

*Comment 8—HC's Interest Charges*

HSP reported that it "sells" the OCTG to HC, which in turn "sells" the OCTG to HPA, HSP's U.S. subsidiary. The respondent maintains that HC pays a certain percentage of the transfer price in interest charges to compensate the Korean bank for the time value of the money resulting from the time lag between the Korean bank's payment to HC and the payment to the Korean bank from the U.S. bank. HSP maintains that these interest charges to finance the internal movement within Hyundai of OCTG while in physical transit from Korea to the United States. Therefore, the respondent contends that, because HPA makes ESP sales out of its U.S. inventory, HC's interest charges cannot be associated with goods which are subject to a later sale.

The respondent contends that this interest charge calculated by HSP is duplicated by HPA's inventory carrying cost calculation and HSP's Canadian credit expense calculation because it compensates the Korean bank for the short delay in HC's receipt of payment under the letter of credit posted by HPA. The respondent also contends that this type of charge is included in HPA's indirect selling expenses and therefore must be removed from them. Otherwise, the respondent maintains that the Department is double counting this expense.

The petitioners maintain that the interest charges and inventory carrying costs must be fully and separately reported and deducted from U.S. price.

*DOC Position*

We agree in part with the respondent. Based on verification of HPA's ESP sales process, we have determined that HC's interest charges cannot be specifically traced to the U.S. sale of OCTG to the first unrelated customer. Therefore, this charge is clearly associated with the internal movement of the subject merchandise from Korea to the United States and not associated with a specific sale. Accordingly, we have treated this expense as an indirect selling expense in the final determination.

Regarding the respondent's claim that an imputed amount capturing the delay in payment must be deducted from inventory carrying expense and/or credit expense, HPA's bank will not pay HC's bank until HPA provides the shipment documents received after receipt of the OCTG from HC. Therefore, we find that the interest charge is associated with the delay in payment between HC's bank and HPA's bank and that this is a result of the time delay between when HC releases the OCTG

and when HPA receives the OCTG. We find that the interest charge represents part of the inventory carrying expense calculation and does not represent an additional expense. Since the deduction of both this interest charge and the time during which the OCTG is in HC's inventory would represent double counting, we have removed the inventory days during which the OCTG is in HC's inventory from the inventory carrying expense calculation.

Regarding the respondent's claim that HC's interest charge amount must be deducted from HPA's indirect selling expenses, we disagree because HC's expenses are not captured in HPA's indirect selling expenses calculation.

Finally, regarding the respondent's claim that the interest charge (which is also incurred on Canadian sales of OCTG), is duplicated by HSP's Canadian credit expense calculation, HPA's bank will not pay HC's bank until the Canadian customer pays HPA and this transaction occurs after the customer receives the shipment documents. However, HC's bank will still pay HC based on the letter of credit opened by HPA, and HC's bank will charge HC an interest charge for the advance receipt of the value of the OCTG. Therefore, we find that the interest charge is an actual credit expense which is associated with receiving payment for the OCTG before the Canadian customer pays HPA for the OCTG. Although this interest charge does not cover the entire credit period (e.g., shipment from Korea until HPA's receipt of payment from the Canadian customer), we have accounted for the additional credit period by imputing a credit expense which is based on the use of HPA's interest rate and the difference between HPA's and HC's sales prices of OCTG to the U.S. market.

*Comment 9—Packing Expense*

The petitioners contend that HSP has improperly applied its conversion factor to packing expenses. Specifically, the petitioners allege that since HSP allocated packing costs over the total tonnage of OCTG sold rather than produced, it was unnecessary to use a conversion factor to determine the expenses. The actual packing costs have already been allocated on a theoretical weight basis.

The respondent maintains that verification demonstrated that HSP allocated packing costs over the total actual volume of small pipe sales, and then applied a conversion factor to restate the costs on a nominal weight basis.

*DOC Position*

We agree with the respondent. We find that HSP did not use its conversion factor twice to determine its packing expenses. Verification demonstrated that HSP applied a conversion factor to the actual tonnage of OCTG produced to determine its packing costs. HSP used the quantity figures from its inventory ledger, (which record the actual tonnage), and not its sales ledger, as the basis for its packing expense allocation methodology. Therefore, we have accepted HSP's packing expense methodology.

*Comment 10—Settlement Adjustment on Defective Coil Purchase*

The petitioners argue that some of the coils on which HSP received settlement for defective material were consumed before the POI. Accordingly, the petitioners maintain that only the settlement revenue received by HSP and associated with coil consumed in the POI should be used to offset materials.

The respondent argues that it received all the settlement payment, which was to compensate HSP for defective material, during the POI, and that it should be offset against HSP's POI coil cost.

*DOC Position*

We agree with the petitioners. We found at verification that some of the defective material was used in production in 1993. The actual material cost for the POI equals the total net amount paid. This amount equals the amount paid on the material used during the POI, less the proportional amount of the settlement. In January 1994, HSP knew the amount it would receive and it knew the specific materials associated with the settlement. Therefore, we have adjusted the settlement amount for defective material to account for the production that occurred prior to the POI, and have considered only that portion of the settlement pertinent to production during the POI.

*Comment 11—Adjustment of G&A Calculation*

The petitioners argue that the gains and losses on investment securities and other investment related expense and income items should be excluded from the calculation of general and administrative (G&A) expenses. They contend that all non-operating items must be excluded from the SG&A calculation.

The respondent states the inclusion of investment related items is consistent with its financial statements.