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Investigation
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MEMORANDUM TO: Faryar Shirzad
Assistant Secretary
for Import Administration

FROM: Bernard T. Carreau
Deputy Assistant Secretary
for Group II, Import Administration

DATE: August 23, 2002

SUBJECT: Issues and Decision Memorandum for the Antidumping Duty Investigation of Carbon and Certain Alloy Steel Wire Rod from Canada

Summary

This memorandum addresses issues briefed or otherwise commented upon in the above-referenced proceeding. Section I addresses the general issues briefed by interested parties. Section II addresses the company-specific issues briefed by interested parties.

I. General Issues

Comment 1: *Treatment of Negative Margins*

II. Company-Specific Issues

Sales Issues Specific to Ivaco
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Background

On April 2, 2002, the Department of Commerce (the Department) issued the Preliminary Determination of the antidumping duty investigation of carbon and certain alloy steel wire rod (steel wire rod) from Canada.[1] After analyzing allegations of ministerial errors in the Preliminary

[1] See Notice of Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Carbon and Certain Alloy Steel Wire Rod from Canada, 67 FR 17389 (April 10, 2002) (Preliminary Determination).

Determination by the petitioners[2] in regards to Stelco, we agreed that certain ministerial errors were made which we recommended correcting. In reviewing the preliminary margin calculations, we noted a third ministerial error that the petitioners did not refer to which we recommended correcting as well. These errors were not "significant" as defined in 19 CFR 351.224 and, as such, we did not issue an amended Preliminary Determination.[3] The corrections are reflected in the final margin calculations. The period of investigation (POI) is July 1, 2000, through June 30, 2001. The respondents in this case are: Ispat Sidbec Inc. (ISI), Ivaco Inc. (Ivaco) and Stelco Inc. (Stelco). We verified the information submitted on the record by the respondents, and issued the verification reports in May and June 2002. On July 8, 2002, we received case briefs from the petitioners and the three respondents. On July 17, 2002, we received rebuttal briefs from the petitioners and the respondents.

DISCUSSION OF ISSUES

I. General Issues

Comment 1: *Treatment of Negative Margins*

ISI argues that the Department was incorrect in assigning a zero weight, by value, to all CONNUMs that had zero or negative margins and then calculating a product-wide margin on only sales with positive margins. ISI argues that if the Department based its margin calculations on all of its sales, instead of "zeroing" sales made at or above normal value, ISI would have received a *de minimis* margin for the Preliminary Determination; instead, ISI contends, for the Preliminary Determination, the Department "failed to recognize the plain fact that ISI Sidbec did not dump."[4]

ISI recognizes that, in the past, the Court of International Trade (CIT) has upheld the Department's "zeroing" practice.[5] However, ISI argues that this practice of "zeroing" does not comply with the United States' international obligations. To this effect, ISI cites the WTO Appellate Body's decision in European Communities – Anti-Dumping Duties on Imports of Cotton-Type Bed Linen from India, WT/DS141/AB/R (March 1, 2001) (Bed Linen from India) that "zeroing" is "in violation of Article 2.4.2 of the Antidumping Agreement." ISI contends that the facts of this investigation "are quite similar" to those considered in Bed Linen from India in that both cases involve the calculation of a margin based on the "two step process" of calling first

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[2]The petitioners in this investigation are Co-Steel Raritan, Inc., GS Industries, Inc., Keystone Consolidated Industries, Inc., and North Star Steel Texas, Inc.

[3] See Ministerial Error Allegations Memorandum from Daniel O'Brien, Case Analyst, to Bernard Carreau, Deputy Assistant Secretary, Group 2 (May 6, 2002).

[4] See ISI's Case Brief, (July 8, 2002) (ISI Case Brief) at 3-7.

[5] ISI cited the CIT's decisions in Bowe Passat Reinigungs–Und Waschereitechnik GmbH v. United States, (Passat)926 F. Supp. 1138 (CIT 1996) and Serampore Industries PVT. Ltd. v. United States, (Serampore) 675 F. Supp. 1354 (CIT 1987).

"for a model-specific margin calculation, then for a calculation of the overall margin for the product under investigation based on only those models with positive dumping margins." In accordance with the WTO Appellate Body's decision in Bed Linen from India, ISI asserts, the Department should calculate ISI's weighted-average margin for all of its sales and not exclusively its sales that the Department determined were sold at less than normal value.

Citing recent Department decisions in Stainless Steel Wire Rod from India: Final Results of Antidumping Duty Administrative Review, 67 FR 37391, 37392 (May 29, 2002) and Notice of Final Determination of Sales at Less Than Fair Value: Structural Beams from Spain, 67 FR 35482, 35484 (May 20, 2002), the petitioners rebut that the Department should reject ISI's argument, as the Department has done in "every instance that this issue has been raised." The petitioners argue that, "as the Department fully and properly explained in these recent decisions, the antidumping methodology used by the Department is factually and legally distinct from that used in the Bed Linen from India case and therefore the Appellate Body's decision in that case is not applicable to the dumping calculations under U.S. law."[6]

Department's Position:
We disagree with ISI and have not changed our methodology with respect to the calculation of the weighted-average dumping margin for the final determination. As we have discussed in prior cases, our methodology is consistent with our statutory obligations under the Act. See, e.g., Final Determination of Sales at Less than Fair Value: Certain Softwood Lumber Products from Canada: 66 FR 15539 (April 2, 2002), and accompanying Issues and Decision Memorandum, at Comment 12, and Final Determination of Sales at Less Than Fair Value: Certain Hot-Rolled Carbon Steel Flat Products from the Netherlands, 66 FR 50408 (October 3, 2001), and accompanying Issues and Decision Memorandum, at Comment 1. Section 771(35)(A) of the Act defines "dumping margin" as "the amount by which the normal value exceeds the export price or constructed export price of the subject merchandise." Section 771(35)(B) of the Act defines "weighted-average dumping margin" as "the percentage determined by dividing the aggregate dumping margins determined for a specific exporter or producer by the aggregate export prices and constructed export prices of such exporter or producer." These sections, taken together, direct the Department to aggregate all individual dumping margins, each of which is determined by the amount by which normal value exceeds export price (EP) or constructed export price (CEP), and to divide this amount by the value of all sales. The directive to determine the "aggregate dumping margins" in section 771(35)(B) of the Act makes clear that the singular "dumping margin" in section 771(35)(A) of the Act applies on a comparison-specific level, and does not itself apply on an aggregate basis. At no stage in this process is the amount by which EP or CEP exceeds normal value on sales that did not fall below normal value permitted to cancel out the dumping margins found on other sales. This does not mean, however, that sales that did not fall below normal value are ignored in calculating the weighted-average rate. It is important to note that the weighted-average margin will reflect any "non-dumped" merchandise examined during the administrative review; the value of such sales is included in the

[6] See The Petitioners Rebuttal Brief Pertaining to ISI, (July 17, 2002) at 2.

denominator of the dumping rate, while no dumping amount for "non-dumped" merchandise is included in the numerator. Thus, a greater amount of "non-dumped" merchandise results in a lower weighted-average margin.

Finally, regarding ISI's WTO argument, U.S. law, as implemented through the URAA, is fully consistent with its WTO obligations. See SAA at 669. Accordingly, for the final determination, we are continuing to apply our margin calculation methodology pursuant to Department practice.

II. Company-Specific Issues

Issues Specific to Ivaco

Sales Issues

Comment 2*: Reported U.S. Inventory Carrying Costs*

The petitioners argue that Ivaco incorrectly reported inventory costs (ICC) in two ways: the inventory carrying period for Ivaco and the cost of manufacture (COM) of the finished goods. With regard to the first issue, the petitioners state that Ivaco did not calculate inventory carrying costs for the entire period that the product was in inventory. The petitioners assert that there are three periods for which Ivaco should have reported inventory carrying costs. These are 1) the time the green rod leaves Ivaco Rolling Mill's (IRM) production line until the date of arrival of the green rod in the United States, 2) the time the green rod arrives in the United States until the green rod is further processed, and 3) the time the further processed rod leaves the production line until it is received by the customer. The petitioners state that Ivaco only reported inventory carrying costs for the first and third time periods. According to the petitioners, the Department should calculate an inventory carrying cost for the second period from information in Sivaco Georgia's financial statements.

With regard to the second issue, the petitioners argue that the cost basis for the inventory carrying cost calculation for IRM's further-manufactured (FM) sales (or inventory carrying costs for the third time period) is incorrect. The petitioners state that Ivaco used FM costs instead of total costs.

With regard to the first issue, Ivaco agrees that it did not report inventory carrying costs for the second time period. However, Ivaco argues that it is not required to, as the merchandise becomes the raw material of the further manufacturer and is accounted for in the further manufacturer's processing costs. Ivaco states that inventory carrying costs are only calculated on finished goods inventory. Ivaco references three cases which address the issue, stating that these cases are similar to Ivaco's situation and should be used as precedent.[7]

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[7] See Notice of Final Results of Antidumping Administrative Review and Termination in Part: Tapered Roller Bearings and Parts Thereof, Finished and Unfinished, From Japan, and Tapered Roller Bearings, Four Inches or Less in Outside Diameter, and Components Thereof, From Japan (TRBs from Japan) 63 FR 20585 (April 27,

With regard to the second issue, Ivaco believes that it used the correct cost basis for calculating U.S. ICCs. Ivaco states that its methodology has been on the record since December 31, 2001, and the petitioners and the Department have never asked that another methodology be used. Ivaco also states that the Department verified the inventory carry calculation methodology and found no discrepancies.

Department's Position:
We agree with Ivaco on the first issue. In TRBs from Japan, at Comment 19, we stated, "it is our policy to make an (ICC) adjustment to USP for only finished goods inventory because unfinished goods represent production expenses rather than U.S. selling expenses." In this case, the green rod is a not a finished good of Ivaco but is the raw material of Sivaco Georgia, which is then further-processed into a finished good. Therefore, to assign an inventory carrying cost to the green rod while in the further-processors inventory would result in double-counting, as the cost of holding raw materials in inventory is included in the FM cost.

We agree with the petitioners on the second issue. Ivaco's U.S. ICCs should be based on total costs, not just FM costs. As stated in TRBs from Japan, "as a general rule we prefer inventory carrying costs to be calculated using cost-based information because it represents the imputed cost to the firm for storing merchandise in inventory. However, as explained in Federal-Mogul Final Remand Results at Comment 1 and Timken Company v.United States, 865 F. Supp. 881 (CIT 1994) (Federal Mogul), transfer prices represent the actual cost to a U.S. subsidiary of acquiring the subject merchandise and, as such, reflect the actual cost of the merchandise as it entered the subsidiary's inventory." In other words, the Department uses the actual cost of the merchandise as it entered the subsidiary's inventory, not the FM costs, in order to calculate inventory carrying expenses. In this case, we do not have the transfer price but do have the total COM, and have used it to calculate inventory carrying cost in the final determination.

Comment 3: *Indirect Selling Expenses Incurred in Canada*
In the Preliminary Determination, the Department deducted indirect selling expenses incurred in Canada from the calculation of CEP. The Department stated that this was done because these expenses were related to economic activity in the United States. Ivaco asserts that 19 CFR 351.402(b) and Antidumping Duties; Countervailing Duties; Final Rule, 62 FR (May 19, 1997), establishes two criteria which must be met in order to deduct home market indirect selling expenses from CEP. These are 1) the expenses must be associated with commercial activities in the United States, and 2) the expenses must be related to the sale to an unaffiliated purchaser. Ivaco argues that the home market indirect selling expenses reported by its company meet neither criteria.

1998); see also Notice of Final Results of Antidumping Administrative Review: Dynamic Random Access Memory Semiconductors of One Megabit or Above From the Republic of Korea 61 FR 20216 (May 6, 1996); see also Notice of Final Results of Antidumping Administrative Review and Determination Not To Revoke: Roller Chain, Other Than Bicycle, From Japan 58 FR 30769 (May 27, 1993).

Ivaco states that these expenses would have occurred regardless of whether or not there were sales in the United States and, therefore, are not associated with economic activities in the United States. Ivaco argues that all of its sales are first made through a warehouse or processor in the United States, and the sale to the unaffiliated U.S. customer is not made until the goods leave the U.S. processor or warehouse. Ivaco argues that all of the selling expenses at issue relate to the shipment to the warehouse or processor and not to the sale to the unaffiliated U.S. customer. Ivaco also states that the case referenced by the Department in the Preliminary Determination does not support the deduction of IRM's home market indirect selling expenses from CEP. See Mitsubishi Heavy Industry Ltd. v. United States, 54 F. Supp. 2d 1183 (CIT 1999) (Mitsubishi). Ivaco argues that its indirect selling expenses are similar to the indirect selling expenses, referenced in the aforementioned case, that were specifically excluded from the pool of indirect selling expenses deducted from CEP.

The petitioners argue that Ivaco's home market indirect selling expenses are associated with economic activities in the United States. The petitioners cite to Ivaco's December 31, 2001, submission in which Ivaco states in Appendix C-31 and B-23 that because indirect selling expenses were incurred with respect to sales in both the home and the U.S. markets, Ivaco has allocated these expenses between the two markets. The petitioners also reference several statements made by Ivaco in its January 18, 2002, supplemental submission including, "the U.S. customers send orders directly to IRM in Canada," and "the decision on whether to accept the order is made by IRM in Canada." See Ivaco's January 18, 2002, supplemental submission at pages 10-13. The petitioners then reference statements made by Ivaco at verification, such as a statement made by a sales manager at IRM U.S.A. stating that he is not authorized to set any prices without prior approval from IRM. See Memorandum to Gary Taverman through Constance Handley from Amber Musser: Verification Report on the Sales Data Submitted by Ivaco, Inc.; (May 28, 2002) (Ivaco Verification Report) at page 7. The petitioners conclude that, based on the above information, Ivaco performs almost all of the functions for CEP and FM sales. Therefore, according to the petitioners, the indirect selling expenses incurred by IRM in Canada are related to economic activities in the United States.

