

DATE: December 14, 2010

MEMORANDUM TO: Ronald K. Lorentzen
Deputy Assistant Secretary
for Import Administration

FROM: Christian Marsh
Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations

RE: Certain Pasta from Italy (Period of Review: July 1, 2008, through
June 30, 2009)

SUBJECT: Issues and Decision Memorandum for the Final Results of the
Thirteenth Administrative Review of the Antidumping Duty Order
on Certain Pasta from Italy (2008-2009)

Summary

We have analyzed the case and rebuttal briefs submitted by domestic interested parties and respondents.¹ Based on our analysis of comments received, these final results differ from the preliminary results for Pastificio Lucio Garofalo (Garofalo) and Pastificio Attilio Mastromauro-Pasta Granoro S.r.L. (Granoro). We recommend that you approve the positions described in the Discussion of Interested Party Comments, section II *infra*. Outlined below is the complete list of the issues in this review for which we have received comments from the interested parties.

I. Background

The Department of Commerce (the Department) initiated this administrative review of the antidumping duty order on certain pasta from Italy on August 25, 2009, for each of the aforementioned respondents. See Initiation of Antidumping and Countervailing Duty Administrative Reviews and Request for Revocation in Part, 74 FR 42873 (August 25, 2009). On August 16, 2010, the Department published the preliminary results of this administrative review. See Certain Pasta from Italy: Notice of Preliminary Results of Antidumping Duty Administrative Review, 75 FR 49907

¹ Case briefs and rebuttal briefs were submitted by the following domestic interested parties and respondents: On September 15, 2010, Pastificio Lucio Garofalo S.p.A. (Garofalo) and Pastificio Attilio Mastromauro Pasta Granoro S.R.L. (Granoro) (collectively, respondents), filed case briefs. On September 20, 2010, New World Pasta Company, American Italian Pasta Company, and Dakota Growers Pasta Company (collectively, petitioners), filed a rebuttal brief.

(August 16, 2010) (Preliminary Results). The review covers two manufacturers/exporters: Garofalo and Granoro. The period of review (POR) is July 1, 2008, through June 30, 2009. Granoro and Garofalo were selected as mandatory respondents.

II. List of Comments

- Comment 1: Use of Quarterly Cost Methodology for Garofalo
Comment 2: Whether the Department Should Include Transportation Recovery in the U.S. Sales Calculation
Comment 3: Whether the Department Should Modify its Liquidation Instructions to U.S. Customs and Border Protection
Comment 4: General and Administrative and Financial Expense Ratios

III. Company Specific Issues

Garofalo

- Comment 1: Use of Quarterly Cost Methodology for Garofalo

In determining whether to deviate from our normal methodology of calculating an annual weighted-average cost, we evaluate the case-specific record evidence using two primary factors: (1) whether the change in the cost of manufacturing (COM) recognized by the respondent during the POR is deemed significant (i.e., greater than 25 percent); and, (2) whether the record evidence indicates that sales during the shorter averaging periods were reasonably linked with the COM during the same shorter averaging periods. See Stainless Steel Sheet and Strip in Coils From Mexico: Final Results of Antidumping Duty Administrative Review, 75 FR 6627 (February 10, 2010) (Stainless Steel Sheet), and accompanying Issues and Decision Memorandum at Comment 6 and Stainless Steel Plate in Coils From Belgium: Final Results of Antidumping Duty Administrative Review, 73 FR 75398 (December 11, 2008) (Stainless Steel Coils), and accompanying Issues and Decision Memorandum at Comment 4. In the Preliminary Results, the Department relied on its quarterly cost methodology in calculating the dumping margin for Garofalo finding significant cost changes in COM as well as reasonable linkage between costs and sales prices.

Garofalo contends that due to inadvertent computer programming errors in its preparation of the submitted quarterly price and cost trend data, the Department relied upon incorrect charts and graphs to make its linkage determination.² Garofalo affirms that the average net home market prices, costs and graphs upon which the Department relied in the Preliminary Results contained accurate data; however, concedes that the average net U.S. prices and graphs contained two errors. First, Garofalo explains, while the graphs submitted indicated the net U.S. price figures were expressed in Euros per kilogram, the net U.S. price figures were actually expressed in U.S. Dollars per kilogram. For meaningful comparisons and analysis to be conducted, both prices and costs need to be denominated in the same unit of currency. Second, Garofalo adds, some of the net U.S. prices were omitted from the calculation of quarterly average net U.S. prices. As such, the calculated average net U.S. prices were not averages of the full universe of U.S. sales.

