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MEMORANDUM TO: Faryar Shirzad
Assistant Secretary
for Import Administration

FROM: Joseph A. Spetrini
Deputy Assistant Secretary
for Import Administration
AD/CVD Enforcement Group III

SUBJECT: Issues and Decision Memorandum for the Antidumping
Investigation of Certain Cold-Rolled Carbon Steel Flat Products
from Turkey; Notice of Final Determination of Sales at Less Than
Fair Value (A-489-810)

Summary

We have analyzed the comments and rebuttals of interested parties in the antidumping duty investigation of certain cold-rolled carbon steel flat products from Turkey (A-489-810). As a result of our analysis, we have made changes, including corrections of certain programming and ministerial errors, in the margin calculations. We recommend that you approve the positions we have developed in the Discussion of the Issues section of this memorandum. Below is the complete list of the issues in this investigation for which we received comments and rebuttals by parties:

1. U.S. Dollars v. Turkish Lira for Home Market Prices
2. U.S. Warranty Expenses
3. Cost of Production of Major Input (Hot-Rolled Coil)
4. Depreciation Expenses
5. Scrap
6. G&A Expenses
7. Financial Expense
8. "Vade Farki" (Inflation/Due Date-Related Charges)
9. Surface Quality
10. Billing Adjustments
11. "Kur Farki" (Currency-Fluctuation Charges)
12. Credit Expenses

Background

We published in the Federal Register the preliminary determination in this investigation on May 9, 2002. See Notice of Preliminary Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products from Turkey, 67 FR 31264 (May 9, 2002) (Preliminary Determination). The Department published an amended preliminary determination in this case on June 19, 2002. See Notice of Amended Preliminary Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products from Turkey (67 FR 41695).

The period of investigation (POI) is July 1, 2000, through June 30, 2001. The investigation covers certain cold-rolled carbon steel sales made by one manufacturer/exporter; Borçelik Çelik Sanayii Ticaret A.Ş. (Borçelik). We invited parties to comment on our amended preliminary determination. We received case briefs from Borçelik and petitioners,¹ on July 12, 2002. We received rebuttal briefs from the same parties on July 17, 2002.

Scope of Investigation

For purposes of this investigation, the products covered are certain cold-rolled (cold-reduced) flat-rolled carbon-quality steel products. For a full description of the scope of this investigation, as well as a complete discussion of all scope exclusion requests submitted in the context of the on-going cold-rolled steel investigations, see the “Scope Appendix” attached to the Notice of Preliminary Determination of Sales at Less Than Fair Value: Certain Cold-Rolled Carbon Steel Flat Products from Argentina, 67 FR 31181 (May 9, 2002).

Discussion of the Issues

Comment 1. U.S. Dollars v. Turkish Lira for Home Market Prices

Borçelik argues that because it is the normal practice of the Department to rely on the currency in which a sale was negotiated, the Department should base normal value (NV) on the U.S. dollar (USD) price in cases in which home market sales were negotiated in, and indexed to USD values. Borçelik states that it negotiated many home market sales in USD, indexed to the USD sales value. Respondent asserts it issued an invoice to obtain from the customer the exchange rate differences, called *kur farkı*, resulting from drastic currency fluctuation in the exchange rate from the date of invoice to the date of payment, deriving the amount in Turkish lira (TL) originally agreed upon for the sale. Borçelik notes the Department requested that it report the USD prices in the home market. Borçelik states that it reported the requested information and certain billing adjustments incurred in dollars and credit costs associated with the dollar sales in a separate data field. Borçelik contends the Department verified the home market sales

¹ Petitioners Bethlehem Steel Corporation, National Steel Corporation, and United States Steel Corporation, Steel Dynamics, Inc., WCI Steel, Inc., Weirton Steel Corporation (collectively, petitioners), and Nucor Corporation (Nucor) filed separate case and rebuttal briefs.

process and invoices indicating the TL value and exchange rate used to convert the dollar price to TL. Borçelik alleges the Department should comply with its previous practices of using the gross unit price in USD for sales negotiated in the home market in dollars in calculating normal value, as it did in Certain Steel Concrete Reinforcing Bars from Turkey; Final Results of Antidumping Administrative Review, 66 FR 56274 (Nov. 7, 2001) (Re-Bar from Turkey).

Collective petitioners contend the Department correctly used the TL price in the home market to calculate normal value, because sales are invoiced and paid in TL. Petitioners distinguish the instant case from Re-Bar from Turkey. Petitioners claim adding the *kur farki* to the gross unit price does not result in an equivalent dollar value on the date of payment, because the *kur farki* is calculated on a customer-specific basis and not a sales-specific basis, in contrast to the facts in Re-Bar from Turkey, where the respondent's *kur farki* and lira invoiced amounts equaled the USD amount.

Nucor first asserts that the exchange rates suggested by respondent are unknown in origin, therefore unreliable, and significantly different from the Department's exchange rates. Nucor suggests that the *kur farki* consist of more than just exchange rate differences, noting that changes in sale price after invoicing were also identified as *kur farki* by Borçelik. Further, the respondent cannot tie *kur farki* amounts to particular invoices. Nucor then argues the Department does not have a normal practice or policy regarding calculating normal value using a currency in which a sale is negotiated. Nucor states the Department will review all facts of an individual case and make determinations accordingly. Nucor contends the most important fact is that the invoice was issued and paid in TL, not USD. In addition, alleges Nucor, the TL prices reflect the customer expectations and accurately reflect the home market prices, regardless of the currency in which the sales were negotiated.

Nucor continues by noting that in Re-Bar from Turkey, the Department used the dollar price because the dollar price did not change after invoicing. Nucor asserts in this investigation the dollar price changed after invoicing, for a significant percentage of these sales, as a result of renegotiation of the sale price. Nucor contends the TL value represents the real terms of the sale because Turkish customers conduct their business in TL, demonstrated by the fact that the invoices are denominated in TL and payment is made in TL. In addition, states petitioner, using dollar prices would distort the actual home market prices.

Citing Notice of Preliminary Determination of Sales at Less Than Fair Value; Stainless Steel Plate in Coils from the Republic of Korea, 63 FR 59535 (Nov. 4, 1998), Nucor argues the Department has used the home market currency values in the analysis in cases where sales are invoiced in dollars but were paid in Korean won and recorded in the sales ledgers in won. Nucor notes the World Trade Organization (WTO) concluded, in United States - Anti-Dumping Measures on Stainless Steel Plate in Coils and Stainless Steel Sheet and Strip from Korea, WT/DS179/R (May 1, 2001) (Korean Steel), that if the sale is invoiced in local currency and paid at a fixed amount (in Korean won) by the customer, the Department should use the reported local currency amount. According to the WTO, if the sale is invoiced in a local currency amount that differs from the local currency amount paid and that difference is due solely to exchange rate differences, the sale should be treated as a USD sale. Nucor adds, in the instant case, the payment in TL of the original invoice and the identical amount of TL indicated on the invoice were verified by the Department during the sales verification. Nucor also argues the fact that

sales are negotiated in USD is irrelevant in this Turkish cold-rolled steel investigation. Nucor continues the respondent has argued invoice date is sale date, because the invoice is the first document where the terms of the sale are set. Therefore, because the invoice contains a TL amount, the fact that the sale was negotiated in USD is irrelevant.

