a pattern of prices which differ significantly among different time periods must be found in the price variation within time periods, as between one or more particular time periods and the other time periods.

¹²⁴ Appellate Body Report, *EC – Bed Linen*, para. 62. In *US – Stainless Steel (Mexico)*, the Appellate Body stated that "[t]he second sentence of Article 2.4.2 provides an asymmetrical comparison methodology to address a so-called pattern of 'targeted' dumping found among certain purchasers, in certain regions, or during certain time periods", thus also suggesting that these three categories work independently from one another. (Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 122)

¹²⁵ Panel Report, para. 7.141.

¹²⁶ United States' appellant's submission, para. 250. (emphasis original)

¹²⁷ Panel Report, para. 7.46.

¹²⁸ Panel Report, para. 7.141. (fn omitted)

category may overlap with a pattern of significantly differing prices to another category. For instance, the same transactions could "target" certain purchasers in certain regions, in which case the investigating authority might find that a pattern of significantly differing prices among different purchasers and a pattern of significantly differing prices among different regions exist.

5.36. For the reasons set out above, we consider that a "pattern" for the purposes of the second sentence of Article 2.4.2 comprises *all* the export prices to one or more particular purchasers which differ significantly from the export prices to the other purchasers because they are significantly *lower* than those other prices, or *all* the export prices in one or more particular regions which differ significantly from the export prices in the other regions because they are significantly *lower* than those other prices, or *all* the export prices during one or more particular time periods which differ significantly from the export prices during the other time periods because they are significantly *lower* than those other prices. For the purposes of this Report, we refer to these transactions forming the relevant "pattern" as "pattern transactions".

5.37. Consequently, we uphold the Panel's conclusions regarding the relevant "pattern" set out in, *inter alia*, paragraphs 7.24, 7.27-7.28, 7.45-7.46, 7.141-7.142, and 7.144 of its Report.

5.1.4 Whether the Panel erred in finding that "the DPM is inconsistent 'as such' with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] because, by aggregating random and unrelated price variations, it does not properly establish 'a pattern of export prices which differ significantly among different purchasers, regions or time periods'"

5.38. Having set out the interpretation of the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, we now turn to the claim raised by the United States that pertains to the identification of a pattern under the DPM. We recall that the United States requests us to reverse the Panel's finding that the DPM "is inconsistent 'as such' with the second sentence of Article 2.4.2 because, by aggregating random and unrelated price variations, it does not properly establish 'a pattern of export prices which differ significantly among different purchasers, regions or time periods'".¹²⁹

5.39. As the Panel observed, the DPM examines any given export transaction in three different ways (by purchaser, region, and time period) in order to identify six possible types of price variation that the USDOC considers to pass the Cohen's *d* test: (i) prices that are "too high" to a particular purchaser; (ii) prices that are "too low" to a particular purchaser; (iii) prices that are "too high" in a particular region; (iv) prices that are "too low" in a particular region; (v) prices that are "too high" during a particular time period; and (vi) prices that are "too low" during a particular time period.¹³⁰ The Panel noted that the USDOC then aggregates the value of these six different types of price variation to determine whether a pattern exists. As we have set out above, the Panel found that a pattern can only be found in prices that differ significantly either among purchasers, or among regions, or among time periods – not *across* these categories "cumulatively" – and that "prices that are too high and prices that are too low do not belong to the same pattern".¹³¹ With these considerations in mind, the Panel concluded that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 because it aggregates random and unrelated price variations and thus does not properly establish "a pattern of export prices which differ significantly among purchasers, regions or time periods".¹³²

5.40. The United States acknowledges that the USDOC aggregates the results of the Cohen's *d* test. The USDOC does so without double-counting those export sales that pass the Cohen's *d* test for more than one category.¹³³ According to the United States, however, there is no aggregation of random and unrelated price variations. Rather, the results of the Cohen's *d* test represent different aspects of the exporter's overall pricing behaviour.¹³⁴ The United States also argues that the DPM

¹²⁹ United States' appellant's submission, para. 219 (quoting Panel Report, para. 7.147).

¹³⁰ Panel Report, para. 7.138.

¹³¹ Panel Report, para. 7.144. See also para. 7.141.

¹³² Panel Report, paras. 7.147 and 8.1.a.ix.

¹³³ United States' appellant's submission, para. 243.

¹³⁴ United States' appellant's submission, para. 245.

does, in fact, consider export prices relative to other prices in the same category (i.e. by purchasers, regions, or time periods).¹³⁵

5.41. The fact that the DPM starts by considering export prices relative to other prices in the same category before aggregating the results of the Cohen's *d* test is not dispositive of whether the DPM properly identifies a pattern for the purposes of the second sentence of Article 2.4.2. We have found above that a pattern can only be found in prices which differ significantly either among purchasers, or among regions, or among time periods, not *across* these categories. We have also found that the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 is comprised of the export prices to one or more particular purchasers which differ significantly from the prices to the other purchasers because they are *lower* than those other prices (with the same applying to regions and time periods, respectively).

5.42. It is undisputed between the participants that the DPM aggregates prices found to differ among different purchasers, among different regions, and among different time periods for the purposes of identifying a single pattern. As the Panel correctly considered, the DPM "effectively identifies a 'pattern' of export prices *across* different categories (purchasers, regions or time periods), rather than 'among' the constituents of each category".¹³⁶ It is equally undisputed that the DPM aggregates prices that are higher and lower than other export prices within a given category. As we have just set out, finding a pattern across the three categories is inconsistent with the second sentence of Article 2.4.2. Moreover, a proper interpretation of the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 means that it cannot be identified by considering prices that are higher than other prices.

5.43. Consequently, we uphold the Panel's finding, in paragraph 8.1.a.ix of its Report¹³⁷, that "the DPM is inconsistent 'as such' with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] because, by aggregating random and unrelated price variations, it does not properly establish 'a pattern of export prices which differ significantly among different purchasers, regions or time periods'".

5.1.5 Whether the Panel erred in finding that the W-T comparison methodology should only be applied to "pattern transactions"

5.44. We turn now to consider the United States' appeal of the Panel's findings regarding the scope of application of the W-T comparison methodology. The issue raised by the United States on appeal is whether the W-T comparison methodology can be applied to all transactions or whether it should only be applied to those transactions that form the relevant "pattern". In the *Washers* anti-dumping investigation, only certain transactions passed the standard deviation and gap tests under the Nails II methodology. The USDOC nonetheless applied the W-T comparison methodology to all of Samsung's and LGE's export transactions.¹³⁸ For its part, the DPM applies the W-T comparison methodology to all export transactions in certain situations, namely, when the value of the sales that pass the Cohen's *d* test accounts for 66% or more of the value of the total sales.¹³⁹

5.45. The Panel found that the word "individual" in the phrase "individual export transactions" in the first part of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement indicates that the W-T comparison will not involve all export transactions, but only certain transactions identified individually.¹⁴⁰ The Panel further found that the only textual basis for individual identification of export transactions is that they form the pattern under the second sentence of Article 2.4.2. The Panel found support for its interpretation in the requirement that lies on investigating authorities to explain why "'such differences' cannot be taken into account appropriately by one of the symmetrical comparison methodologies."¹⁴¹ The Panel considered that such explanation refers back to the "pattern transactions" and does so precisely because only those "pattern transactions" should be subject to a W-T comparison. The Panel also relied on the exceptional nature of the W-T

¹³⁵ United States' appellant's submission, para. 249.

¹³⁶ Panel Report, para. 7.143. (emphasis original)

¹³⁷ See also Panel Report, para. 7.147.

¹³⁸ Panel Report, para. 7.11 (referring to *Washers* AD I&D memorandum (Panel Exhibit KOR-18), pp. 33-34).

¹³⁹ Panel Report, para. 7.100 and fn 225 to para. 7.118.c.

¹⁴⁰ Panel Report, para. 7.22.

¹⁴¹ Panel Report, para. 7.23.

comparison methodology, which suggests that "something different from the first sentence should be undertaken, i.e. assessment of only the pattern transactions set aside for specific consideration."¹⁴² Finally, the Panel relied on the object and purpose of the second sentence of Article 2.4.2 to enable investigating authorities to "unmask" so-called 'targeted dumping'¹⁴³, as well as on the Appellate Body report in *US – Zeroing (Japan)*, where the Appellate Body read "individual export transactions" ... as referring to the transactions that fall within the relevant pricing pattern".¹⁴⁴

5.46. Accordingly, the Panel found that the W-T comparison methodology should only be applied to those transactions that constitute the "pattern of export prices which differ significantly among different purchasers, regions or time periods".¹⁴⁵ Consequently, the Panel found that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation because the USDOC applied the W-T comparison methodology to all export transactions, including transactions other than those constituting the patterns of transactions that the USDOC had determined to exist.¹⁴⁶ The Panel also found that the DPM is inconsistent "as such" with this provision because it applies the W-T comparison methodology to all export transactions, where the value of the sales that pass the Cohen's *d* test accounts for 66% or more of the value of the total sales.¹⁴⁷

5.47. The United States claims that there is no textual and contextual support for the Panel's finding that the W-T comparison methodology should only be applied to the transactions constituting the pattern. In particular, the United States contends that the relevant definition of the word "individual" is "single; separate" and that this word merely suggests that prices of single, separate export transactions may be compared to a normal value established on a weighted average basis, not that the scope of application of the W-T comparison methodology is limited to certain transactions.¹⁴⁸ In this context, the United States also takes issue with the fact that the Panel assumed that the application of the W-T comparison methodology is limited to "pattern transactions" because the second sentence of Article 2.4.2 provides no other basis for identifying "individual" export transactions.¹⁴⁹ The United States further submits that the Panel misapplied Article 31 of the Vienna Convention on the Law of Treaties¹⁵⁰ (Vienna Convention) by relying on the object and purpose of the second sentence of Article 2.4.2, rather than that of the Anti-Dumping Agreement itself.¹⁵¹ Finally, the United States argues that the Panel's reliance on the Appellate Body's statements in *US – Zeroing (Japan)* was "misplaced" and that these statements do not support the Panel's interpretation.¹⁵²

5.48. Korea submits that the United States reads the term "individual" more narrowly than the Appellate Body did in *US – Zeroing (Japan)*¹⁵³ and unduly focuses on specific words without considering the second sentence of Article 2.4.2 as a whole.¹⁵⁴ In particular, Korea is of the view that the textual reference to "such differences" in the context of the explanation to be provided under the second sentence suggests that this provision creates a group of sales that meet the conditions for the exception, and to which the W-T comparison methodology may be applied, and another group of sales that do not.¹⁵⁵ Korea further argues that the United States' interpretation of the second sentence of Article 2.4.2 would lead to absurd results, in that an authority would be

¹⁴² Panel Report, para. 7.24.

¹⁴³ Panel Report, para. 7.26.

¹⁴⁴ Panel Report, para. 7.25 (quoting Appellate Body Report, *US – Zeroing (Japan)*, para. 135; and referring to Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99).

¹⁴⁵ Panel Report, para. 7.29.

¹⁴⁶ Panel Report, paras. 7.29 and 8.1.a.i.

¹⁴⁷ Panel Report, paras. 7.119.c and 8.1.a.vi.

¹⁴⁸ United States' appellant's submission, paras. 59-62, spec. para. 60 (quoting Oxford Dictionaries online, definition of "individual"

<http://www.oxforddictionaries.com/us/definition/american_english/individual>).

¹⁴⁹ United States' appellant's submission, para. 64.

¹⁵⁰ Done at Vienna, 23 May 1969, UN Treaty Series, Vol. 1155, p. 331.

¹⁵¹ United States' appellant's submission, para. 68.

¹⁵² United States' appellant's submission, paras. 69-76.

¹⁵³ Korea's appellee's submission, para. 148.

¹⁵⁴ Korea's appellee's submission, paras. 147 and 149.

¹⁵⁵ Korea's appellee's submission, paras. 146 and 150.

allowed to apply an exceptional comparison methodology to all export transactions once it has found a pattern to exist, irrespective of how few transactions constitute this pattern.¹⁵⁶

5.49. Starting with our analysis of the text of the second sentence of Article 2.4.2, we recall that, pursuant to this provision, "[a] normal value established on a weighted average basis may be compared to prices of individual export transactions". By its express terms, the second sentence of Article 2.4.2 refers to a comparison to the prices of *individual* export transactions. The word "individual" can be defined as "[e]xisting as a separate indivisible entity; numerically one; single, as distinct from others of the same kind; particular"¹⁵⁷; or, as argued by the United States, as "single; separate".¹⁵⁸ This definition alone does not clarify whether the W-T comparison methodology can be applied to all transactions or whether it should only be applied to certain transactions, namely, the "pattern transactions". The term "individual export transactions" in the second sentence of Article 2.4.2 draws meaning from the immediate context in which it appears.¹⁵⁹

5.50. The second sentence of Article 2.4.2 requires, *inter alia*, that the investigating authority provide "an explanation ... as to why *such differences* cannot be taken into account *appropriately* by the use of a weighted average-to-weighted average or transaction-to-transaction comparison."¹⁶⁰ The term "such differences" refers back to the "export prices which differ significantly" and, therefore, form part of the pattern. As set out above, the requirement in the second sentence of Article 2.4.2 that an explanation be provided contemplates that there may be circumstances in which an investigating authority identifies a "pattern of export prices which differ significantly among different purchasers, regions or time periods" but where "such differences" could be taken into account appropriately by the W-W or T-T comparison methodology.¹⁶¹ It follows that recourse to the W-T comparison methodology is permissible only to the extent that it is necessary to remedy the inability of the normally applicable comparison methodologies to take into account appropriately the identified "pattern".

5.51. Furthermore, the first sentence of Article 2.4.2 provides for two comparison methodologies that "shall normally" be used by investigating authorities to establish margins of dumping. Under the first sentence of Article 2.4.2, the consideration is in respect of all export transactions. By contrast, the emphasis in the second sentence of Article 2.4.2 is on a "pattern". Both conditions in the second sentence of Article 2.4.2, namely, that a pattern of significant price differences be established and that an explanation be provided, pertain to "pattern transactions". Moreover, the W-T comparison methodology is considered to be an exception to the symmetrical comparison methodologies in the first sentence. The structure of Article 2.4.2, which distinguishes the normally applicable methodologies from the exceptional W-T comparison methodology, thus serves as further indication that the W-T comparison methodology should only be applied to those transactions justifying its use, namely, the "pattern transactions". We, therefore, agree with the Panel that "[t]he exceptional nature of this comparison methodology suggests that something

¹⁵⁶ Korea's appellee's submission, para. 153.

¹⁵⁷ Oxford English Dictionary online, definition of "individual"

<<http://www.oed.com/view/Entry/94633?redirectedFrom=individual#eid>>, accessed 18 July 2016.

¹⁵⁸ United States' appellant's submission, para. 60 (quoting Oxford Dictionaries online, definition of "individual" <http://www.oxforddictionaries.com/us/definition/american_english/individual>).

¹⁵⁹ The ordinary meaning of a treaty term is to be ascertained in its context and in light of the object and purpose of the treaty. Moreover, the principles of treaty interpretation set out in the Vienna Convention are to be followed in a holistic fashion. (See Appellate Body Reports, *China – Publications and Audiovisual Products*, para. 348; and *US – Continued Zeroing*, para. 268) In *US – Offset Act (Byrd Amendment)*, the Appellate Body cautioned that "dictionaries are important guides to, not dispositive statements of, definitions of words appearing in agreements and legal documents." (Appellate Body Report, *US – Offset Act (Byrd Amendment)*, para. 248) Along the same lines, in *China – Publications and Audiovisual Products*, the Appellate Body held that dictionaries, however useful as a starting point, "are not necessarily capable of resolving complex questions of interpretation because they typically catalogue all meanings of words." (Appellate Body Report, *China – Publications and Audiovisual Products*, para. 348 (referring to Appellate Body Reports, *US – Gambling*, para. 164; *US – Softwood Lumber IV*, para. 59; *Canada – Aircraft*, para. 153; and *EC – Asbestos*, para. 92))

¹⁶⁰ Emphasis added.

¹⁶¹ In *US – Zeroing (Japan)*, the Appellate Body explained that "[t]he second requirement ... contemplates that there may be circumstances in which targeted dumping could be adequately addressed through the normal symmetrical comparison methodologies." (Appellate Body Report, *US – Zeroing (Japan)*, para. 131)

different from the first sentence should be undertaken, i.e. assessment of only the pattern transactions set aside for specific consideration."¹⁶²

5.52. For the reasons set out above, we agree with the Panel that: (i) the use of the word "individual" in the second sentence of Article 2.4.2 indicates that the W-T comparison methodology does not involve all export transactions, but only certain export transactions identified individually; and (ii) the "individual export transactions" to which the W-T comparison methodology may be applied are those transactions falling within the relevant "pattern".¹⁶³ Accordingly, we read the phrase "individual export transactions" as referring to the universe of export transactions that justify the use of the W-T comparison methodology, namely, the "pattern transactions". Our interpretation gives meaning and effect to the second sentence of Article 2.4.2, whose function is to allow investigating authorities to identify and address "targeted dumping". It also accords with the object and purpose of the Anti-Dumping Agreement. Although the Anti-Dumping Agreement does not contain a preamble expressly setting out its object and purpose, it is apparent from the text of this Agreement that it deals with injurious dumping by allowing Members to take anti-dumping measures to counteract injurious dumping and imposing disciplines on the use of such anti-dumping measures.¹⁶⁴

5.53. Applying the W-T comparison methodology to "pattern transactions" only is also in line with the Appellate Body's observations in *US – Zeroing (Japan)*, where the Appellate Body "[read] the phrase 'individual export transactions' ... as referring to the transactions that fall within the relevant pricing pattern", and considered that "[t]his universe of export transactions would necessarily be more limited than the universe of export transactions to which the symmetrical comparison methodologies in the first sentence of Article 2.4.2 would apply."¹⁶⁵ The Appellate Body added that, "[i]n order to unmask targeted dumping, an investigating authority may limit the application of the W-T comparison methodology to the prices of export transactions falling within the relevant pattern."¹⁶⁶

5.54. We note that the United States makes a number of arguments that take issue with the Panel's reliance, in paragraphs 7.25 and 7.27 of its Report, on the Appellate Body's statements in *US – Zeroing (Japan)*.¹⁶⁷ First, the United States argues that this case did not involve the application of the second sentence of Article 2.4.2. While this is correct, the Appellate Body was nonetheless addressing legal issues raised on appeal, as the panel had drawn contextual support from the second sentence of Article 2.4.2 for its finding that zeroing is permitted under the T-T comparison methodology. Second, the United States asserts that the Appellate Body merely suggested that an investigating authority *may* limit the application of the W-T comparison methodology. While the Appellate Body's use of the word "may" could, if read in isolation, be perceived as being ambiguous, the remaining parts of the relevant paragraph in its report make

¹⁶² Panel Report, para. 7.24.

¹⁶³ Panel Report, para. 7.22.

¹⁶⁴ In *US – Continued Zeroing*, the Appellate Body stated that the Anti-Dumping Agreement "deals with 'injurious dumping', and ... counteract[ing] the material injury caused, or threatened to be caused, by 'dumped imports' to the domestic industry producing a 'like product'". (Appellate Body Report, *US – Continued Zeroing*, para. 284 (referring to Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 98)) The United States claims that, by relying on the "object and purpose" of the second sentence of Article 2.4.2, rather than that of the Anti-Dumping Agreement as a whole, the Panel failed to apply properly the customary rules of interpretation of public international law. (United States' appellant's submission, para. 68 (quoting Panel Report, para. 7.26)) Pursuant to Article 31(1) of the Vienna Convention, "[a] treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose." Article 31(1) of the Vienna Convention thus refers to the object and purpose of the treaty as a whole, not of the particular provisions under interpretation. However, this does not exclude that individual provisions have a function, or a role to play in a treaty. As we have explained, the function of the second sentence of Article 2.4.2 accords with the object and purpose of the Anti-Dumping Agreement. Moreover, interpreting the second sentence of Article 2.4.2 in light of its function ensures that meaning and effect are given to that provision. The Panel correctly identified the rationale of the second sentence of Article 2.4.2. Therefore, we reject the United States' arguments pertaining to the Panel's reliance on the "object and purpose" of the second sentence of Article 2.4.2.

¹⁶⁵ Appellate Body Report, *US – Zeroing (Japan)*, para. 135. In *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body stated that "the universe of export transactions to which the weighted average-to-transaction comparison methodology applies would be different from the universe of transactions examined under the weighted average-to-weighted average methodology." (Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99)

¹⁶⁶ Appellate Body Report, *US – Zeroing (Japan)*, para. 135.

¹⁶⁷ United States' appellant's submission, paras. 69, 72, 85, and 179-181.

clear that the Appellate Body excluded the possibility that the W-T comparison methodology might apply to "non-pattern transactions".¹⁶⁸ Finally, we disagree with the United States that the Panel's understanding of the scope of application of the W-T comparison methodology was derived exclusively from that Appellate Body report. The Panel conducted its own analysis of the second sentence of Article 2.4.2, and relied on the Appellate Body report in *US – Zeroing (Japan)* as "[f]urther support" for its interpretation.¹⁶⁹

5.55. Based on the foregoing considerations, in particular in light of the function of the second sentence of Article 2.4.2 to allow investigating authorities to identify and address "targeted dumping", we consider that the W-T comparison methodology should only be applied to those transactions that justify its use, namely, those transactions forming the relevant "pattern".

5.56. We, therefore, uphold the Panel's finding, in paragraph 7.29 of its Report, that "the W-T comparison methodology should only be applied to transactions that constitute the 'pattern of export prices which differ significantly among different purchasers, regions or time periods'." We further uphold the Panel's consequential findings: (i) in paragraph 8.1.a.i of its Report¹⁷⁰, that "the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, by applying the W-T comparison methodology to transactions other than those constituting the patterns of transactions that the USDOC had determined to exist in the *Washers* anti-dumping investigation"; and (ii) in paragraph 8.1.a.vi of its Report¹⁷¹, that "the DPM is inconsistent 'as such' with Article 2.4.2 of the Anti-Dumping Agreement, because it applies the W-T comparison methodology to non-pattern transactions when the aggregated value of sales to purchasers, regions, and time periods that pass the Cohen's *d* test account[s] for 66% or more of the value of total sales".

5.1.6 The extent to which price differences are to be assessed quantitatively, qualitatively, and in light of the "reasons" for these price differences

5.57. Korea claims that the Panel erred in finding that a "pattern of export prices which differ significantly" can be established "solely based on quantitative differences ... regardless of the factual context of the prices and the differences".¹⁷² This claim on appeal raises the issue of whether a "pattern of export prices which differ significantly" can be established based on purely quantitative criteria, without a qualitative assessment and without considering the "reasons" for the price differences.¹⁷³

5.58. According to the Panel, the text of Article 2.4.2 of the Anti-Dumping Agreement contains no requirement to consider the "reasons" for the price differences in order to identify a pattern, and an examination of the relevant numerical price values suffices.¹⁷⁴ The Panel further found that "an

¹⁶⁸ We recall that the Appellate Body "[read] the phrase 'individual export transactions' ... as referring to the transactions that fall within the relevant pricing pattern." The Appellate Body added that "[t]his universe of export transactions would necessarily be more limited than the universe of export transactions to which the symmetrical comparison methodologies in the first sentence of Article 2.4.2 would apply." (Appellate Body Report, *US – Zeroing (Japan)*, para. 135 (emphasis added)) As the Panel observed, the term "necessarily" used by the Appellate Body excludes the possibility that the W-T comparison methodology might in certain circumstances also apply to "non-pattern transactions". (Panel Report, para. 7.27)

¹⁶⁹ Panel Report, paras. 7.22-7.25. The United States also stresses that the Appellate Body misquoted the second sentence of Article 2.4.2 when stating that "[t]he emphasis in the second sentence of Article 2.4.2 is on a 'pattern', namely a 'pattern of export prices which differs [sic] significantly among different purchasers, regions or time periods[.]'" (United States' appellant's submission, para. 181 (quoting Appellate Body Report, *US – Zeroing (Japan)*, para. 135) (emphasis added by the United States)) The use of the word "differs" is a clerical error that does not affect the reasoning of the Appellate Body. This is apparent from the sentence that directly follows the misquotation, where the Appellate Body explained that "[t]he prices of transactions that fall within [the] *pattern* must be found to differ significantly from other export prices." (emphasis original) This is a clear indication that the Appellate Body understood that the second sentence of Article 2.4.2 focuses on prices that differ, not a pattern that differs.

¹⁷⁰ See also Panel Report, para. 7.29.

¹⁷¹ See also Panel Report, para. 7.119.c.

¹⁷² Korea's other appellant's submission, para. 154.

¹⁷³ We understand the Panel and the participants to use the term "reasons" for the price differences, as well as the phrase "why prices differ", to refer to the issue of whether the investigating authority should consider if the price differences are the result of normal price fluctuations or reflect "targeting" conduct to establish the existence of a pattern. We refer to this as the *reasons for* or the *cause of* the price differences.

¹⁷⁴ Panel Report, para. 7.46.

authority might properly find that certain prices differ 'significantly' if those prices are notably greater – in purely numerical terms – than other prices, irrespective of the reasons for those differences.¹⁷⁵ As the Panel noted, those "reasons" could, however, be relevant in the context of the explanation to be provided under the second sentence of Article 2.4.2.¹⁷⁶ The Panel acknowledged that, in certain factual circumstances, the size or scale of a price difference may need to be assessed in light of the prevailing factual circumstances.¹⁷⁷ For example, a relatively minor numerical difference between two large prices may not be significant, whereas the same numerical difference between two much smaller prices may be significant. The Panel, however, found that this relates to *how*, not *why*, the relevant prices differ.¹⁷⁸ Accordingly, the Panel rejected Korea's claim that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation because the USDOC determined the existence of a pattern of export prices which differ significantly on the basis of purely quantitative criteria, without any qualitative assessment of the "reasons" for the relevant price differences.¹⁷⁹ The Panel also found that the DPM is not inconsistent "as such" with this provision because it determines the existence of a pattern of export prices which differ significantly on the basis of purely quantitative criteria, without any qualitative assessment of the "reasons" for the relevant price differences.¹⁸⁰

5.59. Korea claims that the Panel mischaracterized its claim as if it were solely that the authority must state the reasons why prices differ.¹⁸¹ Korea argues that, while it discussed the factual context of the *Washers* anti-dumping investigation in terms of the "reasons" why prices may be differing before the Panel, this was not its sole or even principal argument.¹⁸² Moreover, Korea requests us to reverse the Panel's findings that the authorities need not consider qualitative factors as part of making a proper finding of export prices that "differ significantly" and constitute a "pattern".¹⁸³ Specifically, Korea argues that the Panel erred in finding that the authority is not required to examine the "reasons" for the price differences to establish the existence of a pattern.¹⁸⁴ Korea recalls that the term "significantly" entails both qualitative and quantitative aspects. Yet, while acknowledging this, in Korea's view, the Panel effectively held that the term "significantly" can be analysed in purely quantitative terms.¹⁸⁵ According to Korea, qualitative considerations are relevant *both* as part of determining whether price differences are "significant" and form a "pattern" and as part of determining whether a W-W comparison can "take into account appropriately" the significant price differences.¹⁸⁶

¹⁷⁵ Panel Report, para. 7.48.

¹⁷⁶ Panel Report, para. 7.48. With respect to this explanation, the Panel considered that, where price differences are caused by factors other than "targeted dumping", these differences can "normally" be taken into account appropriately by one of the "normal" comparison methodologies. The Panel, therefore, considered that the authority must analyse the factual circumstances to consider whether something other than "targeted dumping" is responsible for the relevant price differences to satisfy the explanation requirement under the second sentence of Article 2.4.2. Consequently, the Panel found that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation and that the DPM is inconsistent "as such" with the second sentence of Article 2.4.2. (Panel Report, paras. 7.72-7.77, 7.119.b, 8.1.a.iii, and 8.1.a.vii) Neither of these findings has been appealed.

¹⁷⁷ Panel Report, para. 7.49.

¹⁷⁸ The Panel found support for its approach in the panel report in *US – Upland Cotton*, where the panel did not refer to the underlying "reasons" for the price suppression to establish whether the price suppression was significant within the meaning of Article 6.3(c) of the SCM Agreement. (Panel Report, paras. 7.49-7.50 (quoting Panel Report, *US – Upland Cotton*, paras. 7.1328-7.1330)) The Panel found further support for its approach in the Appellate Body report in *US – Large Civil Aircraft (2nd complaint)*, where the Appellate Body stated that the assessment of the significance of lost sales under Article 6.3(c) of the SCM Agreement has both "quantitative and qualitative dimensions", without suggesting that the qualitative dimension extends to consideration of the "reasons" for those lost sales. (Panel Report, para. 7.51 (quoting Appellate Body Report, *US – Large Civil Aircraft (2nd complaint)*, para. 1272))

¹⁷⁹ Panel Report, paras. 7.52 and 8.1.a.ii.

¹⁸⁰ Panel Report, paras. 7.119.a and 8.1.a.v.

¹⁸¹ Korea's other appellant's submission, heading IV.B.

¹⁸² Korea's other appellant's submission, para. 160 (quoting Panel Report, para. 7.33, in turn referring to Korea's oral statement at the second Panel meeting, para. 26).

¹⁸³ Korea's Notice of Other Appeal, para. 6.

¹⁸⁴ Korea's other appellant's submission, para. 167.

¹⁸⁵ Korea's other appellant's submission, para. 175.

¹⁸⁶ Korea's other appellant's submission, para. 178.

5.60. The United States, in turn, is of the view that Korea attempts to expand its claims beyond what is set forth in its panel request.¹⁸⁷ Moreover, while the United States acknowledges that the term "significantly" has both quantitative and qualitative aspects¹⁸⁸, according to the United States, this does not mean that the authority must examine the "reasons" for the price differences, and a pattern may be discerned through a simple examination of the relevant numerical price values.¹⁸⁹ At the oral hearing, the United States clarified that, in its view, there may be instances where a purely quantitative analysis suffices to find that price differences are significant.¹⁹⁰

5.61. Addressing first whether the Panel mischaracterized Korea's claim, we note that Korea's request for the establishment of a panel refers to "commercial reasons", "market explanations", and "economic or market factors" that the USDOC allegedly fails to consider.¹⁹¹ In our view, these references show that Korea claimed that qualitative aspects should be considered. Even if these references should be understood to go to the more narrow issue of *why* differences might exist between export prices, Korea's panel request is otherwise broadly drafted. The "commercial reasons", "market explanations", and "economic or market factors" that the USDOC allegedly fails to consider appear to be mere examples of how, according to Korea, the USDOC fails to identify a pattern in accordance with the second sentence of Article 2.4.2¹⁹², and as such are in the nature of arguments rather than claims.¹⁹³ The Panel rejected Korea's claims that the USDOC acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation and that the DPM is inconsistent "as such" with this provision "by determining the existence of a 'pattern of export prices which differ significantly' among purchasers, regions or time periods *on the basis of purely quantitative criteria*, without any qualitative assessment of the reasons for the relevant price differences".¹⁹⁴ We thus understand the Panel to have concluded that both the Nails II methodology and the DPM involve a purely quantitative analysis, which the Panel did not find to be inconsistent with the second sentence of Article 2.4.2. As such, the Panel sufficiently addressed Korea's claims and arguments, and not only whether the USDOC would have needed to consider the "reasons" for the price differences. Therefore, we disagree with Korea that the Panel mischaracterized its claim.

5.62. Turning to the issue of whether the Panel erred in finding that a pattern of export prices which differ *significantly* can be established on the basis of purely quantitative criteria, without any qualitative assessment of the reasons for the relevant price differences, we recall that, pursuant to the second sentence of Article 2.4.2, the relevant "pattern" is one of export prices which differ *significantly*. The term "differ" is thus qualified by the term "significantly". As the Panel correctly recognized¹⁹⁵, "significant" can be defined as "important, notable or consequential".¹⁹⁶ We thus

¹⁸⁷ United States' appellee's submission, para. 125. We note that neither of the participants has raised a claim or an argument under Article 6.2 of the DSU.

¹⁸⁸ United States' appellee's submission, paras. 129 and 131.

¹⁸⁹ United States' appellee's submission, paras. 129 and 134.

¹⁹⁰ See also United States' appellee's submission, para. 139.

¹⁹¹ Request for the Establishment of a Panel by Korea of 5 December 2013, WT/DS464/4, pp. 4-5.

¹⁹² We also observe that Korea's claims and arguments as set out in its first written submission to the Panel were not confined to whether the "reasons" for the price differences have a role to play in the identification of a pattern. In its first written submission to the Panel, Korea claimed that the Nails II methodology that was applied in the *Washers* anti-dumping investigation and the DPM are inconsistent with the second sentence of Article 2.4.2 because "the USDOC applies fixed numerical criteria to determine whether there is a 'pattern of export prices which differ significantly' ... *and* categorically rejects the relevance to its inquiry of the commercial context in which the alleged pattern of significant pricing differences arise." (Korea's first written submission to the Panel, para. 349 (emphasis added))

¹⁹³ Article 6.2 of the DSU does not prohibit a party from including in its panel request statements "that foreshadow its arguments in substantiating the claim", and the presence of such arguments "should not be interpreted to narrow the scope of ... the claims". (Appellate Body Report, *EC – Selected Customs Matters*, para. 153)

¹⁹⁴ Panel Report, paras. 7.52, 7.119.a, 8.1.a.ii, and 8.1.a.v. (emphasis added)

¹⁹⁵ Panel Report, para. 7.48.

understand the word "significantly" to speak to the extent of the price differences and to suggest something that is more than just a nominal or marginal difference in prices. Under the second sentence of Article 2.4.2, the something that must be important, notable, or consequential is the difference in export prices.

5.63. Furthermore, the term "significantly" has both quantitative and qualitative dimensions.¹⁹⁷ Accordingly, assessing the extent of the differences in export prices to establish whether those export prices differ *significantly* for the purposes of the second sentence of Article 2.4.2 entails both quantitative and qualitative dimensions. As part of the qualitative assessment, circumstances pertaining to the nature of the product or the markets may be relevant for the assessment of whether differences are "significant" in the circumstances of a particular case. The significance of differences may indeed be affected by objective market factors, such as the nature of the product under consideration, the industry at issue, the market structure, or the intensity of competition in the markets at issue, depending on the case at hand. Hence, what may be deemed "significant" price differences in one instance may fail to meet the same threshold when different variables are considered. For example, the Panel observed that, in a more price-competitive market, smaller differences may be significant.¹⁹⁸ Unless the investigating authority considers such qualitative aspects, it will not know if and how these aspects are relevant to its assessment of whether prices differ significantly. Therefore, we disagree with the Panel to the extent it considered that an investigating authority may properly find that certain prices differ significantly within the meaning of the second sentence of Article 2.4.2 if they are notably greater in purely numerical terms.¹⁹⁹

5.64. Our understanding of the term "significant" accords with previous Appellate Body reports. For example, in the context of Article 6.3(c) of the SCM Agreement²⁰⁰, in *US – Large Civil Aircraft (2nd complaint)*, the Appellate Body found that "an assessment of whether a lost sale is significant can have both quantitative and qualitative dimensions."²⁰¹ Regarding the qualitative dimension,

¹⁹⁶ See e.g. Appellate Body Reports, *US – Large Civil Aircraft (2nd complaint)*, para. 1272 (quoting Appellate Body Report, *US – Upland Cotton*, para. 426, in turn referring to Panel Report, *US – Upland Cotton*, para. 7.1326); *US – Tyres (China)*, para. 176 (quoting *Shorter Oxford English Dictionary*, 5th edn, W.R. Trumble, A. Stevenson (eds.) (Oxford University Press, 2002), Vol. 2, p. 2835); and *China – HP-SSST (Japan) / China – HP-SSST (EU)*, para. 5.161 (quoting *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 2, p. 2833). See also Oxford English Dictionary online, definition of "significantly" <<http://www.oed.com/view/Entry/179570?redirectedFrom-significantly&print>>, accessed 4 February 2014 (Panel Exhibit USA-7), where the word "significantly" is defined as, *inter alia*, "[i]n a significant manner; esp. so as to convey a particular meaning; expressively, meaningfully."

¹⁹⁷ The Panel and the participants agree. (See Panel Report, para. 7.51; Korea's other appellant's submission, para. 171; and United States' appellee's submission, para. 131)

¹⁹⁸ Panel Report, para. 7.49.

