stage from the total to which costs are allocated. Otherwise, no costs are attributed to the pre-production rose plants.

Petitioner states that respondent's allocation of services (*e.g.*, insurance and depreciation expenses) by the number of plants, rather than the area in production is reasonable. However, petitioner argues that greenhouse depreciation, machinery and equipment depreciation, insurance on the facility, and service costs are related to area in production, not the number of plants.

Petitioner also argues that the record does not establish that the nursery stock was sold exclusively to unrelated customers. Therefore, if some or all of the nursery stock was used in respondent's greenhouses, then there is no basis for excluding these costs or allocating a portion to rose production.

Furthermore, petitioner contends that because respondent did not segregate these costs in its response, the Department should determine whether the number-of-plants allocation (including nursery plants) reasonably approximates the production-area allocation. If not, petitioner argues that the Department should use the higher percentage as the allocation basis as BIA.

Respondent argues that petitioner's theory that the pre-production stage of a rose plant is accounted for by depreciating rose plants over their useful life is erroneous. Respondent asserts that petitioner is confusing the amortization of pre-production costs of rose plants ultimately grown by respondent for production, with the separate business of selling nursery rose plants to unrelated parties. Respondent maintains that the sale of nursery plants constitutes a separate line of business and the costs of nursery plants, like any other plant not subject to this investigation, should not be included in the CV calculation of fresh cut roses.

Respondent adds that it allocated service, insurance and depreciation expenses on the basis of number of plants which included nursery rose plants. Respondent states that nursery plants are not considered production plants and are sold to unrelated customers in the normal course of business. Therefore, respondent contends that the nursery plants, like any other plant not subject to this investigation, should not be included in the CV calculation.

DOC Position

We agree with petitioner that using the number of plants to allocate certain expenses is not an accurate measure. At verification, we reviewed respondent's plant allocation methodology and determined that it was inaccurate. With the exception of the plants themselves, other inputs in the growing process seem to be more closely linked to the area under cultivation. We also reviewed the calculation of area under cultivation. As we have determined that it is more correct to allocate the costs in question based on cultivation area, we have re-allocated the cost on that basis.

Comment 41

Respondent states that it translated dollar-denominated loans and payments into sucres in its financial statements and that during the POI, that a fictitious loss was created and recorded in the translation gain/loss account. Respondent argues that this account is purely cosmetic and does not reflect actual costs of production. Therefore, the Department should not include the fictitious translation expenses in its CV calculation.

Petitioner asserts that because respondent's so-called ''translation'' losses on foreign-currency loans are recorded in respondent's financial statement in the ordinary course of business and in accordance with GAAP, they should not be disregarded. Petitioner asserts that, in order to repay foreign-currency loans, respondent will be required to convert sucres to the currency of the loan. Therefore, repayment is affected by the exchange rate. Moreover, the overall financial condition of respondent, and its ability to raise capital and obtain loans, is affected by the translation losses shown on its financial statements. Accordingly, petitioner argues, there is no basis to ignore these costs in determining the total cost of production.

DOC Position

We agree with petitioner. The translation loss reflects an actual increase in the amount of sucres that will be paid to settle these borrowings. We have therefore included the translation loss and amortized it over the remaining life of the loan.

Comment 42

Petitioner maintains that respondent treated interest payments to a shareholder as normal interest expenses in its ordinary books and records. Petitioner cites *Kiwi Fruit from New Zealand*, 59 FR 48596, 48599 (September 22, 1994) (final results of admin. review) in which the Department stated:

> Absent specific evidence to the contrary, we consider expenses recorded in a company's financial statements to reflect actual expenses incurred in its operations * * * Respondent has not presented any documentary evidence in support of its claim that the recorded expenses were not actual expenses. Accordingly, we continue to rely on the growers' financial statements for orchard expenses in the final results.

Moreover, petitioner maintains that the proceeds of the loan were used for working capital, not capital expenditures. Petitioner contends that the shareholder and the company did not treat the loan as a stock purchase or otherwise as an increase in capitalization. Therefore, the issue is not whether the interest costs of the loan should be excluded, but whether the provision of working capital was at a favorable less than arm's length rate. If so, petitioner maintains that the transaction should be treated as any other related-party input and revalued at an arm's length interest rate. Alternatively, the interest paid to a shareholder should be treated as income to that shareholder in return for management services. Furthermore, petitioner maintains that because of the nature of the relationship between the shareholder and respondent, the ''interest'' paid to the shareholder should be deemed to be part of his salary.

Respondent states that this ''loan'' was more in the nature of an investment and was recorded in respondent's records as a loan for tax purposes only. Furthermore, respondent states that it followed the Department's questionnaire instructions which state to ''include all interest expenses incurred on your company's long and short-term debt from *unrelated* sources.* * *'' Therefore, respondent states that the Department should not include interest paid to a shareholder as part of respondent's financial costs.

DOC Position

We agree with petitioner. At verification, the Department was unable, due to time constraints, to collect sufficient information to determine what the original classification of a loan should have been. Since the loan was not recorded originally as an equity investment and is reflected in the company's books and records as borrowings, we have no basis to reclassify it as equity. Therefore, consistent with the company's financial statement treatment, we have included interest expense for this loan in our cost calculations.