Department's Position: We agree with Borçelik that we should use its USD prices instead of TL prices adjusted for *kur farkı*, where sales in the home market were negotiated in USD. Borçelik and its customers negotiated the prices for the sales in question in USD, and these prices did not change once the agreement was reached, except for a few customers who were unable to pay because of a drastic devaluation in the currency in February 2001; rather, the buyer was invoiced in TL and paid the TL equivalent amount at the time of invoicing. See “Supplemental Section A Response of Borçelik Çelik Sanayii Ticaret, A.Ş.” at 38 (March 1, 2002). The TL prices shown on the invoices were not the final prices between the parties, but instead represented the USD value on the date the invoice was issued by Borçelik; Borçelik did not know, because of high inflation, what the final TL amount would be by the time of payment. See Memorandum For The File from Melissa A. Blackledge, “Cold-rolled Carbon Steel Flat Products from Turkey; Sales Verification of Borçelik Çelik Sanayii Ticaret, A.Ş.” at 13 (June 19, 2002). Borçelik and Kerim Çelik, an affiliated home market reseller, maintained for their USD home market customers a running account balance for continual shortages in payment resulting from high exchange rate fluctuation. See Memorandum For The File from Melissa A. Blackledge, “Cold-rolled Carbon Steel Flat Products from Turkey; Sales Verification of Borçelik Çelik Sanayii Ticaret, A.Ş.” at 13 (June 19, 2002). In essence, Borçelik is claiming that the total amount of TL proceeds from the sale is the price in USD or the price in TL Borçelik would have set if it knew the price in TL on the date of payment by the customer. We agree that a TL price fixed on the date of sale would be the appropriate price to use for the sales negotiated in USD (see Re-bar from Turkey). However, Borçelik in fact did not fix a price in TL. It negotiated and fixed the price in USD and only stated an equivalent price in TL on the invoice. See “Section B, C, and D Response of Borçelik Çelik Sanayii Ticaret, A.Ş.” at B-32 (Jan. 22, 2002). The USD price reflects the total revenue earned on a particular sale at any point in time; the fact that Borçelik received more TL in nominal terms after the first payment date demonstrates the fact that the TL amount invoiced and paid, due to currency fluctuations, did not close the sale.

The Department determined in Re-Bar from Turkey that the total gross price in USD equaled the sum of the TL invoiced amount first paid by the customer and the *kur farkı* adjustment, and therefore, used the negotiated USD prices to derive the dumping margin. See Re-Bar From Turkey, and the accompanying Issues and Decision Memorandum at Comment 4.

The practice of adjusting payments, by invoicing for additional foreign exchange losses, made by home market customers in high inflation economies to derive the originally agreed price in USD corresponds to the facts in this investigation, whether or not tied to actual sales or customer accounts. In this investigation, because of high inflation, Borçelik maintained accounting records and financial statements in both TL and USD. See “Section D Response of Borçelik Çelik Sanayii Ticaret, A.Ş.” at 14 (Jan. 22, 2002). Several customers negotiated sales in USD, although payment was made in local currency. In this case Borçelik reported the *kur farkı* (billing adjustment two) on a customer-specific basis because it was able to tie only some of the *kur farkı* invoices to the original invoices. Again, in this case, respondent's intent to capture the

full amount of the USD value of the negotiated sale facilitate its customer account system whereby the exchange rate loss from the time of the issuance of the *kur farki* invoice to the time of payment of the *kur farki* invoice for the month was also captured by Borçelik. See “Supplemental Section B,C, and D Response of Borçelik Çelik Sanayii Ticaret, A.Ö.” at 23 (April 1, 2002). The reported *kur farki* amounts were verified for accuracy during the sales verification, no discrepancies were found, and respondent’s methodology was reasonable considering Turkey’s currency situation and the manner in which Borçelik’s *kur farki* adjustments were recorded in its accounting system. See Memorandum For The File from Melissa A. Blackledge, “Cold-rolled Carbon Steel Flat Products from Turkey; Sales Verification of Borçelik Çelik Sanayii Ticaret, A.Ö.” at 11-15 (June 19, 2002).

The Department also disagrees with petitioners’ claim that TL values represent the real conditions of the sale because Turkish customers conduct their business in TL. Record evidence shows some customers continually negotiate sales in dollars and pay the monthly generated *kur farki* exchange rate difference invoiced amounts related to negotiating sales in dollars, indicating that Turkish customers conduct their business in both USD and TL. See “Section B, C, and D Response of Borçelik Çelik Sanayii Ticaret, A.Ö.” at B-32 (Jan. 22, 2002). In addition, the Department disagrees with petitioners’ allegation that the TL values represent the real conditions of the sale. Prices negotiated in USD and prices negotiated in TL may be fixed differently, and if the prices are fixed differently for those who pay in USD versus TL, then the USD prices for sales negotiated in USD should be used to ensure capturing the real value for those sales. Using TL prices for the sales in question could distort the actual home market prices because the currency devalued drastically during the POI and during individual months, affecting the matching of models in the U.S. and home markets.

The circumstances in the cases cited by Nucor in Stainless Steel Plate in Coils from Korea and Stainless Steel Sheet and Strip in Coils from Korea are distinguishable from those here. While the Department determined to use the won prices in Stainless Steel Plate in Coils from Korea because customers paid in local currency, we note that this case did not contain a foreign exchange difference adjustment like *kur farki*.

When a sale is priced in USD, Borçelik has assured itself that it will receive an amount of TL based upon the exchange rate in effect at the time of invoicing. See “Section B, C, and D Response of Borçelik Çelik Sanayii Ticaret, A.Ö.” at B-32 (Jan. 22, 2002). Therefore, because: 1) the price for these transactions is fixed in USD at the time of invoicing; 2) this price does not change, with a few extraordinary exceptions, prior to payment; 3) the POI coincides with a time of high inflation and the amount invoiced in TL does not equal the USD amount of the sale as negotiated; and 4) price differences may exist for sales negotiated in USD versus those negotiated in TL, we have used in our analysis the USD price for those home market sales negotiated in USD.

Comment 2. U.S. Warranty Expenses

Petitioners request that the Department use adverse facts available, *i.e.*, the highest reported warranty expense for all of Borçelik’s U.S. sales, in calculating U.S. warranty expenses (WARRU) or, alternatively, reallocate the company’s warranty expenses on an invoice-specific basis. Petitioners assert the Department requested Borcelik to report warranty expenses on an

observation-specific basis, and Borçelik responded it was unable to do so. Petitioners claim respondent stated during verification its response was a misstatement. Petitioners note, citing the verification report, respondent was in fact able to tie its warranty expenses to individual invoices. Petitioners cite 776(a)(2) and (b) of the Tariff Act which states that where a respondent has failed to cooperate by not acting to the best of its ability to comply with the Department's request for information, the Department may use an adverse inference in calculating the dumping margin. Petitioners further note respondent already identified the dates and amounts of the warranty payments made during the POI and could have easily identified the invoices related to the claims. Based upon the foregoing, petitioners allege respondent did not act to the best of its ability by failing to examine the documentation in its possession and provide, prior to verification or at the beginning of verification, the twice requested warranty expenses on an observation-specific basis and request the Department apply adverse facts available for U.S. warranty expenses.

Borçelik argues it did not fail to cooperate with the Department's request for information. Respondent claims it accurately reported total warranty expenses incurred during the POI. Respondent acknowledges its erroneous statement that none of the warranty claims paid to U.S. customers during the POI arose from sales made during the POI. Borçelik adds that it also submitted warranty expenses for 1999 through 2001 and the three-year average of its warranty claims, as requested by the Department. Respondent explains the discovery of two errors during verification. Borçelik suggests the first error was the result of a typographical error in the total amount of warranty claims for 1999, and the second error was because the claim amount reported was in fact related to sales made during the POI. As a result, argues Borçelik, the calculation of reported warranty expenses incurred during the POI was still correct. Borçelik asserts its methodology is reasonable, accurate, and consistent with the Department's practice of permitting respondents to allocate expenses by dividing the total claims paid by the total sales value during the POI. Therefore, the respondent insists there is no basis for using facts available, let alone adverse facts available, for Borçelik's U.S. warranty expenses.