The petitioners then argue that the sales were to unaffiliated U.S. customers by referencing a statement made by an employee of IRM that Ivaco does not maintain inventory at U.S. warehouses and the goods traveling through them are already sold. See Ivaco Verification Report at page 7. The petitioners also argue that it makes no sense that goods that are being further processed have not been sold because if no sale were made, it would be impossible for the processor to know the further processing product characteristics which a customer needs. In addition, the petitioners assert that since the marketing director at Ivaco must authorize all prices for sales associated with IRM U.S.A., his activities must relate to sales to the unaffiliated U.S. customer.

Department's Position:
We agree in part with the petitioners and in part with the respondents. IRM has the following types of U.S. sales classified as CEP: 1) sales made from distribution warehouses not located at

a further processor (warehouse sales); 2) sales made from U.S. affiliated processor inventory (Ivaco Steel Processing (ISP) sales); 3) sales made through unaffiliated U.S. processors (processed sales); 4) sales made from consignment inventory (consignment sales); and 5) FM sales made through Sivaco Georgia (Sivaco Georgia sales).

Although Ivaco reported warehouse sales as CEP sales, and the Department treated these sales as such in the Preliminary Determination, we do not agree that warehouse sales are CEP sales. In Ivaco's December 4, 2001, submission at page 50, it is stated that the sales process for warehouse sales is the same as the sales process for IRM direct sales to U.S. customers (EP sales) except IRM ships the goods to the warehouse and then to the customer, invoicing the customer once the goods are shipped. While verifying these sales, we determined that inventories were not kept in U.S. warehouses, and the goods traveling through them had already been sold. See Ivaco Verification Report at page 7. The warehouses were used solely for reloading and the actual sale took place in Canada. Therefore, we have reclassified these sales as EP sales.

With regard to sales through ISP, unaffiliated U.S. further processors, and consignment sales, we continue to consider these sales to be CEP sales because they are made after importation. However, Ivaco has stated that it performs the same selling activities for these sales as it does for its EP sales. See Ivaco's December 4, 2001, submission at pages 48-50; see also Ivaco's January 18, 2002, submission at page 10. Specifically, in support of IRM U.S.A., Ivaco receives orders directly from the customers, sets prices, sends the order confirmations, issues invoices, transfers the title directly from IRM to the customer, receives payment directly from the customer and arranges shipment. These selling activities are all directed at unaffiliated customers in the United States.

Under 19 CFR 351.402(b), we deducted indirect selling expenses related to U.S. economic activity "no matter where or when paid." In Mitsubishi, the CIT affirmed that "under the statute, Commerce has the authority to deduct indirect selling expenses that are associated with the sales of exports in the United States from CEP, whether incurred in the United States or the home market." See Mitsubishi at 1186. We note that, although in Mitsubishi, the Department determined that not all of Mitsubishi's indirect selling expenses were related to economic activities in the United States, the CIT held that Section 772(d)(1) of the Act "does not require Commerce {to} examine every potential CEP deduction to determine whether the activity generating the expense would be inconsistent with an EP transaction." Id. at 1186-7. In this case, because all of Ivaco's indirect selling expenses incurred in Canada on these sales appear to be related to economic activity in the United States, we have deducted them from the CEP in accordance with 19 CFR 351.402(b).

Finally, with regard to Sivaco Georgia sales, as stated in Ivaco's January 18, 2002, supplemental response, "Sivaco Georgia is a U.S. affiliate of Ivaco Inc. that purchased a small amount of subject merchandise, and sold the further manufactured products to unaffiliated U.S. customers." See Appendix 18 at page A-1 of Ivaco's supplemental response. We have concluded that all of IRM's selling activities for these sales are related to the sale to Sivaco Georgia and not the sale to

the final customer. 19 CFR 351.402(b) states "the Secretary will not make an adjustment for any expense that is related solely to the affiliated importer in the United States." Accordingly, indirect selling expenses incurred in Canada have not been deducted from the CEP for sales made by Sivaco Georgia.

Comment 4: *Facts Available Rate for Further-Manufactured Sales*
During verification, Ivaco presented additional further processing expenses for four U.S. sales. The petitioners argue that the highest calculated margin or the highest calculated rate for the same type of sale (FM sales by unaffiliated processors) should be applied to these sales. The petitioners state that the adverse facts available rate should be applied to these sales because Ivaco failed to act to the best of its ability to present these sales to the Department in its responses or at the outset of verification, despite several opportunities granted by the Department.

Ivaco states that the petitioners possibly misread the Ivaco Verification Report. In the Ivaco Verification Report the Department states "**Ivaco noted four sales which had not been reported.**" See Ivaco Verification Report at page 23. Ivaco claims that by examining verification Exhibit 43 it is apparent that the Department's statement in the Ivaco Verification Report is meant to be interpreted as, Ivaco failed to report the further processing expenses for four U.S. sales.

Ivaco further states that if the petitioners did not misread the Ivaco Verification Report and believe that the Department should assign facts available to an entire sale when only the FM expenses were not reported, than the petitioners argument should be rejected. Ivaco argues that the Department has accepted information presented at verification for unidentified sales in many other cases and did not apply facts available. See e.g., Notice of Final Results of Antidumping Administrative Review: Certain Cut-to-Length Carbon-Quality Steel Plate Products from Japan 64 FR 73,215, 73,232-34 (Dec. 29, 1999).

In addition, Ivaco states that the Department verified the reporting of further processing expenses and should have no reason to believe that this expense was excluded from other sales. Under section 782(e) of the Act, the Department shall not decline to consider information if the following requirements are met: a) the information is submitted by the established deadline; (b) the information can be verified; c) the information is not so incomplete that it can serve as a reliable basis for reaching the applicable determination; d) the interested party has demonstrated that it acted to the best of its ability, and; e) the information can be used without undue difficulties. Ivaco argues that it meets the five proceeding factors; therefore, it should not be subject to facts available. Finally, Ivaco asserts that the Department accepted this information at verification and did not reject it as untimely and therefore, it has met all of the criteria.

Department's Position:
We agree with the petitioners that Ivaco failed to submit four sales, as reported in the Ivaco Verification Report at page 23. However, we disagree with the petitioners' recommendation that we apply adverse facts available. Section 776(b) of the Act states:

> If the administering authority or the Commission (as the case may be) finds that an interested party has failed to cooperate by not acting to the best of its ability to comply with a request for information from the administering authority or the Commission, the administering authority or the Commission (as the case may be), in reaching the applicable determination under this title, may use an inference that is adverse to the interests of that party in selecting from among the facts otherwise available.

As demonstrated during verification, Ivaco has on the whole complied with the Department's requests for information and the Department does not have a basis for concluding that the company did not act to the best of its ability with respect to any of the information at issue. In addition, the unreported sales amount to an inconsequential portion of its overall sales. Therefore, neutral facts available have been assigned to these sales.

Comment 5: *Sivaco Georgia's (SGA) Freight Revenue for Certain Sales*
SGA has several sales with no reported freight expenses even though they were coded as delivered to the customer. It was determined that these sales were actually picked up by the customer, not delivered, and should, therefore, have no freight expenses. However, these sales have freight revenue associated with them. The petitioners argue that freight revenue should not be incurred on a sale which is picked up by the customer, as it is not reasonable to expect a customer to pay for freight when they pick up the merchandise.

In addition, the petitioners reference the Memorandum to Gary Taverman through Constance Handley from Amber Musser and Tracy Levstik: Verification Report on the Constructed Export Price Sales Data Submitted by Ivaco, Inc.; (June 5, 2002) (Ivaco CEP Verification Report) where it is stated that freight revenue is built into the gross unit price and assert that if freight revenue is built into the gross unit price then it has already been accounted for and should not be reported again.

Ivaco argues that, contrary to the Ivaco CEP Verification Report, the freight revenue was not included in the gross unit price and freight surcharges were listed as additional amounts on the invoice. Ivaco states that these sales were coded as delivered, even though the customer picked up the merchandise. Furthermore, Ivaco argues that the accounting system added a freight surcharge to the invoice. The customer paid the freight surcharge, even though it picked up the merchandise, and a credit note was not issued on these invoices. Finally, Ivaco notes that the Department selected an example of such a sale at the CEP verification and verified that the freight revenue was received.

Department's Position:
We agree with Ivaco. The freight revenue was, in fact, reported separately from the gross unit price. The total revenue received by Sivaco Georgia was equal to the reported gross unit price plus the freight revenue. We found at verification that the total of these two amounts was received by Sivaco Georgia, even in cases where the customer chose to pick up the merchandise.

Further, we verified that no credit notes were issued to reimburse the customers for the amount they paid for the freight services which had not been provided. Though it is not clear why a customer would pay for a service it did not recieve, we found that the customers had, in fact, paid the freight charges, whether or not the merchandise had actually been delivered. Therefore, we have continued to include this revenue in the calculation of the CEP for the final determination.

We note that in the preliminary determination we treated this revenue as an offset to freight expense. However, because no delivery actually took place, for the final determination the additional revenue had been added to the gross unit price to accurately depict the payment received by Sivaco Georgia. See Memorandum to Gary Taverman through Constance Handley from Amber Musser and Tracy Levstik: Verification Report on the Constructed Export Price Sales Data Submitted by Ivaco, Inc.; (June 5, 2002) (Ivaco CEP Verification Report).

Comment 6: *The Department Should Exclude All of Ivaco's Intra-Company Sales*
In the Preliminary Determination, the Department stated its intent to exclude all intra-company sales. However, one customer code regarding one of Ivaco's sales was not identified in Appendix B-2 of Ivaco's December 31, 2001, submission. Therefore, the Department was not able to make the determination to exclude this customer. This customer was later identified as Sivaco Ontario, an affiliated party. The petitioners argue that because the Department collapsed Ivaco and Sivaco Ontario into a single entity, sales to this affiliate are intra-company sales and should be excluded.

Ivaco argues that if the Department decides to exclude intra-company sales, such as Sivaco Ontario, then it must not exclude sales to certain affiliates which were excluded in the Preliminary Determination. Ivaco reiterates that, these certain affiliates, as shown in Appendix A-4 of its December 4, 2001, submission, are not divisions of Ivaco, but are instead divisions of a subsidiary of Ivaco. Therefore, they were improperly excluded in the Preliminary Determination. Ivaco contends that sales to these affiliates should not be excluded in the Final Determination as, unlike Sivaco Ontario, these affiliates are not collapsed with Ivaco.

Department's Position:
We agree with the petitioner regarding Sivaco Ontario and with Ivaco regarding sales to certain affiliates. Sivaco Ontario was collapsed with Ivaco and, therefore, its sales are considered intra-company sales and have been excluded in the final determination. The other affiliates referenced by Ivaco, however, are not collapsed with Ivaco. Sales by these affiliates are, therefore, not intra-company sales and have been included in our final determination to the extent that they passed the arms-length test. See Memorandum to the File through Constance Handley from Amber Musser: Analysis Memorandum for Ivaco, Inc. (August 23, 2002) (Analysis Memorandum for Ivaco, Inc.).

Comment 7: *Three Sales Identified by Ivaco as U.S. Sales*
At verification, Ivaco stated that three sales reported as U.S. sales should be reclassified as Canadian sales. The petitioners argue that these sales should not be considered Canadian sales

due to the fact that at verification the Department noted that there was no general sales tax (GST) collected on these sales, even though all sales in the home market are levied this country-specific tax. In addition, the petitioners note that these sales were made to a U.S. customer. See Ivaco Verification Report at Exhibit 1.

Ivaco states that if the Department determines to treat these sales as U.S. sales that it will not object.

Department's Position:
We agree with the petitioners. Because Ivaco was unable to demonstrate definitively at verification that the sales were destined for consumption in Canada, we have continued to treat them as U.S. sales.

Comment 8*: The Department Should Convert Ivaco's Home Market Gross Unit Price and Associated Expenses to a Uniform Currency*
The petitioner argues that the Department failed to convert certain gross unit prices and associated expenses in the comparison market program from U.S. dollars to Canadian dollars.

Department's Position:
We disagree with the petitioners. We made currency conversions into U.S. dollars in accordance with section 773A of the Act, which states that we "shall convert foreign currencies into United States dollars using the exchange rate in effect on the date of sale of the subject merchandise" (i.e., the U.S. date of sale). When calculating normal value, it is the Department's policy not to convert U.S. dollars to foreign currency on the home market date of sale and then convert these figures back to U.S. dollars using the exchange rate in effect on the U.S. date of sale, as the use of multiple exchange rates may cause distortions in the margin calculation. Rather, we keep U.S. prices and adjustments in U.S. dollars and weight-average them with the home market currency prices and adjustments after they have been converted to U.S. dollars.

Cost Issues

Comment 9*: Deferred Production Costs*
The petitioners argue that the Department should revise Ivaco's reported costs to include those production costs deferred by Ivaco during the POI. The documentation collected during verification, contend the petitioners, indicates that the deferral of certain production costs did not meet the requirements set forth in Ivaco's internal company policy. Therefore, those costs should not have been deferred. The petitioners also argue that this deferral is significantly different than the deferral of pre-production costs accepted by the Department in the 1997 investigation of Steel Wire Rod from Canada[8] and that Ivaco possibly deferred not only the pre-production costs in the instant investigation but also certain production costs for the subject merchandise as well.

[8] See Notice of Final Determination of Sales at Less Than Fair Value: Steel Wire Rod from Canada, 63 FR 9182 (Feb. 24, 1998) (SWR from Canada).