² See Case Brief of Pastificio Lucio Garofalo S.p.A. (Garofalo's Case Brief): Certain Pasta from Italy dated September 14, 2010, at pages 3 and 4.

Garofalo argues that once the net U.S. Dollar prices are converted to Euros and all the U.S. sales are included in the calculation of the average net U.S. prices, the price-to-cost correlation changes. To support their statement, Garofalo provides corrected average net U.S. price charts and graphs in their case brief.³

Garofalo compares the average U.S. and home market prices and cost for all ten control numbers (CONNUMs), for the three comparison periods during the POR (*i.e.*, first to second quarter, second to third quarter and third to fourth quarter). Garofalo notes that for eight out of the ten CONNUMs, which account for 98 percent of the total sales volume, prices and cost did not trend in the same direction for the substantial majority of the POR. Garofalo bases its analysis on the change in prices and costs between each of the three comparison periods. Garofalo concludes that for four home market and four U.S. CONNUMs, prices and costs went in different directions in two out of the three comparison periods. Garofalo states it is not clear why the Department looks at price and cost data in the U.S. market since no constructed value is used in this review and the use of quarterly costs only impacts the below cost sales analysis. Nevertheless, Garofalo believes that both the U.S. and home market data support the conclusion that there is no linkage between cost and sales prices during the POR. Therefore, Garofalo concludes that the Department should revert to its normal practice of using POR weighted-average costs for the final results.

We note that petitioners did not submit a case brief. Petitioners, in their rebuttal comments, do not dispute the errors identified by Garofalo, but conclude that linkage continues to exist even when considering the corrected charts and graphs. Petitioners assert that, since the home market sales and costs are of primary importance in determining whether to apply quarterly costs and Garofalo did not identify errors in its reported home market charts and graphs, there is no basis for overturning the Department's decision to use quarterly-average costs in the preliminary results.

Petitioners focus their analysis of the U.S. and home market price and cost data on the changes between quarters for a single period of the POR, where the largest change in Garofalo's COM occurred. Petitioners find that costs and prices similarly trended in this single period basing their linkage finding on this fact. Petitioners note that the change in Garofalo's COM was reflected in the home market sales prices first, and a period later in the U.S. market, demonstrating a reasonable correlation between prices and cost. Petitioners state that the Department does not require direct traceability between prices and cost and that a reasonable correlation is sufficient to warrant the use of quarterly-average cost.⁴ Petitioners argue that record evidence shows that Garofalo's costs changed significantly during the POR and Garofalo provides no evidence that the use of quarterly-average cost distorts the dumping analysis. Therefore, petitioners conclude that the Department should continue to use quarterly-average cost for the final results.

³ See *id.*, at Exhibit 1.

⁴ See Certain Pasta from Italy: Notice of Final Results of the Twelfth Administrative Review, 75 FR 6352 (February 9, 2010) (Pasta from Italy 12 AR), and accompanying Issues and Decision Memorandum at Comment 5 (Petitioners cited Comment 17 in their rebuttal brief).

Department's Position:

The Department determines whether to deviate from its normal methodology of calculating an annual weighted-average cost by evaluating two primary factors: (1) whether the change in COM recognized by the respondent during the POR is deemed significant (*i.e.*, greater than 25 percent); and, (2) whether the record evidence indicates that sales made during the shorter averaging periods were reasonably linked with the COM during the same shorter averaging periods. See Stainless Steel Sheet and Stainless Steel Coils.