Department's Position: We do not agree with petitioners. The Department does not agree that Borçelik's error, discovered during the sales verification, merits the use of adverse facts available or facts available. Borçelik accurately reported, as the Department requested, its U.S. warranty expenses for 1999, 2000, and 2001, on the most specific basis possible. Borçelik erred in recognizing the warranty claims paid during the POI were, indeed, related to sales made during the POI, and as a result erred in its claim that the warranty expenses could not be tied to specific invoices contained within its data. The warranty claim amounts reported for the POI were verified for accuracy by the Department during the sales verification. Therefore, because the warranty expenses were reported as requested by the Department and because the expenses were accurate and verified, the Department will reallocate the U.S. warranty expenses paid during the POI to the related invoices and will not use the customer-specific ratio used in the preliminary determination of this investigation.

Comment 3. Cost of Production of Major Input (Hot-Rolled Coil)

Petitioners state that the Department correctly used, as facts available, information from the petition to calculate the cost of production (COP) for a major input (hot-rolled coil) because

respondent's affiliated hot-rolled steel supplier failed to provide requested cost information. However, petitioners argue the Department failed to make necessary adjustments to the costs reported in the petition, and thereby miscalculated the affiliated supplier's COP for hot-rolled coil. Petitioners claim the Department erred in two ways in its computation.

First, petitioners state the Department erred by calculating depreciation, selling and G&A expenses, and financial expenses by applying ratios derived from the petition to a cost of manufacture (COM) net of fixed overhead (FOH) and depreciation. This was an error, petitioners state, because the ratios contained in the petition were based on the cost of goods sold, which included both FOH and depreciation. Therefore, by applying these ratios to a COM that was net of FOH and depreciation, the Department understated COP.

Second, petitioners argue that the Department erred by using an incorrect figure as the exchange rate for converting the COP from USD into TL. Petitioners recommend an eight digit exchange rate instead of the six digit exchange rate the Department used for the preliminary determination. Petitioners argue that after correction of the above two errors the COP of the affiliated supplier will be higher than the transfer price, and therefore, pursuant to the major input rule, the Department should recalculate Borçelik's direct material costs for hot-rolled coil supplied by the affiliated supplier so that it is equal to the COP.

With respect to petitioners' first point, Borçelik argues that, in calculating depreciation and finance expense ratios, the Department should rely on the affiliated supplier's inflation-adjusted financial statement, rather than the non-adjusted statement in the petition. Respondent continues that the Department's normal practice in hyperinflationary economies is to base costs on inflation-adjusted statements where possible and available. Respondent asserts that using the inflation-adjusted financial statements for the affiliated supplier, available on the world-wide web, would result in ratios for depreciation expenses and finance expenses that are lower than those calculated by petitioners. Furthermore, with respect to the financial expense ratio, Borçelik argues that petitioners' calculation does not take into account the gain on monetary position as an offset to finance expenses. Respondent argues it is the Department's practice to do so, and that petitioner's calculation of the finance expense ratio is therefore incorrect. See Gray Portland Cement and Clinker from Mexico; Final Results of Antidumping Duty Administrative Review, 58 FR 25803, 25806 (1993).

With respect to petitioners' second point, Borçelik also argues the Department's calculation memorandum shows the Department intended to use the exchange rate for December 2000, and not for June 2001 as petitioners claim. Borçelik asserts that use of the December 2000 rate is reasonable because the SG&A, finance, and depreciation expense ratios are obtained from the affiliated supplier's financial statement as of December 31, 2000. Thus, respondents reason, the coil cost also pertains to December 31, 2000. Borçelik also claims there were two clerical errors in the Department's calculation: a date reference and a numerical rounding of the exchange rate.

In conclusion, respondent argues, after correction of errors the revised coil cost is less than the average transfer price during the POI from the affiliated supplier, making an adjustment to Borçelik's reported cost unnecessary.

Department's Position: For the raw materials purchased from an affiliated party, Borçelik reported the cost of the hot-rolled coil major input at the transfer price from that

affiliate. We requested that Borçelik provide its affiliate's actual cost of production (COP) for this input; however, Borçelik was unable to obtain this information from its affiliate. See "Response to Supplemental Section D of Borçelik Çelik Sanayii Ticaret, A.Ş.", at 12 (Jan. 22, 2002). Because Borçelik failed to provide the affiliate's COP for the major input, for the preliminary determination, we resorted to facts available (FA) and used as a surrogate, the COP for hot-rolled coil provided in the petition dated September 28, 2001. See Memorandum to Neal M. Halper, from Gina K. Lee, "Cost of Production and Constructed Value Adjustments for Preliminary Determination," at 1 (April 26, 2002). We compared the FA COP to the transfer price and noted that the transfer price was higher. Therefore, we did not adjust the COP and CV data files.

As to the arguments for the final determination, we agree with both petitioners and respondent in part. In calculating the COP of the input based on the facts available, we calculated it based on the petition, using ratios from the inflation-adjusted financial statements. This is consistent with our prior practice. See Notice of Final Results of Antidumping Duty Administrative Review: Ferrosilicon From Brazil; 61 FR 59407, 59411 (November 22, 1996) and accompanying decision memorandum at Comment 9. In recalculating the financial expenses, we included the portion of the gain on monetary position which related to current monetary assets. We also corrected several of the clerical errors which petitioners and respondent pointed out. Specifically, we have corrected the application of the factory overhead, depreciation, SG&A, and financial expense rates to be consistent with the COGS denominator used in calculating each of those expense rates. We have also revised the exchange rate used to compute the COP for hot-rolled coil obtained from the affiliate as of December, 2000 to be on the eight digit basis instead of the six digit basis. To do so, we have used the corresponding exchange rate from the SAS programming data set. We have not used the end of the POI (June 2001) exchange rate as recommended by petitioner because we calculated the COP as of December 2000, and then indexed that amount to the end of the POI. See Memorandum to Neal M. Halper from Gina K. Lee, "Cost of Production and Constructed Value Adjustments for Final Determination," (September 23, 2002).

We note the revised COP was less than the transfer price. Therefore, in accordance with section 773(f)(3) of the Tariff Act, we have not adjusted the transfer price, as included in COP and CV, for the final determination. See also Memorandum to Robert S. LaRussa, from Joseph A. Spetrini, "Issues and Decision Memorandum for the Antidumping Investigation of Cold-Rolled Flat-Rolled Carbon Quality Steel Products from Turkey"; Notice of Final Determination of Sales at Less Than Fair Value (A-489-808), (March 21, 2000) (Comment 1.2.).

Comment 4. *Depreciation Expenses*

Nucor argues the Department erred by accepting Borçelik's calculation of depreciation, in which Borçelik allegedly excluded capitalized exchange gains and losses from prior years on loans used to acquire fixed assets. Under this methodology, petitioner alleges, the excluded costs relate to all translation losses the company has ever capitalized, while the included costs represent only current period losses. Petitioner states this methodology contradicts the Department's decision in Notice of Final Results of Antidumping Administrative Review: Dynamic Random Access Memory Semiconductors of One Megabit or Above from the Republic

of Korea, 65 FR 68976, (November 15, 2000) (DRAMS from Korea) and the accompanying decision memo at Comment 6, in which the Department excluded only the depreciation expense related to current year translation losses which were included in financial expenses.