Furthermore, the petitioners argue that Ivaco's deferral of these production costs violates the accounting principle of matching expenses to revenues whenever is it reasonable and practicable to do so.

In response to Ivaco's claim that the deferral of such costs are in accordance with Canadian GAAP, the petitioners assert that the Department's normal practice is to adjust a respondent's reported costs where reporting methodologies based on the exporting country's GAAP are found to be inaccurate and do not reasonably reflect the costs associated with the production and sales of the subject merchandise.[9] The petitioners contend that the Department cannot accept Ivaco's proposal that, if the Department were to reject Ivaco's current deferral, the Department should retroactively apply a new accounting principle (i.e., exclude amortized amounts related to previous deferrals) established in the 1997 investigation. The petitioners assert that if the Department accepted that proposal, the amortized portion of the costs from that investigation would not be captured fully because the 1997 investigation concluded years ago and the cost of production (COP) for that investigation could not possibly be recalculated.

Ivaco contends that the Department should allow Ivaco's deferral of the production costs in question because the Department, in the 1997 antidumping investigation, agreed with Ivaco that it was appropriate to allow a deferral of pre-production costs because that practice was in accordance with Canadian GAAP and Ivaco's own accounting records, and did not distort costs. Ivaco claims that the deferral policy followed in the instant case is the same policy that existed in the previous investigation. Ivaco states further that the current deferral of production costs was made in accordance with the company's normal books and records and company policy, was approved by the company's auditors as evidenced by the disclosures in the footnotes to IRM's FY 2000 audited financial statements, was consistent with similar deferrals made by Ivaco previous to this investigation as outlined by Section 773(f)(1)(A) of the Act,[10] and, contrary to the petitioners' unsupported claim, does not distort the costs associated with the production of the subject merchandise. Moreover, Ivaco argues that its deferral policy does comply with the matching principle in that the benefits related to the deferral will be realized and recognized in future periods, therefore the related expenses should also be deferred. Ivaco also contends that the petitioners have failed to provide record evidence that Ivaco's policy on deferred pre-production costs is distortive.

Further, Ivaco asserts that, if the Department rejects Ivaco's accounting for the deferred pre-production costs, then the Department must presume that all deferrals are distortive and properly adjust the reported costs for the adoption of a new accounting principle (e.g., expense such costs in the period incurred) in accordance with GAAP. As such, the Department must apply the new

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[9] See, e.g., Memorandum to Faryar Shirzad from Bernard T. Carreau, Issues and Decision Memorandum for the Antidumping Duty Investigation of Certain Softwood Lumber Products from Canada (Lumber from Canada), (Mar. 21, 2002).

[10] See, also, 19 U.S.C. § 1677b and the Statement of Administrative Action accompanying the URAA, H.R. Doc 103-316, Vol. I (1994) at 834.

accounting principle as if the newly adopted policy had been followed in prior periods (i.e., exclude the amortized costs related to the deferrals made in previous periods that have been included in Ivaco's reported costs).

Finally, Ivaco asserts that the Department cannot resort to adverse facts available regarding Ivaco's deferral of production costs because Ivaco has acted to the best of its ability in responding to the Department's requests for information. Furthermore, the Department did not ask any supplemental questions about the deferral or amortization periods nor did the Department seek information during verification regarding the amortized amounts. Therefore, the Department can not conclude that Ivaco did not act to the best of its ability.

Department's Position:
We agree with the petitioners that Ivaco's deferred production costs should not be excluded from the reported costs. The exclusion of these deferred production amounts result in costs which are not reflective of the COP for the POI for the merchandise under investigation, thus producing an improper match of revenues and expenses.

The Department's long standing practice, codified at section 773(f)(1)(A) of the Act, is to rely on data from a respondent's normal books and records where those records are prepared in accordance with home country GAAP and reasonably reflect the costs of producing merchandise. Normal GAAP provide both Ivaco and the Department a reasonably objective and predictable basis by which to compute costs for the merchandise under investigation. However, in those instances where it is determined that a company's normal accounting practices result in a misallocation of production costs, the Department will adjust respondent's costs or use alternative calculation methodologies that more accurately capture the actual costs incurred to produce the merchandise. See, e.g., Final Determination of Sales at Less Than Fair Value: New Minivans from Japan, 57 FR 21937, 21952 (May 26, 1992).

In the instant proceeding, Ivaco deferred production costs related to the installation of proprietary equipment in its rod mill. We note that the equipment installation was complete in January 2000 and Ivaco continued to defer the production costs through December 2000 (i.e., six months of the POI, July through December 2000). In examining Ivaco's production records for the periods prior to, during, and subsequent to the POI (i.e., through April 2002) we found that there was little change in the quantities produced at the rod mill in question. Given the fact that the installation was completed in January 2000 and that normalized production levels occurred during the remainder of the 2000 calendar year and that production records indicate no technical problems occurred with the installation, we do not believe the exclusion of the deferred production costs reasonably reflects the costs associated with the production of the merchandise under investigation. Normally, costs are deferred because they have a future benefit; however, in this case the deferred costs at issue appear to have no future benefit, but rather are related to the costs incurred for products produced during POI. Thus, because deferring these costs distorts the POI cost calculation, for the final determination, we have included them in the reported costs.

Ivaco's claim that the Department should allow its deferral of the production costs in the instant case because the facts are the same and we allowed it in the 1997 antidumping investigation is unfounded. The Department stated in SWR from Canada, "it was reasonable in this instance for Ivaco to spread the furnace upgrade costs over future periods because these costs will benefit the company's future operations through higher, more efficient production levels." However, in the instant case, the deferred costs are not benefitting future operations and based on our examination of the production records Ivaco does not have higher, more efficient production levels. Further, Ivaco's argument that, if the deferred production costs at issue are included in the reported costs then the amortized portion of the costs deferred previously should be excluded is without merit. As noted above, we determined in the previous investigation that those deferred costs did benefit future operations; thus, the amortized portion of the deferred costs included in the current investigation are costs related to products produced during the POI.

Comment 10*: Ivaco's Reported Billet Costs and Cost of Manufacture*
The petitioners contend that for purposes of this final determination, the Department should exclude certain quantities of billets from the denominator of unit billet cost calculations because the billets were rejected and recycled. Conversely, the Department should include certain quantities of billets that were presumably sold but were not accounted for in Ivaco's calculation of total cost of billets used in production. The petitioners also contend that the Department should increase Ivaco's reported cost of manufacture to account for conditioning costs omitted by Ivaco.

Ivaco asserts that the Department should reject the petitioners' argument to exclude certain quantities of billets that were rejected and recycled from the cost calculations because the impact on Ivaco's reported per-unit costs is insignificant. In addition, the petitioners' assertion that certain quantities of billets that were sold but were not accounted for in the calculation of the reported costs is misplaced because the sales quantities have no relevance on the cost of billets produced. Regarding conditioning costs, Ivaco claims that because the amount of such costs is insignificant to Ivaco's cost of manufacture, the Department should not adjust the reported cost by this amount. The respondent states that this adjustment, as well as any billet adjustment suggested by the petitioners, is insignificant as defined by 19 CFR 351.413 of the Department's regulations and Section 777A(a)(2) of the Act. Finally, Ivaco notes that it has over-reported its cost, as stated in the Memorandum to Neal Halper from Taija Slaughter: Verification Report on the Cost of Production and Constructed Value Data Submitted by Ivaco; (June 19, 2002), by an amount greater that the proposed adjustments made by the petitioners.

Department's Position:
We agree with the petitioners that the quantities of billets rejected and recycled should be excluded from the per-unit cost calculation and the omitted costs related to conditioning should be included in the reported costs. We note that these two issues were included in Ivacos minor corrections presented on the first day of verification. Therefore, for the final determination, we adjusted Ivaco's reported costs to exclude the quantities for rejected and recycled billets and include conditioning costs.

The petitioners' contention that the Department should include amounts noted in the sales verification related to certain quantities of billets that were presumably sold but were not accounted for is misplaced. At the cost verification we examined production records and verified the production quantities of billets. Further, we agree with Ivaco that the sales quantities of billets bear no relevance to the cost of producing the billets. Therefore, for the final determination, we did not account for the difference between sales and production quantities of billets.

Comment 11*: Financial Expense Ratio*

The petitioners argue that the Department should disallow Ivaco's inclusion of certain dividend income in the calculation of its financial expense ratio. The petitioners contend that the Department's normal practice is to allow a company to reduce the amount of interest expense incurred by interest income on short-term investments of its working capital. According to the petitioners, the dividend income in question is not short-term interest income and, therefore, should be disallowed by the Department.

Ivaco refutes the petitioner's argument by noting that the Department, in a previous investigation,[11] determined that Ivaco's treatment of certain dividend income as a direct offset to interest expenses was appropriate. The dividend income in question in the current investigation, contends Ivaco, is precisely the same nature as that considered in the previous investigation. Therefore, the Department should allow Ivaco's dividend income offset barring any changes to the law or the Department's normal practice.

Department's Position:

We agree with Ivaco. Consistent with the 1997 investigation, SWR from Canada, we found that the dividend income was merely a pass through related to exchangeable debentures. As stated in the previous investigation, the interest expense and the dividends are directly linked; therefore, Ivaco properly treated these dividends as a direct offset to Ivaco's debenture interest expenses.

Comment 12*: General and Administrative Expense Ratio*

The petitioners argue that the Department should disallow the respondent's exclusion of certain corporate-level non-operating expenses from its general and administrative (G&A) expense ratio calculation. The petitioners cite Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Sheet and Strip in Coils from Japan ("Hot-Rolled Steel from Japan"), 64 FR 30574 (Jun. 8, 1999) where the Department defined G&A expenses as those period expenses which relate to the general production operations of the company rather than directly to the production process for the subject merchandise and stated that the Department's normal practice is to calculate G&A expenses using the operations of the company as a whole. See also, e.g., Brass Sheet and Strip from Canada: Final Results of Antidumping Duty Administrative Review, 61 FR 46619 (Sep. 4, 1996) and Circular Welded Non-Alloy Steel Pipe and Tube from Mexico: Final Results of Antidumping Duty Administrative Review, 63 FR 33041 (Jun. 17, 1998). The

[11] The respondent cites SWR from Canada.

petitioners conclude that because the non-operating expenses in question were incurred for the company as a whole and because there is no indication that these costs were extraordinary, the Department should include these non-operating expenses in its calculation of Ivaco's G&A expense ratio.

The petitioners also argue that the Department should exclude the foreign exchange gains, related to cash transactions and foreign exchange translation gains and losses, from the respondent's calculation of its G&A expense ratio calculation. The petitioners assert that the Department does not allow the inclusion of net foreign exchange gains associated with cash in the G&A expense ratio calculation because the Department normally associates these gains with financing costs.[12] Furthermore, for the same reason that the Department excludes gains and losses from investment activities in calculating G&A expenses, the Department should also exclude these gains from the respondents G&A expense calculation.

Ivaco objects to the petitioners' argument that certain corporate-level non-operating expenses should be included in Ivaco's G&A expense ratio calculation. Instead, the Department should continue to exclude these costs because they were not related to the general production operations of the company.[13] The respondent states that these non-operating expenses are distinct from the expenses included in Ivaco's G&A expense ratio calculation in that they do not relate to the continuing operations of the company and are not linked directly or indirectly to the subject merchandise. In the normal course of business, Ivaco does not consider the expenses in question as corporate expenses (i.e., corporate overhead expenses that can be recovered from the divisions) and therefore did not include them in the allocation of parent company G&A expenses to the respondent's G&A expense ratio calculation.[14] Regarding those non-operating expenses that were prior period adjustments, the respondent states that the Department has previously determined that costs are distorted where they include adjustments that do not pertain to the

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[12] The petitioners cite Memorandum to Faryar Shirzad from Richard W. Moreland, Issues and Decision Memo for the Antidumping Duty Investigation of Stainless Steel Bar from Italy; Final Determination ("SSB from Italy"), (Jan 23, 2002).

[13] The respondent cites Final Results of Redetermination Pursuant to Court Remand, U.S. Steel Group, A Unit of USX Corporation, USS/Kobe Steel Co., and Koppel Steel Corp. v. United States, Court No. 95-09-01144 (Undated) where the Department stated that it includes items in the calculation of G&A expenses that relate to the general production operations of the company. The respondent also cites the following cases where the Department previously allowed the exclusion from G&A of items not related to the company's principal production operations: Memorandum to Faryar Shirzad from Richard W. Moreland, Issues and Decision Memo for the Antidumping Duty Investigation of Structural Steel Beams from Taiwan, (May 20, 2002); Film from Korea; and Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Round Wire from Taiwan, 64 FR 17336 (Apr. 9, 1999).

