Comment 8: Fixed Fabrication and Depreciation Cost

The petitioners argue the difference between the company-wide average and the average of the reported fixed fabrication and depreciation cost indicates Siderca understated the reported amounts. The petitioners assert fixed costs are normally higher for OCTG than for other types of pipe because of substantially higher finishing costs for OCTG. The petitioners state differences in fixed costs could only result if different production lines are used or if different capacity utilization rates are realized, but neither situation applies to Siderca. The petitioners reference Siderca's production flow charts, which show that subject and non-subject merchandise share the same production lines. Where subject and non-subject merchandise do not share the same production line, the equipment used for downstream processing is similar.

Siderca argues it properly allocated depreciation expense in the reported product-specific costs. Siderca asserts the results of the gross comparison test can be explained. First, the test compares an average of all products to an average from only two OCTG markets. Siderca's plain-end pipes carry a smaller portion of fixed fabrication and depreciation, while the remaining production carries a greater amount of these costs, because of their complexity. Siderca argues the overall product mix of the merchandise sold to the United States and China is at the lower end of the complexity range. It is natural, they argue, that the average fixed fabrication and depreciation costs allocated to OCTG sold in the United States and China would be lower. The more complex products include pipe that is cold-drawn, custom threaded, buttress threaded, and also pup joints.

Second, the Department's verification report notes that the total depreciation expense was traced to each cost center and that Siderca demonstrated how the per-unit costs were determined using the productivity of each product in a given cost center. Siderca also notes the Department looked at several product comparisons which show the relative amounts of fixed fabrication costs allocated to each product.

Siderca contends that it was able to demonstrate the flow of fixed factory costs and depreciation from the financial statements to the amounts input into the computer for each cost center. Siderca notes that the Department verified the allocation factors used to apply fixed factory costs and depreciation and that they were the same factors used to allocate factory costs under normal circumstances. In addition, they note that the Department was able to recalculate the cost of manufacturing for the test products and compared the allocation of costs between various products, including line pipe. Siderca further argues that plain end pipes account for a significant portion of its U.S. sales, but account for only a small proportion of its overall sales.

DOC Position

We agree with Siderca. At verification, while we could not reconcile the total of the individual per unit fixed fabrication and depreciation costs to the total expense, we were able to perform alternative procedures in place of that reconciliation. If the Department is satisfied that the respondent described the systems abilities accurately, that the system was used in the normal course of business, and that the data could be verified through alternative procedures, then the Department normally does not adjust the reported information. In this case, the system used to allocate the fixed factory cost and depreciation is the same system used in the normal course of business to derive the variable factory costs. We performed the following alternative procedures in place of the reconciliation.

Our analysis compared a company-wide average of fixed factory overhead and depreciation expense to an average of these variables for only the U.S. and PRC markets. Additionally, our test of reasonableness compared a weighted-average figure of fixed factory overhead and depreciation expense to a simple average figure of these variables. We do not find that the Department's reasonableness test nor other evidence on the record indicated Siderca's methodology distorted the reported per unit costs. Consequently, we used the per unit fixed factory costs and depreciation reported by Siderca.

Comment 9: Treatment of Quality Control Costs

The petitioners argue the Department may not treat inspection costs as selling expenses. The petitioners contend that the costs in question are quality control costs incurred at the end of the production process and in varying degrees are incurred on all products. The petitioners cite the Final Determination of Sales at Less than Fair Value: Gray Portland Cement and Clinker from Japan (56 FR 12156, 12162, March 22, 1991), in which the Department held that quality control costs incurred at respondent's plant did not constitute selling expenses. The petitioners argue that the record does not demonstrate that the testing was a condition of sale. In the Final Determination of Sales at Less than Fair Value: Forged Stainless Steel Flanges from India (59 FR 68853, 68858, December 29, 1993), the petitioners argue that the Department found that there was no evidence on the record to support the assertion that the testing was a condition of sale, and the Department included the quality control costs in the cost of manufacturing.

Siderca argues that it correctly treated these particular inspection costs as selling expenses. It argues that its normal records treat these inspection costs as selling expenses, and notes that the Department verified Siderca's ability to identify the extra inspection costs associated with sales to China. It further argues that the Department has treated inspection costs as a selling expense in prior cases. Siderca cites the Final Results of Antidumping Duty Administrative Review and Revocation in Part of an Antidumping Duty Order: Antifriction Bearings from Japan (Industrial Belts) (58 FR 39729, 39750, July 26, 1993) and Final Results of Antidumping Duty Administrative Review: Industrial Belts and Components and Parts Thereof Whether Cured or Uncured, from Japan (58 FR 30018, 30024, May 25, 1993).

DOC Position

We agree with Siderca. We find that these costs are incurred commensurate with Siderca's corporate goal to continue to develop sales of OCTG to the PRC, a situation similar to that in Industrial Belts (Comment 12). At the sales verification, we looked at correspondence and other documentation between Siderca and the Chinese customer and were able to confirm that quality control issues were discussed in great detail.

At the cost verification, we were able to verify that Siderca tested OCTG destined for China significantly more than OCTG destined for other markets. Finally, Siderca is only claiming the quality control testing costs which can be specifically identified to a particular market. Siderca included quality control testing costs incurred at earlier production steps as a cost of production. These quality control testing costs incurred at the earlier production stage were incurred regardless of market and, therefore, were properly included in the COP. The quality control costs incurred at the end of production could be differentiated based on the market to which the merchandise was shipped.