¹⁹⁹ The Panel considered that "an authority might properly find that certain prices differ 'significantly' if those prices are notably greater – in purely numerical terms – than other prices, irrespective of the reasons for those differences." (Panel Report, para. 7.48) We note that, relying on the Appellate Body report in *China – GOES*, the Panel stated that "the Appellate Body considered that an authority could determine the existence of 'significant price undercutting' simply by comparing two prices". (Ibid., fn 105 to para. 7.48 (referring to Appellate Body Report, *China – GOES*, para. 241)) The Panel read a sentence in that Appellate Body report, which makes a reference to Article 3.2 of the Anti-Dumping Agreement, out of context, especially as the meaning of the term "significant" was not at issue in that case. Moreover, that report has to be read in light of the Appellate Body's subsequent reports in *China – HP-SSST (Japan) / China – HP-SSST (EU)*, in which, as set out in footnote 202 below, the Appellate Body clarified that the factual circumstances of each case will necessarily play a role in assessing "significance". (Appellate Body Reports, *China – HP-SSST (EU) / China – HP-SSST (Japan)*, para. 5.161)

²⁰⁰ Article 6.3(c) of the SCM Agreement provides that "[s]erious prejudice in the sense of paragraph (c) of Article 5 may arise in any case where ... the effect of the subsidy is a *significant price undercutting* by the subsidized product as compared with the price of a like product of another Member in the same market or *significant price suppression, price depression or lost sales* in the same market". (emphasis added)

²⁰¹ Appellate Body Report, *US – Large Civil Aircraft (2nd complaint)*, para. 1272 (referring to Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1218).

the Appellate Body referred to the "highly price-competitive" nature of the market.²⁰² We also note that the panel in *US – Upland Cotton*, in considering a case of significant price suppression under the same provision, found that "it may be relevant to look at the degree of the price suppression ... in the context of the prices that have been affected" to assess whether the price suppression is significant.²⁰³ As the panel reasoned:

The "significance" of any degree of price suppression may vary from case to case, depending upon the factual circumstances, and may not solely depend upon a given level of numeric significance. Other considerations, including the nature of the "same market" and the product under consideration may also enter into such an assessment, as appropriate in a given case.²⁰⁴

5.65. The words "significantly" and "pattern" in the second sentence of Article 2.4.2, however, do not imply an examination into the cause of (or reasons for) the differences in prices. The second sentence of Article 2.4.2 requires an investigating authority to find "a pattern of export prices which differ significantly among different purchasers, regions or time periods". The text does not impose an additional requirement to ascertain whether the significant differences found to exist are unconnected with "targeted dumping". As the Panel correctly observed, in *US – Large Civil Aircraft (2nd complaint)*, there was no suggestion by the Appellate Body that the qualitative dimension of the significance of lost sales extends to consideration of the cause of (or reasons for) those lost sales.²⁰⁵ Similarly, the Panel correctly observed that the *US – Upland Cotton* panel did not refer to the underlying cause of (or reasons for) price suppression as being relevant to the potential significance of the degree of price suppression.²⁰⁶ The text of the second sentence of Article 2.4.2 also does not imply an examination of the motivation for, or intent behind, the differences in prices. We thus see merit in the United States' argument that, under the second sentence of Article 2.4.2, the investigating authority is charged with finding whether a pattern of export prices exists, not whether an exporter or producer has intentionally patterned its export prices to "target" and "mask" dumping.²⁰⁷

5.66. Based on the foregoing, we find that the requirement to identify prices which differ *significantly* means that the investigating authority is required to assess quantitatively and qualitatively the price differences at issue. This assessment may require the investigating authority to consider certain objective market factors, such as circumstances regarding the nature of the product under consideration, the industry at issue, the market structure, or the intensity of competition in the markets at issue, depending on the case at hand. The investigating authority is, however, not required to consider the cause of (or reasons for) the price differences. Therefore, we agree with the Panel that an investigating authority is not required to consider the cause of (or reasons for) the price differences to establish the existence of a pattern under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement. However, we reverse the Panel's finding in

²⁰² Appellate Body Report, *US – Large Civil Aircraft (2nd complaint)*, para. 1272. See also Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1218; and Panel Report, *Korea – Commercial Vessels*, para. 7.571. In *China – HP-SSST (Japan) / China – HP-SSST (EU)*, the Appellate Body was faced with interpreting Article 3.2 of the Anti-Dumping Agreement, which refers to "significant price undercutting". The Appellate Body considered that "[w]hat amounts to *significant* price undercutting ... will ... necessarily depend on the circumstances of each case." The Appellate Body further stated that "an investigating authority may, depending on the case, rely on all positive evidence relating to the nature of the product or product types at issue, how long the price undercutting has been taking place and to what extent, and, as appropriate, the relative market shares of the product types with respect to which the authority has made a finding of price undercutting." (Appellate Body Reports, *China – HP-SSST (Japan) / China – HP-SSST (EU)*, para. 5.161 (emphasis original))

²⁰³ Panel Report, *US – Upland Cotton*, para. 7.1328.

²⁰⁴ Panel Report, *US – Upland Cotton*, para. 7.1329. (fn omitted) The panel further stated:

We cannot believe that what may be significant in a market for upland cotton would necessarily also be applicable or relevant to a market for a very different product. We consider that, for a basic and widely traded commodity, such as upland cotton, a relatively small decrease or suppression of prices could be significant because, for example, profit margins may ordinarily be narrow, product homogeneity means that sales are price sensitive or because of the sheer size of the market in terms of the amount of revenue involved in large volumes traded on the markets experiencing the price suppression.

(*Ibid.*, para. 7.1330) On appeal in that dispute, the Appellate Body found "no difficulty with the Panel's approach". (Appellate Body Report, *US – Upland Cotton*, para. 427)

²⁰⁵ Panel Report, para. 7.51.

²⁰⁶ Panel Report, para. 7.50.

²⁰⁷ United States' appellee's submission, para. 149.

respect of the *Washers* anti-dumping investigation, in paragraph 8.1.a.ii of its Report²⁰⁸, to the extent that the Panel found that "a pattern of export prices which differ significantly among purchasers, regions or time periods" can be established "on the basis of purely quantitative criteria". We also reverse the Panel's finding in respect of the DPM, in paragraph 8.1.a.v of its Report²⁰⁹, to the extent that the Panel found that "a pattern of export prices which differ significantly among purchasers, regions or time periods" can be established "on the basis of purely quantitative criteria".

5.1.7 Whether an explanation needs to be provided with respect to both the W-W and the T-T comparison methodologies

5.67. We turn now to consider Korea's claims regarding the second condition set forth in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, pursuant to which the investigating authority is to provide "an explanation ... as to why such differences cannot be taken into account appropriately by the use of a weighted average-to-weighted average or transaction-to-transaction comparison." The issue raised by Korea on appeal is whether this provision requires that an explanation be provided with respect to either the W-W or the T-T comparison methodology, or with respect to *both* of these two methodologies when the application of the W-T comparison methodology is considered under the second sentence of Article 2.4.2. We recall that the USDOC's explanation in the *Washers* anti-dumping investigation focused on the W-W comparison methodology and did not make reference to the T-T comparison methodology.²¹⁰ Nor does the DPM require the USDOC to provide an explanation with respect to the T-T comparison methodology.²¹¹

5.68. The Panel observed that, under the second sentence of Article 2.4.2, an explanation is required of why "a" W-W "or" T-T "comparison" cannot take into account appropriately the relevant price differences. The Panel considered that the use of the indefinite article "a", combined with the disjunctive "or" and the term "comparison" in the singular, suggests that the requisite explanation need only be provided in respect of one type of comparison (W-W or T-T), not both.²¹² Furthermore, the Panel relied on the Appellate Body's finding in *US – Softwood Lumber V (Article 21.5 – Canada)* that "[a]n investigating authority may choose between the two [comparison methodologies in the first sentence of Article 2.4.2] depending on which is most suitable for the particular investigation."²¹³ The Panel considered that this choice under the first sentence of Article 2.4.2 would likely be made *before* the application of the second sentence is considered. The Panel further considered that, if an authority were to opt for the W-W comparison methodology to avoid an overly burdensome comparison process, it would seem anomalous for that authority to have to incur the burden of reverting to the T-T comparison methodology in the context of the second sentence of Article 2.4.2 before applying the W-T comparison methodology. The Panel added that requiring an explanation with respect to both the W-W and the T-T comparison methodologies would undermine the investigating authority's "initial discretion" to choose between the W-W and T-T comparison methodologies.²¹⁴

5.69. Accordingly, the Panel found that Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 in the *Washers* anti-dumping investigation because the USDOC failed to explain why the relevant price differences could not be taken into

²⁰⁸ See also Panel Report, para. 7.52.

²⁰⁹ See also Panel Report, para. 7.119.a.

²¹⁰ Panel Report, para. 7.56. The explanation provided by the USDOC was based on two factors: the W-W comparison methodology concealed the identified price differences; and there was a meaningful difference between the margin of dumping calculated using the W-W comparison methodology and the margin of dumping calculated using the W-T comparison methodology. (See Panel Report, paras. 7.54-7.56 (referring to *Washers* preliminary AD determination (Panel Exhibit KOR-32), p. 46395; *Washers* preliminary AD calculation for LGE memorandum (Panel Exhibit KOR-45), pp. 3-4; *Washers* preliminary AD calculation for Samsung memorandum (Panel Exhibit KOR-46), p. 3; *Washers* AD I&D memorandum (Panel Exhibit KOR-18), p. 20; *Washers* final AD calculation for Samsung memorandum (Panel Exhibit KOR-41 (BCI)), p. 2; and *Washers* final AD calculation for LGE memorandum (Panel Exhibit KOR-42 (BCI)), p. 2))

²¹¹ Panel Report, fn 224 to para. 7.118.b. As explained above, under the DPM, the USDOC applies the meaningful difference test to identify whether the W-W comparison methodology can take into account appropriately the observed price differences.

²¹² Panel Report, para. 7.79.

²¹³ Panel Report, para. 7.80 (quoting Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93).

²¹⁴ Panel Report, para. 7.80.

account appropriately by the T-T comparison methodology.²¹⁵ The Panel also found that Korea failed to establish that the DPM is inconsistent with this provision because it does not consider whether the relevant price differences can be taken into account appropriately by the T-T comparison methodology.²¹⁶

5.70. Korea advances a series of arguments that take issue with these findings. Korea submits that the word "a" in the phrase "the use of a weighted average-to-weighted average or transaction-to-transaction comparison" in the second sentence of Article 2.4.2 reflects the fact that the investigating authority will be using "a" single comparison methodology (rather than both at the same time) and that the word "or" reflects this choice between the W-W and T-T comparison methodologies.²¹⁷ In addition, Korea disagrees with the Panel that providing an explanation with respect to both methodologies would be burdensome. According to Korea, given that the USDOC uses the T-T comparison methodology in "unusual situations", it could easily explain why this methodology would not work in a particular situation.²¹⁸ Korea adds that the Panel created an "artificial distinction that the authority 'would likely' have chosen a preferred method under the first sentence before turning to the second sentence", whereas the authority may consider all three options at once.²¹⁹

5.71. For its part, the United States is of the view that the Panel's interpretation follows a proper application of the customary rules of interpretation of public international law, is logical, and accords with prior Appellate Body guidance concerning Article 2.4.2.²²⁰ In particular, the United States argues that if, as the Appellate Body has found, an authority is free to choose between the W-W and T-T comparison methodologies in the first sentence of Article 2.4.2 and those methodologies yield systematically similar results, there would be no purpose in requiring that an explanation be provided with respect to both methodologies.²²¹ Furthermore, according to the United States, Article 2.4.2 describes a logical progression, in which the investigating authority first selects whether to use the W-W or T-T comparison methodology, and thereafter examines whether the W-T comparison methodology can be applied.²²² Finally, the United States submits that, under Korea's proposed interpretation, the investigating authority would effectively be required to explain its initial choice between the W-W and T-T comparison methodologies, something that is not required under the first sentence of Article 2.4.2.²²³

5.72. We recall that the second sentence of Article 2.4.2 requires that "an explanation [be] provided as to why such differences cannot be taken into account appropriately by the use of a weighted average-to-weighted average or transaction-to-transaction comparison." Depending on the context in which it is used, the conjunction "or" can be exclusive or inclusive.²²⁴ We note the United States' argument that the first sentence of Article 2.4.2 provides an option between the W-W and T-T comparison methodologies using the conjunction "or" and that the word "or" thus has the same meaning in the context of the explanation to be provided under the second sentence of Article 2.4.2.²²⁵ However, the mere fact that the conjunction "or" is used in the first and second sentences of Article 2.4.2 does not imply that it has the same meaning in both sentences.²²⁶ We also observe that, if the second sentence of Article 2.4.2 were to include the conjunction "and" instead of the conjunction "or", this would suggest that the authority is required to use the W-W and the T-T comparison methodologies in combination.²²⁷ Therefore, in the context of the second

²¹⁵ Panel Report, paras. 7.81 and 8.1.a.iv.

²¹⁶ Panel Report, paras. 7.119.b and 8.1.a.viii.

²¹⁷ Korea's other appellant's submission, para. 192.

²¹⁸ Korea's other appellant's submission, para. 195.

²¹⁹ Korea's other appellant's submission, para. 198. (fn omitted)

²²⁰ United States' appellee's submission, paras. 167 and 170.

²²¹ United States' appellee's submission, paras. 171-172 (quoting Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93).

²²² United States' appellee's submission, para. 178.

²²³ United States' appellee's submission, para. 181.

²²⁴ Appellate Body Report, *US – Line Pipe*, para. 164.

²²⁵ United States' appellee's submission, para. 175.

²²⁶ As the panel found in *EC – Salmon (Norway)*, because of the different functions of the word "or", "its meaning in different provisions of the AD Agreement will very much depend upon the obligations at issue and the specific context in which it appears." (Panel Report, *EC – Salmon (Norway)*, para. 7.171)

²²⁷ This is acknowledged by the United States. According to the United States, replacing the conjunction "or" with the conjunction "and" would mean that the authority is required to use both the W-W and the T-T comparison methodologies "together in the same proceeding". (United States' appellee's submission, para. 174)

sentence of Article 2.4.2, using the conjunction "and" instead of the conjunction "or" was not viable to indicate that both methodologies should be addressed in the investigating authority's explanation.

5.73. Turning to the indefinite article "a" and the singular form of the word "comparison" in this provision, we disagree with the Panel that these suggest that an explanation with regard to one of the two normally applicable methodologies comports with the second sentence of Article 2.4.2. We are particularly mindful of the fact that the equally authentic French version of the second sentence of Article 2.4.2 refers to "*les méthodes de comparaison*", using a definite article ("*les*") and "comparison methods" in the plural form.²²⁸

5.74. Furthermore, the W-T comparison methodology in the second sentence of Article 2.4.2 is an exception to the comparison methodologies that are set out in the first sentence and are normally to be used.²²⁹ Interpreting the second sentence of Article 2.4.2 as requiring that an explanation be provided with respect to both the W-W and the T-T comparison methodologies gives a proper recognition to the text of that provision and to the distinction between the normally applicable methodologies in the first sentence of Article 2.4.2 and the exceptional W-T comparison methodology in the second sentence. If the W-T comparison methodology were to apply in an instance where an explanation is provided with respect to one of the two normally applicable comparison methodologies, but the other could appropriately take the relevant price differences into account, the W-T comparison methodology would no longer be used as an exception. Although the W-W and T-T comparison methodologies are likely to yield substantially equivalent results, the possibility that, in a particular case, they might yield different results and might impact differently the possible use of the W-T comparison methodology, should not be entirely excluded.

5.75. Finally, we disagree with the Panel's reasoning that the investigating authority's "initial discretion" between the W-W and T-T comparison methodologies under the first sentence of Article 2.4.2 would be undermined by requiring that an explanation be provided with respect to both these methodologies. We recall that the W-W and the T-T comparison methodologies "fulfil the same function" and that there is no "hierarchy between the two".²³⁰ As such, an investigating authority may choose between these two methodologies "depending on which is most suitable for the particular investigation".²³¹ However, we consider that the investigating authority's option between the W-W and T-T comparison methodologies under the first sentence of Article 2.4.2 is unrelated to the question of whether these two methodologies are not appropriate to unmask "targeted dumping" such that the investigating authority contemplates the application of the W-T comparison methodology. Requiring that an explanation be provided in respect of both the W-W and T-T comparison methodologies, when the application of the W-T comparison methodology is considered under the second sentence of Article 2.4.2, does not mean that the investigating authority is deprived of its discretion should it decide to apply the first sentence of Article 2.4.2 instead of turning to the W-T comparison methodology in the second sentence.²³²

5.76. For these reasons, we consider that an investigating authority has to explain why both the W-W and the T-T comparison methodologies cannot take into account appropriately the differences

²²⁸ Article 33(1) of the Vienna Convention recognizes that treaties authenticated in several languages are equally authoritative in each of these languages, as is the case with the Anti-Dumping Agreement. Moreover, pursuant to Article 33(4) of the Vienna Convention, "when a comparison of the authentic texts discloses a difference of meaning ..., the meaning which best reconciles the texts ... shall be adopted." For the sake of completeness, the Spanish version of the second sentence of Article 2.4.2 refers to "*una comparación*" in the singular, using the indefinite article "*una*".

²²⁹ Appellate Body Report, *US – Zeroing (Japan)*, para. 131. See also Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, paras. 86 and 97.

²³⁰ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93.

²³¹ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 93.

²³² The Panel also considered that it would seem anomalous for the investigating authority to have to incur the burden of reverting to the T-T comparison methodology in the context of the second sentence of Article 2.4.2 before applying the W-T comparison methodology, if that authority opts for the W-W comparison methodology under the first sentence of Article 2.4.2. In this context, the Panel noted that "[t]he choice between the two normal methodologies provided for in the first sentence would likely be made *before* the application of the second sentence is considered". (Panel Report, para. 7.80 (emphasis original)) However, we are not convinced that the burden that lies on investigating authorities and the sequence in which the various comparison methodologies are likely to be considered are relevant to the interpretation of the second sentence of Article 2.4.2 pursuant to the Vienna Convention. In addition, an investigating authority may consider the application of the three methodologies in no particular order or at the same time, rather than in sequence.

in export prices that form the pattern. In circumstances where the W-W and T-T comparison methodologies would yield substantially equivalent results and where an explanation has been provided with respect to one of these two methodologies, the explanation to be included with respect to the other may not need to be as elaborate.

5.77. Based on the foregoing, we reverse the Panel's finding, in paragraph 8.1.a.iv of its Report²³³, that "Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] in the *Washers* anti-dumping investigation by failing to explain why the relevant price differences could not be taken into account appropriately by the T-T comparison methodology". For the same reasons, we reverse the Panel's finding, in paragraph 8.1.a.viii of its Report²³⁴, that "Korea failed to establish that the DPM is inconsistent with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] when, having concluded that the W-W comparison methodology cannot appropriately take into account the observed pattern of significantly different prices, it does not also consider whether the relevant price differences could be taken into account appropriately by the T-T comparison methodology".

5.1.8 "Systemic disregarding"

5.1.8.1 Whether the Panel erred in finding that Korea failed to establish that the United States' use of "systemic disregarding" under the DPM is inconsistent "as such" with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.78. We turn now to consider Korea's appeal of the Panel's findings under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement in respect of "systemic disregarding". We begin by recalling that the USDOC applies a "mixed" comparison methodology as part of the DPM. In cases where the value of the transactions that pass the Cohen's *d* test is between 33% and 66% of the value of the total export transactions, the W-T comparison methodology with zeroing is applied to these transactions. For the remaining transactions, i.e. the transactions that do not pass the Cohen's *d* test, the W-W comparison methodology is used.

5.79. In the first administrative review of the *Washers* anti-dumping order, the USDOC applied this "mixed" comparison methodology with respect to LGE.²³⁵ For the transactions to which the W-W comparison methodology was applied, the USDOC took the sum total of the "evidence of dumping" (i.e. the positive comparison results) and "offset" this amount with export sales that were greater than normal value (i.e. the negative comparison results) up to the amount of the sum total of the "evidence of dumping". For the transactions to which the W-T comparison methodology was applied, the USDOC took the sum total of the "evidence of dumping" and made no "offsets" for export sales above normal value (i.e. the USDOC used zeroing).²³⁶ The USDOC then combined the sum total of the comparison results of the W-W and W-T comparison methodologies to determine the margin of dumping for the exporter (LGE) and the product under investigation (LRWs) "as a whole". In aggregating the comparison results, the USDOC did not permit the overall negative comparison result arising from the W-W comparison methodology to "offset" the "evidence of dumping" from the application of the W-T comparison methodology.²³⁷ As we have observed above, it is in this context that the issue of "systemic disregarding" arises under the DPM.

5.80. The Panel noted that the W-T comparison methodology provided in the second sentence of Article 2.4.2 is an exceptional and alternative comparison methodology.²³⁸ The Panel considered

²³³ See also Panel Report, para. 7.81.

²³⁴ See also Panel Report, para. 7.119.b.

²³⁵ USDOC [A-580-868] Large Residential Washers From the Republic of Korea: Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014, *United States Federal Register*, Vol. 80, No. 45 (9 March 2015), pp. 12456-12458 / USDOC [A-580-868] Memorandum regarding Large Residential Washers from Korea: Decision Memorandum for the Preliminary Results of the Antidumping Duty Administrative Review; 2012-2014 (3 March 2015) / USDOC [A-580-868] Memorandum to File regarding 2012-2014 Administrative Review of Large Residential Washers from Korea – Preliminary Results Margin Calculation for LGE (2 March 2015) (BCI-redacted version) (Panel Exhibit KOR-96); USDOC [A-580-868] Issues and Decision Memorandum for the Final Results of the Antidumping Duty Administrative Review of Large Residential Washers from the Republic of Korea (8 September 2015) (Panel Exhibit KOR-141).

²³⁶ United States' appellee's submission, para. 58.

²³⁷ United States' appellee's submission, para. 59.

²³⁸ Panel Report, para. 7.155.

that, when an investigating authority determines the margin of dumping for an individual exporter or foreign producer under the second sentence of Article 2.4.2, the investigating authority is entitled to have particular regard and, therefore, limit its analysis to the pricing behaviour of that exporter or foreign producer in respect of the transactions that form the "pattern". Furthermore, the Panel noted that, irrespective of the methodology applied, Articles 2.1 and 6.10 of the Anti-Dumping Agreement require that margins of dumping be established for the product under investigation "as a whole" for the individual exporter or foreign producer concerned. Thus, the Panel reasoned that, while the numerator may be established from the "evidence of dumping" in "pattern transactions", the denominator of the equation has to reflect the value of total exports of that individual exporter or foreign producer.²³⁹

5.81. The Panel further considered that, consistent with the focus of the second sentence of Article 2.4.2 being on the pricing behaviour in respect of "pattern transactions", one could take the view that the combined application of the W-T and W-W (or T-T) comparison methodologies is not envisaged by that provision. However, since Korea had not raised a claim to that effect, the Panel did not see the need to rule on this matter.²⁴⁰

5.82. Recalling that the second sentence of Article 2.4.2 is designed to enable an investigating authority to focus on "pattern transactions" in order to "unmask targeted dumping", the Panel found that, where an investigating authority applies the W-T comparison methodology to "pattern transactions" and the W-W (or T-T) comparison methodology to "non-pattern transactions", the effect of this approach would be to "zoom in" on the "targeted dumping" identified in respect of "pattern transactions", but subsequently to "zoom out" and "re-mask" the identified "targeted dumping", if the investigating authority had to take into account the result of the W-W (or T-T) comparison methodology applied to "non-pattern transactions" when making its overall determination of dumping.²⁴¹ The Panel further found that such an approach would lead to "mathematical equivalence" – the same result that would arise from a straightforward application of the W-W comparison methodology to all transactions.²⁴² "Systemic disregarding", according to the Panel, "enables an investigating authority to reveal any dumping in respect of pattern transactions that would otherwise be masked by the negative dumping in respect of non-pattern transactions".²⁴³

5.83. The Panel rejected Korea's argument that the use of different weighted average normal values could avoid mathematical equivalence. The Panel found that Korea had not identified any textual basis in Article 2.4.2 for concluding that the "normal value established on a weighted average basis" referred to in the second sentence should differ, within the same anti-dumping proceeding, from the "weighted average normal value" referred to in the first sentence.²⁴⁴ Neither was the Panel persuaded by Korea's argument that mathematical equivalence could be avoided if the investigating authority undertook a "granular analysis" of the transactions involved in the W-T comparison methodology and a detailed approach to price adjustments, i.e. by rethinking the adjustments that might be necessary to ensure price comparability.²⁴⁵ The Panel took the view that the second sentence does not envisage that any price adjustments be made in addition to those made pursuant to an investigating authority's general obligation to make a "fair comparison" under Article 2.4 of the Anti-Dumping Agreement. According to the Panel, "there is nothing in the

²³⁹ Panel Report, para. 7.160.

²⁴⁰ Panel Report, para. 7.161.

²⁴¹ Panel Report, para. 7.162.

²⁴² Panel Report, para. 7.164. However, the Panel clarified that it was specifically addressing the mathematical equivalence that would arise when the results of applying the W-W comparison methodology to all transactions are compared to a combined application of the W-T comparison methodology to "pattern transactions" and the W-W comparison methodology to "non-pattern transactions". The Panel added that there would be no mathematical equivalence if the application of the W-T comparison methodology to "pattern transactions" were combined with the application of the T-T comparison methodology to "non-pattern transactions". (Ibid., fn 303 to para. 7.164)

²⁴³ Panel Report, para. 7.163.

²⁴⁴ Panel Report, para. 7.165. However, the Panel, in clarifying that it was not "suggest[ing] that only a single weighted average normal value should be applied", acknowledged that "model-specific weighted average normal values may be established, and that different weighted average normal values may be established for different periods within the period of investigation." (Ibid., fn 306 to para. 7.165)

²⁴⁵ Panel Report, para. 7.166. (fn omitted)

text of the second sentence to suggest that an authority could or should make the type of adjustments proposed by Korea in order to allow the authority to unmask targeted dumping."²⁴⁶

5.84. In light of the above, the Panel rejected Korea's claim that the USDOC's use of "systemic disregarding" when combining the overall comparison results arising from the W-W and W-T comparison methodologies under the DPM is inconsistent "as such" with the second sentence of Article 2.4.2.²⁴⁷

5.85. On appeal, Korea asserts that the Panel's approach essentially creates two margins of dumping, one for the subset to which the W-T comparison methodology is applied, and another for the subset using the W-W comparison methodology. Korea argues that, although the Panel correctly found that zeroing could not apply to either of these two subsets, it allowed the "functional equivalent of zeroing" by combining the two subsets and by refusing to allow any "offsets" from the subset based on the normal comparison methodologies when determining the overall dumping and margin of dumping.²⁴⁸ Korea argues that, apart from allowing an exception to the normal comparison methodologies, neither the second sentence of Article 2.4.2 nor the whole of Article 2.4.2 creates any exception to the basic concepts of "dumping" and "margin of dumping".²⁴⁹ Further, Korea asserts that the Panel's reasoning has no basis in the text or context of Article 2.4.2²⁵⁰ and that "[d]umping" only exists as a final conclusion based on all export transactions overall for the exporter and for the product as a whole."²⁵¹

5.86. Moreover, Korea argues that, unlike what the Panel found, "[t]he purpose of the second sentence of Article 2.4.2 ... is simply to allow the authority to undertake the more careful examination of individual export prices that the W-T comparison method[ology] makes possible."²⁵² According to Korea, the purpose of the second sentence of Article 2.4.2 is not to "'unmask' so-called 'targeted dumping'", but rather "to 'unmask' individual export prices".²⁵³ Korea further states that the second sentence of Article 2.4.2 is not about end results, but rather about the comparison methodology necessary to ensure that individual export prices are more carefully examined by the investigating authority in specified circumstances.²⁵⁴

5.87. For its part, the United States contends that, where an investigating authority applies the W-T comparison methodology to fewer than all export prices, the Anti-Dumping Agreement does not obligate the investigating authority to "offset" or "re-mask" the "evidence of dumping" that has been "unmasked" through the use of the W-T comparison.²⁵⁵ Therefore, the United States submits that Korea's argument in essence leads to an interpretation of the second sentence of Article 2.4.2 as requiring the mandatory "re-masking" of below-normal value export sales, which is not supported by the text of the Anti-Dumping Agreement, and which would render the second sentence of Article 2.4.2 *inutile*.²⁵⁶ The United States contends that the Panel was right to interpret the second sentence as being an exception to the first sentence of Article 2.4.2, and as setting forth a special methodology for establishing margins of dumping.²⁵⁷

5.88. As regards the function of the second sentence of Article 2.4.2, the United States submits that Korea's position that the purpose of the second sentence is for the investigating authority to undertake a "more careful examination" means nothing if the provision requires "re-masking" of "targeted dumping".²⁵⁸ Moreover, the United States submits that, under Korea's approach, there would never be any reason for an investigating authority to resort to the alternative, W-T comparison methodology when the T-T comparison methodology already provides the investigating authority with the possibility of undertaking a "granular examination of individual

²⁴⁶ Panel Report, para. 7.166.

²⁴⁷ Panel Report, paras. 7.167 and 8.1.a.x.

²⁴⁸ Korea's other appellant's submission, para. 57.

²⁴⁹ Korea's other appellant's submission, para. 78.

²⁵⁰ Korea's other appellant's submission, para. 54.

²⁵¹ Korea's other appellant's submission, para. 56.

²⁵² Korea's other appellant's submission, para. 118.

²⁵³ Korea's other appellant's submission, para. 119.

²⁵⁴ Korea's appellee's submission, para. 88.

²⁵⁵ United States' appellee's submission, para. 64.

²⁵⁶ United States' appellee's submission, para. 56.

²⁵⁷ United States' appellee's submission, para. 71.

²⁵⁸ United States' appellee's submission, para. 80.

export prices".²⁵⁹ Thus, the United States submits that the only logical conclusion is that the second sentence of Article 2.4.2 is intended "to enable investigating authorities to 'unmask' so-called 'targeted dumping'".²⁶⁰

5.89. For the purposes of our analysis and in order to address the discrete claims raised by Korea on appeal, we first recall below the relevant jurisprudence that dumping and margins of dumping are established for the product under investigation "as a whole" and for each exporter or foreign producer. Next, in light of this jurisprudence, we turn to consider the establishment of dumping and margins of dumping under the W-T comparison methodology set forth in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement.

5.1.8.1.1 Dumping and margins of dumping under the first sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.90. The Appellate Body has consistently held that the concepts of "dumping" and "margins of dumping" are the same throughout the Anti-Dumping Agreement. Recalling that Article 2.1 of the Anti-Dumping Agreement defines "dumping" "[f]or the purpose of this Agreement"²⁶¹, the Appellate Body found that the definitional content of "dumping" must be capable of application throughout the Anti-Dumping Agreement in a coherent fashion.²⁶² In *US – Zeroing (Japan)*, the Appellate Body clarified that the terms "dumping" and "dumped imports" have the same meaning in all provisions of the Anti-Dumping Agreement and for all types of anti-dumping proceedings, including original investigations, new shipper reviews, and periodic reviews and that, in each case, "they relate to a *product* because it is the product that is introduced into the commerce of another country at less than its normal value in that country."²⁶³ The Appellate Body further indicated that "[t]he definitions in Article 2.1 [of the Anti-Dumping Agreement] and Article VI:1 [of the GATT 1994] are no doubt central to the interpretation of other provisions of the *Anti-Dumping Agreement*, such as the obligations relating to, *inter alia*, the calculation of margins of dumping, volume of dumped imports, and levy of anti-dumping duties to counteract injurious dumping".²⁶⁴

5.91. Moreover, the Appellate Body has considered the Anti-Dumping Agreement to prescribe that "dumping determinations be made in respect of each exporter or foreign producer examined ... because dumping is the result of the pricing behaviour of individual exporters or foreign producers."²⁶⁵ According to the Appellate Body, in order to assess properly the pricing behaviour of an individual exporter or foreign producer, and to determine whether the exporter or foreign producer is in fact dumping the product under investigation and, if so, by which margin, it is obviously necessary to take into account the prices of all the export transactions of that exporter or foreign producer.²⁶⁶

5.92. Article 2.4.2 of the Anti-Dumping Agreement explains how investigating authorities must proceed to ascertain margins of dumping. More particularly, Article 2.4.2 contains two sentences, which set out the methodologies that investigating authorities may use to establish margins of dumping.

5.93. The first sentence of Article 2.4.2 states that the existence of margins of dumping "shall normally be established on the basis of a comparison of a weighted average normal value with a weighted average of prices of all comparable export transactions or by a comparison of normal value and export prices on a transaction-to-transaction basis." The Appellate Body has considered that, in establishing dumping and margins of dumping for each exporter or producer and for the

²⁵⁹ United States' appellee's submission, para. 81 (quoting Korea's other appellant's submission, para. 197).

²⁶⁰ United States' appellee's submission, para. 82 (quoting Panel Report, para. 7.26).

²⁶¹ Article 2.1 of the Anti-Dumping Agreement provides:

For the purpose of this Agreement, a product is to be considered as being dumped, i.e. introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country.

²⁶² Appellate Body Report, *US – Continued Zeroing*, para. 280.

²⁶³ Appellate Body Report, *US – Zeroing (Japan)*, para. 109. (emphasis original)

²⁶⁴ Appellate Body Report, *US – Zeroing (Japan)*, para. 140. (fn omitted)

²⁶⁵ Appellate Body Report, *US – Zeroing (Japan)*, para. 111.

²⁶⁶ Appellate Body Report, *US – Zeroing (Japan)*, para. 111.

product under investigation "as a whole" under the first sentence of Article 2.4.2, an investigating authority is under an obligation to take into account the entire "universe of export transactions", that is, *all* the export transactions of the "like" product by a given exporter or foreign producer.

5.94. In the context of the W-W comparison methodology, the Appellate Body has found that there is nothing in Article 2.4.2 or in any other provision of the Anti-Dumping Agreement that provides for the establishment of the existence of margins of dumping for types or models of the product under investigation, and all references to the establishment of the existence of margins of dumping are references to the product under investigation.²⁶⁷ In particular, the Appellate Body has found that "[w]hatever the method used to calculate the margins of dumping, ... these margins must be, and can only be, established for the *product* under investigation as a whole."²⁶⁸

5.95. In establishing margins of dumping for the product under investigation under the W-W comparison methodology, the Appellate Body has also recognized that, while the investigating authority may undertake multiple averaging or multiple comparisons at the sub-group level, it is "required to compare the weighted average normal value with the weighted average of prices of *all* comparable export transactions".²⁶⁹ Thus, it was in the context of "model zeroing" that the Appellate Body in *EC – Bed Linen* found that, "[b]y 'zeroing' the 'negative dumping margins', the European Communities ... did *not* take fully into account the entirety of the prices of *some* export transactions, namely, those export transactions involving models of cotton-type bed linen where 'negative dumping margins' were found."²⁷⁰ Accordingly, the Appellate Body found that the existence of margins of dumping was not established on the basis of a comparison of the weighted average normal value with the weighted average of prices of *all* comparable export transactions.²⁷¹ The Appellate Body has explained that, for the purposes of the W-W comparison methodology, "the word 'all' in 'all comparable export transactions' makes it clear that Members ... 'may only compare those export transactions which are comparable, but [they] must compare *all* such transactions'."²⁷²

5.96. Moreover, the Appellate Body has emphasized that, although an investigating authority may undertake multiple averaging to establish margins of dumping for a product under investigation, "the results of the multiple comparisons at the sub-group level are ... not 'margins of dumping' within the meaning of Article 2.4.2."²⁷³ In the absence of a textual basis in Article 2.4.2 that would justify taking into account the results of only some multiple comparisons in the process of calculating margins of dumping, while disregarding other results²⁷⁴, the Appellate Body has stated that "it is only on the basis of aggregating *all* ... 'intermediate values' that an investigating authority can establish margins of dumping for the product under investigation as a whole."²⁷⁵

5.97. In respect of the T-T comparison methodology, the Appellate Body has not considered the absence of the phrase "all comparable export transactions" as suggesting that an investigating authority is free to disregard certain export transactions from the applicable "universe of export transactions" in order to establish margins of dumping. According to the Appellate Body, the phrase "all comparable export transactions" is not pertinent for this methodology because "under the T-T comparison methodology, all export transactions are taken into account on an individual basis and matched with the most appropriate transactions in the domestic market."²⁷⁶ The Appellate Body has, thus, found that the text of Article 2.4.2 implies that the calculation of margins of dumping using the T-T comparison methodology is a multi-step exercise, whereby the results of transaction-specific comparisons are inputs that are aggregated in order to establish the margin of dumping for the product under investigation and for each exporter or foreign producer.²⁷⁷

²⁶⁷ Appellate Body Report, *EC – Bed Linen*, para. 53.

²⁶⁸ Appellate Body Report, *EC – Bed Linen*, para. 53. (emphasis original)

²⁶⁹ Appellate Body Report, *EC – Bed Linen*, para. 55. (emphasis original)

²⁷⁰ Appellate Body Report, *EC – Bed Linen*, para. 55. (emphasis original)

²⁷¹ Appellate Body Report, *EC – Bed Linen*, para. 55.

²⁷² Appellate Body Report, *US – Softwood Lumber V*, para. 86. (emphasis original; fn omitted)

²⁷³ Appellate Body Report, *US – Softwood Lumber V*, para. 97.

²⁷⁴ Appellate Body Report, *US – Softwood Lumber V*, para. 98.

²⁷⁵ Appellate Body Report, *US – Softwood Lumber V*, para. 97. (emphasis original)

²⁷⁶ Appellate Body Report, *US – Zeroing (Japan)*, para. 124.

²⁷⁷ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 87.

5.98. In light of the above, an investigating authority is not allowed to disregard, in establishing dumping and margins of dumping under the W-W or T-T comparison methodology provided in the first sentence of Article 2.4.2 of the Anti-Dumping Agreement, any transactions that make up the "universe of export transactions" to be examined thereunder, that is, *all* the export transactions of the "like" product by a given exporter or foreign producer.

5.1.8.1.2 The W-T comparison methodology in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.99. We now turn to address how the W-T comparison methodology works under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement. In so doing, we focus on the "universe of export transactions" that needs to be compared with normal value in order to establish dumping and margins of dumping, also keeping in mind the function of this provision. We then consider whether the second sentence of Article 2.4.2 allows combining the W-T comparison methodology with one of the two symmetrical comparison methodologies provided in the first sentence. Finally, we address the participants' arguments in respect of "mathematical equivalence".

5.100. The second sentence of Article 2.4.2 of the Anti-Dumping Agreement provides:

A normal value established on a weighted average basis may be compared to prices of individual export transactions if the authorities find a pattern of export prices which differ significantly among different purchasers, regions or time periods, and if an explanation is provided as to why such differences cannot be taken into account appropriately by the use of a weighted average-to-weighted average or transaction-to-transaction comparison.

5.101. The comparison envisaged under the second sentence of Article 2.4.2 is, thus, an asymmetrical comparison between a normal value "established on a weighted average basis" and prices of "individual export transactions". We have concluded above²⁷⁸ that these "individual export transactions" refer to the "universe of export transactions" that justify the use of the W-T comparison methodology, namely, the "pattern transactions". We have reached this conclusion based on the text of the second sentence of Article 2.4.2, read in light of its function of allowing an investigating authority to identify and address "targeted dumping", and in keeping with the overall structure of Article 2.4.2 of the Anti-Dumping Agreement.²⁷⁹

5.1.8.1.2.1 Dumping and margins of dumping under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.102. The Panel considered that, "at first glance, there appears to be some tension between (a) the Appellate Body's understanding of the limited scope of application of the W-T comparison methodology and (b) its reference to the 'fundamental disciplines' that 'dumping' and 'margins of dumping' pertain to an exporter or foreign producer, and to the product [under investigation] (as a whole), taking into account all export transactions of the exporter or foreign producer concerned."²⁸⁰ In this regard, both the Panel²⁸¹ and Korea²⁸² referred to the findings of the Appellate Body in *US – Zeroing (Japan)*, where the Appellate Body concluded:

²⁷⁸ See para. 5.52 of this Report.

²⁷⁹ Moreover, our conclusion also accords with the previous statements of the Appellate Body that the W-T comparison methodology applies to a more limited "universe of export transactions". In *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body stated that "the universe of export transactions to which the weighted average-to-transaction comparison methodology applies would be different from the universe of transactions examined under the weighted average-to-weighted average methodology". (Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99) The Appellate Body has further explained that the universe of export transactions under the second sentence "would necessarily be more limited than the 'universe of export transactions' to which the symmetrical comparison methodologies in the first sentence of Article 2.4.2 would apply" and that, "[i]n order to unmask targeted dumping, an investigating authority may limit the application of the W-T comparison methodology to the prices of export transactions falling within the relevant pattern." (Appellate Body Report, *US – Zeroing (Japan)*, para. 135) These findings suggest that the domain of the second sentence of Article 2.4.2 is this more limited "universe of export transactions", i.e. the "pattern transactions".