Furthermore, Nucor argues if the Department nonetheless allows the exclusion of depreciation on capitalized foreign exchange losses, it should reduce the denominator used in calculating the G&A expense ratios by the same amount because the cost of goods sold used as the denominator in the G&A expense ratio calculations should be reported on the same basis as the reported COM.

Borçelik argues it did not exclude the costs at issue from its reported depreciation expense, and that therefore petitioner's concerns are unfounded.

Department's Position: We disagree with petitioner. Section 773(f)(1)(A) of the Tariff Act states "costs shall normally be calculated based on the records of the exporter or producer . . . if such records are kept in accordance with the generally accepted accounting principles of the exporting country" and "reasonably reflect the costs associated with the production and sale of the merchandise." As Borçelik notes in its April 1, 2002, response at page 62, Turkish accounting regulations allow companies to include exchange losses on loans used to purchase capital equipment as part of the capitalization of the cost of the equipment and may be revalued and depreciated over the remaining useful life of the equipment. While the Department's normal practice is to include only the current portion of the exchange rate gain or loss over the period of the loan, the difference between these methodologies is the amortization period (*i.e.*, the life of the loan or life of the asset).

As to Nucor's reference to DRAMs from Korea, we noted in that case, the respondent did not have an established historical treatment of capitalized exchange gains and losses. Conversely, Borçelik's treatment of this exchange loss in its accounting system is consistent with Turkish accounting regulations and such treatment has been historically used by the company. See Memorandum to Neal M. Halper from Gina K. Lee, "Verification Report on the Cost of Production and Constructed Value Data Submitted by Borcelik Celik Sanayii ve Ticaret A.S.," at 2 (June 26, 2002). We do not find Borçelik's treatment of these foreign exchange gains and losses to be distortive because the life of the associated assets appear to be a reasonable basis for allocation and the cost of the exchange rate loss is captured in Borçelik's reported costs through the depreciation expense. In addition, we consider it unreasonable to require the company to reconstruct all of its fixed asset purchases throughout the company's existence and have them segregate the booked fixed asset values between their purchase price and the capitalized exchange gains and losses. We note respondent did not exclude the alleged depreciation expenses from its reported costs. Therefore, we have accepted Borçelik's treatment of these exchange rate gains and losses. In addition, this is consistent with our practice in prior cases. See Certain Preserved Mushrooms from India; Final Result of Antidumping Duty Administrative Review, 67 FR 46172 (July 12, 2002) and accompanying Issues and Decision Memorandum at Comment 5.

Comment 5. *Scrap*

Nucor argues the Department erred by accepting Borçelik's calculation of its claimed scrap offset adjustment. This calculation, Nucor argues, implies that Borçelik recovers and sells as scrap one-hundred percent of its yield losses, which is impossible. Thus, Nucor argues, Borçelik's calculation overstates the scrap offset amount and understates the reported costs. By failing to submit a calculation based on the actual quantity of scrap recovered and sold, petitioner argues, Borçelik has failed to make its claim in the form and manner requested in the section D questionnaire, and therefore, the Department should deny any offset for scrap or, in the alternative, adjust Borçelik's costs to reflect a reasonable percentage of unrecoverable loss of material.

Borçelik argues it correctly calculated the amount of scrap recovered and sold, and that the Department fully verified its yield loss and recovery rates. Borçelik explains that at each stage of production the scrap recovered is transferred to scrap inventory and valued at the moving average sales value of scrap sold at that stage. The net weight of the coil, calculated as the difference between the input weight and the recovered scrap weight, is transferred to the next stage of production. Therefore, respondent argues, contrary to petitioner's argument, the yield loss is equal to the quantity of scrap recovered, and the claimed scrap offset should be granted.

Department's Position: We disagree with petitioner. We noted at verification that Borçelik's reported scrap offset amount is based on the company's actual scrap production quantity which is recorded in scrap inventory and which is valued based on the current month scrap sales. See Memorandum to Neal M. Halper from Gina K. Lee, "Verification Report on the Cost of Production and Constructed Value Data Submitted by Borçelik Çelik Sanayii Ticaret, A.Ş.," at 14 (June 26, 2002). We verified this is how respondent recorded scrap revenue and yield losses in its normal books and records. Therefore, we did not determine Borçelik's reported offset to be unreasonable as it reflects the company's usual scrap revenue. In addition, we verified the reported amounts and did not find them to reflect otherwise. See Memorandum to Neal M. Halper from Gina K. Lee, "Verification Report on the Cost of Production and Constructed Value Data Submitted by Borçelik Çelik Sanayii Ticaret, A.Ş.," at 14 (June 26, 2002). As a result, we have not adjusted Borçelik's reported scrap offsets for the final determination.

Comment 6. *G&A Expenses*

Nucor argues the Department identified substantial errors in Borçelik's G&A expense calculation at the cost verification following publication of the preliminary determination. Nucor argues these various adjustments are inappropriate either because they relate to financial expenses and not G&A, or because they represent a departure from the company's normal records. All of these adjustments, petitioner argues, should be excluded from Borçelik's G&A expense calculation.

Collective petitioners argue that certain offsetting amounts included in Borçelik's reported G&A ratio related to a prior period expense, and various financial expenses, discovered by the Department during the cost verification, should be excluded from the G&A ratio.

Petitioners also claim the Department should recalculate Borçelik's G&A ratio excluding packing expenses contained within the denominator. In addition, petitioners claim the respondent incurred certain financing and other expenses (*i.e.*, exchange losses), which were included in the denominator of the G&A ratio as part of the COGS but were excluded from the reported per-unit COMs. According to petitioners, these items should be excluded from the COGS denominator.

Borçelik argues the Department should not have recalculated the G&A expense rate by deducting packing costs from the COGS denominator because it approximates the G&A expenses. Respondent also argues the Department erred in recalculating Borçelik's G&A expense rate by excluding certain miscellaneous adjustments to the G&A ratio. Respondent continues that while the Department chose to exclude prior period employee termination and financial expenses, other items, such as the adjustment for differences in final depreciation or in booked depreciation, a correction to scrapped materials, and miscellaneous corrections to cost accounts, should not be excluded from the G&A expense rate.

In its rebuttal brief, Nucor claims the Department should continue to exclude prior period expense, employee termination expense accrual, and several financial expense items from G&A. Petitioner alleges the Department carefully considered and examined the adjustments during the sales verification and that the respondent has not, before the submission of its case brief, provided any information or explanation on the record to support its argument.

Department's Position: We agree in part with both petitioners and respondent. At verification, we noted that the reversal of prior period employee termination expenses and certain financial expense elements should not be offsets to the G&A expense rate because they related to prior fiscal years or non-G&A items. *See* Memorandum to Neal M. Halper from Gina K. Lee, "Verification Report on the Cost of Production and Constructed Value Data Submitted by Borçelik Çelik Sanayii Ticaret, A.Ş.," at 20 (June 26, 2002). However, we agree the other items, including an adjustment for differences in estimated and final depreciation, a correction to scrapped materials, and miscellaneous corrections to cost accounts, should be reflected as offsets in the G&A expense rate because these items relate to the company's general operations.

As for the COGS denominator, we continue to believe packing expenses should be deducted from the COGS denominator in the G&A rate calculation as the G&A rate is applied to a COM exclusive of packing expenses. Additionally, we agree with petitioners' claim that we should deduct from the COGS denominator those financial expenses which are included in COGS, but not included in COM. These items include the "Baf & Csl" leasing expenses. As discussed below in Comment 7, we find that the raw material financial expenses, which include *vade farkı* and *kur farkı*, are already reflected in the reported costs due to the application of replacement cost methodology. Therefore, we have not added them again to the COGS denominator. *See* Memorandum to Neal M. Halper from Gina K. Lee, "Cost of Production and Constructed Value Adjustments for Final Determination," September 23, 2002.

