

of Commerce's ("Department") notice of initiation in the **Federal Register**. See *Certain Oil Country Tubular Goods from the People's Republic of China: Initiation of Countervailing Duty Investigation*, 74 FR 20678 (May 5, 2009) ("Initiation Notice"), and the accompanying Initiation Checklist.

On May 13, 2009, Maverick Tube Corporation, United States Steel Corporation, TMK IPSCO, V&M Star LP, Wheatland Tube Corporation, Evraz Rocky Mountain Steel, and United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC ("United Steelworkers") (collectively, the "petitioners") submitted new subsidy allegations requesting the Department to expand its countervailing duty ("CVD") investigation to include additional subsidy programs.¹ On June 4, 2009, the Department declined to investigate these allegations as the petitioners did not allege the elements necessary for the imposition of CVDs or failed to support these allegations with reasonably available evidence. See Memorandum to Susan Kuhbach, Director, AD/CVD Operations, Office 1, "Analysis of Petitioners' New Subsidy Allegations" (June 4, 2009).

On June 3, 2009, the Department selected four Chinese producers/exporters of certain oil country tubular goods ("OCTG") as mandatory respondents, Jiangsu Changbao Steel Tube Co., Ltd. ("Changbao"), Tianjin Pipe (Group) Co. ("TPCO"), Wuxi Seamless Oil Pipe Co., Ltd. ("Wuxi"), and Zhejiang Jianli Enterprise Co., Ltd. ("Jianli"). See Memorandum to John M. Andersen, Acting Deputy Assistant Secretary for Antidumping and Countervailing Duty Operations, "Respondent Selection Memo" (June 3, 2009). This memorandum is on file in the Department's Central Records Unit in Room 1117 of the main Department building ("CRU"). On the same date, we issued the CVD questionnaires to the Government of the People's Republic of China ("GOC"), Changbao, TPCO, Wuxi, and Jianli.

On June 10, 2009, the U.S. International Trade Commission ("ITC") issued its affirmative preliminary determination that there is a reasonable indication that an industry in the United States is materially injured by reason of allegedly subsidized imports of certain oil country tubular goods from the People's Republic of China ("PRC"). See *Certain Oil Country Tubular Goods from China; Determinations*,

Investigation Nos. 701-TA-463 and 731-TA-1159, 74 FR 27559 (June 10, 2009).

On June 15, 2009, the Department postponed the deadline for the preliminary determination in this investigation until September 8, 2009. See *Certain Oil Country Tubular Goods from the People's Republic of China: Postponement of Preliminary Determination in the Countervailing Duty Investigation*, 74 FR 28220 (June 15, 2009).

We received responses to our questionnaire from the GOC, Changbao, TPCO, Wuxi, and Jianli on July 20, 2009. See the GOC's Original Questionnaire Response (July 20, 2009) ("GQR"), Changbao's Original Questionnaire Response (July 20, 2009) ("CQR"), TPCO's Original Questionnaire Response (July 20, 2009) ("TQR"), Wuxi's Original Questionnaire Response (July 20, 2009) ("WQR"), and Jianli's Original Questionnaire Response (July 20, 2009) ("JQR"). On August 26, 2009, TPCO provided a response on behalf of TPCO Charging Development Co., Ltd. ("TCQR"). On September 1, 2009, TPCO provided a response on behalf of Tianjin Pipe Investment Holding Co., Ltd. ("TPCO Holding QR").

We sent supplemental questionnaires to Changbao, TPCO, Wuxi, and Jianli on August 7, 2009 and to the GOC on July 27, 2009, August 11, 2009 and August 28, 2009. We received responses to these supplemental questionnaires as follows: Changbao's First Supplemental Response on August 21, 2009; Jianli's First Supplemental Response on August 21, 2009; TPCO's First Supplemental Response, part 1 on August 21, 2009, and part 2 on August 26, 2009; Wuxi's First Supplemental response ("W1SR") on August 24, 2009; the GOC's Cross-Owned Affiliates Supplemental on August 3, 2009; GOC's First Supplemental Response ("G1SR") on August 26, 2009; and GOC's Second Supplemental Response ("G2SR") on September 1, 2009.

On July 23, 2009, Maverick Tube Corporation requested that the Department extend the deadline for the submission of new subsidy allegations beyond the July 30, 2009 deadline established by the Department's regulations. On July 24, 2009, we declined to extend the deadline. On July 30, 2009, the petitioners submitted additional new subsidy allegations to the Department.² Jianli and the GOC

² The petitioners, collectively, alleged that the GOC confers a subsidy on OCTG through its export restrictions on steel rounds. Maverick Tube Corporation made allegations regarding subsidies to respondent Jianli. United States Steel Corporation made allegations regarding subsidies to respondents

DEPARTMENT OF COMMERCE

International Trade Administration

[C-570-944]

Certain Oil Country Tubular Goods From the People's Republic of China: Preliminary Affirmative Countervailing Duty Determination, Preliminary Negative Critical Circumstances Determination

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

SUMMARY: The Department of Commerce preliminarily determines that countervailable subsidies are being provided to producers and exporters of certain oil country tubular goods from the People's Republic of China. For information on the estimated subsidy rates, see the "Suspension of Liquidation" section of this notice.

DATES: *Effective Date:* September 15, 2009.

FOR FURTHER INFORMATION CONTACT: David Neubacher, Shane Subler, Magd Zalok, Maryanne Burke, and Henry Almond, AD/CVD Operations, Office 1, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230; telephone: (202) 482-5823, (202) 482-0189, (202) 482-4162, (202) 482-5604, and (202) 482-0049, respectively.

SUPPLEMENTARY INFORMATION:

Case History

The following events have occurred since the publication of the Department

¹ See the petitioners' Submission of New Subsidy Allegations (May 13, 2009).

filed comments on the new subsidy allegations on August 3 and 5, 2009, respectively. The Department is currently reviewing these new subsidy allegations.

On July 29, 2009, the petitioners submitted comments on the questionnaire responses filed by the GOC and the respondents.³ The petitioners provided comments on August 25, 26, 28 and 31, regarding certain issues for the preliminary determination.⁴ Jianli provided comments on September 1, 2009. The GOC provided comments on August 31, 2009, and September 4, 2009.

Scope Comments

In accordance with the preamble to the Department's regulations, we set aside a period of time in our *Initiation Notice* for parties to raise issues regarding product coverage, and encouraged all parties to submit comments within 20 calendar days of publication of that notice. See *Antidumping Duties; Countervailing Duties*, 62 FR 27296, 27323 (May 19, 1997), and *Initiation Notice*, 74 FR at 20678. We did not receive comments concerning the scope of the antidumping duty ("AD") and CVD investigations of OCTG from the PRC.

Scope of the Investigation

The scope of this investigation consists of OCTG, which are hollow steel products of circular cross-section, including oil well casing and tubing, of iron (other than cast iron) or steel (both carbon and alloy), whether seamless or welded, regardless of end finish (e.g., whether or not plain end, threaded, or threaded and coupled) whether or not conforming to American Petroleum Institute ("API") or non-API specifications, whether finished (including limited service OCTG products) or unfinished (including green tubes and limited service OCTG products), whether or not thread

protectors are attached. The scope of the investigation also covers OCTG coupling stock. Excluded from the scope of the investigation are: casing or tubing containing 10.5 percent or more by weight of chromium; drill pipe; unattached couplings; and unattached thread protectors.

The merchandise subject to this investigation is currently classified in the Harmonized Tariff Schedule of the United States ("HTSUS") under item numbers: 7304.29.10.10, 7304.29.10.20, 7304.29.10.30, 7304.29.10.40, 7304.29.10.50, 7304.29.10.60, 7304.29.10.80, 7304.29.20.10, 7304.29.20.20, 7304.29.20.30, 7304.29.20.40, 7304.29.20.50, 7304.29.20.60, 7304.29.20.80, 7304.29.31.10, 7304.29.31.20, 7304.29.31.30, 7304.29.31.40, 7304.29.31.50, 7304.29.31.60, 7304.29.31.80, 7304.29.41.10, 7304.29.41.20, 7304.29.41.30, 7304.29.41.40, 7304.29.41.50, 7304.29.41.60, 7304.29.41.80, 7304.29.50.15, 7304.29.50.30, 7304.29.50.45, 7304.29.50.60, 7304.29.50.75, 7304.29.61.15, 7304.29.61.30, 7304.29.61.45, 7304.29.61.60, 7304.29.61.75, 7305.20.20.00, 7305.20.40.00, 7305.20.60.00, 7305.20.80.00, 7306.29.10.30, 7306.29.10.90, 7306.29.20.00, 7306.29.31.00, 7306.29.41.00, 7306.29.60.10, 7306.29.60.50, 7306.29.81.10, and 7306.29.81.50.

The OCTG coupling stock covered by the investigation may also enter under the following HTSUS item numbers:

7304.39.00.24, 7304.39.00.28, 7304.39.00.32, 7304.39.00.36, 7304.39.00.40, 7304.39.00.44, 7304.39.00.48, 7304.39.00.52, 7304.39.00.56, 7304.39.00.62, 7304.39.00.68, 7304.39.00.72, 7304.39.00.76, 7304.39.00.80, 7304.59.60.00, 7304.59.80.15, 7304.59.80.20, 7304.59.80.25, 7304.59.80.30, 7304.59.80.35, 7304.59.80.40, 7304.59.80.45, 7304.59.80.50, 7304.59.80.55, 7304.59.80.60, 7304.59.80.65, 7304.59.80.70, and 7304.59.80.80.

The HTSUS subheadings are provided for convenience and customs purposes only, the written description of the scope of this investigation is dispositive.

Period of Investigation

The period for which we are measuring subsidies, *i.e.*, the period of investigation ("POI"), is January 1, 2008, through December 31, 2008.

Critical Circumstances

In their April 8, 2009, petition, the petitioners requested that the

Department make an expedited finding that critical circumstances exist with respect to imports of OCTG from the PRC. Section 703(e)(1) of the Act states that if the petitioner alleges critical circumstances, the Department will determine, on the basis of information available to it at the time, if there is a reason to believe or suspect the alleged countervailable subsidy is inconsistent with the WTO Agreement on Subsidies and Countervailing Measures and whether there have been massive imports of the subject merchandise over a relatively short period.

In accordance with 19 CFR 351.206(c)(2)(i), because the petitioners submitted a critical circumstances allegation more than 20 days before the scheduled date of the preliminary determination, the Department must issue a preliminary critical circumstances determination not later than the date of the preliminary determination. See, e.g., *Change in Policy Regarding Timing of Issuance of Critical Circumstances Determinations*, 63 FR 55364 (October 15, 1998). However, due to resource constraints and the complex issues involved in this case, we were unable to accommodate the petitioners' request that the Department make our determination on an expedited basis.