²⁸⁰ Panel Report, para. 7.160. (fn omitted)

²⁸¹ Panel Report, para. 7.158.

Thus, it is evident from the design and architecture of the *Anti-Dumping Agreement* that: (a) the concepts of "dumping" and "margins of dumping" pertain to a "product" and to an exporter or foreign producer; (b) "dumping" and "dumping margins" must be determined in respect of each known exporter or foreign producer examined; (c) anti-dumping duties can be levied only if dumped imports cause or threaten to cause material injury to the domestic industry producing like products; and (d) anti-dumping duties can be levied only in an amount not exceeding the margin of dumping established for each exporter or foreign producer. These concepts are interlinked. They do not vary with the methodologies followed for a determination made under the various provisions of the *Anti-Dumping Agreement*.²⁸³

5.103. We observe that these statements in respect of the first sentence of Article 2.4.2, that dumping and margins of dumping have to be established for the product under investigation "as a whole", should be read in the context of the Appellate Body's finding against "model zeroing". "Model zeroing" occurs in situations where the investigating authority divides the product under investigation into product types or models for the purposes of calculating a weighted average normal value and a weighted average export price and sets to zero the negative comparison results arising in respect of certain product types or models. In *EC – Bed Linen*, in addressing "model zeroing", the Appellate Body stated that, "with respect to Article 2.4.2, the European Communities had to establish 'the existence of margins of dumping' for the *product* – cotton-type bed linen – and not for the various types or models of that product" since, "[h]aving defined the *product* as it did, the European Communities was bound to treat that *product* consistently thereafter in accordance with that definition."²⁸⁴ The Appellate Body found that, "[b]y 'zeroing' the 'negative dumping margins', the European Communities, therefore, did *not* take fully into account the entirety of the prices of *some* export transactions, namely, those export transactions involving models of cotton-type bed linen where 'negative dumping margins' were found."²⁸⁵ The Appellate Body concluded that, in so doing, "the European Communities did *not* establish 'the existence of margins of dumping' for cotton-type bed linen on the basis of a comparison of the weighted average normal value with the weighted average of prices of *all* comparable export transactions – that is, for *all* transactions involving *all* models or types of the product under investigation."²⁸⁶

5.104. The establishment of dumping and margins of dumping, for the product under investigation "as a whole" and by taking into account all export transactions of a given exporter or foreign producer, is to be carried out in respect of the applicable "universe of export transactions" for each of the comparison methodologies set forth in Article 2.4.2. It is in the context of establishing margins of dumping for the product under investigation "as a whole" under the normally applicable W-W and T-T comparison methodologies that the Appellate Body has consistently found that, under the first sentence of Article 2.4.2, an investigating authority is under an obligation to consider the entire "universe of export transactions" for a given exporter or foreign producer. However, and as the Appellate Body has previously stated, under the W-T comparison methodology set forth in the second sentence of Article 2.4.2, the applicable "universe of export transactions" is more limited than those under the W-W and T-T comparison methodologies.²⁸⁷

5.105. Once the applicable "universe of export transactions" has been determined under the second sentence of Article 2.4.2 for the purposes of the application of the W-T comparison methodology, dumping and margins of dumping pertaining to an exporter or foreign producer and to the product under investigation are limited to this identified "universe of export transactions", i.e. the "pattern transactions".

5.106. In light of the above, not only is the application of the W-T comparison methodology limited to "pattern transactions", but also the second sentence of Article 2.4.2 provides for establishing margins of dumping on the basis of the limited "universe of export transactions" to

²⁸² Korea's other appellant's submission, fn 14 to para. 64.

²⁸³ Appellate Body Report, *US – Zeroing (Japan)*, para. 114. (fn omitted)

²⁸⁴ Appellate Body Report, *EC – Bed Linen*, para. 53. (emphasis original)

²⁸⁵ Appellate Body Report, *EC – Bed Linen*, para. 55. (emphasis original)

²⁸⁶ Appellate Body Report, *EC – Bed Linen*, para. 55. (emphasis original)

²⁸⁷ Appellate Body Reports, *US – Zeroing (Japan)*, para. 135; *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99.

which the W-T comparison methodology applies – i.e. the "pattern transactions".²⁸⁸ While the first sentence of Article 2.4.2 provides for symmetrical comparison methodologies that "shall normally" be used to establish the existence of margins of dumping by considering the universe of *all* export transactions, the second sentence provides for an asymmetrical comparison methodology, which, as we have explained above and as the Appellate Body has stated, "is clearly an exception to the comparison methodologies which normally are to be used".²⁸⁹

5.1.8.1.2.2 The function of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.107. The function of the second sentence of Article 2.4.2 lends further support to a reading of this provision as providing for the establishment of margins of dumping on the basis of the limited "universe of export transactions" that form the pattern. We have considered above that the function of the second sentence of Article 2.4.2 is to allow an investigating authority to identify and address "targeted dumping". This is supported by the Appellate Body's statement in *EC – Bed Linen* that "[t]his provision allows Members, in structuring their anti-dumping investigations, to address three kinds of 'targeted' dumping, namely dumping that is targeted to certain purchasers, targeted to certain regions, or targeted to certain time periods."²⁹⁰

5.108. The second sentence of Article 2.4.2 does not expressly refer to "targeted dumping", but allows the use of the W-T comparison methodology "if the authorities find a pattern of export prices which differ significantly among different purchasers, regions or time periods". The notion of "targeted dumping" is implied in the reference in the second sentence of Article 2.4.2 to "a pattern of export prices which differ significantly among different purchasers, regions or time periods". Therefore, it is only certain export transactions, those that constitute the pattern by differing significantly from the remaining export transactions of an exporter or foreign producer, that are aimed at, or "targeted" to, a purchaser, region, or time period within the meaning of the second sentence of Article 2.4.2.

5.109. In keeping with its function of allowing an investigating authority to effectively address "targeted dumping", the second sentence of Article 2.4.2 permits an investigating authority to establish margins of dumping by means of the application of the W-T comparison methodology exclusively to "pattern transactions". The second sentence of Article 2.4.2 says nothing about including transactions that are not part of the pattern in the comparison process that is required to establish margins of dumping. If an investigating authority were required to conduct comparisons with export transactions outside of the pattern – i.e. for "non-pattern transactions" – by applying one of the two normally applicable comparison methodologies, and then aggregate the result of this comparison with the result of the W-T comparison methodology applied to "pattern transactions", the "targeted dumping" identified from the consideration of "pattern transactions" would be "re-masked" by the comparison results arising from "non-pattern transactions", in situations where the latter produces an overall negative comparison result.

5.110. Korea disagrees that the function of the second sentence of Article 2.4.2 is to "unmask targeted dumping" and asserts that its purpose "is simply to allow the authority to undertake the more careful examination of individual export prices that the W-T comparison method[ology] makes possible".²⁹¹ We see no textual basis in the second sentence of Article 2.4.2 to conclude, as Korea asserts, that the function of the second sentence is to allow an investigating authority to undertake a more careful and "granular" examination of individual export prices. In any event, we

²⁸⁸ Under the W-T comparison methodology provided in the second sentence of Article 2.4.2, the margin of dumping, which is expressed as a percentage of the total value of export transactions of an exporter or foreign producer, would be established by considering "pattern transactions", while excluding "non-pattern transactions" in the numerator of the equation. The denominator, however, will reflect all export transactions of an exporter or foreign producer. (See Panel Report, para. 7.160)

²⁸⁹ Appellate Body Report, *US – Zeroing (Japan)*, para. 131. In *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body further explained that "[t]he second sentence of Article 2.4.2 sets out a third methodology (weighted average-to-transaction), which involves an asymmetrical comparison and may be used only in exceptional circumstances", whereas the first sentence of Article 2.4.2 "sets out two comparison methodologies (weighted average-to-weighted average and transaction-to-transaction) involving symmetrical comparisons of normal value and export prices". (Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 86)

²⁹⁰ Appellate Body Report, *EC – Bed Linen*, para. 62.

²⁹¹ Korea's other appellant's submission, para. 118.

do not see how Korea's proposed interpretation is different from what is already contemplated under the T-T comparison methodology. In this respect, we are not convinced that, under Korea's approach, the W-T comparison methodology would fulfil a function that is not already fulfilled by the T-T comparison methodology.

5.111. Therefore, we do not think that the Panel erred in identifying the function of the second sentence of Article 2.4.2 as addressing or "unmasking targeted dumping" and in considering that this function informs an interpretation of the second sentence of Article 2.4.2 as providing for the establishment of margins of dumping under the W-T comparison methodology by comparing normal value only with "pattern transactions", while excluding from consideration "non-pattern transactions".²⁹² Even if one were to accept Korea's proposed interpretation that the function of the second sentence is to allow an investigating authority to conduct a more careful or "granular" examination, we do not consider that such an interpretation would be inconsistent with the reading of the second sentence of Article 2.4.2 as establishing margins of dumping based on "pattern transactions" only. Indeed, under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, an investigating authority will carefully consider all export transactions and separate those individual export transactions that form the relevant "pattern" within the meaning of that provision from those that are not part of the identified "pattern". Margins of dumping are then established by comparing the weighted average normal value only with transactions that are included in the identified "pattern".

5.1.8.1.2.3 The composition of numerator and denominator in establishing margins of dumping

5.112. Korea further contends that, in determining the margin of dumping, the numerator should comprise "the net amount of the comparisons of all export prices to normal value"²⁹³ and the denominator should comprise the "total sales by the exporter".²⁹⁴ According to Korea, "a proper 'margin of dumping' consists of: (i) a numerator that considers all export sales, without pretending that some of the export sales were at lower prices (by denying offsets); and (ii) a denominator that also consists of all export sales."²⁹⁵

5.113. For its part, the United States does not disagree with Korea that all of an exporter's export transactions should be "taken into account" in the determination of dumping.²⁹⁶ The United States adds that the USDOC's approach does, in fact, take account of all export transactions. However, the United States submits that Korea's approach means that the "evidence of 'targeted dumping' must, as a matter of an obligation under the AD Agreement, be re-masked by aggregating all results for all transactions in the numerator of the calculation of the margin of dumping."²⁹⁷

5.114. We have explained above that the second sentence of Article 2.4.2 permits the establishment of the existence of margins of dumping for the product under investigation and for each exporter or foreign producer by applying the W-T comparison methodology to "pattern transactions" only. Thus, in calculating the margin of dumping as a percentage of the exports of a given exporter or foreign producer, the numerator comprises only "pattern transactions", while "non-pattern transactions" are excluded. The denominator, however, must reflect the universe of *all* export transactions of a given exporter or foreign producer and comprises the value of all the sales of a given exporter or foreign producer of the "like" product.

5.115. We observe that Article 6.10 of the Anti-Dumping Agreement states that "[t]he authorities shall, as a rule, determine an individual margin of dumping for each known exporter or producer concerned of the product under investigation." The margin of dumping determined under the second sentence of Article 2.4.2 in order to address "targeted dumping" is for each exporter or producer, and not just for the "targeted sales" by that exporter or producer. On the one hand, the existence of a "pattern" within the meaning of the second sentence of Article 2.4.2, and thus "targeting" by exporters or producers, justifies taking the dumping amount from the W-T

²⁹² Panel Report, para. 7.162.

²⁹³ Korea's other appellant's submission, para. 109.

²⁹⁴ Korea's other appellant's submission, para. 109.

²⁹⁵ Korea's other appellant's submission, para. 114.

²⁹⁶ United States' appellee's submission, para. 75 (quoting Korea's other appellant's submission, para. 98).

²⁹⁷ United States' appellee's submission, para. 75.

comparison that is applied to the "pattern transactions", while excluding from consideration "non-pattern transactions". On the other hand, this dumping amount that is based on the "targeted" sales must be divided by *all* the export sales of a given exporter or producer in order to determine the margin of dumping and the corresponding anti-dumping duty for that exporter or producer. Therefore, the Panel did not err in finding that "while the net amount of dumping may be established from considering the evidence of dumping in pattern transactions ... the calculation of the margin as a percentage of the exports of that exporter or foreign producer must reflect the price of its total exports."²⁹⁸

5.116. Under the W-T comparison methodology provided in the second sentence of Article 2.4.2, the margin of dumping, which is expressed as a percentage of the total value of export transactions of an exporter or foreign producer, would be established by considering "pattern transactions", while excluding "non-pattern transactions" in the numerator of the equation. The denominator, however, will reflect all export transactions of an exporter or foreign producer. In so doing, while "targeted dumping" is identified and addressed by including in the numerator the "pattern transactions", the denominator, in reflecting the value of *all* export transactions of the "like" product by a given exporter or foreign producer, ensures that, for the universe of "pattern transactions" to which the W-T comparison methodology is applied, the margin of dumping is calculated for that exporter or foreign producer and for the product under investigation "as a whole". This exercise is, therefore, consistent with the concepts of "dumping" and "margins of dumping" as pertaining to an exporter or foreign producer and to the product under investigation "as a whole" and with the function of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement as identifying and addressing "targeted dumping".

5.117. We, therefore, conclude that, in calculating the margin of dumping as a percentage of the exports of a given exporter or foreign producer, the numerator comprises only the "pattern transactions", while excluding "non-pattern transactions". The denominator, however, is composed of *all* export transactions of a given exporter or foreign producer and comprises the value of all the sales of a given exporter or producer of the "like" product.

5.1.8.1.2.4 Combining comparison methodologies

5.118. Korea contends that the Panel erred in permitting the USDOC to establish margins of dumping under the DPM by disregarding an overall negative comparison result arising from the application of the W-W comparison methodology to "non-pattern transactions" when combining it with the overall comparison result of the W-T comparison methodology.²⁹⁹ We note that Korea's argument on "systemic disregarding" of "non-pattern transactions" is premised on the assumption that the second sentence of Article 2.4.2 of the Anti-Dumping Agreement permits the combining of comparison methodologies in establishing margins of dumping.

5.119. The Panel acknowledged that "[o]ne might take the view ... that the combined application of the W-T and W-W (or T-T) comparison methodologies is not envisaged by that provision".³⁰⁰ However, since Korea had not raised a claim to this effect, the Panel did not see the need to rule on that matter and proceeded with the assumption that a combined application of comparison methodologies was not excluded by the second sentence of Article 2.4.2.

²⁹⁸ Panel Report, para. 7.160.

²⁹⁹ See e.g. Korea's other appellant's submission, para. 72.

³⁰⁰ Panel Report, para. 7.161. Moreover, the Panel noted that the issue of "systemic disregarding" arises when considering how the results of the combined methodologies should be aggregated. The Panel further added:

In cases where the non-pattern transactions are dumped, aggregating the result of the W-W comparison methodology (without zeroing) for non-pattern transactions with the result of the W-T comparison methodology (without zeroing) for pattern transactions would lead to the same margin of dumping as if the W-W methodology were applied (without zeroing) to all transactions. The potential for the margin of dumping to change only arises when the non-pattern transactions (assessed using the W-W methodology, without zeroing) are not dumped, and when that amount of negative dumping is "systematically disregarded" upon aggregation with the results of the W-T methodology. If "systemic disregarding" is applied, the results of combining the application of the W-T methodology to pattern transactions and the W-W methodology to non-pattern transactions would be equivalent to a simple application of the W-T methodology (without zeroing) to pattern transactions.

(Ibid., fn 299 to para. 7.161)

5.120. We have found above that the second sentence of Article 2.4.2, read in the context of the structure of Article 2.4.2 and consistently with its function of allowing an investigating authority to identify and address "targeted dumping", permits the establishment of margins of dumping by the application of the W-T comparison methodology to "pattern transactions", while excluding from consideration "non-pattern transactions", when the conditions stated in that provision have been satisfied. Thus, having concluded that the applicable "universe of export transactions" for the purposes of establishing dumping and margins of dumping under the second sentence of Article 2.4.2 is limited to "pattern transactions", we do not consider that this provision allows the combining of comparison methodologies, that is, the combined application of the W-T comparison methodology applied to "pattern transactions" with either the W-W or the T-T comparison methodology applied to "non-pattern transactions".

5.121. Although the second sentence mentions the W-W and T-T comparison methodologies, this reference appears in the context of the explanation requirement of why neither of these symmetrical comparison methodologies is capable of taking into account the "export prices which differ significantly". The second sentence does not provide for the application of the W-W and T-T comparison methodologies anew. Instead, these two symmetrical comparison methodologies are referenced as they are provided for in, and subject to the requirements of, the first sentence of Article 2.4.2. Consistent with the jurisprudence of the Appellate Body, we have explained above that, under the first sentence of Article 2.4.2, the W-W and T-T comparison methodologies apply to the universe of *all* export transactions, and not to "pattern" or "non-pattern" transactions within the meaning of the second sentence. Thus, we do not see anything in the text of the second sentence, read in the context of the entire Article 2.4.2, that supports a reading of the W-W and T-T comparison methodologies as applying to a reduced "universe of export transactions" (i.e. the "non-pattern transactions") pursuant to the reference to these two comparison methodologies in the second sentence of Article 2.4.2. The text of the second sentence, thus, does not provide for the application of either of the two symmetrical comparison methodologies to "non-pattern transactions".

5.122. Moreover, conducting a separate comparison under one of the two symmetrical comparison methodologies for "non-pattern transactions" not only lacks support in the text of the second sentence of Article 2.4.2, but also undermines the function of the second sentence. In order to enable an investigating authority to identify and address "targeted dumping", the second sentence of Article 2.4.2 defines a more limited "universe of export transactions", which, as we have considered above, coincides with the "pattern transactions" that are targeted to purchasers, regions, or time periods. It is on the basis of these "pattern transactions" that margins of dumping are then established under the second sentence. To aggregate the results of a symmetrical comparison methodology applied to "non-pattern transactions" may either "mask" the "targeted dumping" (if the overall comparison result is negative) or increase the margin of dumping (if the overall comparison result is positive) in a manner that is not provided for in the second sentence of Article 2.4.2 and that would compromise its function of effectively addressing "targeted dumping".

5.123. The second sentence of Article 2.4.2 does not envisage "systemic disregarding" as described by the Panel.³⁰¹ This provision does not provide for a mechanism whereby an investigating authority would conduct separate comparisons for "pattern transactions" under the W-T comparison methodology and for "non-pattern transactions" under the W-W or T-T comparison methodology, and exclude from its consideration the result of the latter if it yields an overall negative comparison result, or aggregate it with the W-T comparison results for the "pattern transactions" if it yields an overall positive comparison result. This is further supported by our conclusion above that, if the conditions set forth in the second sentence of Article 2.4.2 are met, an investigating authority is allowed to establish margins of dumping by applying the W-T comparison methodology only to "pattern transactions", while excluding from consideration "non-pattern transactions".

5.124. Hence, we conclude that Article 2.4.2 does not permit the combining of comparison methodologies for the purposes of establishing dumping and margins of dumping in accordance with the second sentence. Instead, the second sentence allows an investigating authority to establish the existence of margins of dumping by comparing a "normal value established on a weighted average basis" with "pattern transactions" only. We have explained above that this is

³⁰¹ Panel Report, para. 7.161.

consistent with the function of the second sentence of Article 2.4.2 and that, for the purposes of this provision, dumping and margins of dumping pertaining to an exporter or a foreign producer, and to the product under investigation "as a whole", refer to a more limited "universe of export transactions", that is, the "pattern transactions". In light of the above, we consider the question of whether the second sentence of Article 2.4.2 of the Anti-Dumping Agreement allows "systemic disregarding" as defined by the Panel as moot.

5.1.8.1.2.5 Mathematical equivalence

5.125. In light of the above considerations, comparing normal value with "pattern transactions" only will not normally yield results that are mathematically or substantially equivalent to the results obtained from the application of the W-W comparison methodology to *all* export transactions.³⁰² Mathematical equivalence or substantial equivalence arises only if one were to take the view that the second sentence of Article 2.4.2 of the Anti-Dumping Agreement envisages the combining of comparison methodologies, thereby requiring an investigating authority to aggregate the results of the W-T comparison methodology applied to "pattern transactions" with the results of the W-W comparison methodology applied to "non-pattern transactions".³⁰³ In contrast, we have rejected an interpretation of the second sentence of Article 2.4.2 as permitting the combination of comparison methodologies.

5.126. Korea submits that the Panel found mathematical equivalence despite the fact that the argument of mathematical equivalence has been considered and rejected by the Appellate Body previously on numerous occasions when considering the second sentence of Article 2.4.2 as context for the permissibility of zeroing under the first sentence.³⁰⁴ Korea further asserts that there is no necessary mathematical equivalence if the investigating authority changes its assumptions about normal value or makes adjustments for export prices for the subset of sales subjected to the W-T comparison methodology.³⁰⁵

5.127. The United States contends that, if zeroing is prohibited under the W-T comparison methodology, and if the result of the W-W comparison is allowed to "offset" the result of the W-T comparison, then the overall result arising from this combination and that derived from the application of the W-W comparison methodology to all export prices will be mathematically

³⁰² The participants agreed at the oral hearing that, if the applicable "universe of export transactions" to which the W-T comparison methodology applies under the second sentence of Article 2.4.2 is limited to "pattern transactions", whereas "non-pattern transactions" are not taken into account in establishing the margins of dumping, there will be no mathematical equivalence between the result so obtained and the result derived from the application of the W-W comparison methodology to *all* export transactions.

³⁰³ In previous disputes, the Appellate Body has found that "the 'mathematical equivalence' argument works only under a specific set of assumptions" (Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 126) and it is based on certain assumptions that "may not hold good in all situations". (Appellate Body Report, *US – Zeroing (Japan)*, para. 133) Moreover, the limited relevance of the mathematical equivalence argument is reflected in Korea's acknowledgment that, even if an investigating authority were to change its assumption about the normal value under the W-T comparison methodology, the margins of dumping obtained from the combined application of the W-W comparison methodology to "non-pattern transactions" and the W-T comparison methodology to "pattern transactions" "may not be different in every case". (Korea's other appellant's submission, para. 143)

³⁰⁴ Korea's other appellant's submission, para. 137 (referring to Appellate Body Reports, *US – Continued Zeroing*, paras. 297-298; *US – Stainless Steel (Mexico)*, paras. 126-127; *US – Zeroing (Japan)*, paras. 132-134; and *US – Softwood Lumber V (Article 21.5 – Canada)*, paras. 97-99).

³⁰⁵ Korea's other appellant's submission, para. 143. See also Korea's appellee's submission, para. 77. Moreover, we recall that, in *US – Stainless Steel (Mexico)*, the Appellate Body, in stating that the mathematical equivalence argument works only under a specific set of assumptions, took into consideration the possibility of determining different weighted average normal values for different time periods. In particular, the Appellate Body stated:

We note that the United States did not contest before the Panel Mexico's assertion that, if the determination of weighted average normal values was based on *different time periods*, dumping margin calculations under these two methodologies would yield different mathematical results. (Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 126. (emphasis original; fn omitted))

equivalent³⁰⁶, which would render the second sentence of Article 2.4.2 *inutile*, contrary to the principle of effectiveness.³⁰⁷

5.128. The function of the second sentence of Article 2.4.2 should not be addressed by focusing on mathematical equivalence.³⁰⁸ As the Appellate Body indicated in *US – Softwood Lumber V (Article 21.5 – Canada)*, that the comparison methodologies in the first sentence of Article 2.4.2 and the W-T comparison methodology will not normally produce equivalent results is a consequence of the fact that the third comparison methodology addresses "targeted dumping" by focusing on "pattern transactions".³⁰⁹ Korea's argument that mathematical equivalence can be avoided by changing normal value or considering adjustments to export prices, thereby leading to different results in some cases, still does not explain how this exercise accords with the function of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement of allowing an investigating authority to identify and address "targeted dumping". We fail to see how "different results" will in themselves address "targeted dumping", unless such results are calculated based on "pattern transactions".

5.1.8.1.2.6 Conclusions

5.129. We have concluded above that the second sentence of Article 2.4.2 of the Anti-Dumping Agreement allows an investigating authority to establish margins of dumping by applying the W-T comparison methodology only to "pattern transactions" to the exclusion of "non-pattern transactions". We have also concluded that the second sentence of Article 2.4.2 does not permit the combining of comparison methodologies. Accordingly, we have found that this provision does not envisage "systemic disregarding", as described by the Panel. We do not consider that the second sentence of Article 2.4.2 envisages a mechanism whereby an investigating authority would conduct separate comparisons for "pattern transactions" under the W-T comparison methodology and for "non-pattern transactions" under the W-W or T-T comparison methodology, and exclude from its consideration the result of the latter if it yields an overall negative comparison result or aggregate it with the W-T comparison result for the "pattern transactions" if it yields an overall positive comparison result. Thus, in circumstances where the requirements of the second sentence of Article 2.4.2 have been fulfilled, an investigating authority is allowed to establish margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions" and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer.

5.130. In light of the above, we, therefore, root the Panel's finding, in paragraph 8.1.a.x of its Report³¹⁰, that "Korea failed to establish that the United States' use of 'systemic disregarding' under the DPM is 'as such' inconsistent with the second sentence of Article 2.4.2". Instead, as explained above, when the requirements of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement are fulfilled, an investigating authority may establish margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions", while excluding "non-pattern transactions" from the numerator, and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer.

5.1.8.2 Whether the Panel erred in finding that Korea failed to establish that the United States' use of "systemic disregarding" under the DPM is inconsistent "as such" with Article 2.4 of the Anti-Dumping Agreement

5.131. We turn now to consider Korea's appeal of the Panel's findings under Article 2.4 of the Anti-Dumping Agreement in respect of "systemic disregarding".

³⁰⁶ United States' appellee's submission, para. 100 (referring to United States' appellant's submission, paras. 161-164).

³⁰⁷ United States' appellee's submission, para. 97 (referring to United States' appellant's submission, paras. 115-167).

³⁰⁸ We recall that the Appellate Body has explained that "[o]ne part of a provision setting forth a methodology is not rendered *inutile* simply because, in a specific set of circumstances, its application would produce results that are equivalent to those obtained from the application of a comparison methodology set out in another part of that provision." (Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 99)

³⁰⁹ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99.

³¹⁰ See also Panel Report, para. 7.167.

5.132. The Panel recalled its findings that Article 2.4.2 of the Anti-Dumping Agreement enables investigating authorities to establish the existence of margins of dumping by focusing on "pattern transactions" and that, if an investigating authority chooses to combine the application of the W-W comparison methodology to "non-pattern transactions" with the application of the W-T comparison methodology to "pattern transactions", "systemic disregarding" enables it to avoid concealing any dumping identified in respect of "pattern transactions" with the negative dumping in respect of "non-pattern transactions". Accordingly, the Panel rejected Korea's argument that "'systemic disregarding' is unfair and contrary to Article 2.4 because it inflates the margin of dumping and ignores the negative amount of dumping in respect of non-pattern transactions".³¹¹

5.133. On appeal, Korea argues that the Panel's finding that there is nothing "unfair" about "systemic disregarding" and that, therefore, it is not inconsistent with Article 2.4, repeats the same legal errors that Korea has identified with regard to the Panel's interpretation of the second sentence of Article 2.4.2 that dumping can exist within a subset of the export sales.³¹² Korea, therefore, requests the reversal of the Panel's findings under Article 2.4.³¹³ In addition, Korea requests us to complete the legal analysis based on undisputed facts and on the Panel's findings in respect of the second sentence of Article 2.4.2, and to find that "systemic disregarding" is inconsistent with the "fair comparison" requirement in Article 2.4.³¹⁴ Korea asserts that, for a measure to meet the "fair comparison" requirement in Article 2.4, it must be impartial, even-handed, and unbiased, something that "systemic disregarding" is not.³¹⁵

5.134. The United States submits that the Panel was correct in finding that the USDOC's approach to the application of a "mixed" comparison methodology is not inconsistent "as such" with Article 2.4 and that Korea's arguments lack merit.³¹⁶ The United States contends that, since it is "fair" to take steps to "unmask targeted dumping" by faithfully applying a comparison methodology consistent with the second sentence of Article 2.4.2, when the conditions for its use are met, doing so is entirely consistent with the obligation of an investigating authority under Article 2.4 to be impartial, even-handed, and unbiased.³¹⁷ Thus, the United States submits that, since the Panel's findings need not be reversed, there is no need for us to complete the legal analysis.³¹⁸

5.135. We begin by recalling that the first sentence of Article 2.4 provides that "[a] fair comparison shall be made between the export price and the normal value." We note that the introductory clause of Article 2.4.2 expressly makes this provision "[s]ubject to the provisions governing fair comparison" in Article 2.4. In this regard, the Appellate Body has explained that "Article 2.4 sets forth a general obligation to make a 'fair comparison' between export price and normal value", adding that "[t]his is a general obligation that ... informs all of Article 2, but applies, in particular, to Article 2.4.2 which is specifically made 'subject to the provisions governing fair comparison in [Article 2.4]'".³¹⁹ Therefore, the application of all three comparison methodologies (i.e. W-W, T-T, and W-T) set out in Article 2.4.2 is expressly made subject to the "fair comparison" requirement in Article 2.4.

5.136. In explaining the "fair comparison" requirement in Article 2.4, the Appellate Body in *US – Softwood Lumber V (Article 21.5 – Canada)* stated that "[t]he term 'fair' is generally understood to connote impartiality, even-handedness, or lack of bias."³²⁰ The Appellate Body found in that dispute that "the use of zeroing under the transaction-to-transaction comparison methodology is difficult to reconcile with the notions of impartiality, even-handedness, and lack of bias reflected in the 'fair comparison' requirement in Article 2.4"³²¹, since "the use of zeroing under the transaction-to-transaction comparison methodology artificially inflates the magnitude of

³¹¹ Panel Report, para. 7.169.

³¹² Korea's other appellant's submission, paras. 147-148.

³¹³ Korea's other appellant's submission, para. 149.

³¹⁴ Korea's other appellant's submission, para. 150.

³¹⁵ Korea's other appellant's submission, paras. 151-152.

³¹⁶ United States' appellee's submission, paras. 106-107.

³¹⁷ United States' appellee's submission, para. 111.

³¹⁸ United States' appellee's submission, para. 109.

³¹⁹ Appellate Body Report, *EC – Bed Linen*, para. 59.

³²⁰ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 138. (fn omitted)

³²¹ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 138.

dumping, resulting in higher margins of dumping and making a positive determination of dumping more likely."³²²

5.137. We have concluded above that the second sentence of Article 2.4.2 allows an investigating authority to establish dumping and margins of dumping for an exporter or foreign producer and for the product under investigation "as a whole" by applying the W-T comparison methodology to "pattern transactions" only. We have also explained that, in doing so, while the denominator of the equation will comprise all export transactions of an exporter or foreign producer, the numerator is composed of "pattern transactions" only, while excluding "non-pattern transactions". Moreover, we have concluded that the second sentence of Article 2.4.2 does not permit the combining of comparison methodologies.

5.138. The obligation to undertake a "fair comparison" between normal value and export prices arises in respect of the applicable "universe of export transactions" to which each of the three comparison methodologies set out in Article 2.4.2 applies. The exceptional nature of the W-T comparison methodology, consistent with the function of the second sentence of Article 2.4.2 as allowing an investigating authority to identify and address "targeted dumping" by considering a "universe of export transactions ... which ... would be different from the universe of transactions examined"³²³ under the normally applicable comparison methodologies, also confirms that the "fair comparison" requirement in Article 2.4 applies only in respect of "pattern transactions". Accordingly, we consider that Articles 2.4 and 2.4.2 not only inform each other, but must be read together harmoniously. The exclusion of "non-pattern transactions" from the establishment of dumping and margins of dumping under the second sentence of Article 2.4.2, thus, comports with the notions of impartiality, even-handedness, and lack of bias reflected in the "fair comparison" requirement in Article 2.4. Once an investigating authority has identified the "pattern transactions" within the meaning of the second sentence of Article 2.4.2 for the purposes of the application of the W-T comparison methodology in order to address "targeted dumping" to the exclusion of "non-pattern transactions", the investigating authority can be said to have adopted an approach that is impartial, even-handed, and unbiased. Such an approach neither distorts the prices of certain export transactions (i.e. the "non-pattern transactions"), nor inflates the magnitude of dumping, as Korea asserts³²⁴, since there is nothing "to disregard", as the second sentence of Article 2.4.2 does not contemplate, in the first place, a comparison outside of the identified "pattern".

5.139. We recall that the Panel rejected Korea's argument that "systemic disregarding" under the DPM is "unfair and contrary to Article 2.4".³²⁵ Although the Panel considered that an investigating authority could establish the existence of margins of dumping by focusing on "pattern transactions" to the exclusion of "non-pattern transactions"³²⁶, the underlying assumption of the Panel was that the combined application of comparison methodologies is not excluded under the second sentence of Article 2.4.2.³²⁷ We have, however, explained above that, while we agree that the second sentence of Article 2.4.2 allows an investigating authority to establish margins of dumping based on a comparison between normal value and "pattern transactions" only, we do not consider that the second sentence allows for the combined application of the W-T comparison methodology to "pattern transactions" and the W-W (or T-T) comparison methodology to "non-pattern transactions".

5.140. In light of these considerations, we conclude that the establishment of margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions", while excluding "non-pattern transactions" from the numerator, and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer, is consistent with the "fair comparison" requirement in Article 2.4. Having concluded that the second sentence of Article 2.4.2 does not permit an investigating authority to combine the W-T comparison methodology with the W-W or T-T comparison methodology and, thus, does not provide for "systemic disregarding" as described by the Panel, we root the Panel's finding, in paragraph 8.1.a.xi of its Report³²⁸, that "Korea failed

³²² Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 142.

³²³ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99.

³²⁴ Korea's other appellant's submission, para. 152.

³²⁵ Panel Report, para. 7.169.

³²⁶ Panel Report, para. 7.169.

³²⁷ Panel Report, para. 7.161.

³²⁸ See also Panel Report, para. 7.169.

to establish that the United States' use of 'systemic disregarding' under the DPM is 'as such' inconsistent with Article 2.4" of the Anti-Dumping Agreement.

5.1.9 Zeroing under the W-T comparison methodology³²⁹

5.1.9.1 Whether the Panel erred in finding that the United States' use of zeroing when applying the W-T comparison methodology is inconsistent "as such" and "as applied" in the *Washers* anti-dumping investigation with Article 2.4.2 of the Anti-Dumping Agreement

5.141. The Panel found that, since the second sentence of Article 2.4.2 of the Anti-Dumping Agreement puts particular emphasis on the exporter's pricing behaviour in respect of "pattern transactions", the entirety of the evidence of dumping in respect of that pattern must be taken into account. According to the Panel, the focus of the W-T comparison methodology is on the prices of the "individual" export transactions within the pattern, which suggests that each "pattern transaction" should be considered in its own right and with equal weight, irrespective of whether the export price is above or below normal value. Thus, the Panel found that there is no basis in the text of the second sentence of Article 2.4.2 to conclude that the export prices of certain individual transactions (e.g. those below normal value) should be accorded greater significance than the export prices of other individual export transactions (e.g. those above normal value). The Panel took the view that the phrase "individual export transactions" in the first part of the second sentence of Article 2.4.2 suggests that each and every "pattern transaction" should be fully taken into account in the assessment of the exporter's pricing behaviour in respect of that pattern.³³⁰ The Panel also found that there is "no consideration of whether transactions *within* the pattern are priced at significantly different levels relative to one another"³³¹ and, thus, no basis to conclude that one (pattern) transaction priced significantly lower than "non-pattern transactions" might mask evidence of dumping in respect of another (pattern) transaction priced significantly lower than "non-pattern transactions".³³²

5.142. Accordingly, the Panel concluded that the USDOC's use of zeroing when applying the W-T comparison methodology is inconsistent "as such" with the second sentence of Article 2.4.2.³³³ For the same reasons, the Panel concluded that the USDOC acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation.³³⁴

5.1.9.1.1 Zeroing under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

5.143. The United States claims that the Panel erred in finding that the use of zeroing in connection with the application of the W-T comparison methodology is inconsistent with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, when the conditions for the use of the methodology have been fulfilled. According to the United States, an examination of the text and context of Article 2.4.2 leads to the conclusion that zeroing is permissible, and indeed necessary, when applying the W-T comparison methodology, if that "exceptional" comparison methodology is to be given any meaning.³³⁵

5.144. Korea responds that the United States' argument does not address the Appellate Body's consistent logic that any finding of dumping must reflect all export transactions for each exporter and for the product under investigation "as a whole"³³⁶ and that denying "offsets" improperly

³²⁹ One Member of the Division expressed a separate opinion on the issue of zeroing under the W-T comparison methodology. This separate opinion can be found in sub-section 5.1.10 of this Report.

³³⁰ Panel Report, para. 7.190.

³³¹ Panel Report, para. 7.191. (emphasis original)

³³² Panel Report, para. 7.191.

³³³ Panel Report, paras. 7.192 and 8.1.a.xii.

³³⁴ Panel Report, paras. 7.192 and 8.1.a.xiv.

³³⁵ United States' appellant's submission, para. 195.

³³⁶ Korea's appellee's submission, para. 41 (referring to Appellate Body Reports, *US – Softwood Lumber V*, para. 99; *US – Continued Zeroing*, para. 283; *US – Stainless Steel (Mexico)*, paras. 89-90; and *US – Zeroing (EC)*, para. 128).

disregards the actual prices of some of the export transactions.³³⁷ Moreover, Korea contends that these principles apply consistently throughout the Anti-Dumping Agreement.³³⁸ According to Korea, there is nothing in the text or context of the second sentence of Article 2.4.2 that suggests that dumping or margin of dumping should have any different meaning for the second sentence of Article 2.4.2 than for the rest of the Anti-Dumping Agreement.³³⁹

5.145. We have recalled above the main Appellate Body findings regarding the use of zeroing under the W-W and T-T comparison methodologies provided in the first sentence of Article 2.4.2. In finding that zeroing is not permitted under either of the two symmetrical comparison methodologies set forth in the first sentence, the Appellate Body considered that the concepts of "dumping" and "margins of dumping" are the same throughout the Anti-Dumping Agreement and that margins of dumping are established for the product under investigation "as a whole", and for each exporter or foreign producer, by including in the comparison *all* the export transactions of the "like" product by that exporter or foreign producer.³⁴⁰

5.146. Thus, according to this jurisprudence, in establishing dumping and margins of dumping under the W-W and T-T comparison methodologies provided in the first sentence of Article 2.4.2, an investigating authority needs to take into account all transactions that make up the applicable "universe of export transactions" to be examined thereunder.