[14] The respondent cites Lumber from Canada where the Department stated that its practice regarding G&A expenses is to calculate the rate based on the unconsolidated financial statements of the respondent company including an allocated portion of the parent company's G&A expenses, rather than base the rate on a parent company's consolidated financial statements.

period under investigation.[15] In such cases where the Department has included prior period expense, the respondent notes that the Department has only done so where it was determined that the inclusion of such costs is in accordance with that country's GAAP and reasonably reflects costs associated with the company's production activities (i.e., not distortive to the reported costs).[16]

In regard to the petitioner's arguments concerning the exclusion of foreign exchange gains from Ivaco's G&A expense ratio calculation, the respondent agrees that foreign exchange gains related to cash should not be included in the G&A expenses. Instead, these foreign exchange gains should be included in Ivaco's calculation of its financial expense ratio. Because the structure of the Department's verification report implies that foreign exchange gains and losses are more appropriately considered financial expenses and because the foreign exchange gains and losses occurred at the corporate level that does not make sales or have a production facility, the respondent contends that these gains should be included in Ivaco's financial expenses. Furthermore, the Department has previously determined that foreign exchange gains and losses in "cash and other accounts" are appropriately considered financial expenses.[17]

Department's Position:
We agree partially with the petitioners that certain non-operating expenses at issue should be included in Ivaco's G&A expense calculation. As noted by the petitioners and in accordance with the Department's well-established practice, we normally include in the G&A expense rate calculation those expenses related to the general operations of the company as a whole. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Hot-Rolled Carbon-Quality Steel Products from Japan, 64 FR 24329, 24350 (May 6, 1999) (Hot Rolled Steel from Japan). In the instant case, we note that a portion of the expenses at issue (which are proprietary) would normally be absorbed by the operations of the company that incurred the expenses. However, once those operations no longer exist, the company as a whole has to bear the expense incurred related to those operations. Therefore, for the final determination, we have determined that it is

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[15] The respondent cites Certain Cut-To-Length Carbon Steel Plate from Germany: Final Results of Antidumping Duty Administrative Review, 61 FR 13834 (March 28, 1996); Notice of Final Determination of Sales at Less Than Fair Value: Small Diameter Circular Seamless Carbon and Alloy Steel, Standard, Line and Pressure Pipe from Italy, 60 FR 31981 (June 19, 1995); AK Steel Corporation v. United States, Ct. Int'l Trade 160, Slip Op. 97-152 (Nov. 14, 1997); Hot-Rolled Steel from Japan; Notice of Final Determination of Sales at Less Than Fair Value: Certain Preserved Mushrooms from Chile, 63 FR 56613 (October 22, 1998).

[16] The respondent cites Lumber from Canada where the Department found that it was reasonable to include prior period expenses because the company's financial statements also excluded adjustments related to the POI that were booked in the subsequent period and the net differences were not material in nature.

[17] The respondent cites SSB from Italy; Notice of Final Results and Partial Rescission of Antidumping Duty Administrative Review: Certain Welded Carbon Steel Pipe and Tube from Turkey, 63 FR 35190 (Jun. 29, 1998); and Notice of Prelminary Determination of Sales at Less Tahn Fair Value and Postponement of Final Determinations – Stainless Steel Round Wire from Canada, India, Japan, Spain, and Taiwan; Prelminatery Determination of Sales at Not Less Than Fair Value and Postponement of Final Determination – Stainless Steel Round Wire from Korea, 63 FR 64042 (Nov. 18 1998).

appropriate to include these non-operating expenses in the G&A expense rate calculation. However, the remaining non-operating items related to a prior period pension adjustment, write-off of a proprietary investment and a gain on a sale of an investment should not be included in the G&A expense rate calculation. We note that the prior period pension adjustment is not related to period costs for the current year. Additionally, the write-off and gain on investments are related to investment activities which are not normally included in the G&A expense rate calculation. See, e.g., Final Determination of Sales at Less Than Fair Value, Oil Country Tubular Goods from Korea, 60 FR 33561, 33566 (June 28, 1995).

With respect to the foreign exchange gains associated with cash transactions, we agree with both parties that, these gains should be disallowed as an offset in the G&A expense rate calculation and included in the calculation of the financial expense ratio. See, e.g., SSB from Italy.

Issues Specific to ISI

Sales Issues

Comment 13: *Date of Payment for Unpaid Sales to a U.S. Customer*
ISI notes that one of its U.S. customers did not pay several invoices during the POI. This U.S. customer went bankrupt and ISI's sales to it that were left unpaid were written off by ISI as bad debt. In the Preliminary Determination, as ISI notes, the Department used the date of the preliminary determination as the date of payment for these unpaid sales. ISI contends that the Department should instead use ISI's average credit period as the payment date for these written-off sales. See Memorandum to Gary Taverman through Constance Handley from Edward Easton: Verification Report on the Sales Data Submitted by Ispat Sidbec, Inc.; (June 5, 2002) (ISI Verification Report) at 10 and Verification Exhibit 17.

ISI cites the Department's ruling in Notice of Amendment of Final Determinations of Sales at Less Than Fair Value: Stainless Steel Plate in Coils From the Republic of Korea; and Stainless Steel Sheet and Strip in Coils From the Republic of Korea , 66 FR 45279, 45283 (August 28, 2001) (Plate from Korea as Amended). In that case, ISI contends, the Department determined that the Korean producer POSCO had written off certain sales and used POSCO's average credit period for paid sales to assign a payment date for POSCO's sales that had been written off. As in that case, ISI argues that its average credit period "most accurately reflects the true price of ISI's wire rod" to the customer in question "at the time of the sale." See ISI's Case Brief at 11.

If the Department decides not to use the average credit period for payment date for ISI's written-off sales, ISI argues, then the date these sales were written off (December 31, 2001) should be used. ISI contends that, since after this date ISI was no longer extending credit to the customer in question, using any date after December 31, 2001 "would be to impute a credit expense where none was actually incurred."

The petitioners rebut by arguing that the Department should use the date of the final determination as the date of payment for ISI's written-off sales. The petitioners argue that the

Department used the "date of final results" as the date of payment for unpaid sales in an administrative review more recent than Plate from Korea as Amended, namely in Certain Preserved Mushrooms from India, Final Results of Antidumping Duty Administrative Review 67 FR 46172, 46173 (July 12, 2002)(Mushrooms from India). The petitioners also cite Stainless Steel Bar from Italy: Notice of Final Determination of Sales at Less Than Fair Value 67 FR 3155 (January 23, 2002), Issues and Decision Memo at Comment 30, where the Department used the last date of verification as the date of payment for unpaid sales. The petitioners conclude that since ISI has not received payment for the sales in question, it "is incurring substantial credit costs for those sales." See Petitioners Rebuttal Brief Pertaining to ISI at 7-8.

Department's Position:
We agree with the respondents in part. As the date of payment for its sales that were written off, we have used ISI's average credit period for sales made during the POI to the same customer, for which payment had been received. Unlike in Mushrooms from India, where there is no record evidence to suggest that the company was not still expecting payment, ISI had written off unpaid sales to a certain bankrupt customer. As stated in Plate from Korea as Amended: "Use of an average credit period, which is consistent with POSCO's average terms of sale during the POI, most accurately reflects the true price of the merchandise at issue at the time of sale." For ISI's sales that were written off, we find that ISI could not have reasonably anticipated that it would not have been paid. However, in this case, ISI had knowledge of the credit history of the customer in question, and that information is on the record. We consider it reasonable to conclude that ISI would have taken this into account when setting the price for the merchandise. Therefore, rather than using the average credit period for all sales, as suggested by ISI, we used ISI's customer-specific average credit period to determine the payment date for the sales that were written off.

Comment 14: *Matching of Prime Material to Non-Prime Material*
ISI contends that the Department matched sales of prime material to sales of non-prime material in its margin program in the preliminary determination. ISI argues that such matching is "contrary to the spirit of the dumping law" and is only adopted by the Department in cases where the respondent has not sufficiently supported its position that the material in question is actually non-prime. ISI contends that in this case, the Department has verified that ISI's classification of certain material as prime and non-prime was correctly reported. ISI argues that the Department should include a condition in the model-match section of its margin program that ensures that sales of prime quality material in the United States are correctly matched to sales of prime quality material in the home market, and that sales of non-prime material in the United States are matched to sales of non-prime material in the home market. ISI cites the Notice of Amended Final Results of Antidumping Duty Administrative Review: Stainless Steel Sheet and Strip in Coils from Mexico, 67 FR 15542 (April 2, 2002), whereby, ISI argues, the Department corrected a clerical error in the margin program that did not account for the difference in prime versus non-prime material.[18]

[18] See ISI's case brief at 12-13.

The petitioners did not brief this issue.

Department's Position:
We agree with ISI and have amended the margin program in the final determination to correct this error.

Comment 15: *Walker Wire's Sales of Wire Products*
ISI argues that the Department should not include sales of wire products made by its U.S. affiliate, Walker Wire, in its calculation of the dumping margin for the wire rod it sold. ISI bases this argument on Section 772(e) of the Act, which, ISI argues, gives the Department discretion to exclude from its analysis "constructed export price sales involving merchandise with value added after importation," or FM sales, "where the value added in the United States by an affiliate is likely to exceed substantially the value of the subject merchandise." ISI argues that this stipulation is quantified in the Preamble to the Department's Rules and Regulations, 62 FR 27296 (May 19, 1997) (Preamble), "where the value added accounts for 'substantially more than half' of the average price charged to the first unaffiliated purchaser for the merchandise as sold in the United States." ISI contends that the quantity of the FM sales in question is "relatively insignificant, and these wire sales are no more representative of Ispat Sidbec's 'dumping' margin than are the wire rod sales alone." Because this quantity is "relatively insignificant," ISI contends, including them in the dumping calculation skews the calculation and misrepresents the patterns of ISI's pricing.

The petitioners contend that U.S. law requires the Department to use the U.S. price of all sales, including sales through affiliates, to calculate the dumping margin. Moreover, the petitioners argue that the Department has specific rules to determine when the amount of value added in the United States is so large as to allow for potential exclusion of these FM sales, namely, as the Department's regulations state, "if the Secretary estimates the value added to be at least 65 percent of the price charged to the first unaffiliated purchaser for the merchandise as sold in the United States." The petitioners contend, however, that ISI has not used this method in "claiming that the value added in the United States is significant and therefore cannot meet this test" in arguing that Walker Wire's FM sales be excluded. The petitioners also contend that these FM products are "the most significantly dumped, and therefore are the very products that are causing injury to the domestic industry." See Petitioner's Rebuttal Comments Concerning ISI of July 17, 2002, at 12.

Department's Position:
We agree with the petitioners. The underlying purpose of the "special rule" that gives the Department the discretion to exclude FM sales, as ISI recognizes, "is to avoid imposing an unnecessary burden on the Department." See ISI Case Brief at 17. Prior to the application of the special rule, as the Preamble to the Department's regulations states, "in situations where the amount of value added in the United States was very large, the process of calculating the deduction was very difficult and time-consuming for the Department." See Preamble at 27352.

In this case, including the Walker Wire sales in the dumping calculation imposes no burden on the Department. Thus, even though the value added by Walker Wire to the subject merchandise may "exceed substantially the value of the subject merchandise," it is not at the same time "very difficult and time-consuming" for the Department to determine this value. The Preamble to the regulations clearly supports this position: "because the purpose of section 772(e) is to reduce the administrative burden on the Department, the Department retains the authority to refrain from applying the special rule in those situations where the value added, while large, is simple to calculate." See Preamble at 27352. Furthermore, Walker Wire's U.S. sales of FM merchandise represent an appreciable part of ISI's total U.S. sales of subject merchandise during the POI.

Comment 16: *Segregation of Further-Manufactured Sales from Other Constructed Export Price Sales*

ISI argues that the Department erroneously segregated FM sales from other CEP sales in its margin calculation. The petitioners rebut by arguing that the Department should segregate FM sales from other CEP sales in its margin calculation because FM sales constitute a separate averaging group as per the Department's regulations at 19 CFR 351.414(d)(2).

Department's Position:

The Department agrees with ISI that it should not segregate FM sales from other CEP sales in its margin calculation. We note that, in an investigation we weight-average sales by control number. We note that because the FM costs are backed out of the starting price, and the product for which we calculate a CEP is the product that entered the United States from Canada. We have not segregated FM sales from other CEP sales in accordance with the Department's regulations at 19 CFR 351.414(d)(2) because FM sales and other CEP sales are identical or virtually identical, are both sold at the same level of trade and are sold in the same region of the United States. We have corrected this error in the final determination.

Cost Issues

Comment 17: *Affiliated Party Inputs*

ISI claims that the Department erred in its finding that the transfer price paid by ISI to its affiliated supplier of direct reduced iron (DRI) was lower than the market price for DRI. The respondent contends that the Department should not increase the transfer price for DRI purchased from the affiliated supplier because ISI already used the higher of the transfer or market price in the reported cost.

The petitioners state that because the price paid by ISI to its affiliated supplier was lower than the market price according to the Department's findings, the Department should increase the cost of DRI purchased from its affiliated supplier to reflect a market price.

Department's Position**:**

We agree with ISI that we incorrectly noted that the transfer price paid by ISI to the affiliated supplier of DRI was lower than the market price. We acknowledge that in our comparison we erroneously used the standard DRI purchase price, unadjusted for the price variance, rather than

the actual transfer price (i.e., standard DRI purchase price plus price variances). Analysis of the actual DRI transfer price shows that ISI paid the market price for affiliated DRI purchases. See exhibit D-35 of the supplemental section D response and cost verification exhibits 25 and 27. Accordingly, we made no adjustment to the cost of DRI for the final determination. We cannot address the specifics of the petitioner's and respondent's arguments regarding this issue, as a meaningful discussion is only possible by means of reference to business proprietary information. For a complete discussion of this issue see Memorandum to Neal Halper from Ernest Z. Gziryan, Re: Cost of Production and Constructed Value Calculation Adjustments for the Final Determination (COP Analysis Memo for ISI) dated August 23, 2002.

Comment 18: *General and Administrative Depreciation Expense*
The petitioners argue that the Department should revise ISI's submitted G&A expense ratio to include depreciation attributable to G&A assets. This correction is necessary, according to the petitioner, because there is always some depreciation expense attributable to assets such as the buildings where administrative staff are located and the computer systems, phone systems and furniture that they use. The petitioners argue that where the level of detail permits, the Department has recognized that some portion of depreciation expense is allocable to G&A expenses. Because ISI has not provided a schedule of depreciation expenses broken out between G&A and cost of goods sold, the petitioners assert, such a breakdown needs to be estimated.

