*Comment 13*

The petitioner argues that Dalmine improperly allocated depreciation expense using internal management reports instead of the mill-specific fixed asset ledgers which are kept in the normal course of business. The management reports, according to the petitioner, are used for allocating plant-wide depreciation expense to specific mills, but do not properly take into account the actual plant and equipment used in manufacturing. Instead, the petitioner claims, the submitted allocation method shifted costs from cost centers producing the subject merchandise to cost centers producing non-subject merchandise. The petitioner urges the Department to apply BIA because an analysis they performed suggests that the respondent applied an unusually slow rate of depreciation.

The respondent claims that it did not understate reported depreciation costs, as the verification report suggested, and argues that it may, in fact, have overstated its reported depreciation costs. Dalmine asserts that the internal management reports used to calculate depreciation for the submission segregate separately depreciation by mill and are not used for company-wide allocations. It also maintains that the depreciation expense for equipment used to produce the subject merchandise, as reported in the company's fixed asset ledgers, is substantially less than the depreciation expense which was reported in the submitted COP/CV data.

*DOC Position*

We agree with the petitioner, in part. The respondent reported its depreciation expense consistent with the way its cost accounting system allocates it to specific mills in the ordinary course of business. However, we believe that the use of its normal cost accounting methodology may not be a reasonable and accurate methodology as it does not properly take into account the actual plant and equipment used in manufacturing the subject merchandise. We consider the mill-specific fixed asset ledgers to be the most accurate basis for allocating depreciation expense to specific products. Therefore, we used the mill-specific depreciation expense.

We note that the petitioner's analysis regarding the unusually slow depreciation rate is flawed because it did not properly consider the cost of some fixed assets, such as land, which are not depreciated, and the cost of other fixed assets, which have long useful lives.

*Comment 14*

The petitioner argues that the Department should reject Dalmine's reported financing costs because Dalmine failed to disclose the fact that its financial results are consolidated with the financial results of its parent, ILVA S.p.A., in liq. (ILVA). These financial results are, in turn, consolidated with the financial results of ILVA's parent, IRI. The petitioner asserts that the Department calculates interest expense on a consolidated basis, unless the financial structure of the parent and the operating subsidiary are clearly not integrated, or there are no reliable audited consolidated financial statements. According to the petitioner, neither of these exceptions are applicable in this case.

The petitioner also contends that the Department should reject the respondent's argument that Dalmine's 1994 interest costs should be used instead of IRI's 1993 interest costs because the Dalmine-based figures are more closely correlated to the POI. The petitioner argues for the application of BIA in the final determination. However, if the Department determines that total BIA is inappropriate, then the petitioner believes the Department should calculate financing costs using IRI's 1993 audited financial statement information.

The respondent claims that it properly reported interest expense based on the consolidated financing costs incurred at the Dalmine level, rather than at the consolidated IRI level. In support of its claim, the respondent states that IRI does not exercise control over Dalmine's operations or its capital structure. In addition, the respondent maintains that using IRI's consolidated financial expenses would distort Dalmine's true financing costs because IRI's financing costs include expenses for entities which are dissimilar to Dalmine. Additionally, the respondent points out that IRI's 1994 audited consolidated financial statements were not available at verification and only its 1993 audited consolidated financial statements are on the record. However, Dalmine's 1994 audited consolidated financial statements are on the record and, according to the respondent, they are more relevant because they encompass the entire POI. Lastly, the respondent objects to the petitioner's insinuation that it attempted to mislead the Department by failing to disclose that its financial results are consolidated with the financial results of IRI. The respondent asserts that this information was not provided since it was not requested in the Department's questionnaires. When the Department did request IRI's consolidated financial data at verification, the respondent provided this information.

*DOC Position*

We agree with the petitioner, in part. The Department's long-standing practice is to calculate interest expense for COP/CV purposes from the borrowing costs incurred by the consolidated group. *Silicon Metal From Brazil,* 56 Fed. Reg. at 26,986 (1991). This methodology, which has been upheld by the CIT in *Camargo Correa Metals, S.A. v. U.S.*, Slip Op 93–163 (CIT 1993), is based on the fact that the consolidated group's controlling entity has the power to determine the capital structure of each member of the group. IRI has such power since it owns a substantial majority of Dalmine through ILVA. In addition, although the respondent claims that IRI does not exercise control over Dalmine's operations, it is the Department's position that majority equity ownership is prima facie evidence of corporate control. *See, e.g., Final Determination of Sales at Less Than Fair Value: New Minivans from Japan, (Minivans)* 57 FR 21946 (May 26, 1992) The respondent has not presented sufficient evidence to demonstrate that IRI's consolidated financing expense would distort Dalmine's financing costs. In *Minivans,* we determined that, as a member of a consolidated group of companies, the operations of a financing company remain under the controlling influence of the group. Like other members of the consolidated group, the financing company's capital structure is determined largely within the group. Consequently, its interest income and expenses are as much a part of the group's overall borrowing experience as any other member company.

Lastly, we do not consider it more appropriate to use Dalmine's 1994 consolidated figures over IRI's 1993 consolidated figures simply because Dalmine's audited information more closely relates to the time period of the POI. We have no reason to believe that IRI's 1993 audited financial statement interest expense data is not representative of the POI.

*Comment 15*

The petitioner believes the Department should not allow the respondent to offset its IRI level financing costs with short-term interest income because the reported interest income included both short and long-term interest income.

The respondent claims that the Department should reduce Dalmine's interest expenses by long and short-term