5.147. We have also explained above that, under the second sentence of Article 2.4.2, dumping and margins of dumping pertaining to all export transactions of an exporter or foreign producer and to the product under investigation "as a whole" are limited to the applicable "universe of export transactions" for that provision, namely, the more limited universe of "pattern transactions".³⁴¹ Thus, dumping and margins of dumping under the W-T comparison methodology applied pursuant to the second sentence of Article 2.4.2 are to be determined by conducting a comparison between normal value and "pattern transactions", without having to take into account "non-pattern transactions".³⁴²

5.148. We now turn to address the United States' claim on appeal that the Panel erred in finding that the use of zeroing in connection with the application of the W-T comparison methodology is inconsistent with the second sentence of Article 2.4.2. In doing so, the question that we need to address is whether, in the application of the W-T comparison methodology, an investigating authority is required to aggregate the results of all the transaction-specific comparisons that arise from the consideration of "pattern transactions", or whether it can exclude those transactions within the pattern that yield negative intermediate comparison results, i.e. whether zeroing is permitted under the second sentence of Article 2.4.2.

5.149. We recall that the Appellate Body has consistently held that the concepts of "dumping" and "margins of dumping" are the same throughout the Anti-Dumping Agreement. The Appellate Body has considered that "Article 2.1 of the *Anti-Dumping Agreement* and Article VI:1 of the GATT 1994 are definitional provisions" that "set out a definition of 'dumping' for the purposes of the *Anti-Dumping Agreement* and the GATT 1994".³⁴³ The Appellate Body has also found that "the terms 'dumping' and 'margins of dumping' in Article VI of the GATT 1994 and the *Anti-Dumping Agreement* apply to the product under investigation as a whole and do not apply to sub-group levels."³⁴⁴

³³⁷ Korea's appellee's submission, para. 41 (referring to Appellate Body Reports, *US – Zeroing (Japan)*, para. 146; and *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 139).

³³⁸ Korea's appellee's submission, para. 41 (referring to Appellate Body Reports, *US – Stainless Steel (Mexico)*, paras. 85 and 94; and *US – Zeroing (Japan)*, para. 109).

³³⁹ Korea's appellee's submission, para. 42.

³⁴⁰ See paras. 5.90-5.98 of this Report.

³⁴¹ See paras. 5.105-5.106 of this Report.

³⁴² Under the W-T comparison methodology provided in the second sentence of Article 2.4.2, the margin of dumping, which is expressed as a percentage of the total value of export transactions of an exporter or foreign producer, would be established by considering "pattern transactions", while excluding "non-pattern transactions" in the numerator of the equation. The denominator, however, will reflect all the export transactions of an exporter or foreign producer. (See Panel Report, para. 7.160)

³⁴³ Appellate Body Report, *US – Zeroing (Japan)*, para. 140.

³⁴⁴ Appellate Body Report, *US – Softwood Lumber V*, para. 102.

5.150. In *US – Zeroing (EC)*, the Appellate Body found that the use of zeroing by the USDOC under the W-T comparison methodology in administrative reviews was inconsistent with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994.³⁴⁵ These findings by the Appellate Body do not, however, directly address the question of whether the second sentence of Article 2.4.2 permits the use of zeroing in the application of the W-T comparison methodology. Under the second sentence, the application of the W-T comparison methodology serves to allow an investigating authority to identify and address "targeted dumping", which would otherwise be "masked" by the application of the two symmetrical comparison methodologies under the first sentence of Article 2.4.2. In contrast, in the administrative reviews at issue in *US – Zeroing (EC)*, the United States applied the W-T comparison methodology to assess the liability for anti-dumping duties on specific entries of the subject product for each individual importer – i.e. on the basis of the transactions of each individual importer from the exporter, for whom a margin of dumping under Article 2 already existed. Thus, the two provisions fulfil different functions under the Anti-Dumping Agreement.

5.151. In interpreting the second sentence of Article 2.4.2, we have come to the conclusion that the term "individual export transactions" refers to the pattern of export prices identified by the investigating authority which differ significantly from other export prices. These export prices differ significantly because they are significantly lower than other export prices. This conclusion is supported by the text and context of Article 2.4.2, taking into account the function of the second sentence of allowing an investigating authority to identify and address "targeted dumping".³⁴⁶ We find no such textual and contextual support to conclude that the term "individual export transactions" in the second sentence of Article 2.4.2 refers only to those transactions that form part of the identified "pattern" but are priced below normal value. Rather, we agree with the Panel that the term "individual" suggests that "each pattern transaction should be considered in its own right, and with equal weight, irrespective of whether the export price is above or below normal value."³⁴⁷

5.152. Under the second sentence of Article 2.4.2, the relevant "pattern" is composed of a set of significantly lower prices to purchasers, regions, or time periods, and margins of dumping are established by conducting a comparison between normal value and those export transactions that are included in the pattern. The second sentence of Article 2.4.2 is "exceptional" because it allows investigating authorities to establish margins of dumping, while excluding from the dumping comparison those transactions that do not form part of the pattern. This exception is spelled out in the text of the second sentence of Article 2.4.2 that uses the terms "individual export transactions" and "a pattern of export prices which differ significantly". We have concluded above that these terms refer to the same set of export prices. Moreover, the reference in the second sentence to the term "individual export transactions" is in the context of highlighting the asymmetrical nature of the W-T comparison methodology, whereby a normal value established on a weighted average basis is compared to prices of individual export transactions as opposed to a comparison between normal value and export price on a W-W or T-T basis. Thus, we do not see any basis to read the term "individual export transactions" as permitting the exclusion of those individual "pattern transactions" that are priced above normal value from the establishment of margins of dumping in the application of the asymmetrical W-T comparison methodology.

5.153. Zeroing within the pattern necessarily amounts to a definition of "pattern" that is limited to those export transactions to one or more particular purchasers, regions, or time periods that are below normal value, as it is only those sales that would be taken into account to establish margins of dumping when using zeroing. However, as we have found above, the second sentence of Article 2.4.2 does not define the pattern in reference to normal value. Rather, the reference to purchasers, regions, or time periods indicates that, while export prices within a pattern must differ significantly from other export prices, the pattern is composed of *all* the export prices to one or more particular purchasers, regions, or time periods, not just those that are below normal value. To allow zeroing within an identified "pattern" would disconnect the notion of pattern that is identified under the second sentence (as all export sales to one or more particular purchasers, regions, or time periods) from the pattern to which the W-T comparison methodology is applied for establishing margins of dumping in order to address "targeted dumping" (by considering only those sales to one or more purchasers, regions, or time periods that are below normal value).

³⁴⁵ Appellate Body Report, *US – Zeroing (EC)*, para. 133.

³⁴⁶ See paras. 5.29 and 5.52 of this Report.

³⁴⁷ Panel Report, para. 7.190.

However, the text of the second sentence of Article 2.4.2 does not support an interpretation according to which the pattern to which the W-T comparison methodology applies for establishing margins of dumping is different from the pattern that triggers the application of the second sentence and that reveals the existence of "targeted dumping".

5.154. We also recall that, in examining the permissibility of zeroing in the context of the T-T comparison methodology, the Appellate Body stated in *US – Softwood Lumber V (Article 21.5 – Canada)* that "the reference to 'export prices' in the plural, without further qualification, suggests that all of the results of the transaction-specific comparisons should be included in the aggregation for purposes of calculating the margins of dumping."³⁴⁸ The Appellate Body, thus, concluded that "zeroing in the transaction-to-transaction methodology does not conform to the requirement of Article 2.4.2 in that it results in the real values of certain export transactions being altered or disregarded."³⁴⁹ While this finding concerned the permissibility of zeroing under the T-T comparison methodology, similar considerations apply to the reference to "prices of individual export transactions" in the plural in the second sentence of Article 2.4.2, which as noted above is not qualified by any reference to normal value.

5.155. Turning to the function of the second sentence of Article 2.4.2, we observe that the second sentence provides for an exception to the normally applicable symmetrical comparison methodologies of the first sentence in order to allow investigating authorities to identify and address "targeted dumping", whereby the "targeted dumping" coincides with the identified "pattern" of significantly different export prices. By conducting a comparison between normal value and all transactions included in the identified "pattern", an investigating authority is able to address the "targeted dumping" that is identified and that corresponds to that particular "pattern". Indeed, the second sentence of Article 2.4.2 allows an investigating authority to identify and address "targeted dumping" that corresponds to a properly defined pattern, which includes sales that are both above and below normal value, and not to a pattern composed exclusively of sales that are below normal value. We are, therefore, of the view that there is nothing more that needs to be "unmasked" once the dumping comparison has been conducted between normal value and "pattern transactions" to the exclusion of "non-pattern transactions". In this respect, while zeroing within a pattern that includes sales above normal value increases the margin of dumping, it does not "unmask" the "targeted dumping" that corresponds to the properly identified "pattern" of significantly lower sales, whereby such pattern includes sales below and above normal value.

5.156. The United States' argument that, if zeroing is not allowed, the second sentence of Article 2.4.2 "would no longer be 'exceptional' and would no longer provide a means to 'unmask targeted dumping'"³⁵⁰, does not take into account that under the W-T comparison methodology provided in the second sentence of Article 2.4.2 an investigating authority is allowed to establish margins of dumping by taking into account only "pattern transactions" to the exclusion of all other transactions that fall outside of the pattern. The use of the W-T comparison methodology under the second sentence of Article 2.4.2 allows an investigating authority to "unmask" and address "targeted dumping" in keeping with its function and, accordingly, it does not deprive the second sentence of its *effet utile*. The second sentence of Article 2.4.2 has meaning and effect because it allows for the identification of the relevant "pattern" within the meaning of that provision and it allows an investigating authority to address "targeted dumping" by applying the W-T comparison methodology to the limited universe of "individual export transactions" that form the identified "pattern". As noted above, however, the "targeted dumping" to be "unmasked" corresponds to the properly identified "pattern", and not to a set of sales below normal value within that pattern for which there exists neither a textual nor a contextual basis in the second sentence. Therefore, when the W-T comparison methodology is applied to "pattern transactions", zeroing is neither necessary to "unmask targeted dumping", nor permitted under the second sentence of Article 2.4.2.

5.157. The United States recalls the Appellate Body's observation in *US – Softwood Lumber V (Article 21.5 – Canada)* that "[i]t could be argued ... that the use of zeroing under the two comparison methodologies set out in the first sentence of Article 2.4.2 would enable investigating authorities to capture pricing patterns constituting 'targeted dumping', thus rendering the third

³⁴⁸ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 88. (fn omitted)

³⁴⁹ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 88.

³⁵⁰ United States' appellant's submission, para. 108.

methodology *inutile*.³⁵¹ According to the United States, an implication of this observation by the Appellate Body is that "it is possible to use zeroing 'to capture pricing patterns constituting 'targeted dumping'".³⁵² Moreover, the United States observes that "the Appellate Body has never found that it is permissible to use zeroing in connection with the alternative, average-to-transaction comparison methodology set forth in the second sentence of Article 2.4.2, when the conditions for use of that methodology have been established, just as it has never found that it is impermissible to do so, because it has never had occasion to examine that issue."³⁵³

5.158. We have found above that under the second sentence of Article 2.4.2 an investigating authority may focus exclusively on "pattern transactions", while excluding from its consideration "non-pattern transactions". This enables an investigating authority to "capture pricing patterns constituting 'targeted dumping'"³⁵⁴ without any need to resort to the use of zeroing in the application of the W-T comparison methodology.

5.159. We note that the application of the W-T comparison methodology provided for in the second sentence of Article 2.4.2 was not at issue before the Appellate Body in *US – Softwood Lumber V (Article 21.5 – Canada)*. In that dispute, the Appellate Body was addressing the second sentence of Article 2.4.2 in view of the Panel's contextual reliance on that provision. The Appellate Body focused on the *effet utile* of the second sentence of Article 2.4.2. The Appellate Body considered that to use zeroing under the comparison methodologies provided in the first sentence to "unmask targeted dumping" would have deprived the second sentence, whose function is to address "targeted dumping", of its *effet utile*. The Appellate Body, however, did not pronounce on *how* "targeted dumping" should be addressed under the second sentence of Article 2.4.2. In particular, the Appellate Body did not suggest that giving effect to the second sentence of Article 2.4.2 would require an investigating authority to establish margins of dumping by applying the W-T comparison methodology with zeroing to the applicable "universe of export transactions", i.e. the "pattern transactions".

5.160. We have concluded above that, under the second sentence of Article 2.4.2, dumping and margins of dumping pertaining to all export transactions of an exporter or foreign producer and to the product under investigation are limited to "pattern transactions". The exceptional W-T comparison methodology in the second sentence of Article 2.4.2 requires a comparison between a weighted average normal value and the entire universe of export transactions that fall within the pattern as properly identified³⁵⁵ under that provision, irrespective of whether the export price of individual "pattern transactions" is above or below normal value. While the results of the transaction-specific comparisons of weighted average normal value and each individual export price falling within the pattern will be intermediate results, the aggregation of *all* these results is required and will determine dumping and margins of dumping for the product under investigation as it relates to the identified "pattern". Zeroing the negative intermediate comparison results within the pattern is neither necessary to address "targeted dumping", nor is it consistent with the establishment of dumping and margins of dumping as pertaining to the "universe of export transactions" identified under the second sentence of Article 2.4.2.

5.1.9.1.2 Mathematical equivalence

5.161. The United States further submits that, assuming that under both the W-W and W-T comparison methodologies the calculation of the margins of dumping is based on the same normal value and export sales data, if zeroing is prohibited under both comparison methodologies, then the results of the W-W comparison methodology and the W-T comparison methodology will be mathematically equivalent with respect to the total amount of all comparison results, the total amount of dumping, and the weighted average dumping margin for each exporter for the product under investigation.³⁵⁶ Korea, for its part, contends that the United States' argument on mathematical equivalence starts with the false assumption that the method of determining normal

³⁵¹ United States' appellant's submission, para. 110 (quoting Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 100).

³⁵² United States' appellant's submission, para. 110 (quoting Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 100). (emphasis original; fn omitted)

³⁵³ United States' appellant's submission, fn 139 to para. 110 (referring to Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 127).

³⁵⁴ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 100.

³⁵⁵ See paras. 5.29 and 5.36 of this Report.

³⁵⁶ United States' appellant's submission, para. 115.

value must remain the same.³⁵⁷ According to Korea, the possibility of changing the normal value or the adjustments to the export prices breaks mathematical equivalence.³⁵⁸ Korea asserts that "[a]ny equivalence reflects assumptions about how the authority is making the comparison."³⁵⁹

5.162. We note that the United States' argument on mathematical equivalence is premised on its understanding of what constitutes the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement. The United States submits that, "[o]n its face", the second sentence of Article 2.4.2 "contemplates a pattern of export prices that would transcend multiple purchasers, regions, or time periods"³⁶⁰ and that "[s]uch a 'pattern' necessarily includes both lower and higher export prices that 'differ significantly' from each other."³⁶¹

5.163. We have concluded above that the "pattern of export prices which differ significantly" within the meaning of the second sentence of Article 2.4.2 comprises only a subset of all the export transactions and that these significantly different export prices are significantly lower export prices, which would be used by an exporter or producer to "target" purchasers, regions, or time periods. In this respect, the W-W and W-T comparison methodologies are designed to operate based on different "universes of export transactions": the first, based on *all* export transactions; and the second, based on individual export transactions that form the relevant "pattern". Accordingly, the second sentence of Article 2.4.2 allows an investigating authority to establish margins of dumping by comparing "pattern transactions" with normal value, while excluding from its consideration "non-pattern transactions". Comparing normal value with "pattern transactions" only will not normally yield results that are mathematically or substantially equivalent to the results obtained from the application of the W-W comparison methodology to *all* export transactions.³⁶²

5.164. The United States further submits that the Panel's approach of applying the W-T comparison methodology to a subset of transactions without zeroing is in essence equivalent to the application of the W-W comparison methodology to the same subset of transactions without zeroing. According to the United States, the Panel, in doing so, "effectively rewrote the second sentence of Article 2.4.2, changing it from allowing the application of the average-to-transaction comparison methodology under certain circumstances to allowing the application of the average-to-average comparison methodology to a subset of transactions under certain circumstances."³⁶³ Thus, the United States contends that the Panel "invented a new methodology" and "read the average-to-transaction comparison methodology out of the second sentence of Article 2.4.2 of the AD Agreement altogether, contrary to the principle of effectiveness."³⁶⁴

5.165. The mere fact that the result of the application of the W-T comparison methodology to "pattern transactions" may be equivalent to the result of comparing the weighted average normal value with the weighted average export price of all "pattern transactions", is neither relevant under the second sentence that provides for the application of the W-T comparison methodology to "pattern transactions" only, nor does it read the W-T comparison methodology out of the second sentence of Article 2.4.2. As we have explained above, the function of the second sentence of Article 2.4.2 is to allow an investigating authority to address "targeted dumping" by identifying a

³⁵⁷ Korea's appellee's submission, para. 73.

³⁵⁸ Korea's appellee's submission, para. 74.

³⁵⁹ Korea's appellee's submission, para. 77.

³⁶⁰ United States' appellant's submission, para. 52.

³⁶¹ United States' appellant's submission, para. 53. (emphasis original)

³⁶² Our conclusion also accords with the Appellate Body's statement in *US – Softwood Lumber V (Article 21.5 – Canada)* that "the universe of export transactions to which the weighted average-to-transaction comparison methodology applies would be different from the universe of transactions examined under the weighted average-to-weighted average methodology" and in these circumstances "the two methodologies would not yield equivalent results, except by coincidence." (Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, fn 166 to para. 99) Moreover, and as we have considered above with regard to Korea's appeal of the Panel's findings on "systemic disregarding", the function of the second sentence of Article 2.4.2 should not be addressed by focusing on mathematical equivalence. We further recall the Appellate Body's findings in previous disputes that the "'mathematical equivalence' argument works only under a specific set of assumptions" (Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 126) and that "the mathematical equivalence argument is based on certain assumptions that may not hold good in all situations." (Appellate Body Report, *US – Zeroing (Japan)*, para. 133)

³⁶³ United States' appellant's submission, para. 189. (emphasis original)

³⁶⁴ United States' appellant's submission, para. 189 (referring to Appellate Body Report, *Japan – Alcoholic Beverages II*, p. 12, DSR 1996:1, p. 106).

"pattern of export prices which differ significantly" and to which the W-T comparison methodology is applied. Once the pattern of export prices within the meaning of the second sentence has been identified by the investigating authority, the fact that the application of the W-T comparison methodology to that pattern of export prices leads to equivalent results as the application of the W-W comparison methodology to the same pattern, neither undermines the *effet utile* of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, nor does it lead to equivalent results between the application of the symmetrical comparison methodologies normally used under the first sentence to the universe of *all* export transactions and the application of the W-T comparison methodology used under the second sentence of Article 2.4.2 to the limited universe of "pattern transactions".

5.1.9.1.3 Negotiating history

5.166. The United States also argues that the negotiating history of the Anti-Dumping Agreement confirms that zeroing is permissible when applying the asymmetrical and exceptional W-T comparison methodology set forth in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement.³⁶⁵ The United States refers to four documents in support of its arguments and submits that certain proposals from GATT Contracting Parties seeking changes to the Tokyo Round Anti-Dumping Code addressed concerns about the use of an asymmetrical comparison methodology, in which negative dumping margins would be treated as zero instead of being added to the other transactions to "offset" the dumping margin.³⁶⁶ The United States considers that such proposals reveal that those GATT Contracting Parties viewed asymmetry and zeroing as one and the same problem.

5.167. We have found above that under the second sentence of Article 2.4.2, an investigating authority can use the W-T comparison methodology to identify and address "targeted dumping" by establishing margins of dumping based on the pattern of export prices which differ significantly and which are "targeted" at purchasers, regions, or time periods. We have also concluded that this exercise would allow an investigating authority not only to identify but also address "targeted dumping" without the need to have recourse to zeroing. We have, thus, reached the conclusion that zeroing under the W-T comparison methodology is not allowed based on the text and context of Article 2.4.2 read in light of the object and purpose of the Anti-Dumping Agreement. We, therefore, consider that it is not necessary to have recourse to the negotiating history of the Anti-Dumping Agreement in order to confirm the meaning of the second sentence of Article 2.4.2.

5.168. Nonetheless, we address here the United States' arguments regarding the negotiating history of the Anti-Dumping Agreement. We observe, first, that the negotiating proposals referred to by the United States reflect the positions of only some of the GATT Contracting Parties and not all.³⁶⁷ Second, the Appellate Body has already considered some of the exhibited materials to conclude that these materials did not resolve the issue of whether the negotiators of the

³⁶⁵ United States' appellant's submission, para. 197.

³⁶⁶ United States' appellant's submission, paras. 200-203 (referring to Negotiating Group on MTN Agreements and Arrangements, Amendments to the Anti-Dumping Code, Communication from the Delegation of Hong Kong, Addendum, GATT Document MTN.GNG/NG8/W/51/Add.1, 22 December 1989 (Panel Exhibit USA-15), Negotiating Group on MTN Agreements and Arrangements, Communication from Japan, GATT Document MTN.GNG/NG8/W/30, 20 June 1988 (Panel Exhibit USA-16); Negotiating Group on MTN Agreements and Arrangements, Communication from Japan Concerning the Anti-Dumping Code, GATT Document MTN.GNG/NG8/W/81, 9 July 1990 (Panel Exhibit USA-17); and Negotiating Group on MTN Agreements and Arrangements, Meeting of 16-18 October 1989, MTN.GNG/NG8/13 (Panel Exhibit USA-18)).

³⁶⁷ In *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body had similar considerations in mind. In considering that the historical materials referred to by the panel and the United States were of limited relevance, the Appellate Body found:

Finally, the negotiating proposals referred to by the United States are inconclusive and, in any event, reflected the positions of some, but not all, of the negotiating parties. In sum, the historical materials do not provide any additional guidance for the question whether zeroing under the transaction-to-transaction comparison methodology is consistent with Article 2.4.2 of the *Anti-Dumping Agreement*.

(Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 121 (fn omitted)) Moreover, we recall that, in *US – Softwood Lumber V*, the United States acknowledged that the "historical background" (consisting of prior GATT panel reports and certain proposals submitted by various delegations in the context of the negotiations on the Anti-Dumping Agreement) it invoked as support for its position on asymmetry and zeroing did not constitute *travaux préparatoires*. (Appellate Body Report, *US – Softwood Lumber V*, fn 168 to para. 107)

Anti-Dumping Agreement intended to prohibit zeroing.³⁶⁸ Finally, we observe that, even if these GATT Contracting Parties associated the asymmetrical comparison methodology with zeroing, this does not necessarily support a reading of the asymmetrical comparison methodology in the finally agreed version of the second sentence of Article 2.4.2 as permitting zeroing. Zeroing may have been considered by some GATT Contracting Parties as a possible way to "unmask" and address "targeted dumping". We note, however, from a reading of these documents that these GATT Contracting Parties were opposed to both zeroing and the inclusion of an asymmetrical methodology (with zeroing) in the Anti-Dumping Agreement.

5.169. We, thus, consider that these documents do not support a reading of the second sentence of Article 2.4.2 as permitting zeroing. On the one hand, they could be read, as the United States suggests, as supporting the view that the asymmetrical comparison methodology was associated with zeroing. On the other hand, they also could be read as explaining why the final version of the Anti-Dumping Agreement included the second sentence of Article 2.4.2 as a compromise provision addressing "targeted dumping" by means of an asymmetrical comparison methodology, but without zeroing.

5.170. While the text of the second sentence of Article 2.4.2 allows an investigating authority to focus on "pattern transactions" and exclude from its consideration "non-pattern transactions" in establishing dumping and margins of dumping under the W-T comparison methodology, it does not allow an investigating authority to exclude certain transaction-specific comparison results within the pattern, when the export price is above normal value. As we have considered above, the second sentence of Article 2.4.2 allows an investigating authority to exclude from its consideration "non-pattern transactions" and to establish dumping and margins of dumping based exclusively on a comparison of a weighted average normal value with all the identified "pattern transactions", in order to identify and address "targeted dumping". In so doing, however, the second sentence of Article 2.4.2 does not allow an investigating authority to exclude from the applicable "universe of export transactions" individual transactions that form part of the pattern, but that are priced above normal value.

5.171. In light of these considerations, we uphold the Panel's findings, in paragraphs 8.1.a.xii and 8.1.a.xiv of its Report³⁶⁹, that "the United States' use of zeroing when applying the W-T comparison methodology is inconsistent 'as such' with Article 2.4.2 of the Anti-Dumping Agreement" and that "the USDOC acted inconsistently with Article 2.4.2 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation".

5.1.9.2 Whether the Panel erred in finding that the United States' use of zeroing when applying the W-T comparison methodology is inconsistent "as such" and "as applied" in the *Washers* anti-dumping investigation with Article 2.4 of the Anti-Dumping Agreement

5.172. We turn now to consider the United States' appeal of the Panel's findings under Article 2.4 of the Anti-Dumping Agreement in respect of zeroing.

5.173. The Panel recalled that the Appellate Body had previously upheld claims under Article 2.4 against the use of zeroing after finding that zeroing is inconsistent with the first sentence of Article 2.4.2 of the Anti-Dumping Agreement. In particular, the Panel cited the Appellate Body's findings in *US – Zeroing (Japan)* that, "[i]f anti-dumping duties are assessed on the basis of a methodology involving comparisons between the export price and the normal value in a manner which results in anti-dumping duties being collected from importers in excess of the amount of the margin of dumping of the exporter or foreign producer, then this methodology cannot be viewed as involving a 'fair comparison' within the meaning of the first sentence of Article 2.4."³⁷⁰

5.174. The Panel considered that the use of zeroing in the context of the W-T comparison methodology would not lead to a "fair comparison" since individual "pattern transactions" priced above normal value would not be properly taken into account when an investigating authority has particular regard to the exporter's pricing behaviour within that pattern. Thus, the Panel found that

³⁶⁸ Appellate Body Report, *US – Stainless Steel (Mexico)*, paras. 130-131 (referring to Appellate Body Report, *US – Softwood Lumber V*, para. 108).

³⁶⁹ See also Panel Report, para. 7.192.

³⁷⁰ Panel Report, para. 7.206 (quoting Appellate Body Report, *US – Zeroing (Japan)*, para. 168).

the use of zeroing in the context of the W-T comparison methodology is inconsistent "as such" with Article 2.4 and, for the same reasons, the USDOC acted inconsistently with Article 2.4 by using zeroing in the *Washers* anti-dumping investigation.³⁷¹

5.175. Having found the use of zeroing to be inconsistent with both Article 2.4 and the second sentence of Article 2.4.2, the Panel exercised judicial economy with regard to Korea's dependent claims under Articles 1 and 2.1 of the Anti-Dumping Agreement and Article VI:1 of the GATT 1994.³⁷²

5.176. On appeal, the United States asserts that the Panel's findings of inconsistency regarding the use of zeroing in the application of the W-T comparison methodology under Article 2.4 rest on its earlier findings of inconsistency under the second sentence of Article 2.4.2.³⁷³ Thus, the United States submits that, since the Panel's findings under Article 2.4.2 "are erroneous and should be reversed, the Panel's findings under Article 2.4, which are based on those ... flawed findings, likewise are erroneous and should be reversed."³⁷⁴ Moreover, the United States submits that the second sentence of Article 2.4.2 provides means to "unmask targeted dumping" in exceptional situations and it is, thus, "fair" to take steps to "unmask targeted dumping" by faithfully applying the W-T comparison methodology, when the conditions for its use are met. According to the United States, doing so is entirely consistent with the obligation that an investigating authority be impartial, even-handed, and unbiased.³⁷⁵

5.177. In our analysis of Korea's appeal in respect of "systemic disregarding" under Article 2.4, we have noted that the introductory clause of Article 2.4.2 expressly makes this provision "[s]ubject to the provisions governing fair comparison" in Article 2.4. In that context, we have explained that, in respect of the second sentence of Article 2.4.2, the "fair comparison" requirement in Article 2.4 applies only in relation to "pattern transactions", which is also consistent with the function of the second sentence of Article 2.4.2 of allowing an investigating authority to identify and address "targeted dumping". We have considered that Articles 2.4 and 2.4.2 of the Anti-Dumping Agreement not only inform each other, but must be read together harmoniously. Accordingly, we have found that the exclusion of "non-pattern transactions" from the establishment of dumping and margins of dumping under the second sentence of Article 2.4.2 is consistent with the notions of impartiality, even-handedness, and lack of bias reflected in the "fair comparison" requirement in Article 2.4.

5.178. Bearing in mind the above considerations, we now turn to analyse the consistency of zeroing in the application of the W-T comparison methodology with the "fair comparison" requirement in Article 2.4. We have concluded above that the second sentence of Article 2.4.2 allows an investigating authority to establish dumping and margins of dumping by applying the W-T comparison methodology to "pattern transactions", while excluding from its consideration "non-pattern transactions". We have also concluded that, in doing so, an investigating authority is not allowed to use zeroing within the identified "pattern" and, accordingly, we have upheld the Panel's findings in this regard.

5.179. In *EC – Bed Linen*, the Appellate Body explained that "a comparison ... that does *not* take fully into account the prices of *all* comparable export transactions – such as the practice of 'zeroing' ... – is *not* a 'fair comparison' between export price and normal value, as required by Article 2.4 and by Article 2.4.2."³⁷⁶ Additionally, in *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body considered that, since "the use of zeroing under the transaction-to-transaction comparison methodology artificially inflates the magnitude of dumping", it "cannot be described as impartial, even-handed, or unbiased" and, accordingly, it does not "satisf[y] the 'fair comparison' requirement within the meaning of Article 2.4".³⁷⁷

³⁷¹ Panel Report, paras. 7.206, 8.1.a.xiii, and 8.1.a.xv.

³⁷² Panel Report, para. 7.207. We note that Korea has not appealed this finding of the Panel. Accordingly, we are not called upon to rule on this matter.

³⁷³ United States' appellant's submission, para. 210.

³⁷⁴ United States' appellant's submission, para. 211.

³⁷⁵ United States' appellant's submission, para. 213.

³⁷⁶ Appellate Body Report, *EC – Bed Linen*, para. 55. (emphasis original)

³⁷⁷ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 142.

5.180. Setting to zero the intermediate negative comparison results has the effect of not only inflating the magnitude of dumping, thus resulting in higher margins of dumping, but it also makes a positive determination of dumping more likely in circumstances where the export prices above normal value exceed those that are below normal value. Moreover, by setting to zero "individual export transactions" that yield a negative comparison result, an investigating authority fails to compare *all* comparable export transactions that form the applicable "universe of export transactions" as required under the second sentence of Article 2.4.2, thus failing to make a "fair comparison" within the meaning of Article 2.4.

5.181. We disagree with the United States' contention that, given that the function of the second sentence of Article 2.4.2 is to "unmask targeted dumping" and that zeroing is necessary in the application of the exceptional W-T comparison methodology to give effect to the second sentence, such an approach is entirely consistent with the obligation that an investigating authority be impartial, even-handed, and unbiased. We have considered above that the *effet utile* of the second sentence in addressing "targeted dumping" is fulfilled once an investigating authority has identified the relevant "pattern" within the meaning of the second sentence of Article 2.4.2 and has established dumping and margins of dumping by applying the W-T comparison methodology exclusively to "pattern transactions". In this respect, we have explained above that zeroing under the W-T comparison methodology is not required in order for the second sentence of Article 2.4.2 to fulfil its function of allowing an investigating authority to identify and address "targeted dumping".

5.182. In light of the above and given that we have upheld the Panel's findings on zeroing under the second sentence of Article 2.4.2, we also uphold the Panel's findings, in paragraphs 8.1.a.xiii and 8.1.a.xv of its Report³⁷⁸, that "the United States' use of zeroing when applying the W-T comparison methodology is inconsistent 'as such' with Article 2.4 of the Anti-Dumping Agreement" and that "the USDOC acted inconsistently with Article 2.4 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation".

5.1.9.3 Whether the Panel erred in finding that the United States' use of zeroing when applying the W-T comparison methodology in administrative reviews is inconsistent "as such" with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994

5.183. We turn now to consider the United States' appeal of the Panel's finding under Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994 in respect of zeroing in administrative reviews.

5.184. The Panel found that the use of zeroing by the USDOC when applying the W-T comparison methodology in administrative reviews is inconsistent "as such" with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994.³⁷⁹ The Panel recalled that the United States' defence was based exclusively on its argument that zeroing is not inconsistent with Article 2 of the Anti-Dumping Agreement, and stated that it had already rejected this argument in the context of its findings that the use of zeroing is inconsistent with Article 2.4 and the second sentence of Article 2.4.2 of the Anti-Dumping Agreement. Accordingly, the Panel considered that, since the use of zeroing in the context of the W-T comparison methodology would artificially inflate the margin of dumping, any duties collected would necessarily be excessive and thus inconsistent with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994.³⁸⁰

5.185. In *US – Zeroing (EC)*, the Appellate Body considered the USDOC's practice of zeroing in the application of the W-T comparison methodology in administrative reviews. The Appellate Body found that "the zeroing methodology, as applied by the USDOC in the administrative reviews at issue [was] inconsistent with Article 9.3 of the *Anti-Dumping Agreement* and Article VI:2 of the GATT 1994"³⁸¹ because the Appellate Body considered that this methodology resulted in amounts of assessed anti-dumping duties that exceeded the foreign exporters' or producers' margins of dumping with which the anti-dumping duties had to be compared under Article 9.3 of the

³⁷⁸ See also Panel Report, para. 7.206.

³⁷⁹ Panel Report, paras. 7.208 and 8.1.a.xvi.

³⁸⁰ Panel Report, para. 7.208.

³⁸¹ Appellate Body Report, *US – Zeroing (EC)*, para. 133.

Anti-Dumping Agreement and Article VI:2 of the GATT 1994.³⁸² Moreover, in *US – Stainless Steel (Mexico)*, the Appellate Body stated that, "under Article VI:2 and Article 9.3, the margin of dumping established for an exporter in accordance with Article 2 operates as a *ceiling* for the total amount of anti-dumping duties that can be levied on the entries of the subject merchandise from that exporter."³⁸³

5.186. On appeal, the United States submits that, like its findings under Article 2.4, the Panel's findings under Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994 are based on the Panel's earlier flawed findings under Article 2.4.2.³⁸⁴ The United States adds that a margin of dumping established by the use of the W-T comparison methodology when the conditions for its use have been fulfilled is a margin of dumping properly determined under Article 2 and, consequently, any anti-dumping duty levied pursuant to such a margin of dumping would not breach either Article 9.3 of the Anti-Dumping Agreement, or Article VI:2 of the GATT 1994.³⁸⁵ Accordingly, the United States requests that the Panel's findings be reversed.³⁸⁶

5.187. We have concluded above that, while the second sentence of Article 2.4.2 allows an investigating authority to exclude from its consideration "non-pattern transactions" and to establish dumping and margins of dumping based exclusively on a comparison of a weighted average normal value with "pattern transactions", it does not allow an investigating authority to use zeroing when applying the W-T comparison methodology to "pattern transactions". We, therefore, also conclude that, in levying anti-dumping duties under Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994, an investigating authority cannot exceed the margin of dumping that would be established under the second sentence of Article 2.4.2 without having recourse to zeroing.

5.188. Article 9.3 refers to the "margin of dumping" as established under Article 2. This "margin of dumping" represents the ceiling for anti-dumping duties levied pursuant to Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994. Accordingly, if margins of dumping are established inconsistently with Article 2.4.2 by using zeroing under the W-T comparison methodology, the corresponding anti-dumping duties that are levied will also be inconsistent with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994, as they will exceed the margin of dumping that should have been established under Article 2. We, therefore, agree with the Panel that, since the use of zeroing in the context of the W-T comparison methodology would artificially inflate the margin of dumping, any duties collected would necessarily be excessive.³⁸⁷

5.189. We further note that, if zeroing is not permitted under the W-T comparison methodology applied pursuant to the second sentence of Article 2.4.2 in original anti-dumping investigations, it also cannot be permitted in respect of administrative reviews. In this respect, we recall that, in *US – Stainless Steel (Mexico)*, the Appellate Body stated that it did not consider that there was "a textual or contextual basis in the GATT 1994 or the *Anti-Dumping Agreement* for treating transactions that occur above normal value as 'dumped' for purposes of determining the existence and magnitude of dumping in the original investigation and as 'non-dumped' for purposes of assessing the final liability for payment of anti-dumping duties in a periodic review."³⁸⁸

5.190. In light of the above, we uphold the Panel's finding, in paragraph 8.1.a.xvi of its Report³⁸⁹, that "the United States' use of zeroing when applying the W-T comparison methodology in administrative reviews is inconsistent 'as such' with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994".

³⁸² Appellate Body Report, *US – Zeroing (EC)*, para. 133.

³⁸³ Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 102. (emphasis original)

³⁸⁴ United States' appellant's submission, para. 216.

³⁸⁵ United States' appellant's submission, para. 217.

³⁸⁶ United States' appellant's submission, para. 218.

³⁸⁷ Panel Report, para. 7.208.

³⁸⁸ Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 107.

³⁸⁹ See also Panel Report, para. 7.208.

5.1.10 Separate opinion of one Appellate Body Member regarding zeroing under the W-T comparison methodology

5.191. This dissent is limited to whether zeroing is permitted for "pattern transactions". My agreement with the other sections of this Report is subject to my views as expressed in this separate opinion.

5.192. The second sentence of Article 2.4.2 of the Anti-Dumping Agreement says that "[a] normal value established on a weighted average basis may be compared to *prices of individual export transactions*"³⁹⁰ if an investigating authority finds the requisite "pattern" and provides the requisite explanation. This text has no qualifier, and it does not specify *how* the investigating authority is to do the comparison between a weighted average normal value and prices of individual export transactions.

5.193. The second sentence of Article 2.4.2 is an exception and has the function of "unmasking targeted dumping" and addressing it. Since the text of the second sentence does not say how that is to be done, the question before the Appellate Body in this appeal – the first to confront squarely the meaning of the second sentence – should be, what are the limits, if any, that the Anti-Dumping Agreement places on what an investigating authority may do to "unmask" and deal with "targeted dumping".

5.194. My distinguished colleagues of the majority have developed an interpretation that would allow investigating authorities to base W-T analyses solely on all "pattern transactions", but that would prohibit them from zeroing when doing so. In effect, investigating authorities may confine their examination to "pattern transactions", but, in doing so, they must combine the comparison results of all sales prices within the "pattern", that is, combine the comparison results of those prices above normal value with the comparison results of those below normal value within the "pattern".