Comment 7. Financial Expense

Nucor argues the Department erred in the preliminary determination by accepting Borçelik's calculation of its financial expenses. Nucor asserts Borçelik's calculation contained

an error because it included a credit item for a consolidated amount called “credit finance income.” At the verification the Department found Borçelik had excluded its own portion of this credit amount from the interest expense calculation. Nucor argues that it is only logical to exclude the amount pertaining to other members of the group as well. Furthermore, since Kerim Çelik is included in the Group’s consolidated financial statements, the Department should apply the same financial expense ratio to Kerim Çelik’s costs.

Collective petitioners argue Borçelik’s calculation of financial expenses contained three errors. First, petitioners argue, like Nucor, that the “credit finance income” item should be excluded from the financial expense rate. They base this argument on the allegation that the item is not related to short-term investments.

Second, collective petitioners argue that to correctly calculate financial expenses, Borçelik’s packing expenses, which were included in the denominator of the financial expense rate but not included in the reported total costs of manufacturing, should be removed from the denominator in the financial expense calculation. However, petitioners state there is insufficient information on the record to perform this calculation. Therefore, petitioners argue, the Department should continue to calculate the financial expense ratio as in the preliminary determination, but should apply that ratio to the sum of COM and packing expenses.

Third, collective petitioners argue Borçelik erred by failing to include two financial expense items (*i.e.*, raw material financial expenses and “Fas & Csl” leasing expenses) as part of reported COGS, although they were recorded as such in Borçelik’s general ledger. Petitioners assert these excluded items should be included in the numerator of the financial expense ratio, and excluded from the denominator. Petitioners continue that the items are accounted for in cost of sales and would not be represented in financial expenses on the Borusan Group’s consolidated statements. Petitioners also claim there is no information on the record which would indicate the exact amount of such financial expenses from within the Borusan Group’s cost of sales. Petitioners therefore state a separate financial expense ratio based on Borçelik’s financial statements will need to be calculated for the final determination, and have provided the calculation in their brief. Finally, petitioners claim the financial expense ratios should be applied to the sum of the total cost of manufacture and packing expenses.

Regarding the “credit finance income” item, Borçelik argues in its case brief that the short-term interest income earned by other consolidated parties was short-term in nature and included as interest income in the financial expense ratio. Borçelik notes interest income pertaining to extending credit terms on sales of subject merchandise may be excluded if such interest or credit income is reported on the sales listing and is ordinarily included in the price that is compared to the cost of production or constructed value. Borçelik continues by arguing that deducting interest income from the interest expense (INTEX) in such circumstances would double-count income credit. Borçelik argues interest income earned on sales activities of companies making commercial transactions for non-subject merchandise should be included because such interest income has not been reported elsewhere in its responses to the Department’s questionnaire, and therefore, will not be double-counted. Respondent maintains the Department should include the interest income in finance expenses because it relates to sales of non-subject merchandise, sold on a different basis. Respondent suggests, if the Department decides to exclude the interest income, it should also exclude the financial expenses incurred on

the same distribution activity to avoid penalizing respondent for financing activities not related to the manufacture, sale, or distribution of the subject merchandise.

Regarding the two financial expense items (one being *vade farki*), Borçelik rebuts by claiming that both items should be included in the numerator of the financial expense ratio and excluded from the denominator. Borçelik argues that including *vade farki* in the denominator results in equalizing the COGS and COM, after the adjustment of the raw material expense to replacement cost. Respondent alleges petitioners' approach fails to calculate the expense over a consolidated COGS. Borçelik continues that it excluded *vade farki* from its raw material inputs and the other financial expense item from its costs, but it did not exclude *vade farki* incurred by other Borusan Group companies, nor do the other companies have a similar finance expense item. Respondent claims the Department would have to, if it decided to adjust for these two expenses, divide them by consolidated group COGS, applying the exchange rate in effect at mid-year to the consolidated group COGS.

Collective petitioners argue the Department should not offset interest expense with interest income generated by accounts receivable. Petitioners assert at verification the Department discovered respondent excluded from its consolidated interest expense calculations Borçelik's portion of the sales-related interest income, while including the same item pertaining to other members of the consolidated group. Petitioners assert the Department recommended the interest income be excluded from the financial expense ratio and disagrees with respondent's claim that interest income was not elsewhere reported in the response. Petitioners argue in Notice of Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon-Quality Steel Plate Products from Indonesia, 64 FR 73164, 73173-4 (Dec. 29, 1999), the Department stated interest income earned on accounts receivable is treated as an adjustment to the selling price; however, where the respondent did not report it in a separate field, the Department disallowed the adjustment. Petitioners also argue in Notice of Final Determination of Sales at Less Than Fair Value: Structural Steel Beams from South Korea, 65 FR 41437, (July 5, 2000) and the accompanying decision memo at Comment 8, the Department determined that interest income related to late payment of invoices should not be used as an offset in the interest expense calculation. Petitioners add, in this case, the other companies' sales-related interest income is still an adjustment to selling price, and because it is derived from non-subject merchandise, it is irrelevant. Therefore, maintain petitioners, the Department correctly determined that the interest income should not be included in Borçelik's costs.

Nucor, in rebuttal, argues that the offset entitled credit finance income, based upon the experience of the Borusan Group, should be excluded from the finance expense ratio. Nucor cites the Department's Antidumping Questionnaire, which instructs respondents to reduce the amount of interest expense incurred by any interest income earned by the company on short-term investments of working capital. Nucor alleges the Department does not offset interest expense by interest income generated from accounts receivable, because such items are included as sales adjustments in the interest revenue field. Petitioner asserts respondent's approach would result in double-counting because interest income earned by sales of subject merchandise would be allocated to subject merchandise only, while interest income from sales of non-subject merchandise would be allocated to all sales, including those of subject merchandise.

Department's Position: We agree with petitioners. At verification we noted that respondent offset its consolidated financial expenses by the credit finance revenue of the consolidated entities other than its own. See Memorandum to Neal M. Halper from Gina K. Lee, "Verification Report on the Cost of Production and Constructed Value Data Submitted by Borcelik Celik Sanayii ve Ticaret A.S.," at 17 (June 26, 2002). Considering that the nature of the revenue is sales-related, we do not believe it should be used as an offset to the financial expense ratio. We note that in the Department's standard antidumping questionnaire that respondents are directed to report such income as an adjustment to the selling price. Therefore, we have excluded the offset to financial expenses for the final determination. This is consistent with our past practice. See Notice of Final Determination of Sales at Less Than Fair Value: Structural Steel Beams from South Korea, 65 FR 41437, (July 5, 2000) and the accompanying Issues and Decision Memorandum at Comment 8.

As for the COGS denominator, we continue to believe packing expenses should be deducted from the COGS denominator in the G&A rate calculation as the G&A rate is applied to a COM exclusive of packing expenses. Additionally, consistent with the G&A rate calculation, we have deducted from the COGS denominator those financial expenses which are included in COGS, but not included in COM. These items include the "Baf & Csl" leasing expenses. Furthermore, as discussed below, we believe that the raw material financial expenses, which include *vade farki* and *kur farki*, are already reflected in the reported costs due to the application of replacement cost methodology. Therefore, we have not excluded them from the COGS denominator. See Memorandum to Neal M. Halper from Gina K. Lee, "Cost of Production and Constructed Value Adjustments for Final Determination," September 23, 2002.