In the Preliminary Results, the Department relied on its quarterly cost methodology in calculating the dumping margin for Garofalo finding significant cost changes in COM as well as reasonable linkage between costs and sales prices. We based our linkage decision on the quarterly price and cost trend data submitted by Garofalo.⁵ In their case brief, Garofalo explained that the average net U.S. prices contained in the graphs the Department relied upon to make its linkage determination were incorrect and provided corrected average net U.S. prices and graphs. We reviewed the data and agree with the respondent that their original data contained errors and that the charts and graphs submitted with their case brief correct for these errors. Although the record evidence shows that Garofalo's COM changed significantly during the POR (see Memorandum to Neal M. Halper from Angie Sepulveda: Cost of Production and Constructed Value Calculation Adjustments for the Preliminary Results – Pastificio Lucio Garofalo S.p.A. dated August 9, 2010), the corrected data and graphs do not show that Garofalo's sales prices during the shorter cost-averaging periods are reasonably linked with the quarterly COM. Linkage relies on whether there are elements which would demonstrate a reasonable correlation between the underlying costs and the average sales prices from quarter to quarter. See Stainless Steel Sheet and Stainless Steel Coils.

In the instant case, for purposes of this analysis, we compared Garofalo's weighted-average net home and corrected U.S. market sales prices, by quarter, with the reported quarterly COM. We found that the changes in sales prices for the majority of the ten highest sales volume U.S. and home market CONNUMs are not reasonably linked to changes in costs during the shorter cost-averaging periods. Thus, we have determined that linkage does not exist for these final results. See "Cost of Production and Constructed Value Calculation Adjustments for the Final Results – Pastificio Lucio Garofalo S.p.A.," from Angie Sepulveda, Senior Accountant, to Neal Halper, Director, Office of Accounting, dated December 14, 2010 (Garofalo Final Calculation Memorandum).

Regarding Garofalo's argument that only home market price and cost trends are relevant in finding linkage, we disagree. Cost information is used several different ways in the antidumping analysis, not just for testing whether comparison market sales are below cost. For example, costs are used to calculate constructed value for comparison to U.S. sales prices and for difference in merchandise adjustment purposes when similar products are compared. Furthermore, a finding of significant cost change and linkage dictates whether we limit U.S. and home market sales comparisons to within a quarter. As sales prices to both the U.S. and home markets, and the related costs, are all intertwined in the antidumping analysis, we find it appropriate to use sales both to the U.S. and the home market when analyzing linkage. It has been the Department's

⁵ See Garofalo's third and fourth supplemental section D questionnaire response, dated July 14, 2010, at Exhibits 10 and 11.

consistent practice to use the highest sales volume CONNUMs in both the comparison and U. S. markets (i.e., five from each market), in the determination of whether to deviate from our normal methodology of calculating an annual weighted-average cost. See Certain Polyester Staple Fiber From the Republic of Korea: Final Results of the 2008-2009 Antidumping Duty Administrative Review, 75 FR 64252 (October 19, 2010) (Polyester Staple Fiber), and accompanying Issues and Decision Memorandum at Comment 2; Stainless Steel Bar From India: Final Results of Antidumping Duty Administrative Review, 75 FR 54090 (September 3, 2010) (Stainless Steel Bar), and accompanying Issues and Decision Memorandum at Comment 6; and, Certain Corrosion-Resistant Carbon Steel Flat Products from the Republic of Korea: Notice of Final Results of the Fifteenth Administrative Review, 75 FR 13490 (March 22, 2010) (CORE from Korea), and accompanying Issues and Decision Memorandum at Comment 3.

We disagree with petitioners that linkage continues to exist even when using the corrected data. Petitioners' analysis focuses on only one comparison period for each market (i.e., between the second and third quarter for the home market and the third and fourth quarter for the U.S. market) which is not illustrative of the changing costs and prices throughout the POR. In this review, we followed the Department's practice, which is established to analyze changes in costs and prices throughout the POR. See Polyester Staple Fiber, Stainless Steel Bar and CORE from Korea.

For purposes of these final results, we find that the application of the Department's quarterly cost-averaging methodology is not warranted. As such, we relied on our normal methodology of calculating annual weighted-average cost for purposes of the margin calculation. We calculated Garofalo's weighted-average annual costs based on the company's POR costs.