In determining whether there are "massive imports" over a "relatively short period," pursuant to section 703(e)(1)(B) of the Act, the Department normally compares the import volume of the subject merchandise for three months immediately preceding the filing of the petition (*i.e.*, the base period) with the three months following the filing of the petition (*i.e.*, the comparison period). See 19 CFR 351.206(i). However, this regulation further provides that "if the Secretary finds that importers, or exporters or producers, had reason to believe, at some time prior to the beginning of the proceeding that a proceeding was likely, then the Secretary may consider a period of not less than three months from that earlier time." In their critical circumstances allegation, the petitioners allege that exporters and producers had reason to believe a proceeding covering OCTG from the PRC would likely be instituted as of July 2008. Consequently, the petitioners request that the Department use January through July 2008 as the base period and July through December 2008 as the comparison period.

In this allegation, the petitioners assert that producers and exporters had reason to believe a proceeding was likely well in advance to the ultimate filing of the petition based on the

TPCO and Wuxi. TMK IPSCO, V&M Star L.P., Wheatland Tube, Evraz Rocky Mountain Steel and the United Steelworkers made allegations regarding subsidies to respondent Changbao.

³ Maverick Tube Corporation submitted comments on the JQR and GQR. United States Steel Corporation submitted comments on the TQR and WQR. TMK IPSCO, V&M Star L.P., Wheatland Tube, Evraz Rocky Mountain Steel and the United Steelworkers submitted comments on the CQR.

⁴ Maverick Tube Corporation, TMK IPSCO, V&M Star L.P., Wheatland Tube, Evraz Rocky Mountain Steel and the United Steelworkers submitted comments relations related to the GOC. Maverick Tube Corporation submitted comments on issues relating to Jianli and the GOC. United States Steel Corporation submitted comments on the provision of steel rounds and coke, TPCO, and Wuxi. TMK IPSCO, V&M Star L.P., Wheatland Tube, Evraz Rocky Mountain Steel and the United Steelworkers submitted comments on Changbao.

following events: An October 2007 conference presentation alluding to a possible “trade case;”⁵ the Department’s November 2007 CVD determinations covering carbon quality steel pipe and light-walled rectangular pipe and tube; Canada’s March 2008 imposition of AD and CVD on “seamless carbon or alloy steel oil and gas well casings;”⁶ a March 2008 statement from a PRC distributor of OCTG that “only the issuing of anti-dumping duties will be able to cut imports from China;” the Department’s initiation of AD and CVD proceedings on certain circular welded carbon quality steel line pipe from the Republic of Korea and the PRC; the May and June affirmative findings by the ITC and the Department regarding the above-mentioned pipe cases; a June 2008 Associated Press article which states that the other pipe rulings “could be the first of a wave of victories by U.S. companies battling Chinese imports;” and, in July 2008, the European Union (“EU”) initiated AD investigations of seamless tubular products from the PRC. See Volume IV of the Petition (“Critical Circumstances Allegation”) at 3–7 and Exhibits IV–1 through IV–7. The petitioners allege that these events culminated in the July 21, 2008, warning by Hou Yin of China Iron & Steel Association that “the U.S. may start an anti-dumping investigation on Chinese seamless pipes soon.” See Critical Circumstances Allegation at 6–7 and Exhibit IV–8.

Although the Department has found producers and exporters had reason to believe that a proceeding was likely prior to a petition being filed in prior cases,⁷ the evidence put forth by the

⁵ See Volume IV of the petition at 4 and page 15 of Exhibit V, which states, in relevant part: “Those who believe that OCTG prices could spike also argue that a trade case could soon be filed against Chinese OCTG producers. But that case may be hard to argue with imports in general declining and mills reporting strong profits.”

⁶ We note that although the petitioners characterize this Canadian proceeding as one covering OCTG, Canada did not initiate proceedings against OCTG until August 24, 2009. See <http://www.cbsa-asfc.gc.ca/sima-lmsi/i-e/ad1385/ad1385-i09-ni-eng.html>

⁷ See, e.g., *Notice of Final Antidumping Duty Determination of Sales at Less Than Fair Value and Affirmative Critical Circumstances: Certain Frozen Fish Fillets from the Socialist Republic of Vietnam*, 68 FR 37116 (June 23, 2003), and accompanying Issues and Decision Memorandum at Comment 7 (finding reason to believe a case was likely based upon widely disseminated newspaper articles stating: “America’s catfish industry, stung by dropping prices triggered by a flood of cheaper fish from Vietnam, is gearing up for a possible antidumping campaign” and “Vietnamese seafood exporters are entering a new war on the U.S. market, as American rivals are lobbying on an anti-dumping taxation”); and *Notice of Final Determination of Sales at Less Than Fair Value: Carbon and Certain Alloy Steel Wire Rod From*

petitioners in this case does not indicate that producers and exporters here had reason to believe that a proceeding was likely as of July 2008. The petitioners point to a litany of events dating back to October 2007 to indicate that the industry was on notice of a potential case. However, the bulk of those events occurred in what the petitioners would have the Department use as the “base period”—the period where we are to assume the industry did not have reason to believe a proceeding was likely. The petitioners point primarily to a reported statement by a representative of the China Iron & Steel Association that “the U.S. may start an anti-dumping investigation on Chinese seamless pipes soon, following the EU.” This statement, taken in the context of the other events cited by the petitioners, is not enough to demonstrate that producers, exporters, and importers of OCTG from the PRC had, or should have had, reason to believe the filing of a petition was likely as of July 2008. The events cited by the petitioners, unlike the events the Department has relied on in similar cases, are very speculative. Therefore, we find that the petitioners have not demonstrated that importers, exporters, or producers, had reason to believe, at some time prior to the beginning of the proceeding that a proceeding covering OCTG from the PRC was likely.

Consequently, in accordance with 19 CFR 351.206(i), we are using the three months preceding the filing of the petition as the base period (*i.e.*, January to March 2009) and the three months following the filing of the petition as the comparison period (*i.e.*, April to June 2009). The data provided by the respondents and the data for shipments by other exporters from the ITC’s Dataweb (adjusted to remove shipments made by the four respondents participating in this investigation) show there were no massive increases in shipments, as required by 19 CFR 351.206(h). For further discussion, see the Memorandum to the File Re “Critical Circumstances Analysis” (September 8, 2009), on file in the Department’s CRU. Notwithstanding whether any respondents received any subsidies inconsistent with the WTO Agreement on Subsidies and Countervailing Measures, because we find that there was no massive increase in shipments from the base period to the comparison period, we preliminarily

Germany, 67 FR 55802 (August 30, 2002) and accompanying Issues and Decision Memorandum at Comment 6 (finding reason to believe a case was likely based upon trade publication which “alerted steel wire rod importers, exporters, and producers the proceedings concerning the subject merchandise were likely in a number of countries”).

find that critical circumstances do not exist with regard to OCTG from the PRC.

Application of the Countervailing Duty Law to Imports From the PRC

On October 25, 2007, the Department published *Coated Free Sheet Paper from the People’s Republic of China: Final Affirmative Countervailing Duty Determination*, 72 FR 60645 (October 25, 2007) (“*CFS from the PRC*”), and the accompanying Issues and Decision Memorandum (“*CFS Decision Memorandum*”). In *CFS from the PRC*, the Department found that:

given the substantial differences between the Soviet-style economies and China’s economy in recent years, the Department’s previous decision not to apply the CVD law to these Soviet-style economies does not act as a bar to proceeding with a CVD investigation involving products from China.

See *CFS Decision Memorandum*, at Comment 6. The Department has affirmed its decision to apply the CVD law to the PRC in subsequent final determinations. See, e.g., *Circular Welded Carbon Quality Steel Pipe from the People’s Republic of China: Final Affirmative Countervailing Duty Determination and Final Affirmative Determination of Critical Circumstances*, 73 FR 31966 (June 5, 2008), and accompanying Issues and Decision Memorandum (“*CWP Decision Memorandum*”), at Comment 1.

Additionally, for the reasons stated in the *CWP Decision Memorandum*, we are using the date of December 11, 2001, the date on which the PRC became a member of the World Trade Organization, as the date from which the Department will identify and measure subsidies in the PRC. See *CWP Decision Memorandum*, at Comment 2.

Use of Facts Otherwise Available and Adverse Inferences

Sections 776(a)(1) and (2) of the Act provide that the Department shall apply “facts otherwise available” if, *inter alia*, necessary information is not on the record or an interested party or any other person: (A) withholds information that has been requested; (B) fails to provide information within the deadlines established, or in the form and manner requested by the Department, subject to subsections (c)(1) and (e) of section 782 of the Act; (C) significantly impedes a proceeding; or (D) provides information that cannot be verified as provided by section 782(i) of the Act.

Section 776(b) of the Act further provides that the Department may use an adverse inference in applying the facts otherwise available when a party has failed to cooperate by not acting to

the best of its ability to comply with a request for information.

GOC

The Department is investigating the alleged provision of steel rounds for less than adequate remuneration by the GOC and we requested information from the GOC about the PRC's steel rounds industry in general, and about the specific companies that produced the steel rounds purchased by the mandatory respondents. In both respects, the GOC has failed to provide the requested information within the established deadlines.

Regarding the PRC's steel rounds industry in general, the GOC responded in its July 20, 2009, initial questionnaire response that the term "steel rounds" was not clearly defined, but that it understood the term to refer to steel billets in a round shape that can be used to produce OCTG. Based on that definition, the GOC went on to state that there are no official statistics readily available regarding the production and consumption of this product in the PRC and that the GOC was working to gather the requested information. In its August 26, 2009, supplemental questionnaire response, the GOC reported that it had not identified any additional information regarding the steel rounds industry in large part because steel rounds are an input product and the National Statistics Bureau does not maintain data on inputs. On August 28, 2009, the Department sent a second supplemental questionnaire on this issue, asking the GOC to provide the production and consumption generally of the broader category of products, "steel billets." The GOC responded on September 1, 2009, that the data requested by the Department are not available because the National Statistics Bureau also does not keep data on this product.