Comment 8. "*Vade Farki*" (*Inflation/Due Date-Related Charges*)

Nucor argues the Department erred by not including the *vade farki* (due date difference) charges in Borçelik's COP. We noted that *vade farki* is part of the historical cost of raw materials, based on the seller's estimate of the effect of inflation on the sight price for the time between shipment and payment. Petitioner states Borçelik did not include them in its reported costs in its questionnaire response, but the Department did include them as a cost in a prior investigation. Considering Borçelik has stated no reason why the *vade farki* costs should not be included as a cost in this investigation, petitioner argues the Department should abide by its methodology in the prior investigation.

Collective petitioners claim *vade farki*, a cost recorded in Borçelik's accounting records, should also be included in its reported costs. Petitioners argue it is the Department's normal practice to include interest paid on accounts payable in a respondent's financial expenses, because the respondent is, in effect, borrowing money from its suppliers. Petitioners argue the Department erred in the previous cold-rolled steel investigation believing the high inflation methodology already accounted for the effects of inflation and did not include the entire *vade farki* amount. Petitioners claim in high inflation cases the Department uses a current cost methodology, which attempts to value the cost of production in the month of shipment. To do so, asserts petitioners, the average value of all materials used to produce subject merchandise during the month of shipment must be calculated, while recognizing the average price does not include any additional costs associated with financing raw materials purchased during the month

of shipment. Interest paid on such purchases, continue petitioners, whether intended to compensate the supplier for expected future inflation or for the time value of money, is a real expense that must be included in financial expenses. Therefore, petitioners assert the Department should include *vade farki* in financial expenses.

Borçelik argues it properly excluded *vade farki* expenses incurred on raw material purchases from its COP. Borçelik explains *vade farki* is part of the historical cost of raw materials, based on the seller's estimate of the effect of inflation on the sight price for the time between shipment and payment. Respondent contends that when the Department uses its replacement methodology, which accounts for the inflation occurring between acquisition and production, it increases the raw material values to the cost in the month of production instead of using the average historical cost on record. Borçelik asserts the *vade farki* accounts for inflation between acquisition (historical cost) and payment date. Therefore, alleges respondent, adding *vade farki* to the replacement costs results in double-counting of inflation, and when payment occurs one month after production, adding *vade farki* results in the reporting the cost of coil in nominal currency units from a month after the month of production, instead of replacement cost in the month of production. Respondent adds that in the previous cold-rolled steel investigation the Department excluded nearly all *vade farki* from finance expenses. See Notice of Final Determination of Sales at Less Than Fair Value: Cold-Rolled Flat-Rolled Carbon Quality Steel Products from Turkey, 65 FR 15123 (March 21, 2000) and accompanying decision memorandum at Comment 3.1. Borçelik reiterates *vade farki* should be included in Borçelik's cost only to the extent that the *vade farki* rate exceeds inflation, as was determined previously by the Department. Finally respondent claims *vade farki*, when it is equal to or less than inflation, should not be included in raw material or finance costs, as is the case in the current proceeding.

Collective petitioners rebut the respondent has misunderstood the Department's hyperinflation methodology, in which the cost for any particular sale is based upon respondent's current raw material costs during the month that the subject merchandise is shipped. Petitioners continue that each month respondent incurs real and substantial interest expenses generated by the company's raw material purchases, and the expenses, known as *vade farki*, should not be included in the direct cost of materials (DIRMAT), and should have no impact on the cost of purchased hot-rolled coil. Petitioners assert the expenses are legitimate financing expenses which belong in the calculation of interest expenses (INTEX).

Nucor argues that during the cost verification the Department discovered two items, *vade farki* (inflation between acquisition date and payment date) and *kur farki* (USD exchange rate difference between the aforementioned dates), excluded from the reported costs. Nucor continues, in the previous investigation the Department determined *vade farki* compensates the supplier for both the change in inflation and the extension of credit and included the extension of credit portion in its reported costs.

Respondent asserts the purpose of restating raw material expenses on a replacement cost basis is to adjust the raw material costs for the effects of inflation to state the costs in nominal currency units in effect during the month of production. Therefore, maintains Borçelik, adding *vade farki*, where it is equal to inflation, would then restate the raw material cost to nominal currency units in effect in a month after the month of purchase. Finally respondent claims *vade farki*, when it is equal to or less than inflation, should not be included in raw material or finance costs.

Department's Position: We agree with Borçelik that including the entire amount of *vade farki* would be inappropriate when using the replacement cost methodology. The replacement cost methodology used by the Department attempts to mitigate the distortions of inflation by recording material costs at the current value in the month of production rather than at the historic value on the date of acquisition. Likewise, the *vade farki* recorded on Borçelik's books account for any devaluation of the currency from the date of acquisition to the date of payment. Therefore, the replacement cost method for valuing raw material inputs accounts for the same effects of inflation as the *vade farki*. Thus, to the extent the *vade farki* arose due to the effects of inflation from the time of receipt to the time of payment for these raw materials, to include them would result in a replacement cost not reflective of the currency levels for the month of production.

There also may be an element of interest expenses in the *vade farki* payments as it can represent an extension of credit. In a comparison of a *vade farki* rate tested during verification to the increase in the general inflation index for the concurrent time period, the Department noted the *vade farki* rate did not exceed the concurrent rise in inflation, thus indicating the *vade farki* compensates the supplier for the extension of credit. We have therefore not added any portion of 2000 *vade farki* in the financing expense rate for the final calculation. This is consistent with our past practice. See Notice of Final Determination of Sales at Less Than Fair Value: Cold-Rolled Flat-Rolled Carbon Quality Steel Products from Turkey, 65 FR 15123 (March 21, 2000) (Comment 3.1.).

Comment 9. *Surface Quality*

Nucor asserts the Department should continue to disregard “surface quality” as a product characteristic and use the established cold-rolled physical characteristics for model-matching purposes. Petitioner notes the model matching criteria are extremely detailed in this investigation. Petitioner alleges the record does not support the existence of differences in physical, chemical, or mechanical properties of merchandise with varying surface qualities. Petitioner adds respondent has not provided evidence of clear physical differences between merchandise of varying surface qualities. According to petitioner, the Department has in previous investigations thoroughly examined the physical characteristics that define cold-rolled steel. Petitioner notes the Department has discretion to determine what constitutes similar merchandise, and maintains the Department should reject respondent's claim of a unique product characteristic to be used in model matching for the final determination.

Borçelik did not address this comment.

Department's Position: We agree with petitioners and will continue to utilize the physical characteristics derived in this case for model matching purposes. In the development of the Department's model match in an investigation, the Department focuses its selection of model match characteristics on unique measurable physical characteristics that the product can possess. The Department's model-match program already recognizes distinctions among different qualities of cold-rolled steel (*e.g.*, commercial, structural, deep drawing, bake hardenable, motor lamination) that largely determine a product's end-use applications and dictate the surface quality

requirement of the product. The Department selects identical and similar merchandise based on physical characteristics (which, in turn, affect the cost and price of a finished product). Furthermore, the statute does not require the Department to follow a respondent's suggested methodology. The Court has explicitly recognized the Department's broad discretion to determine what constitutes similar merchandise for the purpose of determining NV. For example, in Timken Co. v. United States, 630 F. Supp. 1327, 1338 (CIT 1986), the Court emphasized that it is the purview of the Department and not of interested parties to determine what methodology should be used. In NTN Bearing Corp. of America, et. al. v. United States, 18 CIT 555 (CIT 1994), the Court held that the Department was not required to adopt a particular matching methodology advanced by the respondent, noting again the latitude accorded the Department in the selection of a methodology to implement section 771(16) of the Tariff Act. The selection of appropriate matching criteria to define identical merchandise under section 771(16)(A) of the Act is based on "meaningful" characteristics. The criteria selection process allows the Department to "draw reasonable distinctions between products for matching purposes, without attempting to account for every possible difference inherent in the merchandise." See Notice of Final Determination of Sales at Less Than Fair Value; Steel Wire Rod from Canada, 63 FR 9182 (February 24, 1998). For the reasons stated above, we find the 14 matching criteria included in our questionnaire are sufficient to identify the physical characteristics of the cold-rolled steel included in this investigation and for use in identifying either identical or similar products for matching purposes.