5.195. The majority's interpretation would permit investigating authorities to deal with "targeted dumping" only partially, and possibly ineffectively. Within the "pattern", prices above normal value will cancel out – or "re-mask" – partly or completely, the "targeted dumping" that results from prices below normal value.

5.196. In my view, such an incomplete approach is not required by the text of the second sentence read in the context of the entire Article 2.4.2 and in light of the object and purpose of the Anti-Dumping Agreement, and it unduly restricts the regulatory leeway that should be accorded to investigating authorities to deal with "targeted dumping". Accepting that, when applying the second sentence of Article 2.4.2, investigating authorities are to focus only on "pattern transactions", I would permit investigating authorities also to zero those "pattern transactions" that are priced above normal value, and to calculate dumping only on the basis of "pattern transactions" priced below normal value. Doing so would deal fully with "targeted dumping" by dividing the full amount of such dumping – instead of an amount diminished by non-dumped prices – by the full value of an exporter's sales.

5.197. Let us test this. Are the "in-pattern", below-normal-value sales "dumped", so that they can properly be identified as the relevant "targeted dumping"? Article 2.1 of the Anti-Dumping Agreement defines "dumping" as occurring when a product is "introduced into the commerce of another country at less than its normal value, if the export price of the product exported from one country to another is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country." The second sentence of Article 2.4.2 says that "[a] normal value established on a weighted average basis may be compared to *prices of individual export transactions* if the authorities find a pattern ...".³⁹¹ That is, literally, what "in-pattern" zeroing, as I am proposing it, would do.

5.198. Does the proposal of allowing "in-pattern" zeroing under the second sentence of Article 2.4.2 accord with the context of Article 2.4.2 and the function of the second sentence? The majority has said that: (i) "the *effet utile* of the second sentence in addressing 'targeted dumping' is fulfilled once an investigating authority has identified the relevant 'pattern' ... and has

³⁹⁰ Emphasis added.

³⁹¹ Emphasis added.

established dumping and margins of dumping by applying the W-T comparison methodology exclusively to 'pattern transactions'³⁹²; (ii) "[z]eroing the negative intermediate comparison results within the pattern is neither necessary to address 'targeted dumping', nor is it consistent with the establishment of dumping and margins of dumping as pertaining to the 'universe of export transactions' identified under the second sentence of Article 2.4.2"³⁹³; and (iii) the majority's interpretation – but not the allowance of in-pattern zeroing – is consistent with the "fair comparison" requirement in Article 2.4 of the Anti-Dumping Agreement.³⁹⁴ In my view, none of these statements is backed by convincing authority or is self-evident.

5.199. Does previous Appellate Body jurisprudence prohibit "in-pattern" zeroing under the second sentence of Article 2.4.2? On the contrary, in *US – Softwood Lumber V (Article 21.5 – Canada)*, the Appellate Body emphasized the exceptional nature of the W-T comparison methodology.³⁹⁵ In *US – Zeroing (Japan)*, the Appellate Body stated that "[t]he asymmetrical methodology in the second sentence is clearly an exception to the comparison methodologies which normally are to be used."³⁹⁶ Also in *US – Softwood Lumber V (Article 21.5 – Canada)*, in finding that a prohibition on the use of zeroing under the T-T comparison methodology would not render the second sentence of Article 2.4.2 meaningless, the Appellate Body stated that, "on the contrary, ... the use of zeroing under the two comparison methodologies set out in the first sentence of Article 2.4.2 would enable investigating authorities to capture pricing patterns constituting 'targeted dumping', thus rendering the third methodology *inutile*."³⁹⁷ In the same case, the Appellate Body, in discussing the interpretation of the T-T comparison methodology in the first sentence of Article 2.4.2, further stated that "the reference to 'export prices' in the plural, without further qualification, suggests that all of the results of the transaction-specific comparisons should be included in the aggregation for purposes of calculating the margins of dumping."³⁹⁸ In my view, the fact that the second sentence, unlike the first sentence of Article 2.4.2, uses the phrase "prices of *individual* export transactions"³⁹⁹ indicates that not all the transaction-specific comparisons arising from the export prices that form part of the "pattern" need to be aggregated in order to calculate dumping. In *US – Stainless Steel (Mexico)*, the Appellate Body emphasized that "[t]he Appellate Body has so far not ruled on the question of whether or not zeroing is permissible under the comparison methodology in the second sentence of Article 2.4.2."⁴⁰⁰ The Appellate Body made this statement after having recalled the *US – Softwood Lumber V (Article 21.5 – Canada)* jurisprudence about the exceptional nature of the second sentence, the application of the W-T comparison methodology to individual export transactions falling within the "pattern", and the relationship between zeroing and the *effet utile* of the second sentence.

5.200. Regarding the text of the second sentence of Article 2.4.2 in other official languages, the French version reads:

*Une valeur normale établie sur la base d'une moyenne pondérée pourra être comparée aux prix de transactions à l'exportation prises individuellement si les autorités constatent que, d'après leur configuration, les prix à l'exportation diffèrent notablement entre différents acheteurs, régions ou périodes, et si une explication est donnée quant à la raison pour laquelle il n'est pas possible de prendre dûment en compte de telles différences en utilisant les méthodes de comparaison moyenne pondérée à moyenne pondérée ou transaction par transaction.*⁴⁰¹

5.201. By referring to "[les] prix de transactions à l'exportation prises individuellement", which translates literally in English as "the prices of export transactions taken individually", the French text of the second sentence of Article 2.4.2 puts emphasis on the selection of individual transactions.

³⁹² See para. 5.181 of this Report.

³⁹³ See para. 5.160 of this Report.

³⁹⁴ See para. 5.180 of this Report.

³⁹⁵ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 97.

³⁹⁶ Appellate Body Report, *US – Zeroing (Japan)*, para. 131.

³⁹⁷ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 100.

³⁹⁸ Appellate Body Report, *US – Softwood Lumber V (Article 21.5 – Canada)*, para. 88. (fn omitted;

emphasis added)

³⁹⁹ Emphasis added.

⁴⁰⁰ Appellate Body Report, *US – Stainless Steel (Mexico)*, para. 127.

⁴⁰¹ Emphasis added.

5.202. Thus, I believe that allowing an investigating authority to zero within the "pattern" under the second sentence of Article 2.4.2 not only is a permissible interpretation within the meaning of the second sentence of Article 17.6(ii) of the Anti-Dumping Agreement, but that it is a more defensible interpretation within the meaning of the first sentence of that provision.

5.203. For these reasons, I disagree with the finding of the majority that zeroing within the "pattern" under the W-T comparison methodology of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement is not permissible. Consequently, I also disagree with the findings of the majority on zeroing under Article 2.4 of the Anti-Dumping Agreement and under Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994.

5.2 Claims under the SCM Agreement and related claims under the GATT 1994

5.2.1 Background

5.204. Korea raises a number of claims on appeal in respect of the USDOC's determinations in the *Washers* countervailing duty investigation concerning two tax credit programmes adopted by the Korean government as part of the RSTA. Under both programmes, Korean companies can claim tax credits, i.e. reductions in the amount of corporate income tax otherwise owed, in their tax returns filed with the National Tax Service upon showing that they have made certain eligible expenditures.⁴⁰²

5.205. The first programme, established under Article 10(1)(3) of the RSTA (RSTA Article 10(1)(3) tax credit programme), is entitled "Tax Deduction for Research and Manpower Development".⁴⁰³ It forms part of a broader tax credit regime, set forth in Article 10 of the RSTA, which aims to "facilitate Korean corporations' investment in their respective research and development activities, and thus to boost the general national economic activities in all sectors".⁴⁰⁴ Articles 10(1)(1) and 10(1)(2) of the RSTA provide tax credits equivalent to 20% of the yearly amount of R&D expenditures made by Korean companies in respect of "new growth engine industries" and "core technology", respectively.⁴⁰⁵ Article 10(1)(3) provides two residual tax credit options available to Korean companies whose activities do not qualify under either Article 10(1)(1) or Article 10(1)(2). The first option is a tax credit equal to 40% (50% for small and medium enterprises (SMEs)) of the amount by which a company's R&D and human resources development (HRD) expenditures during the tax year have exceeded the average of its R&D and HRD expenditures in the four previous years. The second option is a tax credit of up to 6% (25% for SMEs) of the total R&D and HRD expenditures for the applicable taxable year.⁴⁰⁶ Access to tax credits under Article 10(1)(3) of the RSTA is automatic for any Korean company that satisfies the statutory requirements.⁴⁰⁷

5.206. The second programme, established under Article 26 of the RSTA (RSTA Article 26 tax credit programme), was entitled "Tax Deduction for Facilities Investment" and provided an economic incentive for "Korean companies to invest in a wide variety of business assets".⁴⁰⁸ It

⁴⁰² For tax purposes, a company with its head or main office in Korea is deemed to be a domestic company and is liable to pay tax on its worldwide income. Otherwise, it is considered to be a foreign company, and its tax liability is limited to its Korea-sourced income. (See e.g. Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the *Washers* CVD investigation [C-580-869] (excerpts) (GOK *Washers* CVD questionnaire response) (Panel Exhibit KOR-75 (BCI), at p. 4))

⁴⁰³ See Korea's other appellant's submission, para. 299.

⁴⁰⁴ GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at p. 37).

⁴⁰⁵ Korea's first written submission to the Panel, para. 245; Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the *Washers* CVD investigation [C-580-869] (including excerpts of Article 10 of the RSTA and Article 9 of the RSTA Enforcement Decree) (GOK *Washers* CVD questionnaire response) (Panel Exhibit KOR-76); GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 11 and 25-26).

⁴⁰⁶ Korea's first written submission to the Panel, para. 245; Korea's other appellant's submission, para. 331; GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 37 and 47). These formulae are further detailed in Articles 9(3)-9(5) of the RSTA Enforcement Decree in GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-76).

⁴⁰⁷ Korea's first written submission to the Panel, paras. 245 and 248; Korea's other appellant submission, para. 299; Panel Report, para. 7.211; GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 41-42).

⁴⁰⁸ Korea's first written submission to the Panel, para. 252. (fn omitted) See also Korea's other appellant's submission, para. 206.

lapsed on 31 December 2011.⁴⁰⁹ Under the version of the programme in force for tax year 2010, any Korean company could receive a corporate income tax credit equal to 7% of the value of all qualifying business assets investments.⁴¹⁰ However, pursuant to Article 23 of the RSTA Enforcement Decree⁴¹¹, investments made in business assets located in the "overcrowding control region" of the Seoul Metropolitan Area (Seoul overcrowding area) would be excluded from eligibility for this tax credit.⁴¹² As Korea observed, the policy rationale behind such exclusion was to "address overcrowding and urban sprawl by discouraging investments in the Seoul overcrowding region"⁴¹³ while, at the same time, allowing for "equal development throughout the country, except in the overcrowded areas".⁴¹⁴ The Seoul overcrowding area accounts for roughly 2% of Korea's landmass and concentrates a significant portion of the country's population and economic activity.⁴¹⁵ Its boundaries are defined in Article 9 and Table 1 of the Enforcement Decree of the Seoul Metropolitan Area Readjustment Planning Act.⁴¹⁶ Access to tax credits under Article 26 of the RSTA was automatic, as long as the applicant company satisfied the statutory requirements.⁴¹⁷

5.207. Both tax credit programmes require applicant companies to indicate the amount of eligible expenditures for every tax year in their tax filings with the National Tax Service, which are submitted during the first quarter of the following year.⁴¹⁸ Thus, the tax credits are granted after the underlying eligible expenditures have been made, in an amount determined by reference to the total of such expenditures.⁴¹⁹ If a company is in a tax loss situation in a particular tax year, it may carry forward the applicable tax credits for the five following years.⁴²⁰ Similarly, if the corporate income tax, after all tax credits, is less than a specified minimum amount in a given year, then the company would have to pay that minimum tax amount, and the unapplied tax credits would be carried forward to the five following years.⁴²¹

⁴⁰⁹ GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 73-74); USDOC [C-580-869] Memorandum to File regarding Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea – Verification of the Questionnaire Responses Submitted by the Government of the Republic of Korea (22 October 2012) (*Washers* CVD GOK questionnaire verification memorandum) (Panel Exhibit KOR-78 (BCI)), p. 7.

⁴¹⁰ Korea's first written submission to the Panel, para. 252; Korea's other appellant's submission, para. 206; GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 66-69). The specific types of business assets eligible for tax credits under Article 26 of the RSTA were listed in Article 23 of the RSTA Enforcement Decree in Response dated 9 April 2012 of the Government of Korea to the USDOC's questionnaire of 15 February 2012 in the *Washers* CVD investigation [C-580-869] (excerpts) (BCI-redacted version) (GOK *Washers* CVD questionnaire response) (Panel Exhibit KOR-81).

⁴¹¹ Presidential Decree No. 22037 enforcing the RSTA, issued on 18 February 2010.

⁴¹² Korea's first written submission to the Panel, paras. 253-254; Korea's other appellant's submission, para. 207; Article 26 of the RSTA and Article 23 of the RSTA Enforcement Decree in GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-81).

⁴¹³ Korea's other appellant's submission, para. 288.

⁴¹⁴ Korea's first written submission to the Panel, para. 319. See also Korea's other appellant's submission, para. 277; and Panel Report, para. 7.273.

⁴¹⁵ See e.g. Korea's first written submission to the Panel, para. 253; and Case Brief of the Government of Korea, Large Residential Washers from the Republic of Korea [C-580-869] (31 October 2012) (excerpt) (GOK *Washers* CVD case brief) (Panel Exhibit KOR-82 (BCI), at pp. 6-7).

⁴¹⁶ Korea's first written submission to the Panel, fn 223 to para. 253 and fn 316 to para. 320; Response of the Government of Korea to the USDOC's first supplemental questionnaire in the *Washers* CVD investigation [C-580-869] (containing exhibit S-25, "Excerpts from Seoul Metropolitan Area Readjustment Planning Act (with its Enforcement Decree)" (Korean/English)) (GOK *Washers* CVD supplemental questionnaire response) (Panel Exhibit KOR-91); *Washers* CVD GOK questionnaire verification memorandum (Panel Exhibit KOR-78 (BCI), at p. 26); Article 26 of the RSTA and Article 23 of the RSTA Enforcement Decree in GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-81).

⁴¹⁷ Korea's first written submission to the Panel, para. 335; GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 71-72).

⁴¹⁸ In their tax returns, applicant companies need not specify the products, if any, in respect of which the eligible R&D expenditures were made, or the facilities where such R&D activities were carried out. (Panel Report, para. 7.303)

⁴¹⁹ Panel Report, para. 7.303.

⁴²⁰ GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 48 and 75).

⁴²¹ Korea's first written submission to the Panel, para. 251; Response dated 9 April 2012 of Samsung Electronics Co., Ltd to the USDOC's questionnaire of 15 February 2012 in the *Washers* CVD investigation [C-580-869] (excerpts) (Samsung *Washers* CVD questionnaire response) (Panel Exhibit KOR-72 (BCI), at pp. 41 and 48).

5.208. In the *Washers* countervailing duty investigation, the USDOC determined that the RSTA Article 10(1)(3) tax credit programme is *de facto* specific because, during the period of investigation, subsidies had been provided to Samsung under that programme in disproportionately large amounts.⁴²² The USDOC also determined that the RSTA Article 26 tax credit programme was regionally specific because it was limited to certain enterprises located in a designated geographical region.⁴²³ Based on these determinations of specificity, the USDOC imposed a countervailing duty on LRWs from Korea. In calculating the *ad valorem* subsidization rate for Samsung, the USDOC found that the tax credits bestowed on Samsung pursuant to Articles 10(1)(3) and 26 of the RSTA were not tied to any particular products. It, therefore, allocated those subsidies across all products manufactured by Samsung in Korea during the period of investigation.⁴²⁴ The USDOC further rejected Samsung's argument that the denominator of Samsung's subsidization ratio should be adjusted to encompass Samsung's worldwide production, and decided instead to limit the denominator to the sales value of Samsung's production within Korea.⁴²⁵

5.209. The Panel found the USDOC's determinations that the RSTA Article 10(1)(3) tax credit programme is *de facto* specific to be inconsistent with Article 2.1(c) of the SCM Agreement⁴²⁶, and the United States has not challenged the Panel's finding on appeal.

5.210. Conversely, the Panel upheld the other determinations by the USDOC. In particular, the Panel concluded that: (i) the USDOC's determination that the RSTA Article 26 tax credit programme was regionally specific is not inconsistent with Article 2.2 of the SCM Agreement⁴²⁷; (ii) the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products is not inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994⁴²⁸; and (iii) the USDOC's attribution of the tax credits received by Samsung under Article 10(1)(3) of the RSTA to the sales value of Samsung's production in Korea is not inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994.⁴²⁹

5.211. On appeal, Korea requests us to find that the Panel erred in upholding the above-mentioned determinations by the USDOC. We, therefore, examine each of those determinations and the related claims in turn.

5.2.2 Whether the Panel erred in its interpretation and application of Article 2.2 of the SCM Agreement by upholding the USDOC's determination that the RSTA Article 26 tax credit programme was regionally specific

5.212. In its preliminary countervailing duty determination, the USDOC observed that subsidies under the RSTA Article 26 tax credit programme were "limited by law to enterprises or industries

⁴²² Panel Report, para. 7.215; USDOC [C-580-869] Issues and Decision Memorandum for the Final Determination in the Countervailing Duty Investigation of Large Residential Washers From the Republic of Korea (18 December 2012) (*Washers* final CVD I&D memorandum) (Panel Exhibit KOR-77), pp. 11-13 and 31-37; USDOC [C-580-869] Large Residential Washers From the Republic of Korea: Preliminary Affirmative Countervailing Duty Determination and Alignment of Final Determination With Final Antidumping Determination, *United States Federal Register*, Vol. 77, No. 108 (5 June 2012) (*Washers* preliminary CVD determination) (Panel Exhibit KOR-85), pp. 33187-33188. The USDOC's assessment was incorporated by reference in the *Washers* final CVD determination. See USDOC [C-580-869] Large Residential Washers From the Republic of Korea: Final Affirmative Countervailing Duty Determination, *United States Federal Register*, Vol. 77, No. 247 (26 December 2012) (*Washers* final CVD determination) (Panel Exhibit KOR-2), p. 75976. See also USDOC [C-580-869] Remand Redetermination, *Samsung Electronics Co., Ltd v. United States*, Final Results of Redetermination Pursuant to Court Order, USCIT, Court No. 13-00099, Slip Op. 14-39 (11 April 2014) (Panel Exhibit KOR-44 (BCI)), pp. 3-18.

⁴²³ Panel Report, para. 7.256; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 14 and 46; *Washers* preliminary CVD determination (Panel Exhibit KOR-85), p. 33188; *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁴²⁴ Panel Report, para. 7.301; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 41-42; *Washers* preliminary CVD determination (Panel Exhibit KOR-85), pp. 33187-33188; *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁴²⁵ Panel Report, para. 7.317; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 52-53.

⁴²⁶ Panel Report, paras. 7.244, 7.250, 7.255, 8.1.b.i, and 8.1.b.ii.

⁴²⁷ Panel Report, paras. 7.289 and 8.1.b.iii.

⁴²⁸ Panel Report, paras. 7.307 and 8.1.b.iv.

⁴²⁹ Panel Report, paras. 7.320 and 8.1.b.v.

within a designated geographical region within the jurisdiction of the authority providing the subsidy", and, therefore, concluded that the programme in question was regionally specific.⁴³⁰ The USDOC reaffirmed its conclusion in its final countervailing duty determination.⁴³¹ Before the Panel, Korea claimed that, in reaching such conclusions, the USDOC acted inconsistently with Article 2.2 of the SCM Agreement. As mentioned above⁴³², the Panel found that the USDOC's determination is not inconsistent with Article 2.2. Korea requests us to reverse the Panel's finding, complete the legal analysis, and find that the USDOC's determination is inconsistent with the United States' obligations under Article 2.2.⁴³³

5.213. Article 2 of the SCM Agreement sets forth the disciplines for determining whether a subsidy is specific, i.e. "limited *inter alia* by reason of the eligible recipients ... or by reason of the geographical location of beneficiaries".⁴³⁴ Article 2.1 lays down the principles for determining the specificity of a subsidy to "certain enterprises" within the jurisdiction of the granting authority. Article 2.2, in turn, is concerned with limitations on the geographical region(s) where the eligible enterprises are located.

5.214. The text of Article 2.2 reads:

A subsidy which is limited to certain enterprises located within a designated geographical region within the jurisdiction of the granting authority shall be specific. It is understood that the setting or change of generally applicable tax rates by all levels of government entitled to do so shall not be deemed to be a specific subsidy for the purposes of this Agreement.

5.215. The Panel took the view, which the participants have not challenged on appeal, that the rationale of Article 2.2 is to cover subsidy programmes whereby "governments and public bodies encourage particular enterprises to direct their resources to certain geographic regions, thereby interfering with the market's allocation of resources within the territory of [a] Member."⁴³⁵ For purposes of this Report, we use the shorthand phrase "regionally specific" to designate a subsidy that is specific pursuant to Article 2.2.

5.216. Korea requests us to find that the Panel erred in its interpretation and application of Article 2.2 of the SCM Agreement. In particular, Korea's claims focus on certain terms contained in the first sentence of Article 2.2, namely: (i) "certain enterprises"; (ii) "designated"; and (iii) "geographical region".⁴³⁶ Hence, in reviewing the Panel's findings in light of Korea's claims, we find it useful to structure our analysis along each of these terms.

5.2.2.1 Whether the term "certain enterprises" in Article 2.2 of the SCM Agreement is limited to entities with legal personality

5.217. Before the Panel, Korea argued that the term "certain enterprises" in Article 2.2 of the SCM Agreement designates companies or businesses with legal personality, while it does not cover a company's facilities that do not have legal personality. Under Korea's interpretation, the RSTA Article 26 tax credit programme would not be regionally specific because, being available to all companies incorporated anywhere in Korea, it did not impose any geographical limitations on the location of the subsidy recipients, but only on the location of the subsidized activities.⁴³⁷ The Panel rejected Korea's argument. It observed that nothing in the text of Article 2.2 justifies such a narrow reading of the term "enterprise", and stated that an enterprise's "commercial activities" should rather be interpreted broadly.⁴³⁸ The Panel also noted that, as defined in the chapeau of

⁴³⁰ *Washers* preliminary CVD determination (Panel Exhibit KOR-85), p. 33188.

⁴³¹ See *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 14; and *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁴³² See para. 5.210 of this Report.

⁴³³ Korea's other appellant's submission, paras. 294-295.

⁴³⁴ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 413.

⁴³⁵ Panel Report, para. 7.273.

⁴³⁶ Korea does not take issue with the Panel's interpretation and application of the phrase "within the jurisdiction of the granting authority" in Article 2.2. Both participants agree that the authority granting subsidies under Article 26 of the RSTA is the Government of Korea and that the scope of application of those subsidies is within the Government's jurisdiction.

⁴³⁷ Panel Report, para. 7.266.

⁴³⁸ Panel Report, para. 7.267.

Article 2.1 of the SCM Agreement, the term "certain enterprises" includes an "industry or group of enterprises or industries", i.e. "entities [that] are not companies or businesses with legal personality".⁴³⁹ Thus, the Panel held that an enterprise is located within a designated region if a constituent part of that enterprise, including a manufacturing facility belonging to that enterprise, is located in that region.⁴⁴⁰ Even assuming that Korea's reading of the term "enterprise" were correct, the Panel stated that a business or company may be located "in a variety of places", including the sites of its head office, branches, manufacturing facilities, or other assets, and that a subsidy programme that limits the geographic location of any of these elements would be regionally specific.⁴⁴¹

5.218. On appeal, Korea reiterates that regional specificity has to be established based on the geographical location of the recipient of a subsidy.⁴⁴² Such recipient must be a "natural or legal person"⁴⁴³ – i.e. an entity with legal personality.⁴⁴⁴ Conversely, an enterprise's facility does not qualify as a subsidy recipient because it does not have legal personality.⁴⁴⁵ According to Korea, regional specificity cannot be deemed to exist "when a subsidy is merely contingent on considerations regarding the geographical location of any activity of any sort regarding the recipient", such as the location of its investments or facilities.⁴⁴⁶ In Korea's opinion, the Panel unduly conflated the concepts of "enterprise" and "commercial activities"⁴⁴⁷ and, therefore, provided an overly expansive interpretation of the scope of application of Article 2.2.⁴⁴⁸ Korea maintains that, under a correct interpretation, the Panel should have found that the RSTA Article 26 tax credit programme was not specific under Article 2.2, because it automatically bestowed subsidies on any enterprise, located anywhere in the Korean territory, that made eligible investments outside the Seoul overcrowding area, thereby not imposing any limitations on the geographical location of the subsidy recipients.⁴⁴⁹

5.219. The United States disagrees with Korea that Article 2.2 applies only to entities with legal personality.⁴⁵⁰ Rather, in the United States' view, the concept of "certain enterprises" covers a "wide variety of economic structures and activities".⁴⁵¹ The United States notes that the term "enterprise" encompasses the notion of "business", which in turn includes that of "commercial activity". Therefore, the United States argues, the Panel did not unduly conflate the concepts of "enterprise" and "commercial activity", but simply stressed the linkage between them.⁴⁵² For the United States, the location of an industry cannot be determined by the legal personality of individual producers⁴⁵³ because legal personality "is a fiction, and may not imply a particular fixed location".⁴⁵⁴ Rather, an enterprise "takes up business", and is, therefore, "situated" and "established", both at its headquarters and at the facilities in which it conducts manufacturing operations.⁴⁵⁵ According to the United States, Korea's argument that only a natural legal person can receive a subsidy unduly borrows from the notion of "benefit" under Article 1.1(b) of the SCM Agreement, which is "qualitatively different" from the notion of "limitations on access" to a subsidy under Article 2.2.⁴⁵⁶ The United States observes that Korea's interpretation would yield the absurd result that subsidy programmes that limit access to facilities in a designated region, but

⁴³⁹ Panel Report, para. 7.268.

⁴⁴⁰ Panel Report, para. 7.269.

⁴⁴¹ Panel Report, para. 7.270.

⁴⁴² Korea's other appellant's submission, para. 238.

⁴⁴³ Korea's other appellant's submission, para. 236 (referring to Appellate Body Reports, *US – Lead and Bismuth II*, para. 58; and *Canada – Aircraft*, para. 154); and para. 238.

⁴⁴⁴ See e.g. Korea's other appellant's submission, para. 259 (referring to Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373); and para. 262 (referring to Appellate Body Report, *US – Countervailing Measures on Certain EC Products*, para. 110).

⁴⁴⁵ Korea's other appellant's submission, paras. 238 and 263.

⁴⁴⁶ Korea's other appellant's submission, para. 273.

⁴⁴⁷ Korea's other appellant's submission, para. 253.

⁴⁴⁸ Korea's other appellant's submission, para. 271.

⁴⁴⁹ Korea's other appellant's submission, para. 240.

⁴⁵⁰ United States' appellee's submission, para. 210.

⁴⁵¹ United States' appellee's submission, para. 219. (fn omitted)

⁴⁵² United States' appellee's submission, paras. 214-215.

⁴⁵³ United States' appellee's submission, para. 222.

⁴⁵⁴ United States' appellee's submission, para. 223.

⁴⁵⁵ United States' appellee's submission, para. 228 (quoting the definition of the verb "locate" in Panel Report, para. 7.270).

⁴⁵⁶ United States' appellee's submission, para. 236.

permit recipients to maintain their headquarters outside that region, would not be regionally specific.⁴⁵⁷

5.220. We note that the term "certain enterprises" is a key component of the first sentence of Article 2.2. Indeed, a finding of regional specificity depends on whether a subsidy programme limits availability to "enterprises" that are located in a designated geographical region within the jurisdiction of the subsidizing Member. As observed by the Appellate Body, the word "certain" is defined as "[k]nown and particularized but not explicitly identified: (with sing. noun) a particular, (with pl. noun) some particular, some definite".⁴⁵⁸ Thus, in order for a subsidy to be specific, the group of eligible enterprises must be something less than the whole of the economy of a Member. The Appellate Body, however, has cautioned that any determination of what constitutes "certain enterprises" can only be made "on a case-by-case basis".⁴⁵⁹ Further, the term "certain enterprises" is expressly defined in the chapeau of Article 2.1 as "an enterprise or industry or group of enterprises or industries".⁴⁶⁰ As that provision stipulates, this definition applies throughout the whole SCM Agreement, including Article 2.2.⁴⁶¹ In *US – Anti-Dumping and Countervailing Duties (China)*, the Appellate Body noted that the word "enterprise" means "[a] business firm, a company"⁴⁶², whereas the word "industry" signifies "[a] particular form or branch of productive labour; a trade, a manufacture".⁴⁶³ Based on these definitions, the Appellate Body considered that the term "certain enterprises" refers to some particular business firms or companies that are known and particularized, but need not be explicitly identified.⁴⁶⁴ In turn, we observe that the term "business" encompasses "[t]rade and all activity relating to it ... ; commercial transactions, engagements, and undertakings regarded collectively".⁴⁶⁵ The term is "[u]sually taken to include [a company's] premises, staff, trade, profit, liabilities, etc."⁴⁶⁶

5.221. Read together, these definitions do not indicate that the term "certain enterprises" is limited to entities with legal personality. To the contrary, they suggest a broader reading of such term. In particular, the text of Article 2.2 does not exclude that a sub-unit or a constituent part of a company – including, but not limited to, its branch offices or the facilities where it conducts manufacturing operations – may fall within the scope of the term "certain enterprises" despite not necessarily having distinct legal personality. In this respect, we find it significant that the definition of that term in the chapeau of Article 2.1 encompasses an "industry", a "group of enterprises" or a "group of industries". As the Panel correctly pointed out, an "industry" or a "group of industries" are entities that, by their nature, may or may not have a distinct legal personality. Yet, they are included in the definition of "certain enterprises".⁴⁶⁷ Thus, we consider that the textual reference in the chapeau of Article 2.1 to such entities confirms that the notion of "certain enterprises" does not depend on the legal personality of the subsidy recipients.

5.222. This finding is further supported by the term "located", which qualifies the term "certain enterprises" and connects it to the phrase "within a designated geographical region". A holistic reading of these terms sheds light on the core function of Article 2.2 – i.e. to address limitations

⁴⁵⁷ United States' appellee's submission, para. 211. See also para. 237.

⁴⁵⁸ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373 (quoting *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 1, p. 375).

⁴⁵⁹ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373. (fn omitted)

⁴⁶⁰ See para. 5.217 of this Report.

⁴⁶¹ Indeed, the chapeau of Article 2.1 "offers interpretative guidance" with regard to the scope and meaning of the rest of Article 2. (Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 366)

⁴⁶² Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373 (quoting *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 1, p. 841).

⁴⁶³ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373 (quoting *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 1, p. 1371). The Appellate Body also noted that the word "group" denotes "[a] number of ... things regarded as forming a unity or whole on the grounds of some mutual or common relation or purpose, or classed together because of a degree of similarity". (Ibid. (quoting *Shorter Oxford English Dictionary*, 6th edn, A. Stevenson (ed.) (Oxford University Press, 2007), Vol. 1, p. 1167))

⁴⁶⁴ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 373.

⁴⁶⁵ Oxford English Dictionary online, definition of "business"
<<http://www.oed.com/view/Entry/25229?redirectedFrom=business#eid>>, accessed 5 July 2016.

⁴⁶⁶ Oxford English Dictionary online, definition of "business"
<<http://www.oed.com/view/Entry/25229?redirectedFrom=business#eid>>, accessed 5 July 2016.

⁴⁶⁷ Panel Report, paras. 7.268-7.269.

on access to a subsidy by virtue of the *geographical location* of the enterprises eligible for that subsidy. As the Panel observed, the verb "locate" signifies "tak[ing] up business in a place", "establish[ing] oneself ... in a place", or "be[ing] situated".⁴⁶⁸ Under this definition, not every activity conducted by a company in a given place would suffice for that company to be "located" there.⁴⁶⁹ However, an enterprise may well "take up business" – and, therefore, be "situated" – in a certain region if it effectively establishes its commercial presence in that region, including by setting up a sub-unit such as a branch office or a facility for manufacturing operations.⁴⁷⁰ Depending on the circumstances, a business or company may be commercially established in more than one location. Therefore, we agree with the Panel that an enterprise may be "located" in a variety of places, including the sites of its headquarters, branch offices, and manufacturing facilities. When a measure limits eligibility for a subsidy based on the geographical location of any of these sub-units or constituent parts of an enterprise, as is the case for the RSTA Article 26 tax credit programme, that measure will fall within the scope of Article 2.2.⁴⁷¹

5.223. In support of its argument that the term "certain enterprises" is limited to entities with legal personality, Korea relies on the Appellate Body's statements that the recipient of the benefit must be a "natural or legal person"⁴⁷² and that the focus of the analysis of whether a benefit exists "should be on 'legal' or natural persons instead of on productive operations".⁴⁷³ We observe that those statements relate to Article 1.1(b) of the SCM Agreement, which addresses the notion of "benefit" as one of the elements necessary to establish the existence of a subsidy. The text of Articles 1 and 2 of the SCM Agreement does not suggest that the identification of the recipient of a subsidy should prejudice the assessment of whether that subsidy is regionally specific. Indeed, a specificity analysis under Article 2 "*presupposes* that the subsidy has already been found to exist".⁴⁷⁴ Thus, the notions of financial contribution, benefit, and specificity are distinct and independent concepts, which must be separately assessed in order to ascertain the applicability of the relevant disciplines of the SCM Agreement.⁴⁷⁵ An inquiry under Article 1.1(b) focuses, in essence, on whether a financial contribution makes the recipient better off than it otherwise would have been on the marketplace.⁴⁷⁶ In this sense, stating that the recipient can be a "natural or legal person" recognizes that a subsidy may be conferred to a wide variety of economic actors, including individuals, groups of persons, or companies. Conversely, the inquiry under Article 2 hinges on limitations on "*eligibility* for a subsidy" in respect of certain recipients.⁴⁷⁷ Eligibility may be limited in "many different ways"⁴⁷⁸, e.g. by virtue of the type of activities conducted by the recipients or the region where the recipients run those activities. Given these important differences between the analyses under Articles 1.1(b) and 2, we do not see that the Appellate Body's statements invoked by Korea are relevant to its argument that the term "certain enterprises" in Article 2.2 refers only to entities with legal personality.

5.224. Moreover, if accepted, Korea's interpretation of the term "certain enterprises" would entail that a regional specificity analysis should focus solely on the place(s) where the recipient companies are incorporated, without regard to the place(s) where those companies effectively establish their commercial presence by, for instance, setting up sub-units such as branch offices or manufacturing facilities. We agree with the United States that this interpretation could open the

⁴⁶⁸ Panel Report, para. 7.270 (quoting *The New Shorter Oxford English Dictionary on Historical Principles*, 4th edn, L. Brown (ed.) (Clarendon Press, 1993), Vol. 1, p. 1614 (Panel Exhibit USA-48)).

⁴⁶⁹ Korea's other appellant's submission, para. 273.

⁴⁷⁰ In making this finding, we are also informed by the broader context found in Article XXVIII(d) of the General Agreement on Trade in Services, which defines "commercial presence" as "any type of business or professional establishment" through: (i) the "constitution, acquisition or maintenance of a juridical person"; or (ii) the "creation or maintenance of a branch or a representative office".

⁴⁷¹ Panel Report, para. 7.270.

⁴⁷² Korea's other appellant's submission, para. 236 (referring to Appellate Body Reports, *US – Lead and Bismuth II*, para. 58; and *Canada – Aircraft*, para. 154).

⁴⁷³ Korea's other appellant's submission, para. 262 (quoting Appellate Body Report, *US – Countervailing Measures on Certain EC Products*, para. 110 (emphasis omitted)).

⁴⁷⁴ Appellate Body Report, *US – Large Civil Aircraft (2nd complaint)*, para. 739. (emphasis added)

⁴⁷⁵ Panel Report, *Korea – Commercial Vessels*, para. 7.411. See also Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 413.

⁴⁷⁶ See e.g. Appellate Body Reports, *Canada – Aircraft*, para. 157; *US – Lead and Bismuth II*, para. 68; *EC and certain member States – Large Civil Aircraft*, paras. 705-706; and *Canada – Renewable Energy / Canada – Feed-in Tariff Program*, para. 5.208.

⁴⁷⁷ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 368. (emphasis original) See also Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 943.

⁴⁷⁸ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 413.

door to circumvention of the disciplines of Article 2.2.⁴⁷⁹ For example, the recipient companies may be incorporated or headquartered outside the relevant geographical region designated by a subsidy programme, but manufacture their *entire* production within that region at facilities that do not enjoy distinct legal personality. Under Korea's interpretation, the subsidy programme in question would not be considered regionally specific, thereby escaping scrutiny under the SCM Agreement and frustrating the function of Article 2.2.

5.225. In sum, we agree with the Panel that the term "certain enterprises" in Article 2.2 of the SCM Agreement is not limited to entities with legal personality.⁴⁸⁰ Rather, an "enterprise" may be located in a certain region for purposes of Article 2.2 if it effectively establishes its commercial presence in that region, including by setting up a sub-unit, such as a branch office or manufacturing facility, which may or may not have distinct legal personality.⁴⁸¹

5.2.2.2 Whether the "designation" of a region for the purposes of Article 2.2 of the SCM Agreement must be affirmative and explicit, or may also be carried out by implication

5.226. Before the Panel, Korea contended that the RSTA Article 26 tax credit programme was not specific under Article 2.2 of the SCM Agreement because it did not explicitly "designate" the geographical region for subsidization, but rather covered the entire Korean territory except for the Seoul overcrowding area.⁴⁸² The Panel observed that there is no requirement in Article 2.2 that the designation of the relevant region for subsidization be "explicit". Rather, as one of the definitions of the verb "designate" is "indicate"⁴⁸³, the Panel took the view that the designation of a region for purposes of Article 2.2 "might also be accomplished through less direct means that nevertheless make the region known".⁴⁸⁴ The Panel thus held that, by granting subsidies in connection with certain investments outside the Seoul overcrowding area, the RSTA Article 26 tax credit programme effectively designated the geographical region where the eligible investments were located.⁴⁸⁵

5.227. On appeal, Korea maintains that, by allowing for the indirect designation of a geographical region, the Panel selectively relied on one of the possible definitions of the term "designate", and effectively replaced that term with the term "indicate".⁴⁸⁶ In Korea's view, the designation of a region must be "an act of identification by the granting authority that is done affirmatively, not by implication or suggestion", lest the term "designated" in Article 2.2 be rendered meaningless.⁴⁸⁷ For Korea, the RSTA Article 26 tax credit programme could not be said to affirmatively designate a geographical region, as it merely disqualified certain investments made in the Seoul overcrowding area from eligibility for subsidies that would otherwise be available.⁴⁸⁸

5.228. The United States agrees with the Panel that the meaning of the verb "designate" encompasses definitions such as "indicate", which suggests that the designation of a geographical region for purposes of Article 2.2 need not be affirmative or explicit, as long as the region in question is made known.⁴⁸⁹ According to the United States, it is irrelevant that the language of a subsidy programme designates a geographical region in terms of inclusion or exclusion, for the operational effect is the same.⁴⁹⁰ Similarly, the United States disagrees with Korea's characterization of the RSTA Article 26 tax credit programme as "discouraging" investments in the Seoul overcrowding area, as opposed to "encouraging" investments in the rest of the Korean territory. According to the United States, framing the policy goal of the programme in negative

⁴⁷⁹ United States' appellee's submission, para. 211.