Comment 2: Whether the Department Should Include Transportation Recovery in the U.S. Sales Calculation

Granoro argues that in the Preliminary Results the Department erred in not adding the transportation recovery amounts reported in the TRANSPRECU field to the U.S. gross unit price. Granoro contends that the reported gross unit price must be adjusted upward, by the TRANSPRECU amount, to come to a freight-inclusive price. Further, Granoro argues that the transportation recovery expense should be treated as a movement and duty component of Cost and Freight /Duty Paid (CFR/DP) sales and therefore, should be added to U.S. gross unit FOB price.

In support for its contention that the TRANSPRECU revenue is appropriate adjustment to the U.S. price in determining antidumping duty liability, Granoro cites Pasta from Italy 12 AR, where the Department found appropriate to include TRANSPRECU in reported gross unit price. See Pasta from Italy 12 AR, and accompanying Issues and Decision Memorandum at Comment 7, and the amended final results of that review, Pasta from Italy: Amended Final Results of the Twelfth Antidumping Duty Administrative Review, 75 FR 11116 (March 10, 20).

Alternatively, Granoro argues that if the Department decides to continue with its capping methodology, the cap should be on the total amount of expenses incurred by Granoro as a seller under CFR/DP terms which includes ocean freight, domestic inland freight, domestic customs brokerage, U.S. customs brokerage, and U.S. duties. Granoro explains that “. . . the line item

which we report in TRANSPRECU field is termed “RECUPERO SPESE” (i.e., “expense recovery”), and as such, it relates to all expenses borne by Granoro as a seller under CFR/DP terms.” See Granoro’s September 15, 2010, case brief at 8 (Granoro’s Case Brief). Thus, according to Granoro, not only the ocean freight expense but all expenses listed above should be considered the cap on the TRANSPRECU. In addition, Granoro states that the Department should also include in its capping methodology indirect selling expenses because “. . . since the process of incurring the export expense absorbs ISE labor and overhead.” See Granoro’s case brief at 8.

Granoro claims that the accuracy of Granoro’s TRANSPRECU reporting was verified and the Department found no discrepancies. See Verification of the Sales Response of Pastificio Attilio Mastromauro Pasta Granoro S.r.L (Granoro) in the Antidumping Review of Certain Pasta from Italy, dated June 25, 2010 at 18 (Verification Report).

Granoro further argues that it is entitled to make a profit on the freights, brokerage and duties, as part of its price and therefore, the gain realized by Granoro through the sale of its services to the U.S. customer should be included in the calculation of U.S. gross unit price. See Granoro’s case brief at 6.

Granoro claims that the Department’s reliance on Orange Juice from Brazil in its Preliminary Results is inappropriate because according to Granoro, it is questionable whether the freight revenue in Orange Juice from Brazil was a component of the CFR price payable by the customer. See Orange Juice from Brazil: Final Results and Partial Rescission of Antidumping Duty Administrative Review, 73 FR 46548 (August 11, 2008) (Orange Juice from Brazil), and accompanying Issues and Decision Memorandum at Comment 7. According to Granoro it is more likely that the freight revenue have been on separate invoices since “. . . the issue arose in the context not of the price product in the U.S. selling price calculation but, rather, in the context of the price of product in the U.S. selling price calculation.” See Granoro’s case brief at 8.

Thus, Granoro argues that the Department should change its calculation of U.S. gross unit price to include TRANSPRECU or in an alternative to modify its capping methodology to include not only transportation recovery but also all movement and duty expenses in the final results.

Petitioners maintain that the Department should continue to exclude transportation revenue in the U.S. net price calculation for the final results. They agree with the Department’s reasoning outlined in the Granoro Calculation Memorandum that it is inappropriate to treat TRANSPRECU as a price adjustment because the amount reported by Granoro is not attributable to the subject merchandise. See Calculation Memorandum for Pastificio Attilio Mastromauro - Pasta Granoro S.r.L., dated August 9, 2010 at 7 (Granoro Calculation Memorandum). Further, citing Orange Juice from Brazil, petitioners assert that the Department has explained properly the regulatory limitation applicable to an upward adjustment to U.S. price.