Regarding the second aspect of our investigation of this alleged subsidy, the specific companies that produced the steel rounds purchased by the mandatory respondents, the Department asked the GOC to provide particular ownership information for these producers so that we could determine whether the producers are "authorities" within the meaning of section 771(5)(B) of the Act. Specifically, we stated in our questionnaire that the Department normally treats producers that are majority owned by the government or a government entity as "authorities." Thus, for any steel rounds producers that were majority government-owned, the GOC only needed to provide the additional ownership information described below if it wished to argue

that those producers were not "authorities." For each of the steel rounds producers that were not majority-owned by the government, the Department requested the following information: translations of the 2007 and 2008 annual reports (if the 2008 report was not yet available, the 2006 and 2007 annual reports); translation of the most recent capital verification report; translation of the most recent articles of association; the names of the ten largest shareholders and the total number of shareholders, indicating any affiliations between these shareholders and the government; the total level (percentage) of government ownership of the company's shares, the names of all government entities that own shares in the company, and the amount of shares held by each; a statement of whether any of the shares held by government entities have any special rights, priorities, or privileges, *e.g.*, with regard to voting rights or other management or decision-making for the company, or whether there are any restrictions on conducting, or acting through, extraordinary meetings of shareholders, or whether there are any restrictions on the shares held by private shareholders; a description of the nature of the private shareholders' interest in the company, *e.g.*, operational, strategic, or investment-related, *etc.*; whether any members of the board of directors, or other senior company officials, were appointed by the government or by the government entities that hold shares in the company; whether any directors on the company's board of directors are government officials or otherwise affiliated with a government agency or other government-owned companies; the extent to which the company has pursued government industrial policies or interests; the extent to which operational or strategic decisions that are made by the management or board of directors subject to government review or approval; whether the company was created pursuant to specific Chinese statutes; other means through which the government exercises influence over this company; and, if the company has a foreign strategic investor(s), the role of this shareholder and the rights of this shareholder with respect to the number of board members it may nominate and select, and whether the foreign investor nominated the president or CEO of the company.

In its initial questionnaire response, the GOC provided a partial response addressing the creation of steel rounds producers by statute and stating that it does not exercise influence over the

steel rounds producers in which it has an ownership interest. In its supplemental questionnaire responses, the GOC provided a list of the companies that produced the steel rounds purchased by the mandatory respondents and classified each according to one of three ownership types: SOE (have 50 percent or more government ownership); privately held, or FIE (foreign invested enterprise). None of the requested documentation was provided for any of these producers. Instead, the GOC stated that "the data gathered and supplied by the GOC and the respondents already in this investigation should accomplish the Department's purpose."

On August 28, 2009, the petitioners submitted comments that included information indicating that numerous steel rounds producers designated by the GOC as being privately held or as foreign invested enterprises ("FIEs") are, in fact, majority-government owned. Thus, the GOC not only failed to provide the requested documentation regarding the ownership of the steel rounds producers, but record information indicates that the GOC's designation of certain producers was incorrect. On this basis, we preliminarily determine that the GOC has not acted to the best of its ability to provide the information needed for this investigation and, hence, has failed to cooperate. Consequently, an adverse inference is warranted in the application of facts available. As adverse facts available ("AFA"), we are treating all but one of the producers of steel rounds supplied to the mandatory respondents as authorities. The one exception is Tuoketuo County Mengfeng Special Steel Company, Ltd. ("Mengfeng"), which was owned by respondent, Wuxi, at the time Mengfeng began producing billets in 2008. As explained below under "Subsidies Valuation Information—Attribution of Subsidies" subsidies to this supplier are being attributed to OCTG produced and sold by Wuxi. Record evidence makes clear that Mengfeng was majority owned and controlled by Wuxi, a privately owned company.

As noted above, the GOC also failed to provide requested information about the production and consumption of steel rounds or billets generally. In light of this, we preliminarily determine that the GOC has not acted to the best of its ability to provide the information needed for this investigation and, hence, has failed to cooperate. Consequently, an adverse inference is warranted in the application of facts available. As AFA, we are assuming that the GOC's dominance of the market in the PRC for

this input results in significant distortion of the prices and, hence, that use of an external benchmark is warranted.

The Department's practice when selecting an adverse rate from among the possible sources of information is to ensure that the result is sufficiently adverse "as to effectuate the statutory purposes of the adverse facts available rule to induce respondents to provide the Department with complete and accurate information in a timely manner." See *Notice of Final Determination of Sales at Less than Fair Value: Static Random Access Memory Semiconductors From Taiwan*, 63 FR 8909, 8932 (February 23, 1998). The Department's practice also ensures "that the party does not obtain a more favorable result by failing to cooperate than if it had cooperated fully." See Statement of Administrative Action ("SAA") accompanying the Uruguay Round Agreements Act, H. Doc. No. 316, 103d Cong., 2d Session (1994), at 870.

Section 776(c) of the Act provides that, when the Department relies on secondary information rather than on information obtained in the course of an investigation or review, it shall, to the extent practicable, corroborate that information from independent sources that are reasonably at its disposal. Secondary information is "information derived from the petition that gave rise to the investigation or review, the final determination concerning the subject merchandise, or any previous review under section 751 concerning the subject merchandise." See *e.g.*, SAA, at 870. The Department considers information to be corroborated if it has probative value. See *id.* To corroborate secondary information, the Department will, to the extent practicable, examine the reliability and relevance of the information to be used. The SAA emphasizes, however, that the Department need not prove that the selected facts available are the best alternative information. See SAA, at 869.

To corroborate the Department's treatment of the companies that produced the steel rounds and billets purchased by the mandatory respondents as authorities and our finding that the GOC dominates the domestic market for this input, we are relying on *Circular Welded Carbon Quality Steel Line Pipe from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 73 FR 70961 (November 24, 2008) ("*Line Pipe from the PRC*"). In that case, the Department determined that the GOC owned or controlled the

entire hot-rolled steel industry in the PRC. See *Line Pipe from the PRC* and accompanying Issues and Decision Memorandum at Comment 1. Evidence on the record of this investigation shows that many steel producers in the PRC are integrated, producing both long products (rounds and billets) and flat products (hot-rolled steel). (See Memorandum to the File, "Additional Information on Steel Rounds," dated September 8, 2009). Consequently, government ownership in the hot-rolled steel industry is a reasonable proxy for government ownership in the steel rounds and billets industry.

Subsidies Valuation Information

Allocation Period

The average useful life ("AUL") period in this proceeding, as described in 19 CFR 351.524(d)(2), is 15 years according to the U.S. Internal Revenue Service's 1977 Class Life Asset Depreciation Range System. See U.S. Internal Revenue Service Publication 946 (2008), *How to Depreciate Property*, at Table B-2: Table of Class Lives and Recovery Periods. No party in this proceeding has disputed this allocation period.

Attribution of Subsidies

The Department's regulations at 19 CFR 351.525(b)(6)(i) state that the Department will normally attribute a subsidy to the products produced by the corporation that received the subsidy. However, 19 CFR 351.525(b)(6)(ii)-(v) directs that the Department will attribute subsidies received by certain other companies to the combined sales of those companies if (1) cross-ownership exists between the companies, and (2) the cross-owned companies produce the subject merchandise, are a holding or parent company of the subject company, produce an input that is primarily dedicated to the production of the downstream product, or transfer a subsidy to a cross-owned company.

According to 19 CFR 351.525(b)(6)(vi), cross-ownership exists between two or more corporations where one corporation can use or direct the individual assets of the other corporation(s) in essentially the same way it can use its own assets. This regulation states that this standard will normally be met where there is a majority voting interest between two corporations or through common ownership of two (or more) corporations. The Court of International Trade ("CIT") has upheld the Department's authority to attribute subsidies based on whether a company

could use or direct the subsidy benefits of another company in essentially the same way it could use its own subsidy benefits. See *Fabrique de Fer de Charleroi v. United States*, 166 F. Supp. 2d 593, 600-604 (CIT 2001).

Changbao

Changbao responded on behalf of itself and one affiliate, Jiangsu Changbao Precision Steel Tube Co., Ltd. ("Precision"), a producer of subject merchandise. The nature of the affiliation is proprietary, but based on 19 CFR 351.525(b)(vi), we preliminarily determine that these companies are "cross-owned." See CQR at 3. Therefore, pursuant to 19 CFR 351.525(b)(6)(ii), we are attributing the subsidies received by either Changbao and/or Precision to the combined sales of both companies.

Changbao identified several other affiliated companies, but reported that these affiliates do not produce the subject merchandise or provide inputs. *Id.* Therefore, because these companies do not produce subject merchandise or otherwise fall within the situations described in 19 CFR 351.525(b)(6)(iii)-(v), we do not reach the issue of whether these companies and Changbao are cross-owned within the meaning of 19 CFR 351.525(b)(6)(vi) and we are not including these companies in our subsidy calculations.

Jianli

Jianli responded on behalf of itself and three affiliates: Zhejiang Jianli Steel Tube Co., Ltd. ("Jianli Steel Tube"), Zhuji Jiansheng Machinery Co., Ltd. (formerly Zhejiang Jianli OCTG Seamless Pipe Co., Ltd.) ("Jiansheng"), and Zhejiang Jianli Industry Group Co., Ltd. ("Jianli Industry") (collectively, the "Jianli Group"). These companies are cross-owned within the meaning of 19 CFR 351.525(b)(6)(vi) by virtue of high levels of common ownership. Jianli reported that Jianli Steel Tube produced OCTG for sale to Jianli and Jiansheng for further processing. See JQR at 6. Jianli also reported that Jiansheng purchased OCTG from Jianli and Jianli Steel Tube for further processing and to sell both domestically and in the export market. *Id.* Therefore, pursuant to 19 CFR 351.525(b)(6)(ii), we are attributing the subsidies received by Jianli, Jianli Steel Tube, or Jiansheng to the combined sales of these companies, excluding the sales between them.

Regarding Jianli Industry, Jianli reported that this company is the holding company for the Jianli Group. See JQR at 4. Therefore, pursuant to 19 CFR 351.525(b)(6)(iii), we are attributing the subsidies received by Jianli Industry to the combined sales of the Jianli

Group, excluding sales between the group companies.

In its questionnaire response, Jianli also acknowledged that it has several other affiliated parties in addition to the three companies named above. *See* JQR at 5. However, Jianli reported that these affiliates do not produce the subject merchandise and do not provide inputs to Jianli. Therefore, because these companies do not produce subject merchandise or otherwise fall within the situations outlined in 19 CFR 351.525(b)(6)(iii)-(v), we do not reach the issue of whether these companies and Jianli are cross-owned within the meaning of 19 CFR 351.525(b)(6)(vi) and we are not including these companies in our subsidy calculations.

TPCO

As of this preliminary determination, TPCO has responded to the Department's original and supplemental questionnaires on behalf of itself; Tianjin Pipe Iron Manufacturing Co., Ltd. ("TPCO Iron"); Tianguan Yuantong Pipe Product Co., Ltd. ("Yuantong"); Tianjin Pipe International Economic and Trading Co., Ltd. ("IETC"); and TPCO Charging Development Co., Ltd. ("Charging"). These companies are cross-owned within the meaning 19 CFR 351.525(b)(6)(vi) because of TPCO's substantial ownership position in each of them.

