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MEMORANDUM

TO: Joseph A. Spetrini
Acting Assistant Secretary
for Import Administration

FROM: Barbara Tillman
Acting Deputy Assistant Secretary
for Import Administration, Group III

SUBJECT: Issues and Decision Memorandum for the Final Results in the Antidumping Duty Administrative Review of Certain Cut-to-Length Carbon Steel Plate from Mexico

Summary

Having analyzed the comments of the respondent and the rebuttal of the petitioners in the above review, we have made changes in the margin calculations, and we recommend that you approve the positions we present in the Issues section below, which concern:

1. Gain on Monetary Position in Financial Expense Ratio
2. Debt Default
3. Product Specifications Error in the Model Match
4. Net Price Calculation Errors
5. Billing Adjustments and Packing Costs in Selling Expenses Calculation

6. Plate-cutting Fees Excluded from Selling Expenses

Background

We published in the Federal Register the preliminary results of review on September 13, 2002 (67 FR 58015). Subsequently, we published a Notice of Extension of Time Limit for Final Results in Antidumping Duty Administrative Review, 67 FR 68833 (November 13, 2002). The review covers steel plate manufactured by Altos Hornos de Mexico, S.A. de C.V. (AHMSA). The period of review (POR) is August 1, 2000, through July 31, 2001. We received a brief from AHMSA and a rebuttal brief from petitioners, Bethlehem Steel Corporation and United States Steel Corporation.

Verification

We verified the sales information submitted by AHMSA. Our verification findings are outlined in the verification report in the case file. See Memorandum For: The File, "Verification of the sales and cost data submitted by Alto Hornos de Mexico S.A. de C.V. (AHMSA) from Mexico," January 7, 2003.

Margin Calculations

Based upon our analysis of the comments received from interested parties, we recommend minor changes from the preliminary results to correct ministerial (programming) errors, and no change in the methodology to calculate AHMSA's interest rate for cost of production (COP) or constructed value (CV). However, we revised the COP and CV interest rates, basing them for these final results on the consolidated, December 31, 2001 financial statements, which were not available at the time of the preliminary results calculations.

Issues

Comment 1: Gain on Monetary Position in Financial Expense Ratio

AHMSA argues that in calculating the financial expense ratio, the Department should allow the full amount of the gain on monetary position for AHMSA's parent company Grupo Acerero del Norte, S.A. de C.V. (GAN). AHMSA contends that the Department allowed only the short-term portion of gain on monetary position, and excluded the long-term portion of such gains, to be consistent with the Department's practice of including only short-term foreign-exchange gains or losses in such ratios, based on the view that there is a direct link between financial expense and gains or losses in monetary position. AHMSA argues that the direct link is actually between inflation, which creates monetary position gain from holding debt, and exchange rates.

According to AHMSA, circumstances and conditions affect the exchange rate between currencies, such as interest rates in a country, the country's balance of payments, and the perceived market risk in the country. Therefore, AHMSA argues, the Department should not conclude that exchange rates and gain on monetary position are directly linked. AHMSA maintains that the purchasing power of money is subject to steady inflation from year to year and that any monetary gain related to long-term debt that is not included in the financing costs in a given year is lost completely in subsequent years, resulting in a gross distortion of actual borrowing costs.

Petitioners argue that the Department properly excluded the long-term gain on monetary position from the financial expense ratio calculation. Petitioners maintain that according to the Department's practice, only the current portion of the gain on monetary position related to debt is included in the financial expense calculations. Petitioners state that the Department has explained, in the redetermination cited below, that because foreign exchange gains and losses and gains on monetary position are linked, it is appropriate to include only the current portion of gains on monetary position. Petitioners point out that the Department concluded that to only include the entire gain or loss on monetary position would amount to inconsistent treatment and would overstate the gain or loss on monetary position. See Final Results of Redetermination Pursuant to United States Court of Internal Trade Remand Order, Altos Hornos de Mexico, S.A. de C.V. v United States (June 28, 2002) ("Remand").

Department's Position

We disagree with AHMSA that the full amount of the gain in monetary position should be included in the calculation of financial expense. The vast majority of AHMSA's debt, as well as that of its consolidated parent, GAN, is denominated in foreign currency. AHMSA's foreign-denominated debt generates foreign exchange gains and losses. Foreign exchange gains and losses arise when the value of AHMSA's domestic currency (i.e., Mexican peso) fluctuates from the currency in which the debt is denominated. Foreign exchange losses are created when additional pesos are required to pay principal and interest in the foreign currency compared with the lower exchange rate available when the original loan was received. Similarly, the gain on monetary position is generated when a company holds debt in inflationary periods.