Citing various past cases, petitioners state that the Department’s policy is to decline treating freight-related expense revenues as additions to U.S. price under section 772(c) of the Tariff Act of 1930, as amended (the Act), or as price adjustments under 19 CFR 351.102(b) but instead to treat such revenues as an offset to movement expense. See Stainless Steel Wire Rod from Sweden: Preliminary Results of Antidumping Duty Administrative Review, 72 FR 51411 (September 7, 2007), unchanged in Stainless Steel Wire Rod from Sweden: Final Results Antidumping Duty Administrative Review, 73 FR 12952 (March 11, 2008); (Wire Rod from

Sweden); Certain Steel Concrete Reinforcing Bars from Turkey; Preliminary Results of Antidumping Duty Administrative Review, 67 FR 21637 (May 1, 2002), unchanged in Certain Steel Concrete Reinforcing Bars from Turkey; Final Results and Partial Rescission of Antidumping Duty Administrative Review, 67 FR 66112 (October 30, 2002); (Reinforcing Bars from Turkey) Polyethylene Retail Carrier Bags from the Peoples' Republic of China; Final Results of Antidumping Duty Administrative Review, 74 FR 6857 (February 11, 2009).

According to petitioners, Granoro misinterprets the Department's verification finding that according to petitioners relate to examining the discrepancy between freight expense and reported freight revenue, rather than verifying the accuracy of Granoro's reported TRANSPRECU.

Petitioners also argue that the Department should cap the transportation recovery only by the amount of the actual ocean freight expenses incurred, and therefore should not include any other movement expenses as suggested by Granoro. Petitioners further assert that Granoro failed to demonstrate that the totality of movement and duty expenses should be considered the cap on the TRANSPRECU. First, petitioners find that there is no basis for Granoro's claim that the cap should include all movement and duty expenses because under the term of sale CFR/DP, Granoro was responsible for payment of domestic inland freight, domestic customs brokerage, ocean freight, U.S. customs brokerage and U.S. duties. Petitioners explain that there is "no correlation" between TRANSPRECU amounts and other movement expenses. According to petitioners, the Department's policy regarding treatment of freight recovery amounts is not based on reported terms of sales but rather it is the Department's policy to cap freight revenue by the amount of the underlying expense. See petitioners' case brief at 5. Second, petitioners note that Granoro's argument to cap the transportation recovery by the sum of movement and duty expenses because TRANSPRECU field stands for "expense recovery" that covers inland and ocean freight, domestic and U.S. Customs brokerage, and U.S. import duties is inconsistent with Granoro's reporting. Petitioners reference Granoro's explanation in April 13, 2010, supplemental questionnaire response where it states that ". . . freight expenses are billed on invoice as a separate line item ("nolo spese" = freight expense), which is reported in the database as TRANSPRECU." See Granoro's April 13, 2010, supplemental questionnaire response at 31. According to petitioners TRANSPRECU was reported only as an ocean freight expense and not any other expense. See i.d.

Third, petitioners contend that this is the first time Granoro has claimed that the transportation recovery expense covers not only inland and ocean freight, but also domestic and U.S. customs brokerage and U.S. import duties and that it is improper for the Department to accept this claim at this point of the proceeding.

Regarding Granoro's reliance on the final results in the Pasta from Italy 12 AR, petitioners argue that the Department's decision in the previous case is not applicable because of different factual circumstances. Moreover, petitioners note that the results of the Pasta from Italy 12 AR show no discussion of the Department's policy regarding capping of freight revenue amounts.

Thus, petitioners reason the Department should not change its calculation of U.S. net prices to include TRANSPRECU in the final results.

Department's Position:

The Department disagrees with Granoro that TRANSPRECU should be added to U.S. gross unit price for those sales in which Granoro received transportation recovery.

Section 772(c)(1) of the Act provides that the Department shall increase the price used to establish either export price or constructed export price in only the following three instances:

- (a) When not included in such price, the cost of all containers and coverings and all other costs, charges, and expenses incident to placing the subject merchandise in condition packed ready for shipment to the United States.
- b) the amount of any import duties imposed by the country of exportation which have been rebated, or which have not been collected, by reason of the exportation of the subject merchandise to the United States, and
- c) the amount of any countervailing duty imposed on the subject merchandise under subtitle A to offset an export subsidy.

