CVs based on machine time for a single process (the finishing line).

The petitioner argues that TAMSA's allocation methodology for variances, depreciation and other fixed costs (termed ''nonstandard'' costs) distorts actual production costs because it shifts overhead expenses to products which undergo more finishing. This allocation methodology may also shift costs to products purchased from Siderca S.A.I.C., a related entity, if TAMSA is finishing the Siderca-produced products. Furthermore, the relative finishing line time TAMSA used as the allocation basis for variances and fixed costs is the least accurate method for allocating these costs to specific products. The petitioner asserts that finishing costs are only a fraction of the costs incurred in other production processes. The differences resulting from the finishing process will have little or no relationship to product-specific cost differences in the other processes.

As a result, the petitioner argues that the Department should apply BIA. As BIA, the Department should allocate the costs on a per-ton basis over all production. The petitioner discounts the usage of standard costs as a basis for allocation since the major component of standard costs is materials.

TAMSA argues that machine time at the finishing line is the most appropriate basis for allocating nonstandard costs according to accounting theory. Production, and therefore costs, are dependent on the slowest machine in the entire production process. TAMSA asserts that the finishing line is the slowest process and argues that the alternative of allocating nonstandard costs on a per-ton basis ignores all differences in machine usage and physical differences between products. Similarly, it contends that allocating nonstandard costs based on standard costs would ignore the relationship of machine usage for physically different types of products.

DOC Position

We agree with the petitioner that TAMSA's allocation methodology for fixed costs and variances distorts actual production costs because it shifts overhead expenses to products which undergo more finishing. The basic premise that machine time can be a reasonable and appropriate allocation basis for depreciation costs is well substantiated in both accounting (Davidson & Weil, Handbook of Cost Accounting, Prentiĉe Hall, 1978) and Departmental practice (Final Determination of Sales at Less Than Fair Value; Steel Wire Rope from Korea (58 FR 11029, February 23, 1993)). However, TAMSA did not rely on total machine time as the basis for allocation. Instead, TAMSA based its allocation on the standard time for only one production step, the finishing line. Thus, TAMSA's allocation basis did not reflect the machine time for other processes performed. TAMSA's methodology allocated more than just depreciation expenses based on the finishing line time. It also allocated material and energy price variances, efficiency variance, and other fixed costs on the basis of standard finishing line. TAMSA's chosen allocation methodology ignored the cost drivers for the price variances, efficiency variance and other fixed costs. These costs are not driven by machine time, as they are more closely associated with material and transformation costs. For these reasons, machine time is not the appropriate allocation basis for costs other than depreciation.

The petitioner's recommendation of allocating nonstandard costs on a per-ton basis would allocate the same nonstandard cost to each ton produced. This type of allocation would not accurately reflect the processes needed to produce each product, or the differences in the machine time and labor hours for each product. Similarly, it does not capture the specific costs of the materials required to produce different products.

The petitioners argument against using standard cost as the allocation basis for the variances and fixed costs because a large part of the standard costs is material cost is unfounded. The variances being allocated include material price and material efficiency variances. Therefore, the appropriate cost driver for the material variances (materials) is included in the standard costs.

We have used total standard cost as the appropriate allocation basis for the nonstandard costs. Total standard cost factors in machine time, labor hours, direct and indirect material cost and usage, labor cost and usage, energy cost and usage, other variable costs, maintenance, and other services. Therefore, we revised the COP and CV to include nonstandard costs as a percent of total standard costs.

Comment 8: Calculation of G&A Expenses.

TAMSA submitted G&A expenses based upon 1993 financial statements. The petitioner argues that TAMSA should have used G&A expenses from its 1994 financial statements since they encompass the POI. Further, the petitioner argues that the Department should base G&A expenses on BIA because TAMSA has systematically withheld its 1994 consolidated financial statements from the Department (see complete discussion at Comment 6). As BIA, the petitioner recommends that the Department rely on the reported amounts in the company's consolidated 1994 financial statements which were filed with the Mexican securities oversight agency.

TAMSA refutes the petitioner's arguments saying it has fully cooperated with all Department requests. TAMSA asserts that the different format and form of the information filed on the public record with the U.S. and Mexican authorities and the time lag between publication in the United States and filing with the SEC has led to some confusion.

DOC Position

We agree, in part, with the petitioner that it is inappropriate to use the 1993 G&A expenses. (See DOC position regarding Comment 6.) We disagree with the petitioner, however, that BIA is appropriate because TAMSA provided us with the 1994 G&A information that the Department requested. As indicated in the questionnaire, it is the Department's standard practice to calculate G&A based on the financial statements of the producing company that most closely relates to the POI, which, in this investigation, is January 1, 1994 through June 30, 1994. Therefore, the appropriate financial statement for TAMSA's G&A calculation is TAMSA's unconsolidated 1994 financial statement. We used the 1994 G&A expenses from the unconsolidated producing entity.

All other comments concerning G&A are moot, as they concerned the calculation of G&A using the 1993 financial statements.

Comment 9: Depreciation Expenses.

The petitioner argues that TAMSA's reported depreciation expense was based on overstated useful lives and that TAMSA's appraised value of assets was less than the acquisition cost adjusted for inflation. Therefore, the petitioner argues that the submitted depreciation expense was understated. The petitioner contends that TAMSA's depreciation methodology is contradictory to U.S. practice and distorts the POI actual costs. The petitioner concludes that the Department should increase TAMSA's depreciation expense to reflect the difference between TAMSA's average useful life of all assets and its purported U.S. useful life.

TAMSA argues that its method of reporting depreciation expenses is consistent with Mexican GAAP. TAMSA argues that the petitioner has