⁴⁸⁰ Panel Report, para. 7.267.

⁴⁸¹ Panel Report, paras. 7.269-7.270.

⁴⁸² Panel Report, para. 7.276.

⁴⁸³ Panel Report, para. 7.280 (quoting United States' first written submission to the Panel, fn 502 to para. 407, in turn quoting *The New Shorter Oxford English Dictionary on Historical Principles*, 4th edn, L. Brown (ed.) (Clarendon Press, 1993), Vol. 1, p. 645 (Panel Exhibit USA-31, at p. 5)).

⁴⁸⁴ Panel Report, para. 7.280. (fn omitted)

⁴⁸⁵ Panel Report, para. 7.280.

⁴⁸⁶ Korea's other appellant's submission, para. 280.

⁴⁸⁷ Korea's other appellant's submission, para. 215. (fn omitted)

⁴⁸⁸ Korea's other appellant's submission, paras. 218 and 240-241.

⁴⁸⁹ United States' appellee's submission, paras. 246-248.

⁴⁹⁰ United States' appellee's submission, para. 253. See also para. 264.

terms does not detract from the fact that the programme in question directed resources to particular geographical regions, thereby interfering with the market's allocation of resources.⁴⁹¹

5.229. We note that, as the Panel observed, the verb "designate" means "[p]oint out, indicate, specify ... [c]all by name or distinctive term; name, identify, describe, characterize".⁴⁹² As the Panel correctly stated, certain aspects of this definition – such as "specify" and "[c]all by name" – point to an act of explicit or affirmative identification, whereas other aspects – such as "indicate" and "describe" – suggest that identification may *also* be carried out through indirect means.⁴⁹³ Thus, we agree with the Panel that the identification of a region for purposes of Article 2.2 may be explicit *or* implicit, provided that the relevant region is clearly discernible from the text, design, structure, and operation of the subsidy measure at issue.

5.230. Korea posits that, if the drafters of Article 2.2 had not intended to require an affirmative and explicit identification of the relevant region, they could have simply omitted the term "designated" from the text of the provision.⁴⁹⁴ Contrary to Korea's assertion, we do not believe that allowing for the implicit identification of a region would deprive the term "designated" of meaning. Rather, the inclusion of that term in the text of Article 2.2 serves to ensure that the relevant region is sufficiently demarcated and that its borders and territorial coverage are clear. We note that the Seoul overcrowding area is expressly delineated in Article 9 and Table 1 of the Enforcement Degree of the Seoul Metropolitan Area Readjustment Planning Act⁴⁹⁵, which specifically list the cities and municipalities constituting that area. Thus, we do not see any uncertainty as to the boundaries of the area outside the scope of the RSTA Article 26 tax credit programme and, by exclusion, of the area that was indeed covered by the programme.

5.231. Similarly, we do not find it relevant that the coverage of the RSTA Article 26 tax credit programme was couched in negative terms – i.e. it excluded investments made in the Seoul overcrowding area from eligibility for subsidies otherwise available. As the United States points out⁴⁹⁶, the result would have been the same if the language of the relevant regulation had affirmatively limited eligibility for that programme to investments made outside the Seoul overcrowding area. In both cases, the programme had the effect of discouraging certain investments in one portion of the Korean territory and, at the same time, encouraging those investments in another portion of the Korean territory.⁴⁹⁷ As observed above, limitations on access to a subsidy may be expressed in "many different ways".⁴⁹⁸ One way in which access to a subsidy may be limited on a geographical basis is by excluding portions of the territory of a Member's jurisdiction from that subsidy's scope of application. To draw the formalistic distinction proposed by Korea could enable Members to circumvent the disciplines of Article 2.2 by framing their regionally focused subsidy schemes in negative or exclusionary terms.

5.232. Based on the foregoing, we agree with the Panel that, by identifying the relevant geographical region by exclusion or implication, the RSTA Article 26 tax credit programme effectively "designated" that region for purposes of Article 2.2 of the SCM Agreement.⁴⁹⁹

5.2.2.3 Whether the concept of "geographical region" for the purposes of Article 2.2 of the SCM Agreement depends on the territorial size of the area covered by a subsidy

5.233. During the course of the Panel proceedings, Korea stressed that, since the Seoul overcrowding area accounts for only 2% of Korea's landmass, the RSTA Article 26 tax credit programme applied to virtually the entirety of the national territory.⁵⁰⁰ The Panel observed that

⁴⁹¹ United States' appellee's submission, paras. 275-280.

⁴⁹² Panel Report, para. 7.280 (quoting United States' first written submission to the Panel, fn 502 to para. 407, in turn quoting *The New Shorter Oxford English Dictionary on Historical Principles*, 4th edn, L. Brown (ed.) (Clarendon Press, 1993), Vol. 1, p. 645 (Panel Exhibit USA-31, at p. 5)).

⁴⁹³ Panel Report, para. 7.280.

⁴⁹⁴ Korea's other appellant's submission, para. 280.

⁴⁹⁵ GOK *Washers* CVD supplemental questionnaire response (Panel Exhibit KOR-91).

⁴⁹⁶ United States' appellee's submission, para. 253.

⁴⁹⁷ Korea acknowledges that the RSTA Article 26 tax credit programme aimed at correcting imbalances between the Seoul overcrowding area and the rest of the country. (Korea's other appellant's submission, paras. 277 and 288)

⁴⁹⁸ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 413.

⁴⁹⁹ Panel Report, para. 7.280.

⁵⁰⁰ Panel Report, para. 7.282.

Article 2.2 of the SCM Agreement refers simply to a "geographical region" without qualifying such concept in any way, and therefore held that "any geographical region – no matter how small or how large – would suffice to trigger the application of Article 2.2".⁵⁰¹

5.234. On appeal, Korea reiterates that, since the Seoul overcrowding area accounts for only 2% of the national territory, the area covered by the RSTA Article 26 tax credit programme – i.e. the remainder of the country – was too large, too unbounded, and insufficiently demarcated or cohesive to be considered as a "designated geographical region".⁵⁰² In Korea's opinion, "a subsidy that is available for investments made in 98% of the granting authority's jurisdiction is effectively as broadly available as if it were available in 100% of the jurisdiction."⁵⁰³ In support of its argument that the RSTA Article 26 tax credit programme was broadly available, Korea stresses that the subsidy programme was based on neutral and objective eligibility criteria, consistently with Article 2.1(b) of the SCM Agreement. In its view, this "lends further support" to the conclusion that the programme was non-specific pursuant to Article 2.2.⁵⁰⁴ For Korea, the RSTA Article 26 tax credit programme was an "efficient and effective policy tool" to "address overcrowding and urban sprawl", and the Panel's interpretation of Article 2.2 would "improperly constrain" Members' ability to take corrective measures.⁵⁰⁵

5.235. The United States disagrees with Korea that the geographical area covered by the RSTA Article 26 tax credit programme was too large and too diffuse to qualify as a "designated geographical region". The United States takes the view that "any identified tract of land within the jurisdiction of a granting authority" may qualify as a region⁵⁰⁶, and notes that the boundaries of the area covered by Korea's subsidy scheme were not "diffuse", but were rather well defined under the RSTA Article 26 tax credit programme.⁵⁰⁷ Moreover, in the United States' opinion, the Seoul overcrowding area could not constitute a mere "exception" to an otherwise non-specific subsidy as the area in question encompasses a significant portion of the country's population and economic activity. For the United States, by excluding that region from the coverage of the RSTA Article 26 tax credit programme, Korea limited access to its subsidy scheme "in a fundamental way".⁵⁰⁸ The United States also takes issue with Korea's contention that Members should be allowed to "curb urban sprawl" through zoning regulations.⁵⁰⁹ According to the United States, Members enjoy considerable leeway to adopt zoning laws and similar measures; however, when they employ subsidies, they are subject to the disciplines of the SCM Agreement.⁵¹⁰

5.236. Like the Panel, we observe that the term "geographical region" in the text of Article 2.2 is not qualified.⁵¹¹ We also note that the panel in *US – Anti-Dumping and Countervailing Duties (China)* took the view that "any identified tract of land within the jurisdiction of a granting authority" may qualify as a "geographic region".⁵¹² We agree with the Panel that, given the absence of any textual qualification to the term "geographical region", the territorial size of a region does not constitute a criterion relevant to the applicability of Article 2.2. This comports with the function of the provision at hand, which is to address subsidy schemes by which Members direct resources to certain geographical regions within their jurisdictions, thereby interfering with the market's allocation of resources. Indeed, a subsidy programme that excludes from its coverage an area that, albeit territorially small, is nevertheless important from an economic standpoint, could in fact limit eligibility in a significant way. In this respect, we note the United States' argument that, although the Seoul overcrowding area only occupies 2% of Korea's landmass, such area accounts for a large proportion of the country's population and concentrates a substantial portion of its economy.⁵¹³ As noted above, the boundaries of the area falling within the scope of

⁵⁰¹ Panel Report, para. 7.282. (emphasis original; fn omitted)

⁵⁰² Korea's other appellant's submission, paras. 214, 241-243, and 284.

⁵⁰³ Korea's other appellant's submission, para. 284.

⁵⁰⁴ Korea's other appellant's submission, para. 246.

⁵⁰⁵ Korea's other appellant's submission, para. 288.

⁵⁰⁶ United States' appellee's submission, para. 256 (quoting Panel Report, para. 7.282, in turn quoting Panel Report, *US – Anti-Dumping and Countervailing Duties (China)*, paras. 9.140 and 9.144).

⁵⁰⁷ United States' appellee's submission, para. 263.

⁵⁰⁸ United States' appellee's submission, para. 265.

⁵⁰⁹ United States' appellee's submission, para. 288 (referring to Korea's first written submission to the Panel, paras. 317-318 and 321).

⁵¹⁰ United States' appellee's submission, para. 293.

⁵¹¹ Panel Report, para. 7.282.

⁵¹² Panel Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 9.144. (emphasis added)

⁵¹³ See United States' appellee's submission, para. 265. See also European Union's third participant's submission, para. 130; and GOK *Washers* CVD case brief (Panel Exhibit KOR-82 (BCI), at pp. 6-7).

the RSTA Article 26 tax credit programme were clearly delineated in the relevant regulations. Thus, we see no reason why such "identified tract of land" would not qualify as a "designated geographical region".

5.237. In support of its argument that the RSTA Article 26 tax credit programme was broadly available and, therefore, not trade distortive, Korea further stresses that the subsidy programme set out neutral and objective eligibility criteria, consistently with Article 2.1(b).⁵¹⁴ Confronted with a similar argument, the Panel stated that nothing in the SCM Agreement suggests that "a finding of specificity under Article 2.2 is somehow subject to further examination under Article 2.1(b)".⁵¹⁵ Like the Panel, we observe that the text of these provisions does not suggest any hierarchy between them. Rather, Articles 2.1 and 2.2 set forth two distinct and independent ways in which a subsidy may be specific. While the former provision addresses limitations "by reason of the eligible recipients", the latter focuses on limitations "by reason of the geographical location of beneficiaries".⁵¹⁶ Therefore, the fact that a subsidy may set out neutral and objective eligibility criteria with respect to a given region does not, in and of itself, exclude the possibility that that subsidy is regionally specific.

5.238. Finally, we note Korea's argument that the Panel's interpretation of the term "geographical region" would unduly constrain Members' ability to adopt measures that "pursue legitimate objectives and introduce minimal trade distortions".⁵¹⁷ As an example in support of its argument, Korea posits that a subsidy programme that excludes industrial investments in national parks from eligibility for subsidies otherwise available for like investments in the rest of a Member's territory would be deemed regionally specific.⁵¹⁸ We consider that Members are, in principle, free to preserve portions of their territories from industrial exploitation through measures other than subsidy programmes, such as zoning regulations or prohibitions to build in certain areas. However, when Members choose to do so through the bestowal of subsidies, the disciplines of the SCM Agreement apply. Pursuant to such disciplines, Members have the discretion to grant subsidies – other than those prohibited under Article 3 of the SCM Agreement – that pursue legitimate policy goals, provided that, by doing so, they do not cause injury⁵¹⁹ to other Members' domestic industries. If the bestowal of subsidies does, indeed, cause injury to the domestic industries of other Members, those subsidies may be subject to remedial action, such as the imposition of countervailing duties.

5.239. Based on the foregoing, we consider that the Panel was correct in finding that the area covered by the RSTA Article 26 tax credit programme constituted a "geographical region" within the meaning of Article 2.2 of the SCM Agreement.⁵²⁰

5.2.2.4 Conclusions

5.240. In light of all the above, we agree with the Panel that: (i) the term "certain enterprises" in Article 2.2 of the SCM Agreement is not limited to entities with legal personality, but also encompasses sub-units or constituent parts of a company – including, but not limited to, its branch offices and the facilities in which it conducts manufacturing operations – that may or may not have distinct legal personality; (ii) the "designation" of a region for purposes of Article 2.2 need not be affirmative or explicit, but may also be carried out by exclusion or implication, provided that the region in question is clearly discernible from the text, design, structure, and operation of the subsidy at issue; and (iii) the concept of "geographical region" in Article 2.2 does not depend on the territorial size of the area covered by a subsidy. The Panel correctly found that the RSTA Article 26 tax credit programme effectively designated the region where the relevant eligible investments were to be made in order to qualify for the subsidy at issue, thereby being "limited to certain enterprises located within a designated geographical region" within Korea's jurisdiction.

⁵¹⁴ Korea's other appellant's submission, para. 246.

⁵¹⁵ Panel Report, para. 7.261 (quoting Panel Report, *EC and certain member States – Large Civil Aircraft*, para. 7.1233).

⁵¹⁶ Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 413.

⁵¹⁷ Korea's other appellant's submission, para. 289.

⁵¹⁸ Korea's other appellant's submission, para. 289.

⁵¹⁹ Footnote 45 to Article 15 of the SCM Agreement defines "injury" as "material injury to a domestic industry, threat of material injury to a domestic industry or material retardation of the establishment of such an industry".

⁵²⁰ Panel Report, paras. 7.282-7.283.

5.241. We, therefore, uphold the Panel's finding, in paragraph 8.1.b.iii of its Report⁵²¹, that "Korea failed to establish that the USDOC's determination of regional specificity in respect of the RSTA Article 26 tax scheme is inconsistent with Article 2.2 of the SCM Agreement".

5.2.3 Whether the Panel failed to conduct an objective assessment of the matter before it in articulating its findings on regional specificity

5.242. Korea claims that, in articulating its findings on regional specificity, the Panel failed to conduct an objective assessment of the matter before it, thereby acting inconsistently with its duties under Article 11 of the DSU. In particular, Korea claims that the Panel did not adequately review the USDOC's determination of regional specificity.⁵²² The United States responds that the Panel did evaluate the "key piece of evidence" on which the USDOC relied, namely, Article 23 of the RSTA Enforcement Decree.⁵²³ In any event, the United States argues that Article 11 of the DSU did not require the Panel to cite explicitly the USDOC's determination in assessing Korea's claims.⁵²⁴

5.243. We note that the Panel's only description of the USDOC's determination is contained in paragraph 7.212 of its Report, where the Panel observed that, with respect of the RSTA Article 26 tax credit programme, "[t]he USDOC found specificity under Article 2.2 of the SCM Agreement, on the basis ... that the programme was limited to certain enterprises located within a designated geographical region."

5.244. However, the extent to which the Panel was required, in order to comply with its duties under Article 11 of the DSU, to examine the USDOC's determination depended on the nature and scope of the claims raised by Korea under Article 2.2. Those claims were not directed at the USDOC's handling of the evidence before it, nor did they require the Panel to delve deeply into the specifics of the USDOC's determination or the facts on the record of the investigation. Indeed, the text, design, structure, and operation of the RSTA Article 26 tax credit programme were not disputed. Rather, the thrust of Korea's argumentation touched, essentially, on the interpretation of Articles 2.1(b) and 2.2 of the SCM Agreement. In particular, Korea claimed that the USDOC erred by: (i) failing to take into account that the programme was non-specific pursuant to Article 2.1(b)⁵²⁵; (ii) improperly expanding the scope of Article 2.2 to cover not only "enterprises", but also investments in facilities⁵²⁶; (iii) finding the area covered by the programme to be a "designated geographical region" within the meaning of Article 2.2⁵²⁷; (iv) holding that the programme was regionally specific although the tax credits were available to all enterprises investing in the designated area⁵²⁸; and (v) disregarding the fact that the programme was essentially a "zoning measure" aimed at relieving over-congestion in the Seoul overcrowding region.⁵²⁹

5.245. The Panel did address all the interpretative arguments put forward by Korea. In particular, it analysed the relationship between Article 2.1(b) and Article 2.2⁵³⁰, the meaning of the term "certain enterprises" in Article 2.2⁵³¹, the meaning of the term "designated geographical region" in Article 2.2⁵³², and the propriety of the "double-specificity" test proposed by Korea.⁵³³ At several

⁵²¹ See also Panel Report, para. 7.289.

⁵²² Korea's other appellant's submission, para. 229. Korea further states that the Panel "only provided disjointed, negative responses to Korea's allegations", thus failing to "develop a positive, coherent interpretation of Article 2.2". (Ibid., para. 228) At the oral hearing, however, Korea clarified that it is not raising a claim under Article 11 of the DSU in respect of this aspect of the Panel's findings.

⁵²³ United States' appellee's submission, para. 303 (referring to Panel Report, para. 7.280).

⁵²⁴ United States' appellee's submission, para. 304.

⁵²⁵ Korea's first written submission to the Panel, paras. 322-327.

⁵²⁶ Korea's first written submission to the Panel, paras. 328-330; second written submission to the Panel, paras. 345-359.

⁵²⁷ Korea's first written submission to the Panel, paras. 335-343; second written submission to the Panel, paras. 360-366.

⁵²⁸ Korea's first written submission to the Panel, paras. 331-334.

⁵²⁹ Korea's first written submission to the Panel, paras. 317-321; second written submission to the Panel, paras. 367-371.

⁵³⁰ Panel Report, section 7.6.3.1.

⁵³¹ Panel Report, section 7.6.3.2.

⁵³² Panel Report, section 7.6.3.3.

⁵³³ Panel Report, section 7.6.3.4.

points in its reasoning, the Panel addressed Korea's policy arguments, and rejected them based on the overall purpose of Article 2.2.⁵³⁴

5.246. Based on the above, we consider that the Panel's omission to provide a comprehensive discussion of the USDOC's determination of regional specificity does not undermine the objectivity of the Panel's assessment of the matter before it in light of the nature of Korea's claims under Article 2.2 of the SCM Agreement. We, therefore, find that the Panel did not act inconsistently with its duties under Article 11 of the DSU in articulating its findings on regional specificity.

5.2.4 Whether the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products

5.247. We now turn to Korea's first claim under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 with respect to the USDOC's calculation of the *ad valorem* subsidization rate for Samsung in the *Washers* countervailing duty investigation.

5.248. During the tax year 2010, Samsung made certain expenditures that qualified for access to the RSTA Article 10(1)(3) and Article 26 tax credit programmes. It then calculated the tax credits that resulted from those expenditures and reported the aggregated resulting tax credits in its annual tax return, which it filed with the National Tax Service in March 2011.⁵³⁵ Samsung is internally organized into different business units, several of which made eligible expenditures during the relevant period. Its digital appliance business unit produces the LRWs that were subject to the USDOC's *Washers* anti-dumping and countervailing duty investigations.

5.249. To recall⁵³⁶, in the *Washers* countervailing duty investigation, the USDOC determined that the RSTA Article 10(1)(3) and Article 26 tax credit programmes are specific subsidies, and, therefore, imposed a countervailing duty on LRWs from Korea. In calculating the *ad valorem* subsidization rate for Samsung, the USDOC was faced with the issue of whether the subsidies granted to the company were tied to the investigated products or, conversely, may be attributed also to non-investigated merchandise.⁵³⁷ Samsung argued that the majority of the tax credits it received under Articles 10(1)(3) and 26 of the RSTA related to expenditures that were attributable to non-investigated products. Therefore, Samsung requested that the USDOC calculate the amount of the *ad valorem* tax credit attributable to the investigated products by dividing the amount of tax credits earned by the digital appliance business unit by the sales value of the products manufactured by that unit.⁵³⁸ To this effect, Samsung submitted a document breaking down the eligible expenditures incurred by each of its business units during the relevant period, as well as the amount of tax credits generated by those expenditures.⁵³⁹ In support of that document, Samsung also submitted excerpts of its corporate books and records allegedly showing the individual eligible expenditures incurred by the digital appliance business unit and the resulting tax credit calculations.⁵⁴⁰

5.250. The USDOC rejected Samsung's argument and found that the tax credits Samsung received under Articles 10(1)(3) and 26 of the RSTA were not tied to any particular products. Therefore, the USDOC attributed the subsidies received by Samsung under those programmes across all products – i.e. it divided the total amount of tax credits received by all of Samsung's

⁵³⁴ Panel Report, paras. 7.273-7.274 and 7.281.

⁵³⁵ Korea's other appellant's submission, para. 300.

⁵³⁶ See para. 5.208 of this Report.

⁵³⁷ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 37-42. The USDOC's assessment was incorporated by reference in the *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁵³⁸ Korea's other appellant's submission, para. 307; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 37-39.

⁵³⁹ Samsung *Washers* CVD questionnaire response, exhibit 25 (Panel Exhibit KOR-72 (BCI), at p. 51); Korea's other appellant's submission, paras. 303-304.

⁵⁴⁰ Excerpts of exhibit 10 provided by Samsung to the USDOC in the *Washers* CVD GOK questionnaire verification (*Washers* CVD GOK questionnaire verification exhibit 10) (Panel Exhibit KOR-115 (BCI)); Excerpts of exhibit 12 provided by Samsung to the USDOC in the *Washers* CVD GOK questionnaire verification (*Washers* CVD GOK questionnaire verification exhibit 12) (Panel Exhibit KOR-126 (BCI)). See also Korea's other appellant's submission, para. 305.

business units by the total value of all of Samsung's production in Korea during the period of investigation.⁵⁴¹

5.251. The USDOC's conclusions were based on two main tenets. First, the USDOC stated that a determination of whether a subsidy is tied to a specific product focuses on "the purpose of the subsidy based on information available at the time of bestowal".⁵⁴² Conversely, the USDOC will not examine the subsequent "use or effect of subsidies" – i.e. how benefits are used by companies.⁵⁴³ According to the USDOC, a subsidy is tied to a product "only when the intended use is known to the subsidy giver ... and so acknowledged prior to or concurrent with the bestowal of the subsidy."⁵⁴⁴ Applying this test to the RSTA Article 10(1)(3) and Article 26 tax credit programmes, the USDOC found that the Government of Korea "had no way to know the intended use" of the subsidy at the time Samsung was authorized to claim the tax credits under those programmes; nor could Samsung "acknowledge receipt of the subsidy prior to or concurrent with its bestowal".⁵⁴⁵

5.252. Second, the USDOC observed that the tax credits Samsung received under the RSTA Article 10(1)(3) and Article 26 tax credit programmes "reduce[d] Samsung's overall tax burden", and found no evidence in Samsung's tax return to the National Tax Service showing that those tax credits were being claimed in connection to any particular product.⁵⁴⁶ The USDOC also acknowledged that Samsung had submitted a document allegedly showing the amount of the eligible expenditures and the related tax credits pertaining to the digital appliance business unit. The USDOC, however, dismissed the relevance of that document on the ground that Samsung's tax return did not evince that the tax credits provided under the RSTA were tied to any specific product or facility.⁵⁴⁷ Similarly, the USDOC did not find it necessary to "examine or discuss" the excerpts from Samsung's books and records⁵⁴⁸, because that documentation did not "form the basis for bestowal and [was] not included in the annual tax returns that the company file[d] with the Korean tax authority".⁵⁴⁹

5.253. Before the Panel, Korea claimed that the USDOC's calculation of Samsung's *ad valorem* subsidization rate resulted in the imposition of a countervailing duty in excess of the amount of the subsidy found to exist, inconsistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994. According to Korea, the USDOC applied an inappropriate standard by focusing on the intended use of a subsidy at the time of bestowal.⁵⁵⁰ Further, in Korea's view, the documentation submitted by Samsung to the USDOC would have allowed the investigating authority to identify readily the tax credits that Samsung earned pursuant to Articles 10(1)(3) and 26 of the RSTA based on the eligible expenditures of its digital appliance business unit.⁵⁵¹

5.254. Similar to the USDOC, the Panel articulated its reasoning along two main steps. First, the Panel took the view that, contrary to Korea's assertion, the tax credits granted under Article 10(1)(3) of the RSTA "are not R&D subsidies".⁵⁵² The Panel observed that those tax credits are provided after the underlying R&D activities have been undertaken, in an amount determined by reference to the total R&D activities. However, in the Panel's opinion, this does not mean that

⁵⁴¹ Panel Report, para. 7.301; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 41-42; *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁵⁴² *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 41 (referring to USDOC, Countervailing Duties: Final Rule, *United States Federal Register*, Vol. 63, No. 227 (25 November 1998), pp. 65348-65418 (CVD preamble regulations) (Panel Exhibit USA-25), p. 65403).

⁵⁴³ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 41. (fn omitted)

⁵⁴⁴ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 41. (fn omitted)

⁵⁴⁵ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 41-42.

⁵⁴⁶ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁵⁴⁷ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁵⁴⁸ USDOC [C-580-869] Memorandum to File regarding Countervailing Duty Investigation of Large Residential Washers from the Republic of Korea – Verification of the Questionnaire Responses Submitted by Samsung Electronics Co., Ltd, Samsung Electronics [Logitech], and Samsung Electronics Service (22 October 2012) (*Washers* CVD Samsung questionnaire verification memorandum) (Panel Exhibit KOR-79 (BCI)), p. 16.

⁵⁴⁹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁵⁵⁰ Korea's first written submission to the Panel, paras. 299-302; second written submission to the Panel, paras. 304-316.

⁵⁵¹ Korea's first written submission to the Panel, paras. 292-298; second written submission to the Panel, paras. 281-283.

⁵⁵² Panel Report, para. 7.303.

the tax credits are tied to those R&D activities or to the products in respect of which those activities were undertaken. Indeed, according to the Panel, the subsidy conferred under Article 10(1)(3) of the RSTA consists of the "proceeds of the tax credit[s]", which are conceptually distinct from the underlying activities.⁵⁵³ The Panel stressed that Samsung is not required, pursuant to Article 10(1)(3) of the RSTA, to spend the proceeds of the tax credits on the future production of digital appliance products. Rather, it may spend the proceeds of those tax credits on any product, or not spend them at all. For the Panel, Samsung's discretion regarding the use of the cash resulting from the tax credit "justifies the USDOC's treatment of that subsidy as untied, and therefore the allocation of that subsidy across the sales value of all products".⁵⁵⁴ On this ground, the Panel rejected Korea's argument that the tax credits conferred under Article 10(1)(3) of the RSTA serve to spur retroactively the particular investments that result in those tax credits.⁵⁵⁵

5.255. Second, the Panel addressed Korea's argument that, during the course of the *Washers* countervailing duty investigation, Samsung had submitted documents singling out the tax credits that Samsung earned based on eligible expenditures of its digital appliance business unit. Since there was "no necessary correlation" between Samsung's R&D activities in respect of digital appliance products and the amount of tax credit cash used by Samsung for future manufacturing of such products, the Panel considered it "irrelevant" that Samsung might have been able to identify the R&D expenditures made by each of its business units.⁵⁵⁶ Similarly, the Panel dismissed the relevance of the fact that the USDOC did verify the R&D costs specific to Samsung's digital appliance business unit in the *Washers* anti-dumping investigation. In the Panel's opinion, even if the R&D costs relating to the production of LRWs can be determined for the purpose of constructing a normal value in an anti-dumping investigation, "this says nothing about the amount (if any) of the benefit conferred by the tax credit subsidies that is ultimately directed towards the future production of LRWs."⁵⁵⁷

5.256. In the Panel's view, the above analysis applied *mutatis mutandis* to the tax credits received by Samsung under Article 26 of the RSTA.⁵⁵⁸ Therefore, the Panel found that the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products is not inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994.⁵⁵⁹

5.257. On appeal, Korea requests us to find that the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products. In essence, Korea contends that the Panel's focus on the recipient's intended use of the proceeds of the tax credits prevented it from applying the correct tying test under Article 19.4 and Article VI:3.⁵⁶⁰ Moreover, Korea maintains that the Panel erred by failing to examine the specific issue of whether Samsung had submitted positive evidence that allowed the USDOC to tie the tax credits that Samsung received on its development, production, and sale of digital appliance products to the R&D and other investment activities that generated those tax credits.⁵⁶¹

5.258. Before assessing the merits of Korea's claims, we recall the standard of review that applies to a panel assessing the WTO-consistency of a determination by a Member's investigating authority. In conducting such an assessment, a panel is not permitted to conduct a *de novo* review of the facts of the case "or substitute its judgement for that of the ... authorit[y]".⁵⁶² Rather, the panel must examine "whether, in the light of the evidence on the record, the conclusions reached

⁵⁵³ Panel Report, para. 7.304.

⁵⁵⁴ Panel Report, para. 7.303.

⁵⁵⁵ Panel Report, para. 7.304.

⁵⁵⁶ Panel Report, para. 7.304.

⁵⁵⁷ Panel Report, para. 7.305.

⁵⁵⁸ Panel Report, para. 7.306.

⁵⁵⁹ Panel Report, para. 7.307.

⁵⁶⁰ Korea's other appellant's submission, paras. 38-40.

⁵⁶¹ Korea's other appellant's submission, para. 39.

⁵⁶² Appellate Body Report, *US – Steel Safeguards*, para. 299 (referring to Appellate Body Report, *Argentina – Footwear (EC)*, para. 121). See also Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 379.

by the investigating authority are reasoned and adequate".⁵⁶³ What is "adequate" will inevitably depend on the facts and circumstances of the case and the particular claims made, but some relevant "lines of inquiry" can be identified.⁵⁶⁴ First, a panel must ascertain whether the investigating authority has "evaluated all of the relevant evidence in an objective and unbiased manner", including by "tak[ing] sufficient account of conflicting evidence and respond[ing] to competing plausible explanations of that evidence".⁵⁶⁵ Second, the panel must "test[] the relationship between the evidence on which the authority relied in drawing specific inferences, and the coherence of its reasoning".⁵⁶⁶ Finally, the adequacy of an investigating authority's explanations "is also a function of the substantive provisions of the specific covered agreements that are at issue in the dispute".⁵⁶⁷

5.259. Based on the above, the Panel was tasked with assessing whether the explanations provided in the USDOC's determination were "reasoned and adequate" in light of the evidence on the investigation record, so as to ascertain whether, by reaching such a determination, the USDOC acted consistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994.⁵⁶⁸ Our overview of the Panel's findings shows that, indeed, the Panel considered that the USDOC's two-step reasoning constituted reasoned and adequate explanations. First, the Panel appears to have affirmed the test applied by the USDOC in the *Washers* countervailing duty investigation, whereby a subsidy is tied to a product only if the intended use of that subsidy is known to the granting authority and so acknowledged prior to or concurrent with its bestowal. Second, in light of that test, the Panel agreed with the USDOC's dismissal of the relevance of certain evidence submitted by Samsung, which purportedly showed the amount of eligible expenditures made by the digital appliance business unit, as well as the tax credits that those expenses generated under Articles 10(1)(3) and 26 of the RSTA.

5.260. Therefore, we find it useful to structure our assessment along the two analytical steps followed by both the USDOC and the Panel. First, we will examine whether the test applied by the USDOC and upheld by the Panel constitutes the appropriate standard to ascertain whether the tax credits claimed by Samsung under Articles 10(1)(3) and 26 of the RSTA were tied to any particular products. Second, we will turn to the question of whether the Panel appropriately upheld the USDOC's dismissal of evidence that, allegedly, would have enabled it to single out the tax credits generated by Samsung's digital appliance business unit.

5.2.4.1 The Panel's affirmation of the USDOC's test for ascertaining whether the RSTA Article 10(1)(3) and Article 26 tax credits were tied to particular products

5.261. As noted above⁵⁶⁹, in the first portion of its determination, the USDOC set forth what it saw as the appropriate test to assess the existence of a product-specific tie with respect to the subsidies received by Samsung. The USDOC took the view that a subsidy is tied to a product "only when the intended use is known to the subsidy giver" – in this case, the Government of Korea – and "so acknowledged prior to or concurrent with the bestowal of the subsidy".⁵⁷⁰ Applying this test to the RSTA Article 10(1)(3) and Article 26 tax credit programmes, the USDOC found that the Government of Korea "had no way to know the intended use" of the subsidy at the time Samsung was authorized to claim the tax credits under those programmes, nor could Samsung "acknowledge receipt of the subsidy prior to or concurrent with its bestowal".⁵⁷¹

5.262. The Panel appears to have considered that, by applying such a test, the USDOC provided "reasoned and adequate" explanations for its determination.⁵⁷² The thrust of the Panel's reasoning is that, although tax credits under Article 10(1)(3) of the RSTA are conferred in an amount

⁵⁶³ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁵⁶⁴ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁵⁶⁵ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97. See also Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 443.

⁵⁶⁶ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁵⁶⁷ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 95 (referring to Appellate Body Reports, *US – Countervailing Duty Investigation on DRAMS*, para. 184; *US – Cotton Yarn*, paras. 75-78; and *US – Lamb*, para. 105).

⁵⁶⁸ See Appellate Body Report, *US – Lamb*, para. 105.

⁵⁶⁹ See paras. 5.251 and 5.254 of this Report.

⁵⁷⁰ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 41. (fn omitted)

⁵⁷¹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 41-42.

⁵⁷² See Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

determined by reference to prior R&D expenditures, they cannot be said to be tied to those R&D expenditures or to the products in respect of which those expenditures were made. In particular, the Panel observed that, since the subsidy under Article 10(1)(3) of the RSTA "is only provided at the time that the tax credit is provided", that subsidy cannot retroactively "spur" any product-specific "investment that results in the earning of the [tax] credit".⁵⁷³ Moreover, according to the Panel, Samsung's discretion to spend the proceeds of the tax credits on products other than those for which it received such tax credits – or on no products at all – "justifies the USDOC's treatment of that subsidy as untied, and therefore the allocation of that subsidy across the sales value of all products".⁵⁷⁴

5.263. In Korea's view, by focusing on the recipient's intended use of the proceeds of a subsidy, the Panel articulated an erroneous standard, as neither Article 19.4 of the SCM Agreement nor Article VI:3 of the GATT 1994 requires the "tracing back" of the proceeds of a tax credit to the eligible expenditures.⁵⁷⁵ Korea contends that, since money is fungible, the proceeds of every subsidy can be used in any way that the recipient sees fit, because it has the ability to use other funds to carry out the eligible activities.⁵⁷⁶ Korea stresses that the Panel's approach would create an irrebuttable presumption that a tax credit that is bestowed after the eligible activity has occurred could never be tied to a particular product.⁵⁷⁷ Korea also asserts that the Panel's reasoning runs counter to normal commercial behaviour, as any rational business entity would necessarily take into account the availability of tax credits in deciding whether and to what extent to undertake qualifying expenditures.⁵⁷⁸ In this respect, Korea posits that there is no practical difference between tying a tax credit and tying a grant to a particular product: in both cases, the proceeds of the subsidy are known to be available for use to conduct the eligible activities.⁵⁷⁹ Finally, for Korea, the Panel unduly disregarded the fact that, according to the USDOC's own regulations, the investigating authority may "attribute subsidies to particular portions of a firm's activities" even if a recipient may use the proceeds of those subsidies as it sees fit.⁵⁸⁰ By doing so, Korea argues, the Panel impermissibly "substituted its own rationale as its legal basis for finding that tying had not been shown".⁵⁸¹

5.264. The United States, for its part, stresses that the circumstances relating to the "bestowal of the subsidy" are a "key consideration" in the context of a tying inquiry under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994.⁵⁸² In the United States' view, the Panel appropriately found that the tax credits received under Article 10(1)(3) of the RSTA were not tied to Samsung's prior R&D expenditures⁵⁸³, for no subsidy had yet been "provided" or "bestowed" when such expenditures were made.⁵⁸⁴ The United States also disagrees with Korea that the RSTA Article 10(1)(3) tax credit programme operates to "spur" R&D investments in certain products.⁵⁸⁵ For the United States, the calculation of a subsidy ratio based on "speculation regarding whether the *possibility* of eventually receiving a subsidy had an effect *ex ante*" would be excessively onerous on investigating authorities and "fraught with uncertainty".⁵⁸⁶ Indeed, according to the United States, the prospect of receiving a tax credit under Article 10(1)(3) of the RSTA may or may not affect a company's decision to make certain expenditures.⁵⁸⁷ Finally, the United States contends that the Panel did not declare an all-purpose rule that a subsidy "can never be tied ... merely because the cash proceeds of the subsidy may be used in any way that the recipient sees fit."⁵⁸⁸ Nor did the Panel base that statement on a "pure fungibility theory", for under such a

⁵⁷³ Panel Report, para. 7.304. (fn omitted)

⁵⁷⁴ Panel Report, para. 7.303.

⁵⁷⁵ Korea's other appellant's submission, para. 322.

⁵⁷⁶ Korea's other appellant's submission, para. 322.

⁵⁷⁷ Korea's other appellant's submission, paras. 318, 345, and 351.

⁵⁷⁸ Korea's other appellant's submission, para. 334.

⁵⁷⁹ Korea's other appellant's submission, para. 340.

⁵⁸⁰ Korea's other appellant's submission, para. 325 (quoting CVD preamble regulations (Panel Exhibit USA-25), p. 65403).