Further, section 351.401(c) of the Department's regulations directs the Department to use a price in the calculation of U.S. price which is net of any price adjustment that is reasonably attributable to the subject merchandise. The term price "adjustments" is defined under 19 CFR 351.102(b) as a "change in the price charged for subject merchandise or the foreign like product, such as discounts, rebates and post-sale price adjustments, that are reflected in the purchaser's net outlay." In this case, we find that it is inappropriate to treat the transportation recovery revenue associated with international freight as a price adjustment because this revenue does not represent "changes in the price for subject merchandise," such as discounts, rebates, and post-sale adjustments. We disagree with Granoro that the gain realized by Granoro through the sale of its services to the U.S. customer represents an item that we should include in the calculation of U.S. gross unit price. Therefore, consistent with our practice, in the preliminary results we capped the transportation recovery amounts by the amount of U.S. freight expenses, incurred on the subject merchandise. Consistent with section 772(c)(1) of the Act, the Department has a long-standing practice of capping certain revenues by the amount of the underlying expense. Our decision here is consistent with our decision in Orange Juice from Brazil.

Further, in past cases, we have declined to treat freight-related revenues as additions to U.S. price under section 772(c) of the Act or as price adjustments under 19 CFR 351.102(b). Rather, we have incorporated freight-related revenues as offsets to movement expenses because they all relate to the movement and transportation of subject merchandise. See Reinforcing Bars from Turkey; see also Wire Rod from Sweden. In this case, consistent with the Department's policy, we declined to treat transportation recovery revenue as an addition to Granoro's U.S. gross unit price.

With respect to Granoro's reliance on Pasta from Italy 12 AR, we consider that case irrelevant in this situation. Although our treatment and practice regarding freight revenue has been consistent over time, and we normally treat freight revenue as an offset to moving expenses, we acknowledge that the Department inappropriately deviated from this methodology in Pasta from

Italy 12 AR. See Orange Juice from Brazil; Reinforcing Bars from Turkey; see also Wire Rod from Sweden. In this case, however, we have followed our normal practice.

Regarding Granoro's interpretation of the Department's findings in the verification report, we disagree. The verification report is silent as to how TRANSPRECU will be treated in the final results.

With regard to Granoro's assertion that the inclusion of all movement and duty expenses incurred on the subject merchandise would be appropriate, we disagree. We have examined the record evidence and determined that there is no basis to include all movement and duty expenses in the pool of expenses in the calculation of U.S. gross unit price for the final results. Further, as petitioners noted, Granoro's questionnaire responses indicate that freight revenue is associated with the freight expense only, and our normal practice is to treat freight revenue as an offset to moving expenses. See Granoro's April 13, 2010, questionnaire response at page 31. Therefore, it is inappropriate to change our capping methodology.

Therefore, for the final results and consistent with our practice, we are continuing with the Department's capping methodology.

Comment 3: Whether the Department Should Modify its Liquidation Instructions to U.S. Customs and Border Protection

Granoro claims that as evidenced in the import data spreadsheet provided by U.S. Customs and Border Protection (CBP) for respondent-selection purposes, numerous variations in Granoro's name appear on the entry summary documents. Granoro requests that in addition to the legal name of Pastificio Attilio Mastromauro – Pasta Granoro S.r. L., the Department's liquidation instructions be sufficiently broad, so as to ensure that entries with either "Attilio Mastromauro" or "Granoro" in their name be treated as Granoro's entries.

Petitioners did not comment on this issue.

Department's Position:

Having reviewed the record, the Department agrees that Granoro is frequently identified by names other than its full legal name, as listed in Attachment 1 of the Memo to the File from George McMahon to Melissa Skinner entitled "Customs and Border Protection Data for Selection of Respondents for Individual Review," (Respondent Selection Memo) dated September 8, 2009. As such, to ensure that entries are liquidated appropriately, we intend to clarify to CBP that Granoro is also identified by certain names that appear in Attachment 1 of Respondent Selection Memo.

Comment 4: General and Administrative and Financial Expense Ratios

In the Preliminary Results, the Department adjusted Granoro's reported POR COMto include expenses for testing and analysis of pasta. Granoro agrees with the adjustment but argues that in doing so the Department did not adjust the cost of goods sold denominator of the G&A and financial expense ratios to include the corresponding expenses recorded in the same account for the fiscal year used to calculate the ratios. Therefore, Granoro suggests, for the ratios to be

calculated on the same basis as they are applied, for the final results the Department should increase the cost of goods sold denominator of the G&A and financial expense ratios to include the corresponding fiscal year expenses.