ISI stated that it has no objection to the Department making such an adjustment.

Department's Position:
We acknowledge the petitioners' assertion that there is normally some depreciation expense related to G&A assets and that the Department recognizes that some portion of depreciation expense is allocable to such assets where the level of detail permits. We note, however, that ISI included its total POI depreciation expense in the cost of manufacturing and that at this late stage of the proceeding there is no record evidence that would enable the Department to accurately calculate a breakdown of ISI's depreciation expense between COM and G&A. Moreover, any G&A related depreciation expense that would be added to the G&A expense ratio calculation must also be deducted from the COM to avoid double-counting. Thus, because ISI has captured its total depreciation expense in the COP and allocating depreciation expense between COM and G&A would have little or no effect on their reported costs, we have not adjusted respondent's G&A expense ratio for the final determination.

Comment 19: *General and Administrative Expense - Further Manufacturing*
ISI argues that the Department should not exclude certain proprietary income items received by Walker Wire from the calculation of Walker Wire's G&A expense rate. ISI did not comment on the petitioner's claim that the Department should include certain proprietary expenses in Walker Wire's G&A expense calculation.

The petitioners believe that the Department should exclude certain proprietary income items from the calculation of Walker Wire's G&A expense rate. The petitioners further argue that the

Department should include certain proprietary Walker Wire expenses in the G&A expense calculation.

Department's Position:
For the final determination, we excluded the proprietary income from the calculation of Walker Wire's G&A expense ratio and included it in the calculation of its indirect selling expenses. We also agree with the petitioners that certain proprietary Walker Wire expenses should be included in the G&A expense. We cannot address the specifics of petitioners' and ISI's arguments regarding this issue, as a meaningful discussion is only possible by means of reference to business proprietary information. For a complete discussion of this issue see COP Analysis Memo for ISI.

Comment 20*: Adjustment to Walker Wire's Cost of Manufacturing*
ISI argues that the Department should reject the petitioners' suggestion to adjust Walker Wire's cost to include certain proprietary POI expenses.

The petitioner argues that Walker Wire's reported FM cost needs to be adjusted to include certain proprietary expenses because they are part of Walker Wire's manufacturing costs.

Department's Position:
We agree with the respondent and made no adjustment to Walker Wire's COM for the final determination. We cannot address the specifics of the petitioners' and ISI's arguments regarding this issue, as a meaningful discussion is only possible by means of reference to business proprietary information. For a complete discussion of this issue see COP Analysis Memo for ISI.

Issues Specific to Stelco

Sales Issues

Comment 21: *Sale Amount*
The petitioners contend that Stelco should use the amount paid by the customer as the net price for a sale to a customer that failed to pay the entire balance for the sale.

Stelco rebuts by arguing that it has reported the amount paid by the customer on sales for which full payment was not received; Stelco also contends that it reported the amount not paid by the customer in its post-verification sales database in the field SHRTPAYU. Stelco also argues that when this amount is deducted from the invoiced amount the result is the amount that the customer actually paid.

Department's Position**:**
We agree with Stelco and, in the final determination, have deducted SHRTPAYU from the invoice price to arrive at the actual amount paid by the customer. The SHRTPAYU field was added for this purpose.

Comment 22: *Stelco's Sales to Stelfil Ltee. (Stelfil)*
Stelco contends that the Department improperly included Stelco's sales to its affiliate Stelfil Ltee. (Stelfil) in the calculation of normal value. Stelco argues that the same methodology that the Department applied in its collapsing of Stelco with its affiliate Stelwire in the preliminary determination should be applied to its relationship with, and therefore its sales to, its affiliate Stelfil. Stelco argues that Stelwire and Stelfil are structurally and functionally the same, and that the only difference between the two is that "during the POI Stelwire happened to sell a small quantity of subject merchandise, while Stelfil did not."

Stelco argues that Stelfil need not have produced subject merchandise in order for it to be collapsed with Stelco; instead, Stelco argues that "the Department's policy is to 'collapse' a respondent and its affiliate as a single entity whenever the affiliate has the ability to produce subject merchandise." Regarding this, Stelco cites to 19 CFR 351.401(f)(1).

Stelco notes that Stelfil has produced subject merchandise for sale in the Canadian market in the past and that, since it is equipped with the same processing equipment as Stelwire, Stelfil could have produced subject merchandise during the POI "had it chosen to do so." See Stelco's case brief at 25-26.

The petitioners rebut that the Department "examined the arrangements between Stelco and Stelwire" and found that they "have closely intertwined operations" and "act as 'producers' of annealed and coated rod for purposes of this investigation." The Department, the petitioners note, has not made any such determination for Stelfil. Based upon Stelco's section A response that Stelfil "manufactures wire and wire products and 'Stelfil does not sell subject merchandise,'" as well as statements from the Department's COP verification report and corporate profiles submitted by Stelco, the petitioners argue that Stelfil does not produce the merchandise under investigation. Because Stelfil does not produce subject merchandise, the petitioners conclude that there is no basis for collapsing Stelco's sales to Stelfil. See the Petitioners Rebuttal Brief Pertaining to Stelco at 13-14.

Department's Position:
In the preliminary determination, the Department collapsed Stelco and Stelwire because of their relationship as affiliates and because both were producers of subject merchandise during the POI, as evidenced in Stelco's response to the Department's sales questionnaire. Based on this evidence, the Department observed that "the facilities used by Stelco and Stelwire to produce coated and annealed rod are the same (i.e., Stelco's facility to manufacture the green rod and Stelwire's coating and annealing facilities)." The Department concluded that "as 'producers' of coated and annealed rod, these affiliates have production facilities for similar or identical products that would not require substantial retooling of either facility in order to restructure manufacturing priorities."[19]

[19] See Memorandum from Gary Taverman to Bernard Carreau, Canadian Carbon and Certain Alloy Steel Wire Rod: Collapsing of Ivaco Inc. with Ivaco Rolling Mills and Stelco Inc. with Stelwire Ltd., April 2, 2002 (Collapsing Memorandum).

Unlike Stelwire, Stelfil, although affiliated with Stelco, did not produce subject merchandise during the POI, as Stelco noted in its November 30 response to the Department's Section A questionnaire.

Regarding Stelfil's capacity to produce subject merchandise, Stelco's contention that "the Department's policy is to 'collapse' a respondent and its affiliate as a single entity whenever the affiliate has the ability to produce subject merchandise" is consistent with the Department's regulations at 19 CFR 351.401(f)(1). However, there is no information on the record that can allow us to determine that Stelfil had the capacity to produce subject merchandise during the POI. Instead, the information on the record indicates that Stelfil only produces non-subject merchandise. For example, in Stelco's corporate profile, submitted as Exhibit A-3, Stelfil is described as follows: "Stelfil Ltée...has been producing wire and wire products for over 100 years." See Stelco's Section A response (November 30, 2001) at Exhibit A-3. Furthermore, Stelco states that "it has an affiliate, Stelfil Ltee, which manufactures wire and wire products and sells them in Canada. These products are non-subject merchandise. Stelfil does not sell subject merchandise." See Stelco's Section A response at page 15. Thus, the record demonstrates that Stelfil does not produce the subject merchandise and thus should not be collapsed with Stelco.

The decision not to collapse the affiliated entity, which does not produce the subject merchandise, is consistent with Department practice; see e.g., Preliminary Determination of Sales at Less Than Fair Value and Postponement of Final Determination: Dynamic Random Access Memory Semiconductors of One Megabit and Above ("DRAMs") From Taiwan 64 FR 28983, (May 28, 1999), (DRAMs from Taiwan) which was supported by the final determination in the case and where the Department did not collapse an affiliate of the respondent because the affiliate did not produce subject merchandise.

Therefore, for the final determination, while we have continued to collapse Stelco and Stelwire for the purposes of our antidumping analysis, we have not collapsed Stelfil with Stelco. We note, however, that we will revisit this decision in any future proceeding, should Stelfil produce subject merchandise in the future.

Cost Issues

Comment 23: *"Collapsed Entities" Rule*
Stelco contends that the Department should apply the "collapsed entities" rule and not the "major input" rule to its purchases of pulverized coal, bloom reheating services and billets made by its affiliates, PCI-Hilton, Bloomco and Stelco McMaster, respectively. Stelco claims that PCI-Hilton, Bloomco and Stelco McMaster may be separate legal entities; however, they are in effect operating divisions of Stelco. Stelco maintains that PCI-Hilton and Bloomco, in a functional sense, cannot be described as divisions of Stelco; they are assets which were purchased to upgrade previously operating assets of Stelco. PCI-Hilton was created as a separate legal entity to finance the purchase of a coal pulverizing facility, and Bloomco was incorporated to finance the purchase of a reheating furnace. Stelco asserts that while it signed legal documents

"incorporating" these assets, nothing else has changed. The assets remain located within Stelco's steel making facilities at Hilton Works.

Further, Stelco states that Stelco McMaster is 100% owned by Stelco, and all financial and other costs incurred by Stelco McMaster are taken directly to Stelco's cost of goods sold, and all "income" earned by Stelco McMaster on sales to Stelco affiliates is eliminated. According to Stelco, for purposes of inter-company transactions, Stelco McMaster is essentially its operating division. Stelco argues that the facts of the case related to Stelco McMaster are similar to those related to Stelwire, where the Department has applied the collapsing rule. Stelco asserts that both Stelco McMaster and Stelwire are wholly-owned subsidiaries of Stelco, and from an accounting point of view, Stelco treats transactions between each of these entities in exactly the same manner. The costs of both Stelco McMaster and Stelwire are included in Stelco's consolidated cost of goods sold, and "profits" earned on transactions between the subsidiaries and Stelco are eliminated.

Stelco points out that the only difference between Stelco McMaster and Stelwire is that during the POI Stelwire produced and sold subject merchandise and Stelco McMaster did not. Yet Stelwire is principally a wire and wire products company. Stelco asserts that if during the POI, Stelwire did not produce and sell any wire rod, it would not have been collapsed for cost purposes, and the Department would apply the major input rule for transactions between Stelwire and Stelco. On the other hand, if during the POI, Stelco McMaster produced and sold wire rod, it would be collapsed, and the Department would not have applied the major input rule. Stelco argues that the question of whether the Department applies the major input rule cannot depend on whether an affiliate happens to sell subject merchandise. This practice ignores the rationale underlying the application of the collapsing rule. Stelco contends that with respect to the 'collapsing' rule, the Department must look at the substance of the transaction involved, such as whether the transaction is between entities that are functionally divisions of the same company, or between entities that are true affiliates.

According to Stelco, the Department has a practice upheld by the courts, under which the Department does not apply the major input rule of the statute whenever it "collapses" entities subject to an investigation. However, in the preliminary determination the Department has applied this rule in a mechanistic manner, by refusing to apply the major input rule to input transactions between Stelco and Stelwire, while applying the major input rule to all other transactions between Stelco and its affiliates. Stelco contends that the logic and purpose underlying the Department's non-application of the major input rule for collapsed producers in past cases is clear. The Department does not apply the major input rule to collapsed entities that are functionally divisions of the same company, because doing so would result in higher costs than the company's total actual COP.

The petitioners argue that PCI-Hilton, Bloomco and Stelco McMaster are separate legal entities and not operating divisions of Stelco. Therefore, the Department should apply the major input or "transactions disregarded" rule for the inputs purchased and used in the production of the subject merchandise by Stelco from PCI-Hilton, Bloomco and Stelco McMaster. According to the

petitioners, if the Department ignores the major input rule each time a respondent claims that its affiliated supplier is "essentially" an operating division or operates functionally as a division of the company, the Department would effectively write the major input rule out of the statute and the Department's regulations, because respondents would always prefer the Department to use the supplier's costs whenever that cost is less than the transfer price.

Department's Position:
We disagree with Stelco that PCI-Hilton, Bloomco and Stelco McMaster should be treated as collapsed entities with Stelco for purposes of this investigation. The Department's established practice is to collapse only the producers and sellers of the subject merchandise that satisfy the collapsing criteria of 19 CFR 351.401(f). See, e.g., Notice of Final Results of Antidumping Duty Administrative Review: Frozen Concentrated Orange Juice from Brazil, 65 FR 60406 (October 11, 2000), and accompanying Issues and Decision Memorandum at Comment 1 (where the Department collapsed Citrovita, Cambuhy, and Cambuhy Exportadora as a single entity because all three were the producers and sellers of the subject merchandise, and accordingly combined these companies' home market sales, as well as their production costs). However, in the subsequent proceeding the Department only collapsed Citrovita and Cambuhy, and not Cambuhy Exportadora because Cambuhy Exportadora no longer produced or sold the subject merchandise. (See, e.g., Notice of Final Results of Antidumping Duty Administrative Review: Frozen Concentrated Orange Juice from Brazil, 66 FR 51008, 51009 (October 5, 2001)). See also Notice of Final Results and Partial Rescission of Antidumping Duty Administrative Review: Certain Pasta from Italy, 64 FR 6615, 6621 (February 10, 1999) (Pasta from Italy), where the Department did not collapse Molino F.lli De Cecco di Filippo S.P.A. (Molino) because Molino was a supplier of semolina used in the production of pasta, but did not produce pasta. However, the Department did collapse F.lli De Cecco di Fillipo Fara S. Martino S.P.A. (De Cecco) and Molino E Pastificio De Cecco S.P.A. (Pescara) because both De Cecco and Pescara produced and sold pasta. The Department collapsed these two entities because the Department's regulations provide for a special treatment of affiliated producers where the potential for manipulation of prices or production exists in an effort to evade antidumping duties imposed on the sale of subject merchandise.