TPCO stated that TPCO Iron provides "molten and direct reduced iron" to TPCO and that Yuantong provides "threading and other finishing processes to TPCO Group's OCTG production."⁸ Because TPCO Iron produced an input to TPCO's production of subject merchandise during the POI, we are preliminarily attributing subsidies received by TPCO Iron to TPCO, in accordance with 19 CFR 351.525(b)(6)(iv). Yuantong had direct involvement in the production of subject merchandise during the POI. Thus, we are preliminarily attributing subsidies received by Yuantong to TPCO, in accordance with 19 CFR 351.525(b)(6)(ii).

Regarding IETC, TPCO stated, "{IETC} is the trading company through which TPCO Group exports all subject merchandise." Because IETC exported subject merchandise during the POI, we are preliminarily cumulating the benefit from subsidies received by IETC with subsidies provided to TPCO, in accordance with 19 CFR 351.525(c).

With regard to Charging, TPCO stated that Charging acts as a trading company and does not produce any

merchandise.⁹ Instead, Charging purchased and provided steel rounds to TPCO during the POI. Because Charging is not an input producer, we are not treating Charging as an input supplier as described in 19 CFR 351.525(b)(6)(iv) (which refers to subsidies received by the input producer). Instead, for the preliminary determination, we are treating any subsidies conferred by the government's provision of steel rounds for less than adequate remuneration as having been transferred to TPCO through Charging's transfer of the steel rounds to TPCO, consistent with 19 CFR 351.525(b)(6)(v).

During the period December 11, 2003, through September 8, 2004, TPCO Holding held a majority interest in TPCO. Under 19 CFR 351.525(b)(6)(iii), we would normally attribute subsidies received by TPCO Holding during the period December 11, 2003, through September 8, 2004, to TPCO. TPCO Holding's questionnaire response dated September 1, 2009, however, indicated that TPCO Holding received no non-recurring subsidies during the period December 11, 2003, through September 8, 2004.

TPCO reported that it intended to provide a response on behalf of Tianjin TEDA Investment Holding Co., Ltd. ("TEDA"). TPCO explained that TEDA maintains a majority equity stake in TPCO. As of this preliminary determination, TPCO has not provided a questionnaire response.

In a supplemental questionnaire dated August 7, 2009, we asked TPCO questions about certain affiliates that may have met the cross-ownership standard under 19 CFR 351.525(b)(6)(vi) and one or more of the attribution standards under 19 CFR 351.525(b)(6)(ii-v). TPCO provided responses to these questions in its August 21, 2009, response at 1-15. Based on TPCO's responses, we preliminarily determine that none of these affiliates met both the cross-ownership standard of 19 CFR 351.525(b)(6)(vi) and one or more of the attribution standards under 19 CFR 351.525(b)(6)(ii-v). Thus, we have not included any subsidies to these companies in the subsidy calculation.

For other affiliated companies that TPCO identified in Exhibits 1 and 2 of the TQR, TPCO either held a small ownership share during the POI or identified the companies as having no involvement with subject merchandise. Thus, we have not included any subsidies to these companies in the subsidy calculation.

In their August 28, 2009 submission, the petitioners requested that the Department use the unconsolidated sales value of TPCO and its cross-owned affiliates (net of intercompany sales) to calculate the subsidy rate for each program. Under 19 CFR 351.525(b)(6)(iii), the Department will attribute subsidies bestowed on a parent or holding company to the consolidated sales of the parent or holding company and its subsidiaries. TPCO was a parent company to other companies during the POI. On page 13 of the TQR, TPCO stated, "TPCO Group consolidates those entities it holds more than 50% equity shares and also those indirectly owned subsidiaries it owns more than 50% equity shares." In accordance with 19 CFR 351.525(b)(6)(iii), we are preliminarily attributing subsidies to TPCO to the consolidated sales of TPCO and its subsidiaries.

Therefore, based on information currently on the record, we preliminarily determine that cross-ownership within the meaning of 19 CFR 351.525(b)(6)(vi) exists between TPCO, TPCO Iron, Yuantong, IETC, and Charging. We are preliminarily attributing subsidies received by TPCO to the consolidated sales of TPCO and its subsidiaries. *See* 19 CFR 351.525(b)(6)(iii). TPCO Iron, Yuantong, and Charging are consolidated into TPCO's sales; thus, we are preliminarily attributing subsidies received by TPCO Iron, Yuantong, and Charging to TPCO's consolidated sales (excluding sales between TPCO and these three affiliates). For IETC, we preliminarily have cumulated IETC's subsidy benefits with TPCO's subsidy benefits. *See* 19 CFR 351.525(c).

Wuxi

Wuxi identified numerous companies with which it is affiliated and responded on behalf of itself, a "productive" FIE and a producer of subject merchandise, as well as affiliates Jiangsu Fanli Steel Pipe Co., Ltd. ("Fanli"), a producer of subject merchandise, and Tuoketuo County Mengfeng Special Steel Co., Ltd. ("Mengfeng"), an affiliated input supplier. Based on Wuxi's high level of ownership in Fanli and Mengfeng, we preliminarily determine that Wuxi is cross-owned with Fanli and Mengfeng within the meaning of 19 CFR 351.525(b)(6)(vi). Fanli is a producer of subject merchandise and provided "green pipe" to Wuxi during the POI. *See* WQR, at 2. Thus, we are preliminarily attributing subsidies received by Wuxi and Fanli to their combined sales, excluding the sales between them, in accordance with 19

⁸ *See* TQR at 5.

⁹ *See* TCQR at 4 and 5.

CFR 351.525(b)(6)(ii). Wuxi's affiliate Mengfeng produces steel billets and provided a small amount to Wuxi during the POI. See WQR, at 2 and 3. Record evidence supports that billets are dedicated to Wuxi's production of the downstream product, OCTG. Therefore, for purposes of this preliminary determination, subsidies received by Mengfeng would be attributed to Wuxi in accordance with 19 CFR 351.525(b)(6)(iv). However, for this preliminary determination, we are finding no subsidies to Mengfeng.

In a supplemental questionnaire dated August 7, 2009, we asked Wuxi about certain other affiliates. Wuxi provided responses to these questions in its supplemental questionnaire response. See W1SR, at 1–7. With respect to Wuxi's affiliate, Wuxi Longhua Steel Pipe Co., Ltd. ("Wuxi Longhua"), which had been involved in the sales and processing of oil pipes prior to the POI, Wuxi did not provide a questionnaire response. Rather, Wuxi claims the conditions of 19 CFR 351.525(b)(6)(ii) through (v) do not apply to Wuxi Longhua because it did not produce subject merchandise, is not a holding company or a parent company of Wuxi and has not received a subsidy and transferred it to Wuxi. Wuxi also reported that while Wuxi Longhua had previously resold inputs to Wuxi, it did not produce or resell inputs to Wuxi during the POI. See W1SR, at 2 and 3. We received Wuxi's supplemental response shortly before the deadline for this preliminary determination and have not been able to fully analyze Wuxi Longhua's relationship with Wuxi and its involvement in the production of subject merchandise in accordance with 19 CFR 351.525(b)(6). Consequently, for this preliminary determination, we are excluding Wuxi Longhua from the subsidy calculation, but will continue to examine this issue for the final determination.

Wuxi also corrected certain information in its W1SR with respect to affiliate Wuxi Huayi Investment Company ("Wuxi Huayi"). See Wuxi's correction letter, dated August 24, 2009. Details of Wuxi Huayi's relationship are proprietary and, therefore, are addressed separately. See Preliminary Determination Calculation Memorandum for Wuxi, dated September 8, 2009. We received Wuxi's correction letter shortly before the deadline for this preliminary determination and have not been able to fully analyze Wuxi Huayi's relationship with Wuxi and its involvement in the production of subject merchandise in accordance with 19 CFR 351.525(b)(6). Consequently, for this preliminary

determination, we are excluding Wuxi Huayi from the subsidy calculation, but will continue to examine this issue for the final determination.

After examining additional information from Wuxi's responses, we find the remaining affiliates do not produce subject merchandise, or otherwise fall within the situations described in 19 CFR 351.525(b)(6)(iii) to (v). As such, we have preliminarily excluded these companies from the subsidy calculations.

Benchmarks and Discount Rates

Benchmarks for Short-Term RMB Denominated Loans

Section 771(5)(E)(ii) of the Act explains that the benefit for loans is the "difference between the amount the recipient of the loan pays on the loan and the amount the recipient would pay on a comparable commercial loan that the recipient could actually obtain on the market." Normally, the Department uses comparable commercial loans reported by the company for benchmarking purposes.¹⁰ If the firm did not have any comparable commercial loans during the period, the Department's regulations provide that we "may use a national interest rate for comparable commercial loans."¹¹

As noted above, section 771(5)(E)(ii) of the Act indicates that the benchmark should be a market-based rate. For the reasons explained in *CFS from the PRC*,¹² loans provided by Chinese banks reflect significant government intervention in the banking sector and do not reflect rates that would be found in a functioning market. Because of this, any loans received by respondents from private Chinese or foreign-owned banks would be unsuitable for use as benchmarks under 19 CFR 351.505(a)(2)(i). Similarly, we cannot use a national interest rate for commercial loans as envisaged by 19 CFR 351.505(a)(3)(ii). Therefore, because of the special difficulties inherent in using a Chinese benchmark for loans, the Department is selecting an external market-based benchmark interest rate. The use of an external benchmark is consistent with the Department's practice. For example, in *Softwood Lumber from Canada*, the Department used U.S. timber prices to measure the benefit for government-provided timber in Canada.¹³

¹⁰ See 19 CFR 351.505(a)(3)(i).

¹¹ See 19 CFR 351.505(a)(3)(ii).

¹² See *CFS from the PRC* at Comment 10.

¹³ See *Notice of Final Affirmative Countervailing Duty Determination and Final Negative Critical Circumstances Determination: Certain Softwood Lumber Products From Canada*, 67 FR 15545 (April

We are calculating the external benchmark using the regression-based methodology first developed in *CFS from the PRC*¹⁴ and more recently updated in *LWTP from the PRC*.¹⁵ This benchmark interest rate is based on the inflation-adjusted interest rates of countries with per capita GNIs similar to the PRC, and takes into account a key factor involved in interest rate formation, that of the quality of a country's institutions, that is not directly tied to the state-imposed distortions in the banking sector discussed above.

Following the methodology developed in *CFS from the PRC*, we first determined which countries are similar to the PRC in terms of gross national income ("GNI"), based on the World Bank's classification of countries as: low income; lower-middle income; upper-middle income; and high income. The PRC falls in the lower-middle income category, a group that includes 55 countries as of July 2007. As explained in *CFS from the PRC*, this pool of countries captures the broad inverse relationship between income and interest rates.

