

depreciation expense based on asset values which, in accordance with Colombian GAAP, have been adjusted to reflect the effects of inflation. Petitioner notes that respondents computed depreciation charges for rose production costs based on the historical cost of the underlying fixed assets. Petitioner maintains that because of the effects of inflation on prices, respondents' methodology inappropriately matches historical depreciation charges based on past price levels with revenues generated from the sale of roses at current price levels.

Petitioner notes that in past cases involving hyperinflationary economies, the Department has corrected for the effects of inflation by computing cost of production based on respondent's replacement costs. Petitioner argues that although the POI inflation rates in Colombia did not meet the Department's normal hyperinflation threshold, the annual rate of inflation nevertheless has been so substantial as to cause the government to adopt accounting standards that require an adjustment for inflation. Thus, according to petitioner, the Department must correct respondents' reported depreciation expense in order to avoid distorting the cost of rose production.

Respondents claim that the Department should accept their submitted rose production costs without taking into account the effects of the inflation adjustment on depreciation expense. Respondents argue that, although the inflation adjustment may result in additional costs in their financial statements, these are not actual, historical costs. Instead, the inflation adjusted costs are "phantom" costs required by tax law, but not specifically addressed under GAAP.

Respondents maintain that the purpose of the tax law was to generate tax revenues for the government, because any write-off of fixed assets due to inflation results in additional income that must be recognized in a firm's financial statements. Respondents contend that if the Department determines that it must include the effects of the fixed asset inflation adjustment in respondents' rose CV, then it also must reduce CV by the amount of financial statement income generated by the adjustment. Respondents note that such income is directly related to production and, thus, there is no basis for failing to offset costs if the inflation adjustment is included in CV.

Additionally, respondents claim that the Department already effectively makes an inflation adjustment through the use of monthly exchange rates in its

computer program. Respondents state that the exchange rate is related to differences in the two countries rates of inflation, and the use of such exchange rates has an effect equivalent to making the year-end inflation adjustment.

DOC Position

We agree with petitioner that respondents' failure to follow their normal accounting practice of adjusting depreciation and amortization expenses for the effects of inflation distorts rose production costs for purposes of our antidumping analysis. The exclusion of the inflation adjustment results in costs which are not reflective of current price levels and thus produces an improper matching of revenues and expenses. Therefore, we have revised the submitted COP and CV figures to reflect inflation-adjusted depreciation and amortization expenses based on the growers' normal accounting practices.

We disagree with respondents' claim that the Department's use of monthly exchange rates effectively makes an inflation adjustment, because the exchange rates are being applied to costs which are reported in understated foreign currency. To avoid distortion in production costs, we have used annual average constructed value figures and converted them to U.S. dollars using a weighted-average exchange rate based on the monthly volume of roses sold by each grower.

We also disagree with respondents' assertion that income resulting from the inflation adjustment is directly related to production and should be applied as an offset to financial expense. This annual revaluation of non-monetary assets does not represent income during the POI. Instead, it merely reflects an increase to respondent's financial statement equity due to the restatement of non-monetary assets to account for inflation.

Comment 9: Statutory General Expenses and Profit

Petitioner claims that statutory general expenses and profit should be based on third country sales, since third country sales and third country profit and general expenses would be used as a basis for FMV when home market sales are not available.

Respondents maintain that the facts of this case and the statute require that Department calculate profit on the basis of home market sales, particularly since the Department made a finding in its preliminary determination that home market sales of export quality roses were made in the ordinary course of trade. In addition, respondents note that where the Department used third country price

comparisons in its preliminary determination, if in the final determination the Department chooses to reject third country prices in the final determination in favor of CV, it cannot use annual average third country profit margins in calculating CV, because this would be the equivalent of comparing an annual average third country price to a monthly average U.S. price.

DOC Position

In calculating CV, we used selling expenses based on U.S. surrogates and the eight percent statutory minimum for profit where there was not a viable home market for export quality roses. Where there was a viable, but dissimilar, third country markets, we used U.S. surrogates and the eight percent statutory profit because we have determined that third country markets do not provide an appropriate basis for foreign market value. See Comment 6 above.

We used U.S. selling expenses as a surrogate even though certain producers had viable home markets for culls which are included in the general class or kind of merchandise.

19 USC 1677b(e)(1)(B) states that the CV of imported merchandise shall include an amount for general expenses and profit equal to that usually reflected in sales of merchandise of the same general class or kind as the merchandise under consideration which are made by producers in the country of exportation, in the usual commercial quantities and in the ordinary course of trade, except that—

(i) the amount for general expenses shall not be less than 10 percent of the cost as defined in subparagraph (A), and

(ii) the amount for profit shall not be less than 8 percent of the sum of such general expenses and cost.

19 C.F.R. 353.50(a) states that if FMV is based on CV, the Secretary will calculate the FMV by adding general expenses and profit usually reflected in sales of merchandise of the same class or kind of merchandise.

However, in the final determination of *Certain Granite Products from Italy*, 53 FR 27187, 27191–2 (July 19, 1988)(comment 15), the Department stated that, due to the uniqueness of one of the such or similar categories of merchandise, there was no comparability between sales in the home market and sales in the United States. Therefore, the Department used the U.S. selling expenses as a surrogate in computing CV instead of home market selling expenses. As in *Certain Granite Products from Italy*, we find that, in the instant investigations, culls are not representative of the