In this investigation both Stelco and its affiliate, Stelwire, produced and sold the merchandise under investigation; thus, the ability to manipulate prices and production was possible between these two entities. Under these circumstances one overall margin is applied to both companies. Therefore, for the final determination, we collapsed the sales and production activities of Stelco and Stelwire in accordance with 19 CFR 351.401(f). However, we note that PCI-Hilton, Bloomco and Stelco McMaster are not the producers of the subject merchandise, but are only suppliers of inputs or services to Stelco. As a result, the ability to manipulate prices of the merchandise under investigation was not present for these companies. However, the Department must still apply the transaction disregarded and major input rule analysis under section 773(f)(2) and (3) of the Act for transaction between affiliated parties. Therefore, for the final determination and consistent with our past practice, we applied the transaction disregarded or major input rule for PCI-Hilton, Bloomco and Stelco McMaster.

We disagree with Stelco that the question of whether the Department applies the major input rule cannot depend on whether an affiliate happens to sell subject merchandise. It is the Department's practice not to apply section 773(f)(2) and (3) of the Act to transfers within a collapsed entity, the exception to the rules, since we are treating the collapsed companies as one single entity. See Notice of Final Results of Antidumping Duty Administrative Review: Certain Cold-Rolled and Corrosion-Resistant Carbon Steel Flat Products from Korea, 64 FR 12927, 12948 (March 16, 1999). However, the Department does apply the major input or transaction disregarded rule to transfers from non-collapsed entities. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Butt-Weld Pipe Fittings from Italy, 65 FR 81830 (December 27, 2000), and accompanying Issues and Decision Memorandum at Comment 1A. Therefore, for the final determination, we continued to apply the transaction disregarded rule to the purchases of pulverized coal and reheating services and the major input rule to the purchases of billets made by Stelco from its affiliates, PCI-Hilton, Bloomco and Stelco McMaster and used for the production of the subject merchandise. See our response to the comment concerning "Purchase of Pulverized Coal, Bloom Reheating Services and Billets" below.

Comment 24: *Purchase of Pulverized Coal, Bloom Reheating Services and Billets*
Stelco contends that in calculating its COP at the preliminary determination, the Department erroneously increased the input cost of pulverized coal, bloom reheating services and billets, obtained from its affiliates, PCI-Hilton, Bloomco and Stelco McMaster, above the actual cost of these inputs. According to Stelco, this action by the Department violates the requirements of section 773(f)(1) of the Act as interpreted by the courts and two NAFTA Bi-national Panels; therefore, the Department must correct this error by valuing these inputs at their actual COP as shown and recorded on Stelco's books of account. According to Stelco, the Department was wrong when it applied the major input rule in accordance with 19 CFR 351.407 (b) and valued these inputs at their transfer price.

Stelco maintains that there is no "market price" for pulverized coal, bloom reheating services and billets, because Stelco does not purchase theses inputs and services from any other company. Further, PCI-Hilton, Bloomco and Stelco McMaster do not provide these inputs or services to any company other than Stelco. Therefore, 19 CFR 351.407(b)(2) is inapplicable to these affiliated transactions. In addition, Stelco claims that neither PCI-Hilton nor Bloomco issues an invoice to Stelco which would constitute a "transfer price" for these inputs. According to Stelco, under these circumstances, it is clear that there is no "price paid by the exporter for the input" received from affiliates as required by the regulations. Stelco maintains that there is simply a pass-through of charges incurred by the affiliates for their operations. Stelco contends that in the absence of either a market price or a specific transaction price for these inputs provided by PCI-Hilton and Bloomco, the Department should value these inputs at their full COP.

With respect to the billets purchased from Stelco McMaster, Stelco admits that Stelco McMaster is a separate operating company with its own facilities and employees and provides invoices to Stelco. However, Stelco contends that because Stelco McMaster is 100% owned by Stelco, in its normal books and records all financial and other costs are taken directly to Stelco's cost of goods

sold, and all "income" earned by Stelco McMaster on sales to Stelco affiliates are eliminated. Thus, according to the respondent, when Stelco calculates its cost of goods sold on its books of account, the only input cost that appears there, in accordance with both Canadian and U.S. GAAP, is the actual cost of producing the input (as incurred by Stelco and charged to the affiliates, and then charged back to Stelco by the affiliates). By increasing the costs of the affiliated inputs to include the full amounts of the affiliates invoices, the Department has increased Stelco's costs beyond its actual COP.

Stelco points out that the statute requires the Department to calculate a respondent's actual COP. Section 773(b)(3) of the Act defines COP as "an amount equal to the sum of" cost of materials, fabrication, and other processing costs, plus selling, general and administrative (SG&A) expenses." Stelco contends that the words "equal to" do not permit the Department to determine costs that are either higher or lower than a company's actual cost. Moreover, according to Stelco, section 773(f) of the Act requires that costs shall normally be calculated based on the records of the exporter or producer of the merchandise, if such records are kept in accordance with the GAAP of the exporting country and reasonably reflect the costs associated with the production and sale of the merchandise. According to Stelco, its actual COM, as shown on Stelco's books and records are kept in accordance with Canadian GAAP, do not include either the cost of repaying loans or the cost of interest payments. The inclusion of such costs by the Department as part of COM would result in costs in excess of Stelco's actual costs, in violation of both Canadian and U.S. GAAP, and section 773 of the Act.

According to Stelco, two separate NAFTA panels have made it clear that the Department is not permitted by law to increase costs above a respondent's actual COP, specifically in regard to the treatment of inputs purchased by Stelco from its affiliates. In Corrosion-Resistant Carbon Steel Flat Products from Canada, USA 97-1904-3 (September 13, 1999), a NAFTA panel ruled that the Department improperly refused to reduce Stelco's cost of painting services by the amounts of profits remitted to Stelco from its affiliate, Baycoat as recorded on Stelco's income statement. In a subsequent administrative review involving Stelco on the same product, a second panel again required the Department to reduce the input cost of painting services obtained from Baycoat by the amount of profits returned to Stelco by Baycoat as recognized in Stelco's income statement.

Stelco argues that by grossing up the "cost" of the inputs obtained from these three affiliates to include their full income, the Department has double-counted interest costs. According to Stelco, the Department's calculation of interest cost includes the full short and long-term interest expenses of the consolidated corporation which includes the interest expenses incurred by PCI-Hilton, Bloomco and Stelco McMaster. Stelco maintains that if for the final determination the Department continues to do the same, then the total interest costs of Stelco must be reduced by the interest expenses incurred by PCI-Hilton, Bloomco and Stelco McMaster. Stelco also maintains that the Department may not divide these interest costs by Stelco's consolidated cost of goods sold as shown in its financial statements, because the consolidated cost of goods sold has been reduced by the additional charges passed from PCI-Hilton and Bloomco to Stelco, and therefore, the department should increase the consolidated cost of goods sold by these additional charges.

Stelco maintains that if the Department insists on increasing the input cost of pulverized coal and bloom reheating services to include repayments of loan principal, it must reduce the reported costs by the depreciation cost of the PCI-Hilton and Bloomco facilities. According to Stelco, the depreciation expenses incurred by PCI-Hilton and Bloomco were included in Stelco's build-up of per-unit costs. Therefore, the Department must eliminate the depreciation expense element of PCI-Hilton and Bloomco from the reported costs.

The petitioners argue that the Department has properly applied the major input rule for Stelco's purchases of pulverized coal, bloom reheating services and billets from its affiliates, PCI-Hilton, Bloomco and Stelco McMaster respectively, and for the final determination the Department should continue to use the higher transfer price to adjust the reported costs for these inputs. The petitioners contend that the major input rule does not require the Department to analyze the components of the transfer price, but permits the Department to compare transfer price, market price, and the affiliated supplier's COP, and use the highest value. The petitioners counter Stelco's claim that the transfer prices are not valid because they include amounts for the repayment of the loan principal, by stating that any company, whether it be a subsidiary of Stelco or a stand-alone enterprise, must be able to charge an amount for its products or services that will enable the company to retire its debt and build equity, or otherwise, the company will not be able to continue to operate. The Department should, therefore, disregard Stelco's claims concerning the repayment of loans. The petitioners maintain that the Department's adjustment under the major input rule neither resulted in an overstatement of Stelco's costs nor resulted in double counting of interest and depreciation expenses, because the Department revised Stelco's reported costs to reflect the transfer price recorded for these inputs in Stelco's books and records and, therefore, did not violate section 773(f) of the statute as contended by the respondent.

Department's Position:
During the POI, Stelco purchased pulverized coal, bloom reheating services and billets from affiliated suppliers. Rather than reporting these affiliated purchases at the higher of the transfer price between Stelco and its affiliated suppliers and the fair market value for the inputs, in accordance with section 773(f)(2) of the Act, Stelco valued these inputs at the affiliated suppliers' actual COM. As the actual transfer prices between Stelco and its affiliated suppliers exceeded the affiliates' actual COM, we adjusted Stelco's reported costs for the preliminary determination to reflect the actual transfer prices between Stelco and its affiliated suppliers. For the final determination, we have continued to adjust their reported costs to reflect the transfer prices for affiliated party purchases of pulverized coal, bloom reheating, and billets.

In the normal course of business, Stelco and its affiliated suppliers of pulverized coal, reheating services, and billets agree to a price for the service or input being provided. Contrary to Stelco's claims, a transfer price does exist between Stelco and its affiliated suppliers for these inputs. In its normal books and records, Stelco pays these affiliates an amount for the inputs, and records the transactions as either expenses or additions to inventory. In addition, in the affiliated suppliers' normal books and records, the suppliers record the receipt of payment as revenue. Section 773(f)(2) of the Act (i.e., the transaction disregarded rule) does not direct the Department

to pick apart the derivation of the transfer price between affiliated parties, only that it fairly reflect a market price.

We disagree with Stelco's contention that to base its reported costs on the transfer prices between affiliates in effect results in more costs being captured than were incurred. By relying on the transfer prices paid to affiliates, we are basing the COP and constructed value (CV) calculations on the actual costs incurred by Stelco, as recorded in its normal books and records in accordance with their home country GAAP. Stelco is confusing the issue by repeatedly explaining that Stelco's books and records reflect their affiliated suppliers actual COM not the transfer price between affiliates. What Stelco is referring to is their consolidated financial statements. Stelco's income statement, and the income statements of Stelco's subsidiaries and joint ventures including PCI-Hilton, Bloomco and Stelco McMaster are included in the Stelco consolidated income statement. The consolidated income statement is prepared by eliminating all inter-company transactions. As a result, the consolidated cost of goods sold includes the COM incurred by PCI-Hilton, Bloomco and Stelco McMaster for pulverized coal, reheating services and billets and not the transfer prices. However, the Department calculates a respondent's product specific COP and CV (with the exception of the interest expense rate calculation) based on the expenses reflected in the producer's income statement, not on the expenses reflected in the producer's consolidated income statement.

As set forth in Section 773(f)(2) of the Act, the Department may disregard transactions between affiliated persons if those transactions do not fairly reflect the value in the market under consideration. The Department's practice in conducting this analysis is to compare the transfer prices for the inputs charged by affiliated persons to the market price for that same input. Where a market price is not available, the Department has used the COP of the input as a surrogate for the market price. See, e.g., Final Determination of Sales at Less Than Fair Value: Structural Steel Beams from Luxembourg, 67 FR 35488 (May 20, 2002) and accompanying Issues and Decision Memorandum at Comment 10; see also, Notice of Final Determination of Sales at Less than Fair Value: Low Enriched Uranium from Germany, Netherlands and the United Kingdom, 66 FR 65866 (December 21, 2001), and accompanying Issues and Decision Memorandum at Comment 4. For pulverized coal and reheating services obtained by Stelco from PCI-Hilton and Bloomco, Stelco was unable to provide a market price because, as noted by Stelco, it does not purchase pulverized coal and bloom reheating services from any other company and neither PCI-Hilton nor Bloomco provides these inputs to any company other than Stelco. Therefore, we compared the transfer prices for these inputs paid by Stelco to PCI-Hilton and Bloomco's COP and found that the transfer prices exceeded the COPs.

We agree with Stelco that if the Department adjusts the reported costs for pulverized coal and bloom reheating services to reflect the transfer price then it should reduce the depreciation expenses incurred by PCI-Hilton and Bloomco from the reported costs. In reporting their costs, Stelco included PCI-Hilton and Bloomco's depreciation expense separately from the COM of the inputs provided. For the final determination we have excluded the depreciation expenses incurred by PCI-Hilton and Bloomco from the costs reported in the cost files.

With respect to purchased billets, we consider this material to be a major input used in the production of the subject merchandise because it accounts for a significant portion of the manufacturing costs. Therefore, we have applied the major input rule to Stelco's purchases of billets from Stelco McMaster. Again Stelco was unable to provide a comparable market price because Stelco does not purchase this type of billet from any other company nor does Stelco McMaster provide the same type of billet to any company other than Stelco. Therefore, in applying section 773(f)(3) of the Act, the Department compared Stelco's transfer price to Stelco McMaster's COP and found that the transfer price exceeded the COP.

We disagree with Stelco's argument that if the Department adjusts the reported costs to reflect the transfer price for affiliated purchases, then it should reduce the consolidated interest expense by the interest expenses incurred by PCI-Hilton, Bloomco and Stelco McMaster. Testing the arms length nature of affiliated party purchases and measuring a consolidated group's cost of borrowing are separate and distinct concepts. We disagree that finding that a company sold production inputs to an affiliate at market prices equates to having to exclude that company's interest expense in determining the consolidated group's cost of borrowing. We do, however, agree that the denominator of the interest expense calculation should be adjusted to reflect the transfer prices for purchased pulverized coal, reheating services and billets so that the interest rate calculation is on the same basis as the cost of manufacturing to which it has been applied.