Many of these countries reported lending and inflation rates to the International Monetary Fund and they are included in that agency's international financial statistics ("IFS"). With the exceptions noted below, we have used the interest and inflation rates reported in the IFS for the countries identified as "low middle income" by the World Bank. First, we did not include those economies that the Department considered to be non-market economies for AD purposes for any part of the years in question, for example: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkmenistan. Second, the pool necessarily excludes any country that did not report both lending and inflation rates to IFS for those years. Third, we removed any country that reported a rate that was not a lending rate or that based its lending rate on foreign-currency denominated instruments. For example, Jordan reported a deposit rate, not a lending rate, and the rates reported by Ecuador and Timor L'Este are dollar-denominated rates; therefore, the rates for these three countries have been

2, 2002) ("*Softwood Lumber from Canada*") and accompanying Issues and Decision Memorandum at "Analysis of Programs, Provincial Stumpage Programs Determined to Confer Subsidies, Benefit."

¹⁴ See *CFS from the PRC* at Comment 10.

¹⁵ See *Lightweight Thermal Paper From the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 73 FR 57323 (October 2, 2008) ("*LWTP from the PRC*") and accompanying Issues and Decision Memorandum ("*LWTP Decision Memo*") at 20–25.

excluded. Finally, for each year the Department calculated an inflation-adjusted short-term benchmark rate, we have also excluded any countries with aberrational or negative real interest rates for the year in question.

The resulting inflation-adjusted benchmark lending rates are provided in the respondents' preliminary calculation memoranda. *See e.g.*, Preliminary Determination Calculation Memoranda for, Jiangsu Changbao Steel Tube Co., Ltd., Tianjin Pipe (Group) Co., Wuxi Seamless Oil Pipe Co., Ltd., and Zhejiang Jianli Enterprise Co., Ltd. (September 8, 2009). Because these are inflation-adjusted benchmarks, it is necessary to adjust the respondents' interest payments for inflation. This was done using the PRC inflation figure as reported in the IFS. *Id.*

Benchmarks for Long-Term Loans

The lending rates reported in the IFS represent short- and medium-term lending, and there are not sufficient publicly available long-term interest rate data upon which to base a robust benchmark for long-term loans. To address this problem, the Department has developed an adjustment to the short- and medium-term rates to convert them to long-term rates using Bloomberg U.S. corporate BB-rated bond rates. *See Light-Walled Rectangular Pipe and Tube From the People's Republic of China: Final Affirmative Countervailing Duty Investigation Determination*, 73 FR 35642 (June 24, 2008) and accompanying Issues and Decision Memorandum ("LWRP Decision Memo") at 8. In *Citric Acid from the PRC*, this methodology was revised by switching from a long-term mark-up based on the ratio of the rates of BB-rated bonds to applying a spread which is calculated as the difference between the two-year BB bond rate and the n-year BB bond rate, where n equals or approximates the number of years of the term of the loan in question. *See Citric Acid and Certain Citrate Salts From the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 74 FR 16836 (April 13, 2009) ("*Citric Acid from the PRC*") and accompanying Issues and Decision Memorandum ("*Citric Acid Decision Memo*") at Comment 14. Finally, because these long-term rates are net of inflation as noted above, we adjusted the PRC respondents' payments to remove inflation.

Benchmarks for Foreign Currency-Denominated Loans

For foreign currency-denominated short-term loans, the Department used as a benchmark the one-year dollar

interest rates for the London Interbank Offering Rate ("LIBOR"), plus the average spread between LIBOR and the one-year corporate bond rates for companies with a BB rating. *See* LWTP Decision Memo at 10. For long-term foreign currency-denominated loans, the Department added the applicable short-term LIBOR rate to a spread which is calculated as the difference between the one-year BB bond rate and the n-year BB bond rate, where n equals or approximates the number of years of the term of the loan in question.

Discount Rates

Consistent with 19 CFR 351.524(d)(3)(i)(A), we have used, as our discount rate, the long-term interest rate calculated according to the methodology described above for the year in which the government agreed to provide the subsidy.

Analysis of Programs

Based upon our analysis of the petition and the responses to our questionnaires, we preliminarily determine the following:

I. Programs Preliminarily Determined To Be Countervailable

A. Policy Loans

The Department is examining whether OCTG producers receive preferential lending through state-owned commercial or policy banks. According to the allegation, preferential lending to the OCTG industry is supported by the GOC through the issuance of national and provincial five-year plans; industrial plans for the steel sector; catalogues of encouraged industries, and other government laws and regulations. The GOC has responded that policy guidance documents do not require banks to provide preferential, discounted, or policy loans to specific enterprises. Moreover, banking laws in the PRC require commercial banks to operate independently of the government and in accordance with commercial norms. Thus, the GOC claims that there is no policy lending in regard to the OCTG industry as alleged by the petitioners.

Based on our review of the information and responses of the GOC and mandatory respondents, we preliminarily determine that loans received by the OCTG industry from state-owned commercial banks ("SOCBs") were made pursuant to government directives.

Record evidence demonstrates that the GOC, through its directives, has highlighted and advocated the development of the OCTG industry. At

the national level, the GOC has placed an emphasis on the development of high-end, value-added steel products through foreign investment as well as through technological research, development, and innovation. In laying out this strategy, the GOC has identified the specific products it has in mind. For example, an "objective" of *The 10th Five-Year Plan for the Metallurgical Industry* was to develop key steel types that were mainly imported; high strength, anticrushing and corrosion resistant petroleum pipe was among the listed products. Moreover, among the "Policy Measures" set out in the plan for achieving its objectives was the encouragement of enterprises to cooperate with foreign enterprises, particularly in the production and development of high value-added products and high-tech products. *See* GQR at Exhibit GOC-A-1.

Similarly, in the *Development Policies for the Iron and Steel Industry* (July 2005) at Article 16, the GOC states that it will " * * * enhance the R&D, design, and manufacture level in relation to the key technology, equipment and facilities for the Chinese steel industry." To accomplish this, the GOC states it will provide support to key steel projects relying on domestically produced and newly developed equipment and facilities, through tax and interest assistance, and scientific research expenditures. *See* GQR at Exhibit GOC-A-21. Later in 2005, the GOC implemented the *Decision of the State Council on Promulgating the "Interim Provisions on Promoting Industrial Structure Adjustment" for Implementation* (No. 40 (2005)) ("Decision 40") in order to achieve the objectives of the Eleventh Five-Year Plan. *See* Memorandum to File from David Neubacher, Analyst regarding "Additional Documents Placed on the Record" (September 8, 2009). Decision 40 references the *Directory Catalogue on Readjustment of Industrial Structure* ("Industrial Catalogue"), which outlines the projects which the GOC deems "encouraged," "restricted," and "eliminated," and describes how these projects will be considered under government policies. OCTG was named in the Industrial Catalogue as an "encouraged project." *See* Petition at Exhibit III-14. For the "encouraged" projects, Decision 40 outlines several support options available to the government, including financing.

Turning to the provincial and municipal plans, the Department has described the inter-relatedness of national level plans and directives with those at the sub-national level. *See* LWTP Decision Memo at Comment 6.

Based on our review of the sub-national plans submitted by the GOC in this investigation, we find that they mirror the national government's objective of supporting and promoting the production of innovative and high-value added products, including OCTG. Examples from the five-year plans of the provinces and/or municipalities where each of the respondents is located follow:

Outline of the 10th Five-Year Plan for the National Economic and Social Development of Tianjin City: "For metallurgical industry, we attach importance to the development of high quality and efficiency steel products and high grade metal products, such as seamless steel tube and cold rolled sheet, and carry out the oil steel pipe extension and east-movement project of steel." See GQR at Exhibit GOC-A-15.

Outline of the 11th Five-Year Program for the Development of the Industrial Economy of Tianjin: "We shall also focus on those steel tube industries mainly engaged in oil country tubular goods and high grade furnace tubular goods through careful thorough efforts and build a new specialized oil country tubular goods production base placing oil casing first and high added value products such as oil pipes and drill pipes second." See GQR at Exhibit GOC-A-16.

Notice of Tianjin Municipal People's Government Concerning the Printing and Distribution of the Outline for the 11th Five-Year Program for the National Economic and Social Development in Tianjin Binhai New Area: "4. Constructing deep processing base of petroleum steel pipe and high quality steel material—We shall quicken technology innovation and structural adjustment, extend industrial link, enhance the concentration effort, strive the commanding point of the industry, consolidate and develop the leading position of deep processing of petroleum steel pipe and high quality steel material." See G1SR at Exhibit GOC-SUPP-18.

An Outline of Adjustment and Development Plan for Industrial Structure of Jiangsu Province During the 11th Five-Year Plan: "Emphasize on the development of high-quality steel products with high added value and high technological content such as motor plates, shipbuilding steel plates, * * * pinion steel, oil well billet, special pipes and sticks, and highly qualified high-carbon hard wires." See G1SR at Exhibit GOC-SUPP-15.

The Outline of the 11th Five-Year Program for the National Economic and Social Development in Xuyi County: "Cultivating large-scale enterprises—Adopting the way of developing large-scale enterprises and expanding existing enterprises and conglomerates. We should encourage and assist the enterprises, such as * * * Fanli Steel Pipes." See G1SR at Exhibit GOC-SUPP-9.

Outline of the 11th Five-Year Program for the National Economic and Social Development of Wuxi: "New Material Industry. We will take such industries as metallurgy, chemical industry and so on as the foundation, prioritize products of several domains such as new composition material

and high polymer * * * special steel and product, * * * and so on," See GQR at Exhibit GOC-A-12.

The Outline of the Tenth Five-Year Plan for the National Economy and Social Development of Zhejiang Province: "make great efforts to improve the industrial level, product grade and the international competitiveness" (with regard to the province's goal of adjusting and optimizing the industrial structure). See GQR at Exhibit GOC-A-5.

The Outline of the 11th Five-Year Program for the National Economy and Social Development in Zhejiang Province: "We will change the economic growth pattern. We will speed up the pace of independent innovation, strengthen the supporting role of talented persons and science and technology in economic growth, insist on taking an industrialized path, and push forward the strategic readjustment of economic structure." See GQR at Exhibit GOC-A-6.

The 11th Five-Year Plan for National Economic and Social Development of Zhuj: "Improving input mechanism and constructing 'modern industrial highland.' We will help enterprises to put projects into places in accordance with industry guiding directory of the state, forcefully renovate and upgrade traditional industries, and specially foster and develop high-tech industries and more potent new industries." See GQR at Exhibit GOC-A-8.