⁵⁸¹ Korea's other appellant's submission, para. 327. See also para. 344.

⁵⁸² United States' appellee's submission, para. 322.

⁵⁸³ United States' appellee's submission, para. 346.

⁵⁸⁴ United States' appellee's submission, paras. 347-348. See also para. 370.

⁵⁸⁵ United States' appellee's submission, para. 372.

⁵⁸⁶ United States' appellee's submission, para. 373. (emphasis original)

⁵⁸⁷ United States' appellee's submission, paras. 373-374.

⁵⁸⁸ United States' appellee's submission, para. 391 (quoting Korea's other appellant's submission, para. 321).

theory a recipient's discretion to use a subsidy would make all subsidies untied.⁵⁸⁹ Rather, in the United States' view, the Panel grounded its conclusions on the "nature of the subsidies" at issue.⁵⁹⁰

5.265. We begin our assessment by examining the requirements of the provisions invoked by Korea, namely, Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994. Article 19.4 and footnote 51 of the SCM Agreement read:

No countervailing duty shall be levied[*] on any imported product in excess of the amount of the subsidy found to exist, calculated in terms of subsidization per unit of the subsidized and exported product.

[*fn original]⁵¹ As used in this Agreement "levy" shall mean the definitive or final legal assessment or collection of a duty or tax.

5.266. Article VI:3 of the GATT 1994 reads:

No countervailing duty shall be levied on any product of the territory of any Member imported into the territory of another Member in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The term "countervailing duty" shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly, or indirectly, upon the manufacture, production or export of any merchandise.

5.267. Under both provisions, Members must not levy countervailing duties in an amount greater than the amount of the subsidy found to exist.⁵⁹¹ Thus, in order to determine the proper amount of a countervailing duty, an investigating authority must first "ascertain the precise amount of [the] subsidy" to be offset.⁵⁹² Article 19.4 further requires that the amount of the subsidy be calculated "in terms of subsidization per unit of the subsidized and exported product". The term "per unit" indicates that an investigating authority is permitted to calculate the rate of subsidization "on an aggregate basis"⁵⁹³, i.e. by dividing the total amount of the subsidy by the total sales value of the product to which the subsidy is attributable. The Appellate Body, however, has cautioned that, in an aggregate investigation, the correct calculation of a countervailing duty rate requires "*matching* the elements taken into account in the numerator with the elements taken into account in the denominator".⁵⁹⁴ In turn, the product to which the subsidy is attributable for purposes of calculating per unit subsidization is defined in Article VI:3 as the product for whose "manufacture, production or export" a subsidy has been "granted, directly or indirectly" in "the country of origin or exportation".

5.268. The per unit subsidization rate of the subsidized product constitutes the benchmark against which to establish the proper amount of the related countervailing duty. As the Appellate Body has noted, the subsidies that justify the imposition of a countervailing duty are those pertaining to "the imported products *under investigation*".⁵⁹⁵ Thus, Article 19.4 and Article VI:3 establish the rule that investigating authorities must, in principle, ascertain as accurately as possible the amount of

⁵⁸⁹ United States' appellee's submission, paras. 386 and 393.

⁵⁹⁰ United States' appellee's submission, para. 391.

⁵⁹¹ Appellate Body Reports, *US – Anti-Dumping and Countervailing Duties (China)*, para. 554; *US – Upland Cotton*, para. 464.

⁵⁹² Appellate Body Report, *US – Countervailing Measures on Certain EC Products*, para. 139. See also Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 601.

⁵⁹³ Appellate Body Report, *US – Softwood Lumber IV*, para. 153.

⁵⁹⁴ Appellate Body Report, *US – Softwood Lumber IV*, fn 196 to para. 164. (emphasis original) Thus, for instance, the panel in *China – Broiler Products* faulted the Chinese investigating authority for failing to match the numerator and the denominator. The authority had taken into account data pertaining to products falling outside the scope of the investigation in its allocation of the subsidy, but then divided this result by the sales volume of investigated products only. (See Panel Report, *China – Broiler Products*, paras. 7.255-7.266)

⁵⁹⁵ Appellate Body Report, *US – Countervailing Measures on Certain EC Products*, para. 139. (emphasis added) See also Appellate Body Report, *US – Anti-Dumping and Countervailing Duties (China)*, para. 601; and Panel Report, *US – Lead and Bismuth II*, para. 6.57.

subsidization bestowed on the investigated products.⁵⁹⁶ It is only with respect to those products that a countervailing duty may be imposed, and only within the limits of the amount of subsidization that those products received. This rule finds further support in Article 10 of the SCM Agreement, according to which "Members shall take all necessary steps to ensure that the imposition of a countervailing duty" on any imported product "is in accordance with the provisions of Article VI of [the] GATT 1994 and the terms of [the SCM] Agreement". The wording of Article 10 – and especially the phrase "take all necessary steps to ensure" – indicates that the obligation to establish precisely the amount of subsidization requires a proactive attitude on the part of the investigating authority. Indeed, the Appellate Body has held that authorities charged with conducting an investigation "must actively seek out pertinent information"⁵⁹⁷, and may not remain "passive in the face of possible shortcomings in the evidence submitted".⁵⁹⁸

5.269. Within these confines, the SCM Agreement does not dictate any particular methodology for calculating subsidy ratios, and does not specify explicitly which elements should be taken into account in the numerator and the denominator. Thus, an investigating authority has the discretion to choose the most appropriate methodology for carrying out its calculations, provided that such methodology allows for a sufficiently precise determination of the amount of subsidization bestowed on the investigated products, as required under Article 19.4 and Article VI:3. In particular, no provision in the SCM Agreement expressly sets forth a specific method for assessing whether a given subsidy is, or is not, tied to a specific product.

5.270. The relevant definitions of the verb "tie" include: "join closely or firmly; to connect, attach, unite"⁵⁹⁹; "limit or restrict as to ... conditions".⁶⁰⁰ Further, paragraph 3 of Annex IV to the SCM Agreement – now lapsed⁶⁰¹ – provided that, "[w]here the subsidy is tied to the production or sale of a given product", the value of the product shall be calculated as the total value of the recipient firm's sales of that product.⁶⁰² In light of the above, we consider that a subsidy is "tied" to a particular product if the bestowal of that subsidy is connected to, or conditioned upon, the

⁵⁹⁶ We note that, pursuant to Article VI:3, a subsidy may be granted "indirectly" to the product under investigation. Based on this term, the Appellate Body has held, for instance, that subsidies for the production of *inputs* used in manufacturing products subject to an investigation are not, in principle, excluded from the amount of subsidies that may be offset through the imposition of countervailing duties on the *processed product*, provided that the benefit flowing from the input subsidy is passed through, at least in part, to the processed product. (Appellate Body Report, *US – Softwood Lumber IV*, paras. 140-143)

⁵⁹⁷ Appellate Body Report, *US – Wheat Gluten*, para. 53. See also Appellate Body Reports, *US – Corrosion-Resistant Steel Sunset Review*, para. 199; and *US – Anti-Dumping and Countervailing Duties (China)*, para. 344; and Panel Report, *China – Broiler Products*, para. 7.261.

⁵⁹⁸ Appellate Body Report, *US – Wheat Gluten*, para. 55. See also Panel Report, *China – Broiler Products*, para. 7.261.

⁵⁹⁹ Oxford English Dictionary online, definition of the verb "tie"
<<http://www.oed.com/view/Entry/201844#eid18396565>>, accessed 22 May 2016.

⁶⁰⁰ Appellate Body Report, *Canada – Aircraft*, para. 171 (quoting *The New Shorter Oxford English Dictionary*, (Clarendon Press, 1993), Vol. II, p. 3307; and referring to *The Concise Oxford English Dictionary*, (Clarendon Press, 1995), p. 1457).

⁶⁰¹ Annex IV sets forth disciplines for calculating the total *ad valorem* subsidization pursuant to Article 6.1(a) of the SCM Agreement. Article 31 of the SCM Agreement provided that Article 6.1 would apply for a period of five years from the date of entry into force of the Marrakesh Agreement Establishing the World Trade Organization, after which the Committee on Subsidies and Countervailing Measures (SCM Committee) would determine whether to extend its application. The SCM Committee held a special meeting to this effect on 20 December 1999. At that meeting, no consensus was reached to extend Article 6.1 either as drafted or in modified form. (See SCM Committee, Minutes of the Special Meeting held on 20 December 1999, G/SCM/M/22. See also Panel Report, *US – Upland Cotton*, para. 7.1187)

⁶⁰² That being said, Annex IV offers no other indications on the nature of the tie. Indeed, the Informal Group of Experts (IGE), established by the SCM Committee to develop recommendations on how to calculate *ad valorem* subsidization under Annex IV to the SCM Agreement (Decision of the Committee, G/SCM/5, 22 June 1995), observed that paragraph 3 left open the question of "how closely related to a product a subsidy must be to be 'tied' to that product". (Report by the Informal Group of Experts to the Committee on Subsidies and Countervailing Measures, Note from the Informal Group of Experts (revision), G/SCM/W/415/Rev.2, 15 May 1998 (IGE Report) (Panel Exhibit USA-29), para. 62) The IGE further noted that R&D activities are future-oriented and, therefore, "it might be difficult to allocate the related subsidies to products not yet in production". (Ibid., para. 118) However, the IGE also acknowledged that, in certain circumstances, it might be appropriate to tie R&D subsidies to a product. (Ibid., Recommendation 20.2).

production or sale of the product concerned.⁶⁰³ An assessment of whether this connection or conditional relationship exists will inevitably depend on the specific circumstances of each case.⁶⁰⁴ In conducting such an assessment, an investigating authority must examine the design, structure, and operation of the measure granting the subsidy at issue and take into account all the relevant facts surrounding the granting of that subsidy. In certain cases, an assessment of such factors may reveal that a subsidy is indeed connected to, or conditioned upon, the production or sale of a specific product. A proper assessment of the existence of a product-specific tie is not necessarily based on whether the subsidy *actually* results in increased production or sale of the product in question, but rather on whether the subsidy operates in a manner that can be *expected* to foster or incentivize the production or sale of the product concerned.⁶⁰⁵

5.271. Applying these considerations to the Panel's review of the USDOC's determination, we note that the Panel briefly referred to certain features of Article 10(1)(3) of the RSTA. The Panel observed, for instance, that tax credits under the RSTA Article 10(1)(3) tax credit programme "are provided after the underlying R&D activities have been undertaken, in an amount determined by reference to total R&D activities."⁶⁰⁶ It also noted that Samsung's tax return "did not specify the merchandise for which [the tax credits were] to be provided".⁶⁰⁷ However, despite those references, the Panel ultimately grounded its affirmation of the USDOC's test on the fact that, under Article 10(1)(3) of the RSTA, Samsung: (i) was able to claim the tax credits only after it had undertaken the eligible activities; and (ii) was not required to spend the proceeds of those tax credits on the same type of activities as those that had given rise to eligibility for the subsidy. Based on this understanding, the Panel did not find it necessary to engage in *any* analysis of the RSTA Article 26 tax credit programme, for it considered that the same understanding applied "*mutatis mutandis*" to that programme as well.⁶⁰⁸ In light of the above, we consider that the Panel's analysis falls short of a proper examination of the design, structure, and operation of the RSTA Article 10(1)(3) and Article 26 tax credit programmes, as well as all other relevant facts surrounding the bestowal of tax credits under those programmes. Instead of conducting such an examination, the Panel relied on a proposition that a subsidy cannot be tied to a product if: (i) the financial contribution is conferred on the recipient after the eligible activities have occurred; and (ii) the recipient is not required to spend the proceeds of the subsidy on the same type of activities that gave rise to eligibility. This closely mirrors the USDOC's finding that the Government of Korea

⁶⁰³ This reading is informed by the broader context found in the Appellate Body's jurisprudence concerning Article 3.1(a) of the SCM Agreement. Article 3.1(a) prohibits "subsidies contingent, in law or in fact ... upon export performance". Footnote 4 to Article 3.1(a), in turn, specifies that a subsidy is *de facto* contingent on export performance when the granting of that subsidy, "without having been made legally contingent upon export performance, is in fact *tied to* actual or anticipated exportation or export earnings". (emphasis added) The Appellate Body has noted that the term "tied to" in footnote 4 points to "a relationship of conditionality or dependence". (Appellate Body Report, *Canada – Aircraft*, para. 171; see also Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1037) In light of this definition, the Appellate Body has held, for instance, that a subsidy is "tied" to anticipated exportation within the meaning of footnote 4 "if it is geared to induce the promotion of future export performance by the recipient". (Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1056)

⁶⁰⁴ Indeed, the Appellate Body has emphasized the case-specific nature of similar inquiries in the context of other SCM provisions. For instance, it has held that ascertaining whether a subsidy is *de facto* "tied" to anticipated exportation within the meaning of footnote 4 to Article 3.1(a) of the SCM Agreement requires "an examination of the measure granting the subsidy and the facts surrounding the granting of the subsidy, including the design, structure, and modalities of operation of the measure". (Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 1056)

⁶⁰⁵ In this respect, the IGE relied on the GATT panel report in *US – Lead and Bismuth I* to recommend that a subsidy be deemed to be tied "if its intended use was known to the giver of the subsidy, and so acknowledged, prior to or concurrent with the subsidy's bestowal". (IGE Report (Panel Exhibit USA-29), para. 63 and Recommendation 6.F.10) The IGE recognized, however, that other possible approaches may be appropriate depending on the circumstances of a particular case. (Ibid., para. 63 and Recommendation 6.F.11) We note that the GATT panel report in *US – Lead and Bismuth I* was not adopted, and that the panel's articulation of the standard referred to by the IGE merely recited the United States' regulations and practice. (GATT Panel Report, *US – Lead and Bismuth I* (unadopted), fn 137 to para. 415) Moreover, the panel found that the fact that certain subsidies, initially bestowed on an industrial group as a whole, subsequently passed through to a specific business unit of that industrial group was, at the least, "relevant" to an assessment of whether those subsidies were tied to the products manufactured by that business unit. (Ibid., para. 425)

⁶⁰⁶ Panel Report, para. 7.303.

⁶⁰⁷ Panel Report, para. 7.303 (referring to *Washers* CVD questionnaire response, exhibits 24 and 22 (Panel Exhibit KOR-72 (BCI), at pp. 45 and 38, respectively)).

⁶⁰⁸ Panel Report, para. 7.306.

"had no way to know the intended use at the time [Samsung] was authorized to claim the tax credits".⁶⁰⁹

5.272. The fact that the recipient obtains the proceeds of a subsidy before, at the same time as, or after conducting the eligible activities is not, in and of itself, dispositive of whether that subsidy is tied to a particular product. The proceeds deriving from certain types of financial contribution, such as grants or loans, are usually paid before the recipient undertakes a certain activity. By contrast, the proceeds of other types of financial contribution, such as the cash that the recipient may keep in its accounts as a result of tax credits and other forms of revenue forgone, are normally obtained after the recipient has become entitled to receive them or has carried out the eligible activity. However, in both cases, the bestowal of a subsidy may be connected to, or conditioned on, the production or sale of a particular product. Indeed, even when that subsidy operates in a manner whereby the recipient will obtain the proceeds after the eligible activity has occurred, the expectation to obtain those proceeds may induce the recipient to engage in the production or sale of the product giving rise to eligibility.⁶¹⁰ In this respect, the Appellate Body has observed that the inclusion of "foregone or not collected" government revenue among the types of financial contribution under Article 1.1(a)(1) of the SCM Agreement "recognizes that tax regimes may be used to achieve outcomes *equivalent* to the results that are achieved where a government provides a direct payment".⁶¹¹ Excluding the existence of a product-specific tie whenever the recipient obtains the proceeds of a subsidy after it has carried out the eligible activities could result in an unwarranted distinction between different types of financial contribution. Indeed, this would enable Members to choose between different types of financial contribution with a view to creating or avoiding such a product-specific tie. In sum, we consider that a subsidy may be tied to the production or sale of a given product even if the recipient obtains the proceeds of that subsidy after the eligible activity has taken place.⁶¹²

5.273. For similar reasons, we find the Panel's affirmation of the USDOC's reliance on the recipient's "intended use" of the proceeds of a subsidy to be misplaced. The fact that a financial contribution, once collected by the recipient, may be spent on activities different from those for which it was bestowed is not, in and of itself, sufficient to exclude the existence of a product-specific tie. As Korea points out, money is fungible.⁶¹³ Hence, unless a subsidy programme expressly determines the way in which the recipient has to spend the proceeds of the subsidy, the recipient will always be free, in principle, to finance product-specific activities with resources other than those provided by the granting authority. Indeed, if the recipient's use of the proceeds of a subsidy for the same kind of activity that gave rise to eligibility were a condition for finding the existence of a product-specific tie, then hardly any subsidy would ever be considered tied to a particular product, for the recipient would be able to escape such tie by spending the proceeds on different activities.⁶¹⁴ Rather than focusing on the recipient's use of the proceeds of a subsidy, the appropriate inquiry into the existence of a product-specific tie requires a scrutiny of the design, structure, and operation of the subsidy at issue, aimed at ascertaining whether the bestowal of that subsidy is connected to, or conditioned on, the production or sale of a specific product. Based on this assessment, a subsidy that does not restrict the recipient's use of the proceeds of the financial contribution may, nonetheless, be found to be tied to a particular product if it induces the recipient to engage in activities connected to that product.

⁶⁰⁹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 41-42.

⁶¹⁰ In this sense, we are not persuaded by the United States' contention that, at the time the recipient conducts eligible activities with a view to obtaining a tax credit, no subsidy has yet been "bestowed". (United States' appellee's submission, paras. 347-348. See also para. 370) Indeed, depending on the specifics of the measure at issue, it may be the case that the subsidy is "bestowed" at the time the recipient becomes entitled to, or conducts the activity giving rise to eligibility for that subsidy.

⁶¹¹ Appellate Body Report, *US – Large Civil Aircraft (2nd complaint)*, para. 811. (emphasis added)

⁶¹² This is further confirmed by paragraph 3 of Annex IV to the SCM Agreement, which provides that, if a subsidy is tied to a given product, the value of the product shall be calculated as the total value of the recipient firm's sales of that product "in the most recent 12-month period, for which sales data is available, preceding the period in which the subsidy is granted". (emphasis added)

⁶¹³ Korea's other appellant's submission, paras. 322 and 342.

⁶¹⁴ We note, in this respect, that the panel in *EC and certain member States – Large Civil Aircraft* found that certain subsidies were "tied to ... anticipated exportation" within the meaning of footnote 4 to Article 3.1 of the SCM Agreement regardless of – and without inquiring into – the activities for which the proceeds of those subsidies were used. (See Panel Report, *EC and certain member States – Large Civil Aircraft*, paras. 7.689-7.690)

5.274. In sum, based on the foregoing, the Panel applied a flawed test in reviewing the USDOC's determination and, in particular, in evaluating whether a portion of the tax credits that Samsung received under Articles 10(1)(3) and 26 of the RSTA was tied to the products manufactured by its digital appliance business unit. Instead of reviewing the design, structure, and operation of the two tax credit programmes at issue, as well as other relevant facts surrounding the granting of those tax credits, the Panel unduly relied on the fact that the tax credits were conferred after Samsung conducted the eligible activities, and that Samsung was not required to spend the proceeds of those tax credits on the same type of activities. We understand that, by so doing, the Panel affirmed the standard applied by the USDOC in the *Washers* countervailing duty investigation, whereby a subsidy is tied to a specific product "only when the intended use is known to the subsidy giver ... and so acknowledged prior to or concurrent with the bestowal of the subsidy".⁶¹⁵ Thus, we believe that the Panel erred in concluding that these explanations in the USDOC's determination concerning the calculation of the *ad valorem* subsidization rate for Samsung were "reasoned and adequate" in light of the evidence on the investigation record.⁶¹⁶

5.2.4.2 The Panel's affirmation of the USDOC's dismissal of certain evidence submitted by Samsung

5.275. In the latter portion of its determination, the USDOC stated that there was no evidence in Samsung's tax return to the National Tax Service showing that the tax credits it received under Articles 10(1)(3) and 26 of the RSTA were being claimed in connection with any particular products.⁶¹⁷ The USDOC observed that Samsung had submitted a document allegedly showing the amount of the eligible expenditures and the related tax credits pertaining to each of its business units, including the digital appliance business unit. However, the USDOC dismissed the relevance of that document on the ground that Samsung's tax return did not evince that the tax credits provided under the RSTA were tied to any specific product or facility.⁶¹⁸ Further, the USDOC noted that Samsung had submitted some excerpts from its books and records, which purportedly proved the accuracy of Samsung's unit-specific breakdown of eligible expenditures and the related tax credits.⁶¹⁹ Nevertheless, the USDOC declined to "examine or discuss"⁶²⁰ those books and records because they did not "form the basis for bestowal and [were] not included in the annual tax returns that the company file[d] with the Korean tax authority".⁶²¹

5.276. According to the Panel, since there was "no necessary correlation" between Samsung's R&D expenditures in digital appliance products and the amount of tax credit cash used by Samsung for future manufacturing of such products, it was "irrelevant" that Samsung might have been able to identify the R&D expenditures made by each of its business units.⁶²² In other words, based on the test examined in section 5.2.3.1 above, the Panel affirmed the USDOC's view that the evidence submitted by Samsung was not relevant to the calculation of the amount of tax credits that were tied to the products manufactured by Samsung's digital appliance business unit.

5.277. On appeal, Korea submits that the documents submitted by Samsung to the USDOC showed a tie between a portion of the tax credits received under Articles 10(1)(3) and 26 of the RSTA and the products manufactured by Samsung's digital appliance business unit.⁶²³ Indeed, according to Korea, those documents showed an exact correlation between the eligible expenditures made by the digital appliance business unit and the tax credits that accrued to Samsung pursuant to those expenditures, such that the USDOC's calculation would have been "easy to perform".⁶²⁴ Korea further highlights that, while the relevant excerpts from Samsung's books and records needed not be filed with the Korean tax authorities together with Samsung's tax return for 2010, they were nonetheless available for inspection at all times.⁶²⁵ For Korea, the USDOC's refusal to consider the above-mentioned documents was inconsistent with the fact that, in determining normal value in the *Washers* anti-dumping investigation, the USDOC did tie the

⁶¹⁵ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 41. (fn omitted)

⁶¹⁶ See Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁶¹⁷ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁶¹⁸ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁶¹⁹ *Washers* CVD Samsung questionnaire verification memorandum (Panel Exhibit KOR-79 (BCI)), p. 16.

⁶²⁰ *Washers* CVD Samsung questionnaire verification memorandum (Panel Exhibit KOR-79 (BCI)), p. 16.

⁶²¹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 42.

⁶²² Panel Report, para. 7.304.

⁶²³ Korea's other appellant's submission, para. 319.

⁶²⁴ Korea's other appellant's submission, para. 351.

⁶²⁵ Korea's other appellant's submission, paras. 306 and 319.

R&D expenditures of Samsung's digital appliance business unit to the products manufactured by that unit.⁶²⁶

5.278. The United States contends that Articles 10(1)(3) and 26 of the RSTA set forth "undifferentiated, broadly applicable" tax credit programmes, which do not require recipients to specify the products in respect of which the eligible expenditures were made in their tax returns.⁶²⁷ For the United States, the fact that Samsung was subject to "record-keeping requirements" under Korean law is not sufficient to establish a product-specific tie, because those requirements are "not a part of the RSTA legislation".⁶²⁸ Thus, the United States contends that the USDOC was not required to look at Samsung's documents referred to by Korea⁶²⁹ – documents that the Korean authorities themselves "never saw".⁶³⁰ In any event, according to the United States, the features of Korea's tax credit programmes do not establish an exact correlation between the amount of eligible expenditures made by each business unit and the amount of tax credits generated by those expenditures.⁶³¹ The United States also considers it irrelevant that the USDOC reviewed certain R&D expenditures incurred by Samsung's digital appliance business unit in the *Washers* anti-dumping investigation.⁶³² The United States agrees with the Panel that inquiring into certain costs "associated with" a product for purposes of constructing normal value is qualitatively different from assessing whether and how a Member has bestowed a subsidy on that product.⁶³³ Moreover, in the United States' view, considering documents pertaining to an anti-dumping investigation in a countervailing duty investigation would have blurred the evidentiary barriers between the two records.⁶³⁴

5.279. We recall that, pursuant to Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994, the USDOC was required to ascertain the "precise amount of [the] subsidy"⁶³⁵ bestowed on the LRWs manufactured by Samsung. In conducting such an assessment, the USDOC had to take into account the design, structure, and operation of Korea's subsidy programmes, as well as any other relevant facts surrounding the granting of those subsidies.⁶³⁶ Which facts were relevant for the purposes of the USDOC's calculation depended, necessarily, on the specific circumstances of the investigation. In reviewing the USDOC's calculation, the Panel was tasked with assessing whether, having "evaluated all of the relevant evidence"⁶³⁷, the USDOC had provided "reasoned and adequate"⁶³⁸ explanations for its determination.⁶³⁹

⁶²⁶ Korea's other appellant's submission, paras. 310 and 319 (referring to USDOC [A-580-865] Issues and Decision Memorandum for the Antidumping Duty Investigation of Bottom Mount Refrigerator-Freezers from the Republic of Korea (16 March 2012) (excerpts) (*Refrigerators* AD I&D memorandum) / USDOC [A-580-865] Memorandum to File regarding Verification of the Cost Response of Samsung Electronics Co., Ltd and Samsung Gwangju Electronics Co., Ltd in the Antidumping Duty Investigation of Bottom Mount Combination Refrigerator-Freezers from the Republic of Korea (21 December 2011) (excerpts) (*Refrigerators* AD Samsung cost verification memorandum) (Panel Exhibit KOR-98 (BCI)); and USDOC [A-580-868] Memorandum to File regarding Verification of the Cost Response of Samsung Electronics Co., Ltd in the Less-Than-Fair-Value Investigation of Large Residential Washers from the Republic of Korea (17 October 2012) (*Washers* AD Samsung cost verification memorandum) (Panel Exhibit KOR-99 (BCI))).

⁶²⁷ United States' appellee's submission, para. 350. See also paras. 308, 355, 365, 375, and 388.

⁶²⁸ United States' appellee's submission, para. 354.

⁶²⁹ United States' appellee's submission, paras. 357-358 (referring to Korea's other appellant's submission, para. 304, in turn referring to Samsung *Washers* CVD questionnaire response, exhibit 25 (Panel Exhibit KOR-72 (BCI), at pp. 50-51); and Korea's other appellant's submission, in turn referring to *Washers* CVD GOK questionnaire verification exhibit 10 (Panel Exhibit KOR-115 (BCI)); and *Washers* CVD GOK questionnaire verification exhibit 12 (Panel Exhibit KOR-126 (BCI))).

⁶³⁰ United States' appellee's submission, para. 359. (fn omitted)

⁶³¹ United States' appellee's submission, para. 353. For instance, the United States observes that, in its tax return for 2010, Samsung carried forward credits that it had earned during the 2009 tax year (which, in turn, might have included deferrals from previous years), while deferring until the 2011 tax year a substantial amount of the credits that it earned during the 2010 tax year. (Ibid.)

⁶³² United States' appellee's submission, paras. 351-352 (referring to Panel Report, para. 7.304); para. 394 (referring to Panel Report, para. 7.305); and paras. 395-409.

⁶³³ United States' appellee's submission, para. 399.

⁶³⁴ United States' appellee's submission, paras. 400-401 (referring to Panel Report, *Japan – DRAMS (Korea)*, para. 7.152).

⁶³⁵ Appellate Body Report, *US – Countervailing Measures on Certain EC Products*, para. 139.

⁶³⁶ See para. 5.270 of this Report.

⁶³⁷ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁶³⁸ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁶³⁹ See para. 5.258 of this Report.

5.280. Applying this standard to the Panel's review of the USDOC's determination, we observe that the USDOC did examine certain relevant features of the RSTA Article 10(1)(3) and Article 26 tax credit programmes. In particular, the USDOC noted that neither programme expressly conditions access to the tax credit on product-specific activities. Article 10(1)(3) of the RSTA conditions the bestowal of tax credits upon a showing that the applicant company has undertaken R&D and HRD expenditures during the course of the relevant tax year⁶⁴⁰, without specifying any product in connection to which those expenditures are to be made. Likewise, Article 26 of the RSTA bestowed tax credits on certain qualifying investments made outside the Seoul overcrowding area, without linking those investments to any particular products. Further, it is uncontested that, in order to claim tax credits under either programme, applicant companies only need to provide the Korean tax authorities with an aggregate calculation of the qualifying expenditures they have incurred, without being required to break down those expenses by product, production line, or facility.⁶⁴¹

5.281. However, based on those features of the tax credit programmes at issue, the USDOC appears to have disregarded other pieces of evidence on the investigation record submitted by Samsung, namely: (i) the one-page, unit-specific breakdown of eligible expenditures and related tax credits⁶⁴²; and (ii) the excerpts from Samsung's books and records purportedly proving the accuracy of that unit-specific breakdown.⁶⁴³ During the course of the investigation, Samsung emphasized that the documents in question were key to the USDOC's ability to tie a portion of the tax credits received under Articles 10(1)(3) and 26 of the RSTA to the products manufactured by the digital appliance business unit (including LRWs).⁶⁴⁴ Hence, we are of the view that, in order to "evaluate[] all of the relevant evidence in an objective and unbiased manner"⁶⁴⁵, the USDOC was required to examine the content of those documents, so as to weigh their probative value for its calculation of Samsung's *ad valorem* subsidization rate. The fact that the evidence submitted by Samsung was created *ad hoc* for the purposes of the *Washers* countervailing duty investigation, and was not expressly required under Articles 10(1)(3) and 26 of the RSTA does not suffice to relieve the USDOC of its duty to review it. Indeed, while that evidence did not form part of the design, structure, and operation of Korea's subsidy programmes, it could nonetheless constitute relevant evidence surrounding the bestowal of those subsidies in light of the particular circumstances of the investigation.

5.282. We note the United States' argument that, even assuming that the USDOC was required to take into account the documents submitted by Samsung, those documents would not have allowed a precise determination of the amount of subsidy attributable to the products manufactured by the digital appliance business unit. Given the limits of our standard of review, we do not take a view as to whether, based on the documents in question, the USDOC should, in fact, have *concluded* that a portion of the tax credits Samsung received under Articles 10(1)(3) and 26 of the RSTA was tied to the products manufactured by its digital appliance business unit. However, it was the USDOC's responsibility to review all the evidence available, as appropriate, with a view to ascertaining the amount of subsidies bestowed on the investigated products and to probe the existence of a product-specific tie.

5.283. In sum, by too readily dismissing the relevance of the documents submitted by Samsung, the USDOC failed to "evaluate[] all of the relevant evidence in an objective and unbiased manner".⁶⁴⁶ Thus, by upholding the USDOC's finding that those documents were "irrelevant" to the calculation of Samsung's *ad valorem* subsidization rate⁶⁴⁷, the Panel erroneously concluded that

⁶⁴⁰ See Korea's first written submission to the Panel, para. 245; Korea's other appellant's submission, para. 331; and GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-75 (BCI), at pp. 37 and 47). These formulae are further detailed in Articles 9(3)-9(5) of the RSTA Enforcement Decree in GOK *Washers* CVD questionnaire response (Panel Exhibit KOR-76).

⁶⁴¹ Korea's other appellant's submission, paras. 306 and 319; United States' appellee's submission, para. 355.

⁶⁴² Samsung *Washers* CVD questionnaire response, exhibit 25 (Panel Exhibit KOR-72 (BCI), at pp. 50-51).

⁶⁴³ *Washers* CVD GOK questionnaire verification exhibit 10 (Panel Exhibit KOR-115 (BCI)); *Washers* CVD GOK questionnaire verification exhibit 12 (Panel Exhibit KOR-126 (BCI)).

⁶⁴⁴ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 38-39.

⁶⁴⁵ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁶⁴⁶ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁶⁴⁷ Panel Report, para. 7.304.

the explanations provided by the USDOC were "reasoned and adequate"⁶⁴⁸ in light of the evidence placed on the investigation record.

5.2.4.3 Conclusions

5.284. In light of the above, we conclude that the Panel: (i) improperly endorsed a flawed test applied by the USDOC in the *Washers* countervailing duty investigation for ascertaining whether the tax credits bestowed under Articles 10(1)(3) and 26 of the RSTA were tied to particular products; and (ii) improperly upheld the USDOC's dismissal of certain evidence submitted by Samsung that was potentially relevant to the assessment of whether a portion of the tax credits Samsung claimed under such provisions was tied to the products manufactured by its digital appliance business unit.

5.285. Therefore, we reverse the Panel's finding, in paragraph 8.1.b.iv of its Report⁶⁴⁹, that "the USDOC's failure to tie the RSTA Article[s] 10(1)(3) and 26 tax credit subsidies to [d]igital [a]pppliance products is [not] inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994"; and find, instead, that the USDOC acted inconsistently with the United States' obligations under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by applying a flawed test for ascertaining whether the tax credits bestowed under Articles 10(1)(3) and 26 of the RSTA were tied to particular products, and by dismissing certain evidence submitted by Samsung that was potentially relevant to the assessment of whether a portion of the tax credits Samsung claimed under such provisions was tied to the products manufactured by its digital appliance business unit.

5.286. Korea claims that, in articulating its analysis, the Panel also failed to comply with its duties under Article 11 of the DSU by stating that the tax credits available under the RSTA Article 10(1)(3) tax credit programme "are not R&D subsidies".⁶⁵⁰ Having reversed the Panel's finding under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994, we do not find it necessary to address Korea's claim under Article 11 of the DSU.

5.2.5 Whether the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's attribution of the tax credits received by Samsung under Article 10(1)(3) of the RSTA to Samsung's domestic production only

5.287. We now turn to the second claim raised by Korea under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 with respect to the USDOC's calculation of the *ad valorem* subsidization rate for Samsung in the *Washers* countervailing duty investigation.

5.288. During the course of the *Washers* countervailing duty investigation, the USDOC was confronted with the issue of whether it should attribute the tax credits that Samsung received under Article 10(1)(3) of the RSTA to Samsung's products manufactured worldwide or only to those manufactured in the territory of Korea.⁶⁵¹ Although Samsung produced digital appliance products (including LRWs) in Korea only, a number of Samsung's wholly owned subsidiaries produced digital appliance products (including LRWs) in the jurisdictions of other Members.⁶⁵² Thus, Samsung argued that the denominator of its per unit subsidization rate should encompass its worldwide production, including the production of its overseas subsidiaries. In support of this argument, Samsung highlighted that subsidies such as R&D tax credits are, by nature, tied to an activity that benefits a company's domestic and overseas production alike.⁶⁵³ It also stressed that,

⁶⁴⁸ See Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁶⁴⁹ See also Panel Report, para. 7.307.

⁶⁵⁰ Korea's other appellant's submission, para. 331 (quoting Panel Report, para. 7.303).

⁶⁵¹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 50.

⁶⁵² For instance, Samsung's Mexican affiliate, Samsung Electronics Mexico S.A. de C.V., produced LRWs in Mexico. Samsung Electronics America, Inc. sold those LRWs in the United States during the period of investigation. (See Response dated 10 April 2012 of Samsung Electronics Co., Ltd to the USDOC's questionnaire of 15 February 2012 in the *Washers* CVD investigation [C-580-869] (excerpts) (BCI-redacted version) (Panel Exhibit USA-100, at p. 3))

⁶⁵³ Case Brief of Samsung Electronics Co., Ltd, Large Residential Washers from the Republic of Korea [C-580-869] (2 November 2012) (excerpt) (Samsung *Washers* CVD case brief) (Panel Exhibit KOR-90, at pp. 4-5); Korea's other appellant's submission, para. 357.

in the *Washers* and *Refrigerators* anti-dumping investigations⁶⁵⁴, the USDOC determined that Samsung's R&D activities in Korea benefitted all of its digital appliance subsidiaries.⁶⁵⁵ Finally, Samsung pointed to the royalties and sales commissions paid by Samsung's overseas subsidiaries in order to compensate their parent company for its R&D activities in Korea.⁶⁵⁶

5.289. The USDOC observed that its own regulations set forth "a very high threshold" to find that subsidies provided by a government can benefit the production of merchandise produced in another country.⁶⁵⁷ Indeed, according to those regulations, the USDOC applies a "presumption that government subsidies benefit domestic production", and, therefore, normally attributes those subsidies solely to "products produced ... within the country of the government that granted the subsidy".⁶⁵⁸ In order to rebut this presumption, the USDOC explained, the subsidizing government must have "'explicitly stated that the subsidy was being provided for more than domestic production' in the application and/or approval documents".⁶⁵⁹ Such documents "must show that, at the point of bestowal, one of the express purposes of the subsidy was to provide assistance to the firm's foreign subsidiaries."⁶⁶⁰ Applying this presumption to the RSTA Article 10(1)(3) tax credit programme, the USDOC found that Samsung had not submitted any statements by the Government of Korea indicating that tax credits under that programme were meant to benefit production occurring outside of Korea. For instance, the USDOC observed that there is no indication in the statutory provisions that a company could claim a tax credit on R&D activities conducted outside of Korea, and the tax returns themselves do not evince that the design of the programme includes the subsidization of foreign production.⁶⁶¹ In light of the above, the USDOC decided not to extend the denominator of Samsung's per unit subsidization rate to Samsung's overseas production.⁶⁶²

5.290. Before the Panel, Korea claimed that the USDOC's decision resulted in the imposition of a countervailing duty in excess of the amount of the subsidy found to exist in respect of Samsung's LRWs under investigation inconsistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994. In Korea's view, the denominator calculated by the USDOC did not match the numerator, which included the total amount of tax credits received by Samsung under Article 10(1)(3) of the RSTA.⁶⁶³ Korea submitted that, since the R&D tax credits claimed by Samsung benefitted Samsung's worldwide production of digital appliances⁶⁶⁴, the denominator should have encompassed the total value of Samsung's sales of those products, regardless of where they were produced, manufactured, or sold.⁶⁶⁵ Moreover, according to Korea, the USDOC's presumption of attribution of a subsidy to domestic production only was impermissible.⁶⁶⁶

5.291. The Panel recalled that the subsidies Samsung received under Article 10(1)(3) of the RSTA are "the tax credits provided to Samsung in Korea", and that the "benefit" of those subsidies is the "tax credit cash".⁶⁶⁷ In turn, according to the Panel, this "benefit" is not "tied" to the underlying

⁶⁵⁴ USDOC [A-580-865] Antidumping Duty Investigation of Bottom Mount Combination Refrigerator-Freezers from the Republic of Korea.