Petitioners agree that there is an error in the calculation of the cost of goods sold denominator, however, according to petitioners, it is not the one described by respondent, but the understatement of the change in inventory amount included in the cost of goods sold calculation. Petitioners point to the amount for inventory change recorded in Granoro's financial statements which, according to petitioners, represents the correct change in inventory. Petitioners further argue that the excluded expenses, which the Department treated as fixed overhead, should instead be classified as selling and G&A expenses (SG&A), in which case the adjustment to the cost of sales proposed by respondent would not be necessary. In support of their contention petitioners point out that the account number for these expenses begins with the same two digits as all SG&A expense accounts. Petitioners further assert that Granoro's trial balance indicates that all overhead expense accounts begin with different digits, therefore, expenses for testing of pasta should not be classified as overhead costs. As such, petitioners conclude, based on Granoro's own account classification, it follows that these expenses are not manufacturing costs, but are SG&A expenses.

Department's Position:

We agree with Granoro. It is the Department's practice to compute G&A and financial expense ratios on a basis consistent with the COM figures to which they are applied. See Notice of Final Determination of Sales at Less Than Fair Value: Certain Pasta from Italy, 61 FR 30326, 30349 (June 14, 1996). Consequently, because the additional POR expenses for testing of pasta were included in Granoro's overhead expenses, the corresponding fiscal year amount should also be included in the cost of goods sold denominator used for the G&A and financial expenses ratios. Therefore, for the final results we increased the denominator of the G&A and financial expense ratios by the amount of the expenses for testing of pasta recorded in the 2008 audited financial statements.

We disagree with petitioners' claim that because the account number for testing of pasta expenses begins with the same two digits as SG&A expense accounts, it should be classified as SG&A expense. First, we note that Granoro's trial balance accounts that include certain manufacturing costs (e.g., direct labor cost and production depreciation) also begin with the same two-digit combination as the expenses for testing of pasta (see file "Buildump POR 2008-2009 pivot" submitted on April 13, 2010). Therefore, the account coding scheme is not dispositive in determining the appropriate classification of pasta-testing expenses for purposes of this review. Moreover, in determining whether it is appropriate to include or exclude certain income or expense items from the G&A expenses, the Department normally reviews the nature of the item and its relation to the general operations of the company. See, e.g., Notice of Final Results of Antidumping Duty Administrative Review and Notice of Intent Not To Revoke Antidumping Duty Order in Part: Certain Orange Juice From Brazil, 75 FR 50999 (August 18, 2010), and accompanying Issues and Decision Memorandum at Comment 16. We note that there is nothing on the record to indicate that these expenses represent anything other than testing related to production of pasta. Therefore, for the final results we continue to include expenses for testing of pasta in the cost of manufacturing.

We also disagree with petitioners that Granoro used an incorrect amount for the change in inventory when calculating the cost of goods sold denominator of the G&A and financial expense ratios. We note that the amount which petitioners claim is the correct amount for the inventory change reflects only changes in inventory of work in process, semi-finished and finished goods, and excludes changes in raw materials inventory. This is evident from the description given in the financial statements for the number provided by petitioners, which reads “Change in inventories of products in processing, semi-finished and finished” (line A.2 on page 6 of Granoro’s financial statements provided in cost verification exhibit 3). We note that the change in raw materials inventory is shown separately on the financial statements (line B.11 on page 6 of Granoro’s financial statements provided in cost verification exhibit 3). The combination of these two amounts gives the total change in inventory number which was used by Granoro. Given that the starting point in its determination of total cost of goods sold is total raw material purchases, we find that Granoro’s use of the total change in inventory, including the change in raw materials inventory, is the correct approach.

Recommendation:

Based on our analysis of the comments received, we recommend adopting the above positions. If these recommendations are accepted, we will publish the final results of this review and the final weighted-average dumping margins in the Federal Register.

Ronald K. Lorentzen
Deputy Assistant Secretary
for Import Administration

Date