Finally, we examined the loan documentation provided by the GOC and noted language for certain loans which also reflects the GOC's directives to support the OCTG industry. As this information is business proprietary, it is discussed in a separate memorandum. See Memorandum to the File from David Neubacher regarding "BPI Loan Memo" (September 8, 2009).

In addition to its claim that policy guidance documents do not provide for preferential, discounted, or policy loans to specific enterprises, the GOC has cited to the *Circular on Improving the Administration of Special Loans* (YINFA {1999} No. 228) ("Circular") and Articles 4 and 7 of the *Law of the People's Republic of China on Commercial Banks* ("Banking Law") to argue that policy loans are prohibited and that commercial banks in the PRC operate independently from the government and base their decisions on market norms. See G1SR at 7. First, we note that the Circular was written expressly to four specific banks (Agricultural Bank of China, Industrial Bank of China, Bank of China, and China Construction Bank), and not to commercial banks in general. Moreover, we note that the Banking Law, at Article 34, also states that banks shall "carry out their loan business upon the needs of the national economy and the social development and under the guidance of the State industrial policies." See G1SR at GOC-SUPP-19. Thus, the Banking

Law, in some measure, stipulates that lending procedures be based on the guidance of government industrial policy.

As noted in *Citric Acid from the PRC*:¹⁶

In general, the Department looks to whether government plans or other policy directives lay out objectives or goals for developing the industry and call for lending to support those objectives or goals. Where such plans or policy directives exist, then we will find a policy lending program that is specific to the named industry (or producers that fall under that industry).¹⁷ Once that finding is made, the Department relies upon the analysis undertaken in *CFS from the PRC*¹⁸ to further conclude that national and local government control over the SOCBs results in the loans being a financial contribution by the GOC.¹⁹

Therefore, on the basis of the record information described above, we preliminarily determine that the GOC has a policy in place to encourage the development of production of OCTG through policy lending. Therefore, the loans to OCTG producers from Policy Banks and SOCBs in the PRC constitute a direct financial contribution from the government, pursuant to section 771(5)(D)(i) of the Act, and they provide a benefit equal to the difference between what the recipients paid on their loans and the amount they would have paid on comparable commercial loans (see section 771(5)(e)(2)). Finally, we determine that the loans are *de jure* specific because of the GOC's policy, as illustrated in the government plans and directives, to encourage and support the growth and development of the OCTG industry.

To calculate the benefit under the policy lending program, we used the benchmarks described under "Subsidies Valuation—Benchmarks and Discount Rates" above. See also 19 CFR 351.505(c). On this basis, we determine that Changbao received a countervailable subsidy of 0.30 percent *ad valorem*, Jianli received a countervailable subsidy of 0.02 percent *ad valorem*, TPCO received a countervailable subsidy of 1.59 percent *ad valorem*, and Wuxi received a countervailable subsidy of 1.35 percent *ad valorem* under this program.

¹⁶ See *Citric Acid from the PRC*, 74 FR 16836 and *Citric Acid Decision Memo*, at Comment 5.

¹⁷ See *CFS Decision Memorandum*, at 49; and *LWTP Decision Memo*, at 98.

¹⁸ See *CFS Decision Memorandum*, at Comment 8.

¹⁹ See *OTR Tires from the PRC* ID, at 15; and *LWTP Decision Memo*, at 11.

B. Export Loans From the Export-Import Bank of China

On page 17 of the GQR, the GOC reported that the Export-Import Bank of China ("EIBC") provided TPCO with three loans that were outstanding during the POI. The GOC claimed that two of the loans related to non-export business, and that the third loan did not relate to TPCO's production of OCTG.

Based on the proprietary description of these loans at page 17 of the GOC's response, however, we preliminarily find that one of the loans is a countervailable export loan from the EIBC. As a loan from a government policy bank, this loan constitutes a direct financial contribution from the government, pursuant to section 771(5)(D)(i) of the Act. We further determine that the export loan is specific under section 771(5A)(B) of the Act because receipt of the financing is contingent upon export. Also, we determine that the export loan confers a benefit within the meaning of section 771(5)(E)(ii) of the Act.

To calculate the benefit under this program, we compared the amount of interest paid against the export loan to the amount of interest that would have been paid on a comparable commercial loan. As our benchmark, we used the short-term interest rates discussed above in the "Benchmarks and Discount Rates" section. To calculate the net countervailable subsidy rate, we divided the benefit by TPCO's export sales value for the POI. On this basis, we determine the net countervailable subsidy rate to be 0.08 percent *ad valorem*.

C. Provision of Steel Rounds for Less Than Adequate Remuneration

As discussed under "Use of Facts Otherwise Available and Adverse Inferences," above, we are preliminarily relying on "adverse facts available" for our analysis regarding the GOC's provision of steel rounds and billets to OCTG producers. First, as a result of the GOC's failure to provide requested ownership information for the companies that produced the steel rounds and billets purchased by the mandatory respondents in this investigation, we are treating all of the steel rounds and billets, except those supplied by one cross-owned supplier to Wuxi, as having been provided by an "authority," within the meaning of section 771(5)(B). Therefore, we preliminarily determine that the OCTG producers have received a financial contribution in the form of the provision of a good. See section 771(5)(D)(iii).

To determine whether this financial contribution results in a subsidy to the

OCTG producers, we followed 19 CFR 351.511(a)(2) for identifying an appropriate market-based benchmark for measuring the adequacy of the remuneration for the steel rounds and billets. The potential benchmarks listed in this regulation, in order of preference are: (1) Market prices from actual transactions within the country under investigation for the government-provided good (*e.g.*, actual sales, actual imports, or competitively run government auctions) ("tier one" benchmarks); (2) world market prices that would be available to purchasers in the country under investigation ("tier two" benchmarks); or (3) prices consistent with market principles based on an assessment by the Department of the government-set price ("tier three" benchmarks). As we explained in *Softwood Lumber from Canada*, the preferred benchmark in the hierarchy is an observed market price from actual transactions within the country under investigation because such prices generally would be expected to reflect most closely the prevailing market conditions of the purchaser under investigation. See *Softwood Lumber from Canada* and accompanying Issues and Decision Memorandum at "Analysis of Programs, Provincial Stumpage Programs Determined to Confer Subsidies, Benefit."

Beginning with tier one, we must determine whether the prices from actual sales transactions involving Chinese buyers and sellers are significantly distorted. As explained in the CVD Preamble: "Where it is reasonable to conclude that actual transaction prices are significantly distorted as a result of the government's involvement in the market, we will resort to the next alternative {tier two} in the hierarchy." See *Countervailing Duties; Final Rule*, 63 FR 65348, 65377 (November 25, 1998) ("CVD Preamble"). The CVD Preamble further recognizes that distortion can occur when the government provider constitutes a majority, or in certain circumstances, a substantial portion of the market.

As explained under "Use of Facts Otherwise Available and Adverse Inferences," above, we are preliminarily relying on "adverse facts available" to determine that GOC authorities play a significant role in the PRC market for steel rounds and billets. Because of the dominant role played by GOC authorities in the production of steel rounds and billets, we preliminarily determine that the prices actually paid in the PRC for steel rounds and billets during the POI are not appropriate tier one benchmarks under our regulations.

Turning to tier two benchmarks, *i.e.*, world market prices available to purchasers in the PRC, the petitioners have put on the record data from the *Steel Business Briefing* ("SBB") regarding monthly export prices for billet from Latin America, Turkey, and the Black Sea/Baltic. See the petitioners' April 20, 2009, submission, "Response to the Department Questionnaire Concerning the Imposition of Countervailing Duties," at Exhibit 22, Attachments A-C.

We preliminarily determine that the SBB data should be used to derive a world market price for steel rounds and billets that would be available to purchasers in the PRC. We note that the Department has relied on pricing data from industry publications such as SBB in recent CVD proceedings involving the PRC. See CWP Decision Memorandum at 11 and LWRP Decision Memo at 9. Also, 19 CFR 351.511(a)(2)(ii), states that where there is more than one commercially available world market price, the Department will average the prices to the extent practicable. Therefore, we first derived a world market SBB price by averaging the monthly prices for Latin America, Turkey and the Black Sea/Baltic.

Under 19 CFR 351.511(a)(2)(iv), when measuring the adequacy of remuneration under tier one or tier two, the Department will adjust the benchmark price to reflect the price that a firm actually paid or would pay if it imported the product, including delivery charges and import duties. Regarding delivery charges, we have included the freight costs that would be incurred in shipping wire rod from Latin America, Turkey and the Black Sea/Baltic to the PRC. We have also added import duties, as reported by the GOC, and the VAT applicable to imports of steel rounds and billet into the PRC.

Comparing the adjusted benchmark prices to the prices paid by the respondents for their steel rounds and billet, we preliminarily determine that steel rounds and billet were provided for less than adequate remuneration and that a subsidy exists in the amount of the difference between the benchmark and what the respondents paid. See 19 CFR 351.511(a).

Finally, with respect to specificity, the GOC has stated that steel rounds are used by the OCTG industry. Therefore, we preliminarily determine that this subsidy is specific because the recipients are limited in number. See section 771(5A)(D)(iii)(I) of the Act.

Therefore, we preliminarily determine that the GOC conferred a countervailable subsidy on Changbao, Jianli, TPCO, and Wuxi through the

provision of steel rounds for less than adequate remuneration. To calculate the subsidy, we took the difference between the delivered world market price and what each respondent paid for steel rounds during the POI. On this basis, we preliminarily calculated a net countervailable *ad valorem* subsidy rate of 24.03 percent for Changbao, 30.45 percent for Jianli, 5.89 percent for TPCO, and 21.45 percent for Wuxi.

D. The State Key Technology Project Fund

TPCO reported that it received funds from the State Key Technology Renovation Fund in 2003. In Exhibit V-1 of the GQR, the GOC provided the notice for implementation of the fund. The notice states that the purpose of the program is to “support the technological renovation of key industries, key enterprises and key products. * * * The notice also states, “The enterprises shall be mainly selected from large-sized state-owned enterprises and large-sized state holding enterprises among the 512 key enterprises, 120 pilot enterprise groups and the leading enterprises of the industries.”

The Department has previously found this program to be countervailable. *See Certain New Pneumatic Off-the-Road Tires From the People's Republic of China: Final Affirmative Countervailing Duty Determination and Final Negative Determination of Critical Circumstances*, 73 FR 40480 (July 15, 2008) and accompanying Issues and Decision Memorandum.