Lastly, we disagree that the NAFTA panel ruling in Corrosion-Resistant Carbon Steel Flat Products from Canada, USA 97-1904-3 (September 13, 1999), applies to this case. A NAFTA panel decision does not constitute binding precedent upon agency determinations in subsequent administrative proceedings. See Porcelain-On-Steel Cookware From Mexico: Notice of Final Results of Antidumping Duty Administrative Review, 62 FR 25908 (May 12, 1997) and Live Swine from Canada; Final Results of Countervailing Duty Administrative Reviews, 61 FR 52408 (October 7, 1996). Moreover, the issue in the corrosion-resistant carbon steel flat products from Canada case related to whether the affiliated party transfer price should account for the end of year adjustments for the remittance of profits as specified in the joint venture agreement. In this case, the issue is whether to completely disregard the affiliated party transfer prices.

Comment 25: *Purchases of Iron Ore*

The petitioners point out that the average transfer price for Stelco's purchases of iron ore during the POI was based on the affiliated supplier's COM plus SG&A expenses. According to the petitioners, 19 CFR 351.407(b) states that the Department normally will determine the value of a major input purchased from an affiliated supplier at the higher of the transfer price, the market price, or the affiliated supplier's COP. Petitioners maintain that in this instance, the relevant comparison under the major input rule is between the transfer price and the market price because the transfer price was based on the affiliated supplier's COP. Petitioners contend that Stelco was unable to provide a comparison of the transfer price to an arm's length market price because the iron ore Stelco purchased from unaffiliated companies was of different types than the iron ore Stelco purchased from its affiliated suppliers. Therefore, the only market price available for comparison is the published price in the "Skillings Mining Review" (Skillings) magazine for similar products. As a result, for the final determination, the Department should adjust Stelco's

reported costs to reflect the published market price because it is higher than the reported transfer price. Petitioners further point out that, in fact, the iron ore costs recorded in Stelco's normal books and records reflects the price published in the Skillings and not the transfer price. As such, petitioners claim that the published price in the Skillings magazine is an appropriate market price.

Stelco claims that it does not use the price of iron ore published in Skillings to determine the input cost of iron ore on its books of account. Instead, Stelco states that it uses the published price to determine only its standard cost of iron ore. According to Stelco, the Skillings price is an arbitrary value that Stelco's management applies to its iron ore solely for the purposes of measuring the performance of its mines. Stelco maintains that it always adjusts the cost of iron ore to an actual basis by means of the "mining income" adjustment. This adjustment is taken at the works level, both for cost of goods sold and for inventory valuation. Stelco asserts that the Department's practice is to calculate COP based on the actual costs as recorded in a company's books of accounts, and not the standard costs. According to Stelco, if the Department were to value iron ore at a standard price without adjusting it to an actual basis as Stelco does on its books, the Department would violate both its long-standing practice and the requirements of the statute. Stelco contends that the price of iron ore published in the Skillings is not a world market price for iron ore, but a reference point for contract negotiation. No actual iron ore is bought or sold anywhere in the world at the Skillings price. Stelco contends that the Department can easily verify that none of the iron ore that Stelco purchases from unrelated suppliers is equal to the Skillings price. Thus, if the Department were to use the Skillings price to determine the market price of iron ore, it would be making a determination not based on any information on the record, and also in violation of the law.

Department's Position:
Since iron ore represents a significant portion of the total cost of producing steel wire rod, combined with the fact that Stelco obtained a significant portion of its total iron ore requirements from affiliated suppliers, in this case, we consider iron ore to be a major input used in the production of the subject merchandise. Therefore, we have applied the major input rule under section 773(f)(3) of the Act to value Stelco's purchases of iron ore from affiliated mines. For one of its affiliated suppliers, the Wabush Mines, we compared Stelco's average transfer price for iron ore purchases to the affiliated supplier's COP noting that the transfer prices were based on the affiliated mine's COP (i.e., COM plus SG&A expenses). We also attempted to compare the transfer price between Stelco and the Wabush Mines to a market price for the same input. However, Stelco claimed that it was unable to provide a market price for the specific type of iron ore obtained from the Wabush Mines because the iron ore purchased by Stelco from unaffiliated companies were of different types than that obtained from the Wabush Mines.

At verification, however, we noted that throughout the year, for internal accounting purposes, Stelco records its purchases of iron ore from the Wabush Mines at a price that is in excess of the amount actually paid to its affiliate. Stelco determined the amount for recording the iron ore purchases from its affiliates using the Skillings publication, which lists iron ore prices specific to the Wabush Mines. At year end, for financial statement purposes, the difference between the

amount actually paid to its affiliates for iron ore and the amount recorded based on the Skillings publication, is eliminated, in effect, recording the iron ore purchases at the actual transfer prices. While we agree with Stelco that the actual transfer price between Stelco and its affiliated suppliers is different from the price in the Skillings publication, we disagree that there is no relevance to the fact that Stelco relies on the Skillings publication, which has a specific classification for iron ore from the Wabush Mines, as an internal analytical tool for assessing its iron ore purchases from affiliates. As such, we deem it reasonable to rely on the Skillings publication as a reasonable reflection of the fair market value for iron ore purchased from its affiliate Wabush Mines. We compared the average transfer price of iron ore purchased from its affiliated mines to the market price and ascertained that the market price was higher than the transfer price. As a result, for the final determination, we adjusted the reported iron ore input price to the higher market price.

Comment 26: *General and Administrative Expense Rates*

Stelco contends that in the preliminary determination the Department erroneously calculated separate G&A expense rates for Stelco and Stelwire, and argues that for the final determination the Department should calculate a single G&A rate as submitted and calculated by Stelco. According to Stelco, it has calculated a single G&A expense rate by adding the G&A expenses incurred by all of its subsidiaries and joint ventures that produced the merchandise under investigation (or inputs used for the production of subject merchandise), and divided the total G&A expenses by the cost of sales of these entities. Stelco asserts that this is the only methodology that is consistent with the Department's long-standing policy, and in support of this assertion, it cites Notice of Final Determination of Sales at Less Than Fair Value: Structural Steel Beams from South Africa, 67 FR 35485 (May 20, 2002) ("SSB from South Africa"), and accompanying Issues and Decision Memorandum at Comment 6. According to Stelco, in SSB from South Africa the Department acknowledged that it normally computes the G&A and other non-operating income and expense ratios based on the respondent's unconsolidated operations and includes an amount from affiliated companies which pertains to the product under investigation. Stelco maintains that the Department has always attempted to calculate the G&A rate using the G&A expenses that most closely relates to the product under investigation (i.e., where this is a division within a company, the Department uses that division, where it is a single unconsolidated entity, the Department uses that entity, and where it relates to more than one unconsolidated entity, the Department uses the G&A of all of the entities that produce the merchandise under investigation).

Stelco points out that the Department has stated in the Memorandum to Neal Halper from Sheikh Hannan, Re: Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Determination dated April 2, 2002 that both Stelco and its affiliate Stelwire produced and sold the subject merchandise during the POI, and the Department has treated these two companies as a single entity for margin calculation purposes, and therefore, the Department has calculated two separate G&A expense rates for Stelco and Stelwire. Stelco contends that if the Department is treating the two companies as a single entity, then it should apply a single G&A expense rate, and apply separate G&A expense rates only if the Department is treating the two companies as separate entities. According to Stelco, if the Department's policy requires it to

collapse Stelco and Stelwire, then it has no basis for determining separate G&A rates for the collapsed company.

Further, Stelco questions the Department's logic of calculating the G&A rate applicable to Stelco based on the financial statements of Stelco Parent which the Department considered as the unconsolidated Stelco. According to the respondent, there is only Stelco, which is the consolidated company with all its subsidiaries, and the separate subsidiaries themselves. There is no legal entity consisting of Stelco without the affiliates. Neither Stelco Parent nor the unconsolidated Stelco is a legal entity. According to the respondent, the Department has calculated a G&A rate for a company that does not exist.

Stelco also maintains that the Department's determination to create a fictional entity and then calculate a G&A expense rate for that fictional entity flies in the face of its determination with respect to inputs from affiliates. The Department, as discussed earlier, has increased the cost of inputs purchased from wholly-owned subsidiaries even though those affiliates are essentially divisions of Stelco. According to Stelco, the Department's sole justification for this unwarranted increase in input costs is that the affiliates are separate legal entities, and therefore form takes precedence over the substance of the transaction. Yet, when it comes to calculating G&A expense rates, the Department ignores legal realities and creates an "unconsolidated Stelco", as a separate entity that does not legally exist. According to the respondent, if the Department relies on the legal incorporation as its justification for increasing input costs from affiliates, then it must equally respect the corporate entity of Stelco Inc. and apply a single consolidated G&A rate as calculated by Stelco. Finally, Stelco contends that the Department should not include Stelco's G&A expenses in the cost of materials produced by Stelco and supplied to Stelwire. According to the respondent, this would result in double counting Stelco's G&A expenses.

The petitioners contend that in the preliminary determination, the Department has appropriately calculated two separate G&A expense rates. According to the petitioners, the application of separate G&A expense rates would ensure that the cost of wire rod processed by both Stelco and Stelwire includes the G&A expenses incurred by Stelco and the G&A expenses incurred by Stelwire without double-counting these expenses. Petitioners further suggest that Stelco's G&A expense rate should be applied to Stelco's reported COM and that Stelwire's G&A rate should be applied to Stelwire's COM. Petitioners maintain that it may be appropriate to include Stelco's G&A expenses in Stelwire's materials costs, because the green rod obtained by Stelwire from Stelco has been manufactured by Stelco, and the G&A expenses that Stelco incurred to administer its production operations should be included in the cost of this green rod.

Department's Position:
In this case the Department has determined it is appropriate to collapse Stelco and Stelwire. See Memorandum to Bernard T. Carreau, from Amber Musser and Daniel O'Brien, "Collapsing of Ivaco Inc. with Ivaco Rolling Mills, and Stelco Inc. with Stelwire Ltd.," dated April 02, 2002, and our response to comment concerning "Collapsed Entities Rule." The Department's purpose of collapsing affiliated producers as a single entity is to prevent a potential for the manipulation of price and production by calculating the same dumping margin and a single cash deposit rate

for all the producers within the collapsed entity. See, e.g., Notice of Final Results of Antidumping Duty Administrative Review: Frozen Concentrated Orange Juice from Brazil, 65 FR 60406 (October 11, 2000), and accompanying Issues and Decision Memorandum at Comment 1. For purposes of calculating the dumping margin for a collapsed entity, the Department calculates separate COPs (i.e., COM plus G&A and interest expenses) for the individual producers within the collapsed entity and weight-averages these COPs on a CONNUM specific basis. For calculating the COPs (i.e., COM plus G&A and interest expenses) for the individual producers, the Department calculates separate G&A rates for the individual producers and applies these G&A rates to their respective COMs. See, e.g., Final Cost of Production and Constructed Value Adjustments Memorandum From Heidi S. Norris to Neal Halper of March 13, 2002 on Structural Steel Beams from Luxembourg ("SSB from Luxembourg"), Investigation of 4/1/2000 to 3/31/2001, paragraph 4 and 5, attachment 2. In SSB from Luxembourg the Department treated the two affiliated respondents as a collapsed entity while calculating separate G&A expense rates for each. Similarly, for the final determination of this case, we have continued to calculate separate G&A expense rates for Stelco and Stelwire. In calculating separate G&A rates for each company, we ensure that Stelco's G&A rate is applied to the specific products produced by Stelco, and that Stelwire's G&A rate is applied to the products produced by Stelwire.

Stelco's arguments make the presumption that the Department will treat all entities that produced the subject merchandise and provided inputs for the production of subject merchandise as a single entity. Under this logic, all affiliated parties that provided production inputs would in effect be treated as divisions of the respondent, and their G&A and cost of sales information would have to be combined with that of the respondents in computing their G&A rates. Not only would this create an administrative nightmare for respondents with large numbers of affiliated suppliers, it would result in a meaningless G&A rate reflecting various industries and corporate structures not at all reflective of the respondent. In addition, such an approach would be in conflict with section 773(f)(3) of the Act, i.e., the major input rule. In accordance with the major input rule, for inputs obtained from affiliated suppliers, we calculate the affiliate's fully absorbed cost of producing the inputs in order to determine whether to rely on the transfer price between affiliated parties. The G&A expenses incurred by the affiliates providing inputs for the production of the subject merchandise are included in the COP of the inputs and not in the calculation of the G&A expense rates of the producers of subject merchandise within the collapsed entity. See, e.g., Final Cost of Production and Constructed Value Adjustments Memorandum From Peter Scholl and Sheikh M. Hannan to Neal Halper of May 30, 2001 on Frozen Concentrated Orange Juice from Brazil, Administrative Review of 5/1/1999 to 4/30/2000, paragraph 4 and 8, attachments 4 and 7. In Frozen Concentrated Orange Juice, the Department treated Cambuhy Industrial Ltda. and Citrovita Agro Industrial Ltda. as a collapsed entity and calculated a separate G&A expense rate for each company based on the expenses incurred by Cambuhy Industrial Ltda. and Citrovita Agro Industrial Ltda. The G&A expenses incurred by the affiliated supplier of the oranges used in the production of subject merchandise were included in the COP of the oranges.

We disagree with the respondent that the unconsolidated company, Stelco, does not legally exist. The annual information form submitted in exhibit 4 of the November 30, 2001, section A questionnaire response states that Stelco is a corporation amalgamated under and governed by the Canada Business Corporation Act. Stelco conducts business through two divisions, nine wholly owned subsidiaries and a number of jointly owned corporate entities. The Department considers Stelco to be a legal entity because it has been incorporated under the Canada Business Corporation Act and functions as a company. We note that as a legal entity a company can own business divisions and other legal entities. The difference between the consolidated and the unconsolidated Stelco is in the preparation of the financial statements.