The foreign-denominated debt held by the company directly results in both foreign exchange losses and gains on monetary position. The foreign exchange loss is driven by the devaluation of the peso, as compared to the currency in which the debt is denominated, whereas the gain on monetary position is driven by inflation in Mexico during the year.

The Department's practice, as stated in the Remand (p. 19), is to include in the financial expense calculation only that portion of foreign exchange gains and losses which is related to current foreign-denominated debt, because debt payable within one year is likely to be repaid at an exchange rate approximating the rate at the time the gain or loss is measured. See, e.g., Notice of Final Determination of Sales at Less Than Fair Value: Emulsion Styrene-Butadiene Rubber from Mexico, 64 FR 14872, 14882 (March 29, 1999). Consistent with this practice, we have added only the current portion of the foreign exchange loss and gain on monetary position in these final results.

The Mexican Institute of Public Accountants states that inflation and the exchange rate may differ in the short-term but over a sufficiently long-term the relationship between the rate of exchange and the level of prices is very close. See Bulletin B-10, Recognition of Effects of Inflation on Financial Information, Mexican Institute of Public Accountants Hence, over time, the fluctuation upward and downward will be in equilibrium. Therefore, as explained in the Remand, our practice of including only the short-term portion of the foreign exchange loss and gain on monetary position is reasonable and appropriate.

We note that for administrative reviews and investigations initiated later than the instant review, we are revising this practice. See Certain Preserved Mushrooms from India: Preliminary Results of Antidumping Duty Administrative Review, 68 FR 35490, March 7, 2003.

Comment 2: Debt Default

AHMSA argues that if the Department limits the gain on monetary position in the financial expense ratio to short-term gains only, the Department should not reclassify the debt under suspension of payment from short-term, as recorded on the company's balance sheet, to long-term debt. AHMSA maintains that the classification of this debt as short-term is appropriate, because the maturity of the debt does not exceed one year.

Petitioners assert that the Department should continue to classify this debt as long-term in the financial expense calculation. Petitioners point out that the full amount of the suspended payments remained unpaid one year after the end of fiscal year 2000, based on financial statements provided by AHMSA.

Department 's Position

We disagree with AHMSA. The debt under suspension of payment should be reclassified from short-term to long-term debt. Payments on the debt have been suspended for several years and as of December 31, 2001, no restructuring of this debt had been accomplished. There is no indication that AHMSA will repay any amount of this debt in the short term. Therefore, we continue to conclude that this debt is long-term.

Comment 3: Product Specifications Error in the Model Match

AHMSA argues that in the preliminary results, the Department's model-match program assigned incorrect descriptor labels for the fields corresponding to plate specifications ("PLSPECU," "PLSPECH"), at lines 379 and 940. AHMSA states the error stems from the inclusion of the number "20" prior to the ASTM A specification number, and suggests the "20" be suppressed to allow the intended effect of the line of code to occur.

The petitioners made no rebuttal to this or the other clerical error allegations addressed below.

Department's position:

We agree and have removed the extraneous specifications code for these final results.

Comment 4: Net Price Calculation Errors

AHMSA argues that in the arm's length and model-match programs, the Department calculated the net price using the gross unit price less movement expenses, but AHMSA had reported its gross prices net of movement expenses. AHMSA argues the Department should calculate net price without deducting movement expenses. AHMSA further argues the Department deducted packing costs twice in calculating net home market price at lines 506 and 507 of the model-match program.

Department's Position:

We agree and have removed the deduction for movement expenses, and one deduction for packing costs, from gross unit price in the final arm's length and model-match programs.

Petitioners 5: Billing Adjustments and Packing Costs in Selling Expense Calculation

AHMSA argues that in the preliminary results the Department incorrectly added billing adjustments and packing costs twice to product costs, at lines 520 and 625 of the model-match program.

Department's Position:

We agree and have removed billing adjustments and packing costs from the addition of cost components at line 520 for these final results.

Comment 6: Plate-cutting Fees Excluded from Selling Expenses

AHMSA argues that in the preliminary results, the Department incorrectly included cutting fees in the U.S. direct selling expense field at line 367 of the margin program, whereas AHMSA explained in its April 24, 2002 supplemental response that such fees are a cost of manufacturing. AHMSA notes that the Department treated the fees as a manufacturing cost in the prior review.

Department's Position:

We agree and have cut these fees from selling expenses for these final results.

Recommendation

Based upon our analysis of the comments, we recommend adopting all of the above positions. If these recommendations are accepted, we will publish the final results of review and the final weighted-average dumping margin for the reviewed firm in the Federal Register.

Agree____ Disagree___

Joseph A. Spetrini
Acting Assistant Secretary
for Import Administration

(Date)