We preliminarily determine that TPCO received a countervailable subsidy under the State Key Technology Renovation Fund. We find that this grant is a direct transfer of funds within the meaning of section 771(5)(D)(i) of the Act, providing a benefit in the amount of the grant. *See* 19 CFR 351.504(a). Further, we preliminarily determine that the grant provided under this program is limited as a matter of law to certain enterprises; *i.e.*, large-sized state-owned enterprises and large-sized state holding enterprises among the 512 key enterprises. Hence, we preliminarily find that the subsidy is specific under section 771(5A)(D)(i) of the Act.

To calculate the countervailable subsidy, we used our standard methodology for non-recurring grants. *See* 19 CFR 351.524(b). Because the grant exceeded 0.5 percent of TPCO's sales in the year the grant was approved (*i.e.*, 2003), we have allocated the benefit over the 15-year AUL using the discount rate described under the “*Benchmarks and Discount Rates*” section above. We attributed the subsidy

amount for the POI to TPCO's consolidated sales. On this basis, we preliminarily determine the countervailable subsidy to be 0.01 percent *ad valorem* for TPCO.

E. “Two Free, Three Half” Program

Under Article 8 of the *FIE Tax Law*, an FIE that is “productive” and is scheduled to operate for more than ten years may be exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years. *See* GQR at Exhibit GOC-FF-3. The Department has previously found this program countervailable. *See, e.g.*, CFS Decision Memorandum at 11-12 (Analysis of Programs, I. Programs Determined to be Countervailable for GE, B. The “Two-Free/Three Half” Program) and Citric Acid Decision Memo at 15-16 (Analysis of Programs, I. Programs Determined to be Countervailable, D. The “Two-Free, Three Half” Program).

Jianli Steel Tube and Jiansheng reported using this program during the POI. *See* JQR at 30.

We preliminarily determine that the exemption or reduction of the income tax paid by productive FIEs under this program confers a countervailable subsidy. The exemption/reduction is a financial contribution in the form of revenue forgone by the GOC and it provides a benefit to the recipient in the amount of the tax savings. *See* section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We also preliminarily determine that the exemption/reduction afforded by this program is limited as a matter of law to certain enterprises, *i.e.*, “productive” FIEs and, hence, is specific under section 771(5A)(D)(i) of the Act. *See* CFS Decision Memorandum, at Comment 14.

To calculate the benefit, we treated the income tax savings enjoyed by Jianli Steel Tube, and Jiansheng as a recurring benefit, consistent with 19 CFR 351.524(c)(1). To compute the amount of the tax savings, we compared the income tax rate the above companies would have paid in the absence of the program (30 percent) with the income tax rate the company actually paid (15 or 0 percent). We divided Jianli Steel Tube's and Jiansheng's tax savings received during the POI by the combined sales of Jianli, Jinali Steel Tube, and Jiansheng, minus inter-company sales during the POI. On this basis, we preliminarily determine that Jianli received a countervailable subsidy of 0.20 percent *ad valorem* under this program.

F. Preferential Tax Program for Foreign-Invested Enterprises Recognized as High or New Technology Enterprises

According to the *Circular of the State Council Concerning the Approval of the National Development Zones for New and High Technology Industries and the Relevant Policies and Provisions* at Article 2 and 4 of Appendix III (“Regulations on the Tax Policy for the National New and High Technology Industries Parks”), new and high technology enterprises located in new and high technology parks shall pay a reduced income tax rate of 15 percent. *See* GQR at Exhibit GOC-FF-1. The GOC noted that a similar rule is provided at Article 7.3 of the *FIE Income Tax Law* and Article 73(5) of the *Implementing Rules of the Foreign Investment Enterprise and Foreign Enterprise Income Tax Law*. *See* GQR at 96.

Wuxi reported that it used the program during the POI. *See* WQR at 26.

We preliminarily determine that the reduction in the income tax paid by high or new technology FIEs under this program confers a countervailable subsidy. The exemption/reduction is a financial contribution in the form of revenue forgone by the government and it provides a benefit to the recipient in the amount of the tax savings. *See* section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We also preliminarily determine that the reduction afforded by this program is limited as a matter of law to certain enterprises, *i.e.*, new and high technology FIEs, and, hence, is specific under section 771(5A)(D)(i) of the Act. The program is also specific pursuant to 771(5A)(D)(iv) as only ratified new and high technology enterprises located in new and high technology parks approved by the State Council can pay the reduced tax rate.

To calculate the benefit for Wuxi, we treated the income tax savings enjoyed by the company as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the combined sales of Wuxi and Fanli. To compute the amount of the tax savings, we compared the rate Wuxi would have paid in the absence of the program (30 percent) with the rate the company paid (15 percent). On this basis, we preliminarily determine the countervailable subsidy attributable to Wuxi to be 1.63 percent *ad valorem* under this program.

G. Local Income Tax Exemption and Reduction Programs for "Productive" Foreign-Invested Enterprises

Under Article 9 of the *FIE Tax Law*, the provincial governments have the authority to exempt FIEs from the local income tax of three percent. See GQR at Exhibit GOC–FF–3. According to the *Regulations on Exemption and Reduction of Local Income Tax of FIEs in Jiangsu Province*, a "productive" FIE in Jiangsu Province may be exempted from the three percent local income tax during the "Two Free, Three Half" period. Additionally, according to Article 6, FIEs eligible for the reduced income tax rate of 15 percent can also be exempted from paying local income tax. See GQR at Exhibit GOC–HH–3. According to the *Provisional Rules on Exemption of Local Income Tax for FIEs and Foreign Enterprises* (Decree 14 of Zhejiang Government, 1991) at Article 4, productive FIES in Zhejiang Province are exempted from paying the local income tax for the first two years after their first profitable year, and pay at a reduced (half) rate for the next three consecutive years. See G1SR at Exhibit GOC–SUPP–35. The Department has previously found this program to be countervailable. See, e.g., CFS Decision Memorandum at 12–13 (Analysis of Programs, I. Programs Determined to be Countervailable for GE, D. Local Income Tax Exemption and Reduction Program for "Productive" FIEs) and Citric Acid Decision Memo at 21 (Analysis of Programs, I. Programs Determined to be Countervailable, I. Local Income Tax Exemption and Reduction Program for "Productive" FIEs).

Jianli Steel Tube, Jiansheng, and Wuxi reported using this program during the POI. See JQR at 33 and WQR at 26.

We preliminarily determine that the exemption from or reduction in the local income tax received by "productive" FIEs under this program confers a countervailable subsidy. The exemption or reduction is a financial contribution in the form of revenue forgone by the government and it provides a benefit to the recipient in the amount of the tax savings. See section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We also preliminarily determine that the exemption or reduction afforded by this program is limited as a matter of law to certain enterprises, i.e., "productive" FIEs, and, hence, is specific under section 771(5A)(D)(i) of the Act.

To calculate the benefit for Jianli Steel Tube, Jiansheng, and Wuxi, we treated the income tax savings enjoyed by the companies as a recurring benefit, consistent with 19 CFR 351.524(c)(1).

To compute the amount of the tax savings, we compared the local income tax rate that the companies would have paid in the absence of the program (i.e., three percent) with the income tax rate the companies actually paid.

For Jianli Steel Tube and Jiansheng, we divided the companies' tax savings received during the POI by the combined sales of Jianli, Jinali Steel Tube, and Jiansheng minus inter-company sales during the POI.

For Wuxi, we divided the company's tax savings received during the POI by the combined sales of Wuxi and Fanli.

On this basis, we preliminarily determine that Jianli received a countervailable subsidy of 0.02 percent *ad valorem* and Wuxi received a countervailable subsidy of 0.33 percent *ad valorem* under this program.

H. Income Tax Credits for Domestically Owned Companies Purchasing Domestically Produced Equipment

According to the *Provisional Measures on Enterprise Income Tax Credit for Investment in Domestically Produced Equipment for Technology Renovation Projects* (CAI SHU ZI {290} No. 290), a domestically invested company may claim tax credits on the purchase of domestic equipment if the project is compatible with the industrial policies of the GOC. Specifically, a tax credit up to 40 percent of the purchase price of the domestic equipment may apply to the incremental increase in tax liability from the previous year. See G2SR at 12. The Department has previously found this program countervailable. See, e.g., *Circular Welded Carbon Quality Steel Line Pipe from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 73 FR 70961, (November 24, 2008) and accompanying Issues and Decision Memorandum at 25–26 (V. Analysis of Programs, A. Programs Determined to be Countervailable, 8. Income Tax Credits on Purchases of Domestically-Produced Equipment by Domestically Owned Companies).

Fanli reported using this program during the POI. See WQR at 15.

We preliminarily determine that income tax credits for the purchase of domestically produced equipment are countervailable subsidies. The tax credits are a financial contribution in the form of revenue forgone by the government and provide a benefit to the recipients in the amount of the tax savings. See section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We further preliminarily determine that these tax credits are contingent upon use of domestic over imported goods

and, hence, are specific under section 771(5A)(C) of the Act.

To calculate the benefit, we treated the income tax savings enjoyed by Fanli as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings by the combined total sales of Wuxi and Fanli, minus inter-company sales, during the POI. On this basis, we preliminarily determine that a countervailable subsidy of 0.16 percent *ad valorem* exists for Wuxi under this program.

I. Subsidies Provided in the Tianjin Binhai New Area and the Tianjin Economic and Technological Development Area

TPCO reported that it used two programs for companies in the Tianjin Binhai New Area (TBNA): the Science and Technology Fund Program and the Accelerated Depreciation Program. TPCO received a grant under the Science and Technology Fund Program and paid reduced income taxes under the Accelerated Depreciation Program. TPCO also reported that it purchased land-use rights and rented land-use rights for different plots of land within the TBNA during the POI and prior to the POI.

Science and Technology Fund

The GOC's measures for the Science and Technology Fund, which the GOC provided at Exhibit GOC–DD–4 of the GQR, describe the fund's purpose as follows: (1) Promote the construction of the science-technology infrastructure in TBNA; (2) enhance science-technology renovation and service abilities; (3) improve the business environment of renovation entrepreneurship; and (4) construct a new science-technology renovation system. On page 84 of the GQR, the GOC stated that eligibility for the program is limited to enterprises within the TBNA Administrative Committee's jurisdiction.

We preliminarily determine that TPCO received a countervailable subsidy during the POI under the TBNA Science and Technology Fund Program. We find that this grant is a direct transfer of funds within the meaning of section 771(5)(D)(i) of the Act, providing a benefit in the amount of the grant. See 19 CFR 351.504(a). We further determine preliminarily that grants under this program are limited to enterprises located in a designated geographic region (i.e., the TBNA). Hence, the grants are specific under section 771(5A)(D)(iv) of the Act.