In the normal course of business, Stelco prepares annual consolidated financial statements which are audited by its independent accountants. The consolidated financial statements include the financial results of its two divisions, the corporate headquarters, its wholly owned subsidiaries, and joint ventures. However, we note that Stelco first prepares financial statements for its two divisions and corporate headquarters (the sum of which is referred as "Stelco Parent") and then combines these statements with its subsidiaries and joint ventures, which are audited in conjunction with the consolidated financial statements. These Stelco Parent financial statements form the basis of our Stelco unconsolidated G&A rate calculation. A copy of the FY 2000 income statement of Stelco Parent has been submitted in exhibit 3(D) of the March 5, 2002, section D response.

Further, it is the Department's practice to value inputs transferred between the producers of subject merchandise within a collapsed entity at the COP. This practice does not result in the double counting of the respondent's G&A expense rate. For example, the cost of the green rod transferred from Stelco to Stelwire is included in Stelco's cost of sales, which has been used as a denominator to calculate Stelco's G&A expense rate. Therefore, the transferred green rod should bear some of Stelco's G&A expenses. Similarly, the cost of the wire rod (which include the cost of green rod) produced by Stelwire is included in Stelwire's cost of sales, which has been used as a denominator to calculate Stelwire's G&A rate. Therefore, wire rod produced by Stelwire should bear some of Stelwire's G&A expenses. In Pasta from Italy, the Department collapsed De Cecco and Pescara and used the actual COP to value semolina used in the production of the subject merchandise obtained by De Cecco from Pescara. The COP included the COM and G&A expenses incurred by Pescara to produce semolina. Consistent with Department's position in this case, we have valued green rod obtained by Stelwire from Stelco at its actual COP. The COP included the COM and G&A expenses incurred by Stelco to produce green rod.

Lastly, we consider Stelco's reliance on SSB from South Africa to be misplaced. In that case, the Department addressed whether the respondent's parent company or other affiliates incurred G&A costs on behalf of the respondent while here we are deciding whether the G&A and cost of sales information of all affiliated parties that provided inputs for the production of subject merchandise would have to be combined with that of the respondents in computing the G&A rates.

Comment 27: *Foreign Exchange Gains and Losses*
The petitioners contend that Stelco and Stelwire erroneously included foreign exchange gains earned from accounts receivable in their reported G&A rate calculations. The petitioners maintain that for the final determination, the Department should exclude these foreign exchange gains because it is the Department's practice to exclude foreign-exchange gains and losses related to accounts receivable from the calculation of the G&A expense ratio.

Stelco claims that in accordance with Canadian and U.S. GAAP, it considers exchange rate gains and losses as a single item regardless of the source of the gains and losses. Stelco maintains that the net exchange rate gains or losses included in G&A expenses are comprised of both exchange gains and losses on accounts receivable and accounts payable. Stelco argues that when the Department includes in the COP, gains and losses on accounts payable but not on accounts receivable, the Department disregards the company's books of account, in violation of the statute. According to Stelco, section 773(f)(1)(A) of the Act requires that costs be calculated based on the records of the exporter or producer of the merchandise, if such records are kept in accordance with the GAAP of the exporting country and reasonably reflect the costs associated with the production and sale of the merchandise. Stelco maintains that the statute requires the Department to consider costs associated with the production and sale of the merchandise. Therefore, for the final determination the Department should include foreign exchange gains and losses on accounts receivable in the G&A expenses.

Department's Position:
We agree with the petitioners. It is the Department's normal practice to distinguish between foreign exchange gains and losses from sales transactions and exchange gains and losses from other types of transactions. The Department normally does not include foreign exchange gains and losses generated from accounts receivable in its COP and CV calculations as these amounts are associated with sales activities, not productions. See, e.g., Final Determination of Sales at Less Than Fair Value: Hot-Rolled Flat-Rolled Carbon-Quality Steel Products from Japan, 64 FR 24329, 24350 (May 6, 1999). However, the Department does include foreign exchange gains and losses related to accounts payable in the calculation of the G&A expense rate because they are associated with the purchases of materials and services used by the company to manufacture and sell its products. See Final Determination of Sales at Less Than Fair Value: Certain Hot-Rolled Steel Flat Products from Indonesia, 66 FR 49628 (September 28, 2001), and its accompanying Issues and Decision Memorandum at Comment 3, and Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon-Quality Steel Plate Products from Indonesia, 64 FR 73164, 73173 (December 29, 1999). Therefore, for the final determination we have excluded the foreign exchange gains related to accounts receivable earned by Stelco and Stelwire from their G&A expense rate calculations.

Comment 28: *Short-Term Interest Income*
The petitioners contend that Stelco claimed the total interest income as reflected in its FY 2000 consolidated financial statements as an offset to its interest expenses in the calculation of its net financial expense ratio. According to the petitioners, during the cost verification Stelco could only substantiate a portion of its total interest income as short-term interest income. The

petitioners maintain that Stelco has the burden of substantiating and documenting short-term interest income that it claims as a reduction to its interest expense. See, e.g., Notice of Final Results of Antidumping Duty Administrative Review, Silicon Metal from Brazil, 64 FR 6305, 6314 (Feb. 9, 1999). Therefore, for the final determination the Department should only allow an offset for the substantiated short-term interest income amount and exclude the unsubstantiated amount from the calculation of the financial expense ratio.

Stelco claims that the total interest income as reflected in its FY 2000 consolidated financial statements was earned by Stelco Parent and seventeen affiliates and subsidiaries that were included in the consolidated financial statements. According to Stelco, to test the interest income claimed as an offset, the Department sampled and verified interest income earned by Stelco and concluded that it was short-term interest income. Stelco maintains that given the limited time and resources, the Department chose not to examine and require corroboration for each line item related to interest income. This was reasonable, as the Department had examined in detail a substantial portion of the total Stelco consolidated short-term interest income. Stelco contends that the law does not require the Department to examine every item of the information submitted for conducting an adequate verification. According to Stelco, the Department makes spot checks to obtain corroboration of certain important items, in order to have confidence in the submission as a whole. Stelco maintains that if the Department does not examine the supporting documents for each item, it does not necessarily mean that the unexamined information is unverified and cannot be used. Moreover, if the examined item proves accurate and reliable, the Department can reasonably assume that the rest of the response is correct. Stelco asserts that in this case, by examining the back-up for a substantial portion of Stelco's consolidated short-term interest income, the Department can reasonably conclude that all of Stelco's consolidated short-term interest income is, in fact, of a short-term nature. Therefore, for the final determination the Department must reject petitioners' claim, and allow Stelco the full amount of consolidated interest income as an offset to its interest expenses in the calculation of the financial expense ratio.

Department's Position:

We disagree with the petitioners. Section 782(i)(1) of the Act requires the Department to verify all information relied upon in making a final determination in an investigation. However, the statute does not define what constitutes sufficient verification. See, e.g., Micron Technology, Inc. v. United States, 117 F.3d 1386,1394. Cf. American Alloys, Inc. v. United States, 30 F.3d 1469, 1475 (Fed. Cir. 1994)("the statute gives the Department wide latitude in its verification procedures"). Similarly, the Department's regulations are general in nature and do not specify any methods, procedures or standards to be used for verification; see 19 CFR 351.307. However, we note that verification is the process by which the Department checks, reviews, and corroborates factual information previously submitted by the respondent(s). The purpose of verification is to test information provided by a party for accuracy and completeness, and does not require that the Department audit every item in a response. In this case, we examined a significant portion of Stelco's total interest income. Based on our examination, we concluded that the total interest income claimed as an offset was short-term interest income. There is no evidence to indicate

otherwise. Thus, for the final determination, we did not make an adjustment to Stelco's claimed offset to interest income.

Comment 29: *Further Manufacturing Costs*

Stelco contends that in the preliminary determination, the Department erroneously treated all of Stelco USA's operating costs as G&A expenses and included these amounts in the calculation of the FM costs. Stelco asserts that these expenses are indirect selling expenses and should have been deducted in determining the CEP. Stelco points out that the Department's normal methodology for calculating the G&A component of FM costs is to allocate a portion of the affiliated importer's operational costs to the FM activity, with the remainder considered to be indirect selling expense. According to Stelco, this methodology assumes that the importer has both manufacturing and sales activities, with part of the company's overhead applied to manufacturing and a part to sales. Stelco asserts that in the case of Stelco USA, this assumption is wrong because Stelco USA has no manufacturing facilities and engages in no manufacturing operations on its own. Instead, they pay, other unrelated companies to process wire rod (and other products) in the United States. Stelco claims that the G&A expenses related to manufacturing activities are included in the processing fees that the outside processors charge Stelco USA. According to Stelco, Stelco USA consists of a single office suite that performs inventory management, accounts management and sales support. As such, Stelco USA's operating expenses are selling expenses. Stelco admits that the Department's treatment of Stelco USA's operating expenses as G&A expenses was prompted, in part, by the statements made in Stelco's response of March 5, 2002, which classified these operating expenses as G&A expenses. However, Stelco contends that this statement was wrong, as it reflected a misunderstanding of the nature of the expenses involved.

The petitioners contend that although Stelco USA does not own a manufacturing facility, it contacts, arranges and coordinates with the contractors concerning the products that should be further processed and the types of further processing activities. In addition, Stelco USA is responsible for ensuring that the further processed products are shipped from the contractor to the customer. Thus, G&A services are required for Stelco's FM products even though Stelco USA does not own or operate a manufacturing facility. According to the petitioners, it is appropriate for the Department to allocate Stelco USA's operating expenses to Stelco's FM sales. The petitioners agree with Stelco that Stelco USA's operating costs should be allocated in a manner that fairly reflects the division between FM products and products that are not further manufactured. The petitioners request the Department to ensure that the basis used to calculate the G&A expense amount should be the same as the denominator used to calculate the G&A expense ratio.

Further, the petitioners argue that the Department should not include the bad debt expense amount in the calculation of the FM G&A expense rate, because this amount resulted from the reversal of an account related to bad debt expense, and did not result in actual revenue for Stelco USA. In support of their argument, petitioners cite Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Wire Rod from Korea, 63 FR 40404, 40412 (July 29, 1998) (Stainless Steel Wire Rod from Korea), where the Department determined that a change to

the allowance for bad debt account should be excluded from the respondent's G&A rate calculation, because it was a change in the estimated expense for previous years, and including this reversal in the G&A expenses would distort the expense incurred for the current year.

Stelco counters that the case cited by the petitioners relates to a change in the estimated bad debt expense for previous years and reversed in the current year and claims that it is not the same in Stelco USA's case. According to Stelco USA, the reversal was incurred because in FY 2000, Stelco USA realized that the provision for bad debt recorded in FY 2000 was unnecessary because it was not incurring any bad debt expenses as estimated. Therefore, in FY 2000 Stelco USA fully reversed the allowance that it had made for sales in FY 2000. According to Stelco, for the final determination the Department should include the bad debt expense amount in the calculation of the FM G&A expense rate.

Department's Position:
We disagree with the petitioners that Stelco USA's operating expenses should be included as a component of its G&A expenses. Stelco USA may contact, arrange and coordinate with the contractors and make arrangements concerning the products that should be further processed and the types of further processing activities, but all production activities are carried out by the contractors. Stelco USA does not own or operate a manufacturing facility but contracts the further processing work performed on the subject merchandise. These contractors charge Stelco USA for their services, and these charges have been reported as FM costs. The facts in this case are similar to those raised in the Final Determination of Sales at Less Than Fair Value: Oil Country Tubulat Goods from Argentina, 60 FR 33539, 33550 (June 28, 1995) ("OCTG from Argentina"). In OCTG from Argentina, the respondent's U.S. affiliated company did not engage in any FM activities but contracted the FM work to contractors. The Department treated the G&A expenses of the affiliated U.S. company as a selling expense, because the primary function of the affiliated U.S. company was one of a selling agent. Consistent with the Department's position in OCTG from Argentina, we have considered the operating expenses incurred by Stelco USA as indirect selling expenses. Thus, for the final determination, these operating expenses were divided by Stelco USA's total sales value, and the resulting percentage was deducted from Stelco USA's gross unit price to calculate its CEP. As a result, the issue of allocating Stelco USA's operating expenses between FM products and products that are not further manufactured for the purposes of calculating the FM G&A expense rate is a moot point.

With regard to the bad debt expense, we disagree with Stelco. During FY 2000 the bad debt expense reflected in Stelco USA's income statement had a credit balance. Therefore, the reversal of bad debt expense during the current period exceeded the bad debt expense recognized in the current period. As a result, the estimated bad debt expenses recognized in the previous years were reversed in the current period. Therefore, consistent with our position in Stainless Steel Wire Rod from Korea, we did not include the bad debt expense amount in the calculation of the indirect selling expense rate for the CEP calculation because this amount resulted from the reversal of estimated bad debt expense related to years prior to FY 2000.

Comment 30: *Minor Errors*
The petitioners contend that the Department, for the final determination, should include the omitted cost of "machine turning of rolls" identified by Stelco as a minor error on the first day of the cost verification.

Stelco did not provide any comments.

Department's Position:
We agree with the petitioners. For the final determination, we adjusted the reported costs to account for all the minor errors identified on the first day of Stelco's cost verification, and Stelco USA's FM cost verification.

Recommendation
Based on our analysis of the comments received, we recommend adopting the positions described above. If these recommendations are accepted, we will publish in the Federal Register the final determination of the investigation and the final weighted-average dumping margins.

Agree _____ Disagree _____

_____
Faryar Shirzad
Assistant Secretary
for Import Administration

_____
Date