Comment 10. *Billing Adjustments*

Nucor requests that the Department recalculate respondent's reported billing adjustments using adverse facts available. Petitioner claims respondent proved during verification its ability to report a home market reseller's (Kerim Çelik's) billing adjustments on a transaction-specific basis. According to Nucor, it is the Department's practice to obtain expenses and price adjustments on a transaction-specific basis, when possible. Moreover, continues petitioner, if Borçelik reports using an allocation methodology, it must explain why its methodology does not cause inaccuracies or distortions. Nucor asserts Borçelik, during the sales verification, demonstrated its ability to tie some billing adjustments to specific sales transactions without undue burden. For Borçelik's reported billing adjustment one, which reflects under-invoiced amounts, petitioner claims that because respondent was able to produce original invoices during verification, it could have then linked the adjustments to underlying invoices. For Borçelik's reported billing adjustment three, which corresponds to a discount to a defaulted customer, petitioner asserts such cases were few in number and respondent demonstrated to verifiers the exact quantities and values in question, and therefore, should have been able to report the adjustment on a transaction-specific basis. For Borçelik's reported billing adjustment four, which consists of over-invoicing errors, petitioner claims respondent stated it could not trace price reductions to actual invoices, when in fact respondent could have easily proven this by presenting a sample of the customer's invoices during verification but did not. For Kerim Çelik's reported billing adjustment one, which reflects an under-invoiced amount, petitioner claims respondent chose to report this adjustment on a customer-specific basis, instead of allocating each adjustment to a limited number of relevant invoices. Petitioner adds throughout

the investigation respondent misled the Department stating it could not link adjustments to individual invoices. For Kerim Çelik's billing adjustment two, which consists of over-invoicing, petitioner claims although these adjustments were reported on a customer-specific basis, verifiers were presented with sample *fiyat farki* invoices which were untraceable to any original invoice, demonstrating respondent's failure to provide all necessary information. Petitioner suggests the Department therefore apply adverse facts available and deny the adjustments.

Borçelik claims it reported all billing adjustments on as specific a basis as possible for each company, and that the methodology was reasonable and accurate. Borçelik asserts its billing adjustment one was reported on a sale-specific basis, and the adjustments were linked to specific invoices, as illustrated in the sales verification report. Borçelik claims its billing adjustment three cannot be linked directly to specific invoices because the credit is placed on the customer's account balance, and is limited to the customer's dollar-denominated sales during the POI. Respondent asserts the Department verified the adjustment during the sales verification, reviewing all documentation and noting no discrepancies. Respondent continues its methodology is reasonable and accurate. For its billing adjustment four, Borçelik argues it is unable to link this billing adjustment to the original invoice and demonstrated to the Department during the sales verification the calculation and supporting documentation. For Kerim Çelik's billing adjustment one, respondent argues Kerim Çelik could not report this billing adjustment on a transaction-specific basis because the adjustments may originate from several or one invoice. Furthermore, argues respondent, *fiyat farki* invoices accrue during the month with customers paying toward a monthly balance and not an invoice, leaving Kerim Çelik unable to report the adjustments on a more specific basis. For Kerim Çelik's billing adjustment two, respondent maintains Kerim Çelik is unable to link credits to the customer to specific invoices because the only record maintained is the credit in the customer's account. Respondent states, citing the sales verification report, the Department verified this adjustment noting no discrepancies. Respondent continues claiming it, when possible, reported expenses and price adjustments on a transaction-specific basis and did limit this adjustment to the individual customers who were entitled to an adjustment. Finally Borçelik declares its methodology reasonable and its calculation accurate, negating the basis for using facts available or adverse facts available.

Department's Position: We disagree with Nucor. The Department has determined the methodology used by the respondent in reporting each of Borçelik billing adjustments and Kerim Çelik's billing adjustments was reasonable, accurate, and verified by the Department during the sales verification. The Department was able to verify, examining relevant and original documentation for each billing adjustment, and determined that the respondent reported the various adjustments on the most specific basis possible considering the information contained on invoices and in the accounting records. The Department's verifiers were unable to find information which would suggest the respondent was indeed able to report the various billing adjustments on a more specific basis. As indicated in the Department's Sales Verification Report, no discrepancies were found; therefore, the Department will not make any adjustments nor use an adverse inference in relation to respondent's billing adjustments.

Comment 11. “*Kur Farki*” (*Currency-Fluctuation Charges*)

Borçelik claims *kur farki* should be excluded from Borçelik’s raw materials costs. Respondent explains that most coil purchases are initially calculated in U.S. dollars, and when the supplier is overseas, payment is also made in dollars. Respondent continues that the *kur farki* reflects the devaluation of the currency between acquisition and payment date. Respondent notes, however, that *kur farki* does not represent a real cost when Borçelik’s costs are converted to a stable currency, for which the costs would remain constant. As a result, when the Department is attempting to correct, using replacement methodology, for respondent’s inability to adjust costs to a stable currency, *kur farki* should not be added to its costs. Borçelik argues that by including the *kur farki*, the coil cost would be restated in nominal currency units in effect for a month other than the month of production. Respondent explains, as the Department decided in the previous investigation, by taking the replacement cost in the month of production rather than the average historical cost of coil inventory, the Department restates the coil cost at current value of the currency in the month of production, because the coil inventory may be more valuable in current currency in the month of production than the average carrying cost of the coil. Respondent asserts, citing the Department’s decision in the previous Turkish cold-rolled steel investigation, if *kur farki* is added, the Department would be double-counting the inflation and devaluation between the acquisition date and production date. Borçelik adds that in the previous investigation, the Department determined it would be unreasonable to adjust the reported costs for the *kur farki* as the fluctuation in the currencies outside inflation was minimal. Respondent notes the fluctuation, in this case, outside the effect of inflation, is zero.

Collective petitioners claim the *kur farki* should be included in respondent’s raw material costs. Petitioners claim the Department’s normal practice is to include foreign exchange losses generated from accounts payables in the cost of manufacture (COM), citing Notice of Final Determination of Sales at Less Than Fair Value: Certain Cut-to-Length Carbon-Quality Steel Plate Products from Indonesia, 64 FR 73164, 73173-4 (Dec. 29, 1999). Although in the previous investigation, according to petitioners, the Department determined the devaluation of the Turkish lira relative to the dollar closely matched the Turkish inflation rate and concluded the *kur farki* resulted from the effects of inflation, the current cost methodology does not account for additional exchange losses associated with purchasing those inputs. Petitioners continue that *kur farki* is part of the actual price ultimately paid for the inputs purchased during the month of shipment, and therefore, should be included in the costs.

Nucor argues *kur farki* should be included in respondent’s reported costs when applying the replacement cost methodology. Petitioner notes the Department indicated it did not adjust for *kur farki* because the fluctuation in the exchange rate during the year closely mirrored the inflation rate in Turkey during that period. Nucor claims the reason for the parity was the establishment of the exchange rate by the Turkish government until February 2001, at which time the government, because of turmoil in the financial sector, let the currency float. Petitioner continues that in the current case, the exchange rate fluctuations no longer mirror the inflation rate. Therefore, Nucor alleges a separate adjustment, for exchange rate difference, should be made under the circumstances.