⁶⁵⁵ See e.g. Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5); Korea's other appellant's submission, paras. 357-358 (referring to *Refrigerators* AD I&D memorandum and *Refrigerators* AD Samsung cost verification memorandum (Panel Exhibit KOR-98 (BCI), at p. 8 and p. 12, respectively); and *Washers* AD Samsung cost verification memorandum (Panel Exhibit KOR-99 (BCI)), p. 42).

⁶⁵⁶ Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5); Korea's other appellant's submission, para. 357.

⁶⁵⁷ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52.

⁶⁵⁸ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52 (referring to CVD preamble regulations (Panel Exhibit USA-25), p. 65403).

⁶⁵⁹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52 (quoting CVD preamble regulations (Panel Exhibit USA-25), p. 65403).

⁶⁶⁰ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52 (quoting CVD preamble regulations (Panel Exhibit USA-25), p. 65404).

⁶⁶¹ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52.

⁶⁶² Panel Report, para. 7.317; *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), pp. 52-53. The USDOC's decision was incorporated by reference in the *Washers* final CVD determination (Panel Exhibit KOR-2), p. 75976.

⁶⁶³ Korea's first written submission to the Panel, para. 307 (referring to Appellate Body Report, *US – Softwood Lumber IV*, fn 196 to para. 164).

⁶⁶⁴ Korea's first written submission to the Panel, para. 308 (referring to Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5)). See also Korea's second written submission to the Panel, para. 323.

⁶⁶⁵ Korea's first written submission to the Panel, para. 306.

⁶⁶⁶ Korea's first written submission to the Panel, paras. 310-315.

⁶⁶⁷ Panel Report, para. 7.318.

R&D activities, since Samsung is free to spend the tax credit cash as it sees fit.⁶⁶⁸ Therefore, the Panel found that, even assuming that Samsung's R&D activities in Korea may have a "positive effect" on the overseas production of digital appliances by Samsung's subsidiaries, this does not mean that the tax credits conferred in connection with those activities have to be allocated across revenue from Samsung's overseas production. Indeed, in the Panel's opinion, such "positive effect" does not constitute a "benefit" within the meaning of Article 1.1(b) of the SCM Agreement⁶⁶⁹, and there is no evidence that the benefit conferred by the tax credits claimed by Samsung "passed through" to Samsung's overseas production operations.⁶⁷⁰ The Panel further observed that the USDOC's presumption of attribution of subsidies to domestic production is rebuttable, in the sense that it allows respondents to show that a government expressly intends to subsidize overseas production. The Panel also noted that, while Samsung's subsidiaries may produce digital appliance products overseas, the parent company – i.e. the recipient of the subsidy – produces those products within Korea only. On these grounds, the Panel held that the USDOC was entitled to presume that the tax credits Samsung received under Article 10(1)(3) of the RSTA did not benefit Samsung's overseas production and that Samsung had not effectively rebutted that presumption.⁶⁷¹

5.292. Korea requests us to find that the Panel erred in its interpretation and application of Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by upholding the USDOC's attribution of the tax credits received by Samsung under Article 10(1)(3) of the RSTA to Samsung's domestic production only. Korea maintains, first, that, by grounding its reasoning on Samsung's discretion as to the use of the tax credit cash, the Panel repeated the same error it had made with respect to the "tying issue".⁶⁷² Second, Korea contends that the Panel improperly upheld the USDOC's presumption that "government subsidies benefit domestic production".⁶⁷³ For Korea, Samsung's arguments and evidence submitted during the course of the *Washers* countervailing duty investigation effectively rebutted this presumption⁶⁷⁴ and required the USDOC to allocate the tax credits Samsung received under Article 10(1)(3) of the RSTA "to the products that Samsung produced worldwide".⁶⁷⁵ Thus, Korea submits that, in calculating the *ad valorem* subsidization rate for Samsung, the USDOC should have extended the denominator to the sales value of Samsung's worldwide production.⁶⁷⁶

5.293. According to the United States, Korea's contention that subsidies may be attributed based on the indirect overseas effect of R&D activities has no grounding in the text of Article 19.4 and Article VI:3.⁶⁷⁷ In the United States' view, those provisions focus on domestic production⁶⁷⁸ without addressing "possible overseas knock-on effects" of subsidies.⁶⁷⁹ In the United States' view, such cross-border effects "may not materialize for years (if ever)"⁶⁸⁰ and, therefore, tracing such effects would be excessively onerous on investigating authorities.⁶⁸¹ The United States also stresses that Article 10(1)(3) of the RSTA limits eligibility to Korean companies and to their R&D and HRD activities in Korea⁶⁸² and maintains that the royalties paid by Samsung's overseas subsidiaries to their parent company in Korea testify to the fact that the benefit received by Samsung did not automatically "pass through" to those subsidiaries.⁶⁸³ Finally, the United States considers the USDOC's statement, in the *Washers* and *Refrigerators* anti-dumping investigations,

⁶⁶⁸ Panel Report, para. 7.318.

⁶⁶⁹ Panel Report, para. 7.318.

⁶⁷⁰ Panel Report, para. 7.319.

⁶⁷¹ Panel Report, para. 7.319.

⁶⁷² Korea's other appellant's submission, para. 360 (referring to Panel Report, para. 7.318).

⁶⁷³ Korea's other appellant's submission, para. 359 (quoting *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52). See also para. 361.

⁶⁷⁴ Korea's other appellant's submission, paras. 357-358 (referring to *Refrigerators* AD I&D memorandum and *Refrigerators* AD Samsung cost verification memorandum (Panel Exhibit KOR-98 (BCI), at p. 8 and p. 12, respectively); and *Washers* AD Samsung cost verification memorandum (Panel Exhibit KOR-99 (BCI))); and paras. 362-364 and 368.

⁶⁷⁵ Korea's other appellant's submission, para. 356.

⁶⁷⁶ Korea's other appellant's submission, paras. 357 and 372.

⁶⁷⁷ United States' appellee's submission, para. 416.

⁶⁷⁸ United States' appellee's submission, para. 418.

⁶⁷⁹ United States' appellee's submission, para. 419.

⁶⁸⁰ United States' appellee's submission, para. 430.

⁶⁸¹ United States' appellee's submission, para. 426.

⁶⁸² United States' appellee's submission, para. 431.

⁶⁸³ United States' appellee's submission, para. 430.

that Samsung's R&D activities in Korea benefitted all of its digital appliance subsidiaries to be irrelevant for determining the attribution of subsidies.⁶⁸⁴

5.294. We understand the Panel to have upheld the USDOC's analysis based on two core premises. First, since the "benefit" constituted by the proceeds of the tax credits under Article 10(1)(3) of the RSTA was bestowed on Samsung for its R&D and HRD activities in Korea, it was irrelevant, for purposes of attribution of the subsidy, that such activities could have had a positive effect on the production of digital appliance products by Samsung's overseas subsidiaries. Second, the Panel considered that the USDOC was entitled to presume that those tax credits were being bestowed on Samsung's domestic production only, as neither the text of Article 10(1)(3) of the RSTA nor any other application or approval document showed an intent by the Government of Korea to subsidize the production of Samsung's overseas subsidiaries.

5.295. To recall, Article 19.4 of the SCM Agreement requires an investigating authority to calculate the amount of subsidy bestowed on the products under investigation "in terms of subsidization per unit of the subsidized and exported product".⁶⁸⁵ In order to calculate per unit subsidization, an investigating authority may divide the total subsidy by the total sales value of all products to which the subsidy is attributable. In so doing, the authority must properly "match[]" the elements taken into account in the numerator with the elements taken into account in the denominator".⁶⁸⁶ The SCM Agreement does not expressly specify whether, in order to ensure this matching, the investigating authority should limit the denominator to the sales value of the recipient's production within the jurisdiction of the subsidizing Member or may also include in the denominator the sales value of the recipient's production in the jurisdictions of other Members.

5.296. As noted above⁶⁸⁷, Article VI:3 of the GATT 1994 defines the "subsidized products" as the products for whose "manufacture, production or export" a subsidy has been "granted, directly or indirectly" in "the country of origin or exportation". By expressly referring to "manufacture, production or export", Article VI:3 contemplates that the bestowal of a subsidy may be linked to a wide array of activities, spreading across the cycle of production and sale of the relevant products. In turn, Article 1 of the SCM Agreement provides that a subsidy is deemed to exist if there is a financial contribution by a government or a public body within the territory of a Member that provides a "benefit" to the recipient.⁶⁸⁸ Finally, under Article 14 of the SCM Agreement, investigating authorities are required to calculate the amount of a subsidy in terms of "benefit to the recipient". Read together, these provisions indicate that "subsidized products" for purposes of calculating per unit subsidization are limited to those manufactured, produced, or exported by the recipient.

5.297. However, the above-mentioned provisions do not indicate that, for purposes of calculating per unit subsidization, the subsidized products should be limited to those produced by the recipient of a subsidy within the jurisdiction of the subsidizing Member. We do not see any express limitation to this effect in the SCM Agreement. Thus, we consider that a subsidy may, indeed, be bestowed on the recipient's production outside the jurisdiction of the subsidizing Member. For instance, if the recipient is a multinational corporation with facilities located in multiple countries, the subsidized products may, depending on the circumstances of the case, include that corporation's production in those multiple countries.

5.298. In calculating the amount of *ad valorem* subsidization, an investigating authority has the task of identifying the specific products for whose "manufacture, production or export" a given subsidy has been "granted". This examination should be conducted on a case-by-case basis, based on the arguments and evidence submitted by interested parties and the specific facts surrounding the bestowal of that subsidy. Those facts may include the text, design, structure, and operation of

⁶⁸⁴ United States' appellee's submission, paras. 422-423 and 428.

⁶⁸⁵ See para. 5.267 of this Report.

⁶⁸⁶ Appellate Body Report, *US – Softwood Lumber IV*, fn 196 to para. 164. (emphasis omitted)

⁶⁸⁷ See para. 5.267 of this Report.

⁶⁸⁸ See Appellate Body Reports, *Canada – Dairy*, para. 87; and *EC and certain member States – Large Civil Aircraft*, para. 708. According to the Appellate Body, the existence of a benefit is to be determined by reference to "whether the terms of the financial contribution are more favourable to what is available to the recipient on the market". (Appellate Body Report, *EC and certain member States – Large Civil Aircraft*, para. 974; see also e.g. Appellate Body Reports, *Canada – Aircraft*, para. 157; *US – Lead and Bismuth II*, para. 68; *US – Large Civil Aircraft (2nd complaint)*, para. 690; and *Canada – Renewable Energy / Canada – Feed-in Tariff Program*, para. 5.208)

the measure under which the subsidy is granted, as well as the structure and location of the recipient's production operations. In carrying out its assessment, the investigating authority should provide the interested parties with a meaningful opportunity to submit evidence.⁶⁸⁹ Sometimes, an assessment of these factors may reveal that a subsidy is bestowed solely on the recipient's production within the jurisdiction of the granting authority. At other times, however, such an assessment may lead the authority to conclude that the subsidy at issue is bestowed also on the recipient's production in countries other than the subsidizing Member.

5.299. Applying these considerations to the Panel's review of the USDOC's determination, we believe that, in order to calculate appropriately the denominator of Samsung's per unit subsidization rate, the USDOC was tasked with identifying the products in respect of which the tax credits Samsung received under Article 10(1)(3) of the RSTA were granted. In so doing, the USDOC was required to consider all the relevant facts surrounding the bestowal of those tax credits, including: (i) the text, design, structure, and operation of the RSTA Article 10(1)(3) tax credit programme; and (ii) the structure and location of Samsung's production operations. We recall⁶⁹⁰ that, in reviewing the consistency of the USDOC's determination with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994, the Panel had to assess whether, having "evaluated all of the relevant evidence in an objective and unbiased manner"⁶⁹¹, the USDOC had provided "reasoned and adequate" explanations.⁶⁹²

5.300. The Panel relied, first, on the fact that the tax credits under Article 10(1)(3) of the RSTA were provided to Samsung based on its Korea-based R&D activities and that any positive effect that such activities might have on Samsung's overseas production does not constitute a "benefit" under Article 1.1(b) of the SCM Agreement. The participants do not dispute that the "benefit" deriving from the bestowal of the subsidy under Article 10(1)(3) of the RSTA consists of the proceeds of the tax credits. Nor do they disagree that Samsung, a company established within the jurisdiction of Korea, is the "recipient" of that benefit by virtue of its R&D activities in Korea. However, as we observed in section 5.2.1.1 above, the identification of the recipient of the benefit is part of the analysis as to whether a subsidy exists pursuant to Article 1 of the SCM Agreement. This analysis is distinct from, and should not prejudge, the calculation of the amount of subsidy that has been bestowed upon the products produced by the recipient, so as to determine properly the amount of countervailing duty to be imposed on such products in accordance with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994. Thus, the fact that Samsung is the recipient of the "benefit" deriving from the bestowal of subsidies under Article 10(1)(3) of the RSTA does not, in and of itself, preclude a finding that those subsidies may be allocated to the production of Samsung's overseas subsidiaries. By overly focusing on the fact that Samsung was the beneficiary of the RSTA Article 10(1)(3) tax credits, the Panel appears to have conflated the concept of "recipient of the subsidy" under Article 1 of the SCM Agreement with the concept of "subsidized product" for purposes of calculating per unit subsidization under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994.

5.301. Similarly, we do not find the Panel's affirmation of the USDOC's presumptive allocation of subsidies to Samsung's domestic production⁶⁹³ to be adequate in this case. As noted above, during the course of the *Washers* countervailing duty investigation, Samsung submitted arguments and evidence that, in its view, would have enabled the USDOC to allocate the tax credits Samsung

⁶⁸⁹ In this respect, we note that the GATT panel in *US – Lead and Bismuth I* was confronted with a similar issue to that arising in this dispute, i.e. whether the USDOC had erred in allocating subsidies provided to a respondent exclusively over its domestic production, rather than over its world-wide production. The panel noted, *inter alia*, that the USDOC did not ask any questions to the respondents as to whether particular programmes were designed to benefit only domestic operations or both domestic and foreign operations of the companies in question. (GATT Panel Report, *US – Lead and Bismuth I* (unadopted), para. 605) The panel, therefore, took the view that the parties to the investigation had not been afforded an adequate opportunity to provide factual information relevant to whether the subsidies actually benefitted foreign production. (*Ibid.*, para. 606)

⁶⁹⁰ See para. 5.258 of this Report.

⁶⁹¹ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁶⁹² Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁶⁹³ Panel Report, para. 7.319. See also *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52.

received under Article 10(1)(3) of the RSTA across its worldwide production.⁶⁹⁴ Samsung's arguments and evidence related to the specifics of the design, structure, and operation of the RSTA Article 10(1)(3) tax credit programme, as well as to the specific structure and location of Samsung's production operations. These submissions were, at least potentially, relevant evidence surrounding the bestowal of tax credits under Article 10(1)(3) of the RSTA. Thus, the USDOC was required to review those arguments and to evaluate that evidence in order to identify the "subsidized products" for purposes of calculating per unit subsidization.

5.302. Instead, in its determination, the USDOC relied mainly on a "presumption that government subsidies benefit domestic production".⁶⁹⁵ While that presumption could, in principle, be rebutted, the USDOC determined that the only way to do so was for Samsung to show that the Government of Korea "explicitly stated that the subsidy was being provided for more than domestic production" in the application and/or approval documents".⁶⁹⁶ The USDOC determined that Samsung had not made that showing, as "there is no indication in the statutory provisions" or in "the tax returns themselves" that "a company could claim a tax credit on ... a facility located outside of Korea".⁶⁹⁷

5.303. The expressed intent of a subsidizing authority, as evinced by the face of the measure granting the subsidy, cannot be the sole factor relevant to the allocation of that subsidy to the products produced by the recipient in the context of calculating per unit subsidization. Although neither Article 10(1)(3) of the RSTA nor the related tax returns show the Government of Korea's express intent to subsidize overseas production, this does not exhaust the scope of the relevant arguments and evidence submitted by the interested parties concerning the bestowal of the subsidy, which the USDOC was required to examine. By focusing solely on the face of the statutory provisions and of the tax returns submitted by Samsung, the USDOC failed to "evaluate[]" all of the relevant evidence"⁶⁹⁸ and to provide "reasoned and adequate" explanations for its determination.⁶⁹⁹

5.304. Despite these deficiencies, the Panel upheld the USDOC's determination, thus condoning the USDOC's failure to assess meaningfully all the arguments and evidence submitted by interested parties and other relevant facts surrounding the bestowal of tax credits on Samsung under Article 10(1)(3) of the RSTA. Thus, we consider that the Panel improperly concluded that, having evaluated all of the relevant evidence⁷⁰⁰, the USDOC had provided "reasoned and adequate" explanations.⁷⁰¹

5.305. In light of the above, we conclude that the Panel: (i) erroneously conflated the concept of "recipient of the benefit" under Article 1.1(b) of the SCM Agreement with the concept of "subsidized product" under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994; and (ii) improperly upheld the manner in which the USDOC presumptively attributed the tax credits received by Samsung under Article 10(1)(3) of the RSTA to Samsung's domestic production, thereby condoning the USDOC not assessing all the arguments and evidence submitted by interested parties and other relevant facts surrounding the bestowal of those tax credits.

⁶⁹⁴ In particular, Samsung: (i) submitted that R&D tax credits, by their nature, benefit both a company's domestic and overseas production (Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5); Korea's other appellant's submission, para. 357); (ii) noted that, in the *Washers* and *Refrigerators* anti-dumping investigations, the USDOC determined that Samsung's R&D activities in Korea benefitted all of its digital appliance subsidiaries (Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5); Korea's other appellant's submission, paras. 357-358 (referring to *Refrigerators* AD I&D memorandum and *Refrigerators* AD Samsung cost verification memorandum (Panel Exhibit KOR-98 (BCI), at p. 8 and p. 12, respectively); and *Washers* AD Samsung cost verification memorandum (Panel Exhibit KOR-99 (BCI)), p. 42)); and (iii) pointed to the royalties paid by Samsung's overseas subsidiaries in order to compensate their parent company for its R&D activities in Korea (Samsung *Washers* CVD case brief (Panel Exhibit KOR-90, at pp. 4-5); and Korea's other appellant's submission, para. 357).

⁶⁹⁵ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52. (fn omitted)

⁶⁹⁶ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52 (quoting CVD preamble regulations (Panel Exhibit USA-25), p. 65403).

⁶⁹⁷ *Washers* final CVD I&D memorandum (Panel Exhibit KOR-77), p. 52.

⁶⁹⁸ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁶⁹⁹ Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

⁷⁰⁰ See Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 97.

⁷⁰¹ See Appellate Body Report, *US – Softwood Lumber VI (Article 21.5 – Canada)*, para. 93.

5.306. We, therefore, reverse the Panel's finding, in paragraph 8.1.b.v of its Report⁷⁰², that "the USDOC [did not act] inconsistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by limiting the denominator to the sales value of products produced by Samsung in Korea when allocating the benefit conferred by RSTA Article 10(1)(3) tax credit subsidies"; and find, instead, that the USDOC acted inconsistently with the United States' obligations under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by not assessing all the arguments and evidence submitted by interested parties and other relevant facts surrounding the bestowal of the tax credits received by Samsung under Article 10(1)(3) of the RSTA and thereby presumptively attributing those tax credits to Samsung's domestic production.

6 FINDINGS AND CONCLUSIONS

6.1. For the reasons set out in this Report, the Appellate Body makes the following findings and conclusions.⁷⁰³

6.1 The relevant "pattern" for the purposes of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

6.2. We agree with the Panel that, under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, "a sub-set of export transactions is set aside for specific consideration."⁷⁰⁴ We further agree with the Panel that, once prices are identified as being different from other prices, "they constitute the relevant 'pattern'" and that, "[a]lthough those prices are identified by reference to other prices pertaining to other purchasers, regions or time periods, those other prices are not part of the relevant 'pattern'."⁷⁰⁵ Although we recognize that a pattern may be identified in a variety of factual circumstances, we consider that the relevant "pattern" for the purposes of the second sentence of Article 2.4.2 comprises prices that are significantly *lower* than other export prices among different purchasers, regions or time periods. Moreover, we consider that some transactions that differ among purchasers, taken together with some transactions that differ among regions, and some transactions that differ among time periods, cannot form a single pattern. Our interpretation does not exclude the possibility that the same exporter or producer could be practicing more than one of the three types of "targeted dumping". We also do not exclude the possibility that a pattern of significantly differing prices to a certain category (purchasers, regions, or time periods) may overlap with a pattern of significantly differing prices to another category.

6.3. We thus consider that a "pattern" for the purposes of the second sentence of Article 2.4.2 comprises *all* the export prices to one or more particular purchasers which differ significantly from the export prices to the other purchasers because they are significantly *lower* than those other prices, or *all* the export prices in one or more particular regions which differ significantly from the export prices in the other regions because they are significantly *lower* than those other prices, or *all* the export prices during one or more particular time periods which differ significantly from the export prices during the other time periods because they are significantly *lower* than those other prices.

- a. Consequently, we uphold the Panel's conclusions regarding the relevant "pattern" set out in, *inter alia*, paragraphs 7.24, 7.27-7.28, 7.45-7.46, 7.141-7.142, and 7.144 of the Panel Report.
- b. In addition, we uphold the Panel's finding, in paragraph 8.1.a.ix of the Panel Report⁷⁰⁶, that "the DPM is inconsistent 'as such' with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] because, by aggregating random and unrelated price variations, it does not properly establish 'a pattern of export prices which differ significantly among different purchasers, regions or time periods'".

⁷⁰² See also Panel Report, para. 7.320.

⁷⁰³ One Member of the Division expressed a separate opinion on the issue of zeroing under the W-T comparison methodology. This separate opinion can be found in sub-section 5.1.10 of this Report.

⁷⁰⁴ Panel Report, para. 7.24.

⁷⁰⁵ Panel Report, para. 7.28.

⁷⁰⁶ See also Panel Report, para. 7.147.

6.2 The scope of application of the W-T comparison methodology in the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

6.4. Based on the text of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, which refers to "individual export transactions", read in context and in light of the function of the second sentence of Article 2.4.2 to allow investigating authorities to identify and address "targeted dumping", we consider that the W-T comparison methodology should only be applied to those transactions that justify its use, namely, those transactions forming the relevant "pattern".

- a. Therefore, we uphold the Panel's finding, in paragraph 7.29 of the Panel Report, that "the W-T comparison methodology should only be applied to transactions that constitute the 'pattern of export prices which differ significantly among different purchasers, regions or time periods'."
- b. We further uphold the Panel's consequential finding, in paragraph 8.1.a.i of the Panel Report⁷⁰⁷, that "the United States acted inconsistently with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, by applying the W-T comparison methodology to transactions other than those constituting the patterns of transactions that the USDOC had determined to exist in the *Washers* anti-dumping investigation".
- c. We also uphold the Panel's consequential finding, in paragraph 8.1.a.vi of the Panel Report⁷⁰⁸, that "the DPM is inconsistent 'as such' with Article 2.4.2 of the Anti-Dumping Agreement, because it applies the W-T comparison methodology to non-pattern transactions when the aggregated value of sales to purchasers, regions, and time periods that pass the Cohen's *d* test account[s] for 66% or more of the value of total sales".

6.3 Prices which differ "significantly" under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

6.5. We consider that the Panel did not mischaracterize Korea's claim. Moreover, assessing the extent of the differences in export prices to establish whether those export prices differ *significantly* for the purposes of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement entails both quantitative and qualitative dimensions. As part of the qualitative assessment, circumstances pertaining to the nature of the product or the markets may be relevant for the assessment of whether differences are "significant" in the circumstances of a particular case.

- a. Therefore, we find that the requirement to identify prices which differ *significantly* means that the investigating authority is required to assess quantitatively and qualitatively the price differences at issue. This assessment may require the investigating authority to consider certain objective market factors, such as circumstances regarding the nature of the product under consideration, the industry at issue, the market structure, or the intensity of competition in the markets at issue, depending on the case at hand. However, we agree with the Panel that an investigating authority is not required to consider the cause of (or reasons for) the price differences to establish the existence of a pattern under the second sentence of Article 2.4.2.
- b. We reverse the Panel's finding in respect of the *Washers* anti-dumping investigation, in paragraph 8.1.a.ii of the Panel Report⁷⁰⁹, to the extent that the Panel found that "a pattern of export prices which differ significantly among purchasers, regions or time periods" can be established "on the basis of purely quantitative criteria".
- c. We also reverse the Panel's finding in respect of the DPM, in paragraph 8.1.a.v of the Panel Report⁷¹⁰, to the extent that the Panel found that "a pattern of export prices which differ significantly among purchasers, regions or time periods" can be established "on the basis of purely quantitative criteria".

⁷⁰⁷ See also Panel Report, para. 7.29.

⁷⁰⁸ See also Panel Report, para. 7.119.c.

⁷⁰⁹ See also Panel Report, para. 7.52.

⁷¹⁰ See also Panel Report, para. 7.119.a.

6.4 The explanation to be provided under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement

6.6. We consider that an investigating authority has to explain why both the W-W and the T-T comparison methodologies cannot take into account appropriately the differences in export prices that form the pattern. In circumstances where the W-W and T-T comparison methodologies would yield substantially equivalent results and where an explanation has been provided with respect to one of these two methodologies, the explanation to be included with respect to the other may not need to be as elaborate.

- a. Therefore, we reverse the Panel's finding, in paragraph 8.1.a.iv of the Panel Report⁷¹¹, that "Korea failed to establish that the United States acted inconsistently with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] in the *Washers* anti-dumping investigation by failing to explain why the relevant price differences could not be taken into account appropriately by the T-T comparison methodology."
- b. We also reverse the Panel's finding, in paragraph 8.1.a.viii of the Panel Report⁷¹², that "Korea failed to establish that the DPM is inconsistent with the second sentence of Article 2.4.2 [of the Anti-Dumping Agreement] when, having concluded that the W-W comparison methodology cannot appropriately take into account the observed pattern of significantly different prices, it does not also consider whether the relevant price differences could be taken into account appropriately by the T-T comparison methodology".

6.5 "Systemic disregarding"

6.7. With respect to the Panel's finding under the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, we consider that the second sentence of Article 2.4.2 allows an investigating authority to establish margins of dumping by applying the W-T comparison methodology only to "pattern transactions" to the exclusion of "non-pattern transactions". We also consider that the second sentence of Article 2.4.2 does not permit the combining of comparison methodologies. Accordingly, we find that this provision does not envisage "systemic disregarding", as described by the Panel. The second sentence of Article 2.4.2 does not envisage a mechanism whereby an investigating authority would conduct separate comparisons for "pattern transactions" under the W-T comparison methodology and for "non-pattern transactions" under the W-W or T-T comparison methodology, and exclude from its consideration the result of the latter if it yields an overall negative comparison result or aggregate it with the W-T comparison result for the "pattern transactions" if it yields an overall positive comparison result. Thus, in circumstances where the requirements of the second sentence of Article 2.4.2 have been fulfilled, an investigating authority is allowed to establish margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions" and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer.

- a. We, therefore, moot the Panel's finding, in paragraph 8.1.a.x of the Panel Report⁷¹³, that "Korea failed to establish that the United States' use of 'systemic disregarding' under the DPM is 'as such' inconsistent with the second sentence of Article 2.4.2". Instead, when the requirements of the second sentence of Article 2.4.2 of the Anti-Dumping Agreement are fulfilled, an investigating authority may establish margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions", while excluding "non-pattern transactions" from the numerator, and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer.

6.8. With respect to the Panel's finding under Article 2.4 of the Anti-Dumping Agreement, we consider that Articles 2.4 and 2.4.2 not only inform each other, but must be read together harmoniously and that the exceptional nature of the W-T comparison methodology, consistent with the function of the second sentence of Article 2.4.2 as allowing an investigating authority to identify and address "targeted dumping" by considering "pattern transactions" confirms that the "fair comparison" requirement in Article 2.4 applies only in respect of "pattern transactions".

⁷¹¹ See also Panel Report, para. 7.81.

⁷¹² See also Panel Report, para. 7.119.b.

⁷¹³ See also Panel Report, para. 7.167.

Accordingly, we conclude that the establishment of margins of dumping by comparing a weighted average normal value with export prices of "pattern transactions", while excluding "non-pattern transactions" from the numerator, and dividing the resulting amount by *all* the export sales of a given exporter or foreign producer, is consistent with the "fair comparison" requirement in Article 2.4.

- a. Having concluded that the second sentence of Article 2.4.2 does not permit an investigating authority to combine the W-T comparison methodology with the W-W or T-T comparison methodology and, thus, does not provide for "systemic disregarding" as described by the Panel, we moot the Panel's finding, in paragraph 8.1.a.xi of the Panel Report⁷¹⁴, that "Korea failed to establish that the United States' use of 'systemic disregarding' under the DPM is 'as such' inconsistent with Article 2.4" of the Anti-Dumping Agreement.

6.6 Zeroing under the W-T comparison methodology⁷¹⁵

6.9. With respect to the consistency of zeroing under the W-T comparison methodology with the second sentence of Article 2.4.2 of the Anti-Dumping Agreement, we do not consider the Panel to have erred in its findings. The exceptional W-T comparison methodology in the second sentence of Article 2.4.2 requires a comparison between a weighted average normal value and the entire universe of export transactions that fall within the pattern as properly identified under that provision, irrespective of whether the export price of individual "pattern transactions" is above or below normal value. While the results of the transaction-specific comparisons of weighted average normal value and each individual export price falling within the pattern will be intermediate results, the aggregation of *all* these results is required and will determine dumping and margins of dumping for the product under investigation as it relates to the identified "pattern". Zeroing the negative intermediate comparison results within the pattern is neither necessary to address "targeted dumping", nor is it consistent with the establishment of dumping and margins of dumping as pertaining to the "universe of export transactions" identified under the second sentence of Article 2.4.2. While the text of the second sentence of Article 2.4.2 allows an investigating authority to focus on "pattern transactions" and exclude from its consideration "non-pattern transactions" in establishing dumping and margins of dumping under the W-T comparison methodology, it does not allow an investigating authority to exclude certain transaction-specific comparison results within the pattern, when the export price is above normal value.

- a. We, therefore, uphold the Panel's findings, in paragraphs 8.1.a.xii and 8.1.a.xiv of the Panel Report⁷¹⁶, that "the United States' use of zeroing when applying the W-T comparison methodology is inconsistent 'as such' with Article 2.4.2 of the Anti-Dumping Agreement" and that "the USDOC acted inconsistently with Article 2.4.2 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation".

6.10. With respect to the consistency of zeroing under the W-T comparison methodology applied pursuant to the second sentence of Article 2.4.2 with the "fair comparison" requirement in Article 2.4, we do not consider the Panel to have erred in its findings. Setting to zero the intermediate negative comparison results has the effect of not only inflating the magnitude of dumping, thus resulting in higher margins of dumping, but it also makes a positive determination of dumping more likely in circumstances where the export prices above normal value exceed those that are below normal value. Moreover, by setting to zero "individual export transactions" that yield a negative comparison result, an investigating authority fails to compare *all* comparable export transactions that form the applicable "universe of export transactions" as required under the second sentence of Article 2.4.2, thus failing to make a "fair comparison" within the meaning of Article 2.4.

- a. Therefore, having found that zeroing is not permitted under the W-T comparison methodology applied pursuant to the second sentence of Article 2.4.2 and having upheld the Panel's findings on zeroing under the second sentence of Article 2.4.2, we also

⁷¹⁴ See also Panel Report, para. 7.169.

⁷¹⁵ For the separate opinion on this issue, see sub-section 5.1.10 of this Report.

⁷¹⁶ See also Panel Report, para. 7.192.

uphold the Panel's findings, in paragraphs 8.1.a.xiii and 8.1.a.xv of the Panel Report⁷¹⁷, that "the United States' use of zeroing when applying the W-T comparison methodology is inconsistent 'as such' with Article 2.4 of the Anti-Dumping Agreement" and that "the USDOC acted inconsistently with Article 2.4 of the Anti-Dumping Agreement by using zeroing when applying the W-T comparison methodology in the *Washers* anti-dumping investigation".

6.11. With respect to the consistency of zeroing with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994 in the application of the W-T comparison methodology in administrative reviews, we do not consider the Panel to have erred in its finding. Article 9.3 refers to the "margin of dumping" as established under Article 2. This "margin of dumping" represents the ceiling for anti-dumping duties levied pursuant to Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994. Accordingly, if margins of dumping are established inconsistently with Article 2.4.2 by using zeroing under the W-T comparison methodology, the corresponding anti-dumping duties that are levied will also be inconsistent with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994, as they will exceed the margin of dumping that should have been established under Article 2. Moreover, if zeroing is not permitted under the W-T comparison methodology applied pursuant to the second sentence of Article 2.4.2 in original anti-dumping investigations, it also cannot be permitted in respect of administrative reviews.

- a. We, therefore, uphold the Panel's finding, in paragraph 8.1.a.xvi of the Panel Report⁷¹⁸, that "the United States' use of zeroing when applying the W-T comparison methodology in administrative reviews is inconsistent 'as such' with Article 9.3 of the Anti-Dumping Agreement and Article VI:2 of the GATT 1994".

6.7 Article 2.2 of the SCM Agreement

6.12. With respect to the Panel's findings under Article 2.2 of the SCM Agreement, we agree with the Panel that: (i) the term "certain enterprises" in Article 2.2 is not limited to entities with legal personality, but also encompasses sub-units or constituent parts of a company – including, but not limited to, its branch offices and the facilities in which it conducts manufacturing operations – that may or may not have distinct legal personality; (ii) the "designation" of a region for purposes of Article 2.2 need not be affirmative or explicit, but may also be carried out by exclusion or implication, provided that the region in question is clearly discernible from the text, design, structure, and operation of the subsidy at issue; and (iii) the concept of "geographical region" in Article 2.2 does not depend on the territorial size of the area covered by a subsidy. The Panel correctly found that the RSTA Article 26 tax credit programme effectively designated the region where the relevant eligible investments were to be made in order to qualify for the subsidy at issue, thereby being "limited to certain enterprises located within a designated geographical region" within Korea's jurisdiction.

- a. We, therefore, uphold the Panel's finding, in paragraph 8.1.b.iii of the Panel Report⁷¹⁹, that "Korea failed to establish that the USDOC's determination of regional specificity in respect of the RSTA Article 26 tax credit scheme is inconsistent with Article 2.2 of the SCM Agreement".

6.13. With respect to the issue of whether, in its analysis of regional specificity, the Panel failed to comply with its obligations under Article 11 of the DSU, we consider that the claims that Korea raised before the Panel under Article 2.2 hinged, essentially, on the interpretation of certain terms contained in that provision, and that the Panel did address all of such interpretative claims.

- a. We, therefore, find that the Panel did not act inconsistently with its duties under Article 11 of the DSU in articulating its findings on regional specificity.

⁷¹⁷ See also Panel Report, para. 7.206.

⁷¹⁸ See also Panel Report, para. 7.208.

⁷¹⁹ See also Panel Report, para. 7.289.

6.8 Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994

6.14. With respect to the Panel's affirmation of the USDOC's determination that the tax credits received by Samsung under Articles 10(1)(3) and 26 of the RSTA were not tied to particular products, we consider that the Panel: (i) improperly endorsed a flawed tying test applied by the USDOC in the *Washers* countervailing duty investigation, whereby a subsidy is tied to a specific product only when the intended use of the subsidy is known to the granting authority and so acknowledged prior to or concurrent with the bestowal of the subsidy; and (ii) improperly upheld the USDOC's dismissal of certain evidence submitted by Samsung that was potentially relevant to the assessment of whether a portion of the tax credits Samsung claimed under such provisions was tied to the products manufactured by its digital appliance business unit.

- a. We, therefore, reverse the Panel's finding, in paragraph 8.1.b.iv of the Panel Report⁷²⁰, that "the USDOC's failure to tie the RSTA Article[s] 10(1)(3) and 26 tax credit subsidies to [d]igital [a]ppliance products is [not] inconsistent with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994"; and find, instead, that the USDOC acted inconsistently with the United States' obligations under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by: (i) applying a flawed tying test in the *Washers* countervailing duty investigation, whereby a subsidy is tied to a specific product only when the intended use of the subsidy is known to the granting authority and so acknowledged prior to or concurrent with the bestowal of the subsidy; and (ii) by dismissing certain evidence submitted by Samsung that was potentially relevant to the assessment of whether a portion of the tax credits Samsung claimed under Article 10(1)(3) and Article 26 of the RSTA was tied to the products manufactured by its digital appliance business unit.

6.15. Having reversed the Panel's finding under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994, we do not find it necessary to address Korea's claim that the Panel also failed to comply with its duties under Article 11 of the DSU by stating, in paragraph 7.303 of the Panel Report, that the tax credits available under the RSTA Article 10(1)(3) tax credit programme "are not R&D subsidies".

6.16. With respect to the Panel's affirmation of the USDOC's attribution of the tax credits received by Samsung under Article 10(1)(3) of the RSTA to Samsung's domestic production, we consider that the Panel: (i) erroneously conflated the concept of "recipient of the benefit" under Article 1.1(b) of the SCM Agreement with the concept of "subsidized product" under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994; and (ii) improperly upheld the manner in which the USDOC presumptively attributed the tax credits received by Samsung under Article 10(1)(3) of the RSTA to Samsung's domestic production, thereby condoning the USDOC not assessing all the arguments and evidence submitted by interested parties and other relevant facts surrounding the bestowal of those tax credits.

- a. We, therefore, reverse the Panel's finding, in paragraph 8.1.b.v of the Panel Report⁷²¹, that "the USDOC [did not act] inconsistently with Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by limiting the denominator to the sales value of products produced by Samsung in Korea when allocating the benefit conferred by RSTA Article 10(1)(3) tax credit subsidies"; and find, instead, that the USDOC acted inconsistently with the United States' obligations under Article 19.4 of the SCM Agreement and Article VI:3 of the GATT 1994 by not assessing all the arguments and evidence submitted by interested parties and other relevant facts surrounding the bestowal of the tax credits received by Samsung under Article 10(1)(3) of the RSTA and thereby presumptively attributing those tax credits to Samsung's domestic production.

6.9 Recommendation

6.17. The Appellate Body recommends that the DSB request the United States to bring its measures, found in this Report, and in the Panel Report as modified by this Report, to be inconsistent with the Anti-Dumping Agreement, the SCM Agreement, and the GATT 1994, into conformity with its obligations under those Agreements.

⁷²⁰ See also Panel Report, para. 7.307.

⁷²¹ See also Panel Report, para. 7.320.

Signed in the original in Geneva this 6th day of August 2016 by:

Thomas Graham
Presiding Member

Ricardo Ramírez-Hernández
Member

Ujal Singh Bhatia
Member