In rebuttal, collective petitioners explain the current cost methodology, alleging that to calculate the cost for a sale, the starting point is the hot-rolled coil cost during the month of

shipment for that sale. Petitioners continue the *kur farki*, or exchange rate losses generated by accounts payable, is a component of the actual price paid for the inputs purchased during the month of shipment, and therefore, should be included in current costs. Petitioners also assert the expenses should be included in the direct costs of manufacture (DIRMAT), as explained in petitioners' case brief.

Respondent, in rebuttal, reiterates the argument that by adding *kur farki* to the replacement cost would restate the raw material cost in nominal currency units from a month after the month of production, resulting in double-counting, and therefore, should not be included in either raw material costs or finance costs when raw materials costs are restated on a replacement basis.

Department's Position: We agree with Borçelik that including *kur farki* would be inappropriate when using the replacement cost methodology. As explained in Comment 8 above, the replacement cost methodology used by the Department attempts to mitigate the distortions of inflation by recording material costs at the current value in the month of production rather than at the historic value on the date of acquisition. The *kur farki* recorded on Borçelik's books account for the devaluation of the currency from the date of acquisition to the date of payment. Because the replacement cost method for valuing raw material inputs already accounts for the effects of inflation, to the extent the *kur farki* arose due to the effects of inflation from the time of receipt to the time of payment for these raw materials, to include them would result in a replacement cost not reflective of the currency levels for the month of production.

Borçelik is assuming that changes in the exchange rate between the Turkish lira and the U.S. dollar are the result of inflation alone. Borçelik's argument does not recognize the fact that currencies have a value which fluctuates according to other factors such as the rules of supply and demand. Both are accounted for in the recognition of foreign exchange gains and losses. The Department notes, however, that information on the record shows the change in the exchange rate between the U.S. dollar and Turkish lira during the year closely mirrors the inflation rate experienced in Turkey during the same period. Thus, we continue to consider it reasonable not to adjust the reported costs for the *kur farki* as the fluctuation in the value of the U.S. dollar and Turkish lira outside of the effect of inflation is minimal. This is consistent with our past practice. See Notice of Final Determination of Sales at Less Than Fair Value: Cold-Rolled Flat-Rolled Carbon Quality Steel Products from Turkey, 65 FR 15123 (March 21, 2000) (Comment 3.1.).

Comment 12. *Credit Expenses*

Collective petitioners assert the Department incorrectly included one of Borçelik's billing adjustments (BILADJ2H), the depreciation or appreciation in the exchange rate between the time of invoicing to and payment by the customer, in the calculation of Borçelik's credit expenses (CREDITLH). Petitioners state the same is true for the *kur farki* billing adjustments, (BILADJ3H, BILADJ4H, BILADJ5H), and other income (OTHINCH) reported by affiliated reseller Kerim Çelik and used in the calculation of credit expenses (CREDITLH) for downstream sales. Petitioners argue credit expenses are imputed credit expenses, or opportunity costs, measuring the amount of interest a respondent would have earned during the payment period if

not financing its accounts receivables. Petitioners continue at the time of invoicing, respondent is not due more than the invoiced amount, meaning the only payment forgone is the invoiced amount. Petitioners assert if respondent had not financed its accounts receivables, it could not have collected the *kur farki* billing adjustment, and therefore, there is no opportunity cost associated with the *kur farki* billing adjustment during the payment period. Petitioners claim the billing adjustment amount, either positive or negative, is not earned and not determined until the payment date. Petitioners further assert the billing adjustment for *kur farki* is analogous to a rebate not an invoicing error, and cites Certain Corrosion-Resistant Carbon Steel Flat Products from Korea; Final Results of Antidumping Duty Administrative Review, 61 FR 18547, 18554 (April 26, 1996), in which the Department determined rebates should not be deducted from gross unit price in determining imputed credit costs because the amount being financed over the credit period is the gross unit price, and not the gross unit price less an undetermined rebate. Petitioners explain with invoicing errors, companies incur opportunity costs for the correct amount due. Petitioners continue, as *kur farki* is not accrued until payment date and is undetermined on shipment date, the amount being financed over the credit period is the gross unit price without the *kur farki* billing adjustment.

According to collective petitioners, other income reported by Kerim Çelik represents due date income, or interest revenue, obtained from the customer for the period between invoicing and payment. Petitioners continue credit expenses measure interest revenue forgone during the period between invoicing and payment. In contrast, assert petitioners, other income consists of collected interest revenue, and therefore, should not be included in the credit expense calculation.

Borçelik counters first by arguing the Department should use the USD gross prices for sales negotiated in USD, instead of using the TL equivalent, which would then eliminate the need to adjust for the various billing adjustments in TL. If the Department uses the TL prices, continues Borçelik, credit should not be recalculated by excluding *kur farki*. The Department should, adds respondent, include the billing adjustments at issue as they are part of the original invoiced amount in USD. Borçelik explains the sum of the original invoice and the payment received do not calculate the true price of the sale because some of the sales are conducted in USD and to derive the total gross price actually paid by the customer, one would have to add the *kur farki* billing adjustment amounts. Borçelik explains it converts the sales price in USD to TL by multiplying the USD amount of the invoice by the USD per TL exchange rate in effect on the date of invoice, and then to capture the exchange rate difference lost, more often, another invoice is issued to the customer. Borçelik notes the Department verified the various billing adjustments and stated to calculate the total gross price ultimately paid by the customer, the *kur farki* was added to the invoiced amount. Borçelik claims the Department should compute credit cost over the total amount of TL received on or after the payment date. Respondent adds it has not claimed an additional credit cost associated with the delay in receipt of the *kur farki* until after the first payment date. Respondent cites Notice of Final Determination of Sales at Less Than Fair Value: Stainless Steel Bar from Italy, 67 FR 3155, 3157 (January 23, 2002), asserting the unit price included in the credit cost must include that which the respondent actually expects to receive from the customer, as is the Department's normal practice.

Regarding other income, Borçelik argues it should not be excluded from Kerim Çelik's imputed credit cost calculation. Borçelik claims other income is included in the gross unit price on the invoice. Borçelik explains the total price was derived from adding the total amount of the

due date income and the total amount of the discount to the total sales price. Therefore, alleges respondent, other income should be treated as *kur farki*, because it accounts for the delay in payment, and should be included in its credit cost calculations.

Department's Position: As stated previously in Comment 1 of this memorandum, pursuant to the Department's decision to use USD prices in the home market for sales negotiated in USD in calculating normal value, the *kur farki* billing adjustment issue becomes irrelevant.

The Department has determined "other income," reported by affiliated reseller Kerim Çelik, consists of a fee collected from the customer for paying invoices late. See Memorandum For The File from Melissa A. Blackledge, "Cold-rolled Carbon Steel Flat Products from Turkey; Sales Verification of Borçelik Çelik Sanayii Ticaret, A.Ö." at 15 (June 19, 2002). The Department has concluded that "other income" is a type of interest revenue. Therefore, because credit expenses measure interest revenue foregone during the period between invoicing and payment, and Kerim Çelik's "other income" is collected interest revenue, "other income" should not be included in the credit expense calculation. The Department will exclude "other income" from the credit expense calculation.

Recommendation

Based on our analysis of the comments received, we recommend adopting all of the positions set forth above and adjusting all related margin calculations accordingly. If these recommendations are accepted, we will publish the final determination and the final weighted-average dumping margins for all firms in the Federal Register.

AGREE_____ DISAGREE_____

Faryar Shirzad
Assistant Secretary
for Import Administration

Date