To calculate the countervailable subsidy, we used our standard methodology for non-recurring grants. See 19 CFR 351.524(b). Because the

benefit was less than 0.5 percent of TPCO's consolidated sales during the POI, we have preliminarily expensed the entire amount to the POI. See 19 CFR 351.524(b)(2). On this basis, we preliminarily determine the countervailable subsidy to be 0.03 percent *ad valorem* for TPCO.

Accelerated Depreciation Program

Regarding the Accelerated Depreciation program, the GOC circular for the program (submitted at Exhibit DD-9 of the GOC's July 21, 2009, response) stipulates that enterprises in the TBNA may shorten the depreciation period of certain fixed assets by a maximum of 40 percent of the present depreciation period. On page 91 of the response, the GOC stated that eligibility for the program is limited to enterprises within the TBNA.

We preliminarily determine that TPCO received a countervailable subsidy during the POI under the Accelerated Depreciation program. The Accelerated Depreciation program constitutes a financial contribution in the form of revenue forgone within the meaning of section 771(5)(D)(ii) of the Act, with the benefit equaling the income tax savings (see 19 CFR 351.510(a)). The program affected TPCO's income taxes for the 2007 tax year. Thus, under the normal standard in 19 CFR 351.509(b), TPCO received a benefit from this program in 2008, when it filed its 2007 annual tax return. Further, we further determine preliminarily that the reduction afforded by this program is limited to enterprises located in designated geographic regions and, hence, is specific under section 771(5A)(D)(iv) of the Act.

To calculate the benefit, we divided the reduction in TPCO's income taxes resulting from the program by TPCO's consolidated sales, in accordance with 19 CFR 351.524(c)(1) and 19 CFR 351.525(b)(6)(iii). On this basis, we preliminarily determine the countervailable subsidy to be 0.51 percent *ad valorem* for TPCO.

Land

Regarding land, TPCO and its reporting cross-owned affiliates are all located in the TBNA, and TPCO, TPCO Iron, and Yuantong have purchased "granted" land-use rights within the TBNA. At page 41 of the GQR, the GOC reported that TPCO obtained its land-use rights in accordance with Article 11 of Decree 21 of the Ministry of Land and Resources. Article 11, at Exhibit P-2 of the GQR, establishes provisions for the "agreement-based assignment of the right to use State-owned land." Article

11 States that the "agreement-based assignment of the right to use State-owned land" refers to the land user's right to use State-owned land for a certain period, and to the land user's payment of a fee to the state for the land-use right. TPCO and TPCO Iron purchased their land-use rights from the Dongli District Land and Resource Administration Bureau, and Yuantong purchased its land-use rights from the Tianjin Port Bonded Zone Land and Resource Administration Bureau.

The Department determined in *LWS* that the provision of land-use rights constitutes the provision of a good within the meaning of section 771(5)(D)(iii) of the Act.²⁰ The Department also found that when the land is in an industrial park located within the seller's (e.g., county's or municipality's) jurisdiction, the provision of the land-use rights is regionally specific (see section 771(5A)(D)(iv) of the Act).²¹ In the instant investigation, the TBNA is a designated area that includes the jurisdictions that provided land-use rights to TPCO and its cross-owned affiliates during the POI. Therefore, consistent with *LWS*, we preliminarily find that TPCO's purchases of granted land-use rights give rise to countervailable subsidies to the extent that the purchases conferred a benefit.

To determine whether TPCO received a benefit, we have analyzed potential benchmarks in accordance with 19 CFR 351.511(a). First, we look to whether there are market-determined prices within the country. See 19 CFR 351.511(a)(2)(i). In *LWS*, the Department determined that "Chinese land prices are distorted by the significant government role in the market" and, hence, that tier one benchmarks do not exist.²² The Department also found that tier two benchmarks (world market prices that would be available to purchasers in China) are not appropriate.²³ See 19 CFR 351.511(a)(2)(ii). Therefore, the Department determined the adequacy of remuneration by reference to tier 3 and found that the sale of land-use rights in China was not consistent with market principles because of the overwhelming presence of the government in the land-

use rights market and the widespread and documented deviation from the authorized methods of pricing and allocating land.²⁴ See 19 CFR 351.511(a)(2)(iii). There is insufficient new information on the record of this investigation to warrant a change from the findings in *LWS*.

For these reasons, we are not able to use Chinese or world market prices as a benchmark. Therefore, we are preliminarily comparing the price that TPCO paid for its granted land-use rights with comparable market-based prices for land purchases in a country at a comparable level of economic development that is reasonably proximate to, but outside of, China. Specifically, we are preliminarily comparing the price TPCO paid to sales of certain industrial land in industrial estates, parks, and zones in Thailand, consistent with *LWS*.

To calculate the benefit, we computed the amount that TPCO would have paid for its granted land-use rights and subtracted the amount TPCO actually paid for each purchase. For purchases in which the subsidy amount exceeded 0.5 percent of TPCO's sales in the year of purchase, we have used the discount rate described under the *Benchmarks and Discount Rates* section above to allocate the benefit over the life of the land-use rights contract. For these purchases, we divided the amount allocated to the POI by TPCO's consolidated sales during the POI. For purchases in which the benefit was less than 0.5 percent of TPCO's consolidated sales in the year of the purchase, we have preliminarily expensed the entire amount to the year in which TPCO purchased the land-use rights. See 19 CFR 351.524(b)(2). On this basis, we preliminarily determine the total countervailable subsidy for all of TPCO's land-use rights purchases to be 0.11 percent *ad valorem* during the POI.

TPCO also reported that it rented certain land parcels within the TBNA from TPCO Holding during the POI. Specifically, TPCO reported that it operates on the largest of these three parcels under a lease agreement that it signed with TPCO Holding in 2005. TPCO also stated that it will compensate TPCO Holding for the lease of two other parcels under terms that TPCO and TPCO Holding will memorialize in 2009.

On page 4 of the TPCO Holding QR, TPCO stated that TPCO Holding "has been continuously wholly-owned by the Tianjin State-owned Assets Supervision and Administration Commission." Thus, we preliminarily determine that

²⁰ See *Laminated Woven Sacks from the People's Republic of China: Final Affirmative Countervailing Duty Determination and Final Affirmative Determination, in Part, of Critical Circumstances*, 73 FR 35639 (June 24, 2008) ("*LWS*"), and accompanying Issues and Decision Memorandum at Comment 8.

²¹ *Id.* at Comment 9.

²² *Id.* at Comment 10.

²³ *Id.* at section IV.A.1, "Analysis of Programs—Government Provision of Land for Less Than Adequate Remuneration."

²⁴ *Id.* at Comment 10.

TPCO Holding was an authority within the meaning of section 771(5)(B) of the Act at the time of the lease agreement and throughout the POI. Moreover, because the leased properties are all within the TBNA, the subsidy is specific (section 771(5A)(D)(iv) of the Act). Therefore, consistent with *OTR Tires*, we preliminarily find that TPCO's lease of land under the 2005 lease gives rise to a countervailable subsidy to the extent that the lease conferred a benefit.²⁵

To determine whether TPCO received a benefit, we are following the same steps outlined above for the purchase of land-use rights. Specifically, we are preliminarily comparing the rent TPCO paid to industrial rental rates for factory space in Thailand during the POI. We are preliminarily attributing the subsidy to TPCO's consolidated sales, in accordance with 19 CFR 351.525(b)(6)(iii).

On this basis, we preliminarily determine the countervailable subsidy to be 2.55 percent *ad valorem* for TPCO.

TPCO also reported that IETC purchased office space from a real estate company. We do not have sufficient information to determine whether IETC's purchase gave rise to a countervailable subsidy. We intend to seek additional information on this issue after the preliminary determination.

J. Loan and Interest Forgiveness for SOEs

On pages 8–9 of TPCO's September 1, 2009, correction submission, TPCO reported that in 2006 and 2008 it settled claims related to loans that were part of a debt-to-equity transaction occurring in 2001. Two asset management companies held the claims against TPCO.

We preliminarily determine that through this settlement the GOC forgave debt owed by TPCO and, thus, provided a financial contribution to TPCO in the form of a direct transfer of funds (section 771(5)(D)(i) of the Act). The benefit to TPCO is the amount of the debt forgiven (section 771(5)(D)(i) of the Act and 19 CFR 351.508(a)). Additionally, we preliminarily determine that this subsidy is *de facto* specific because it is limited to TPCO (section 771(5A)(D)(iii)(I) of the Act).

Approval for forgiveness of part of the debt occurred in 2006, and approval for forgiveness of the remainder of the debt

occurred in 2008. To calculate the countervailable subsidy for the debt forgiveness approved in each year, we used our standard methodology for non-recurring benefits. See 19 CFR

351.524(b). Because the amount of the 2006 portion of the debt forgiveness exceeded 0.5 percent of TPCO's sales in 2006, we have allocated the benefit over the 15-year AUL using the discount rate described under the *Benchmarks and Discount Rates* section above. We attributed the subsidy amount for the POI to TPCO's consolidated sales. On this basis, we preliminarily determine the countervailable subsidy to be 0.07 percent *ad valorem* for TPCO.

For the debt forgiveness approved in 2008, the benefit was less than 0.5 percent of TPCO's consolidated sales during the POI. Thus, we have preliminarily expensed the entire amount to the POI. See 19 CFR 351.524(b)(2). On this basis, we preliminarily determine the countervailable subsidy to be 0.07 percent *ad valorem* for TPCO.

II. Programs Preliminarily Determined To Be Not Used by Respondents or To Not Provide Benefits During the POI

A. Other Loans to Jianli

We requested and received loan documentation from the GOC concerning certain loans provided to Jianli. Based upon our examination of these loans, we preliminary determine that these loans are countervailable for reasons other than those described above under "Policy Lending." As all of the information relating to these loans is business proprietary, we have discussed our analysis in a separate memorandum. See BPI Loan Memo.

However, based on our analysis, the benefit to Jianli under this program is less than 0.005 percent *ad valorem*. As such, consistent with our past practice, we would not include this program in our preliminary net countervailing duty rate. See, e.g., *CFS from the PRC* at "Analysis of Programs, Programs Determined Not To Have Been Used or Not To Have Provided Benefits During the POI for GE," and *Final Results of Countervailing Duty Administrative Review: Low Enriched Uranium from France*, 70 FR 39998 (July 12, 2005), and accompanying Issues and Decision Memorandum at "Purchases at Prices that Constitute 'More than Adequate Remuneration,'" ("Uranium from France") (citing *Notice of Final Results of Countervailing Duty Administrative Review and Rescission of Certain Company-Specific Reviews: Certain Softwood Lumber Products From Canada*, 69 FR 75917 (December 20,

2004), and accompanying Issues and Decision Memorandum at "Other Programs Determined to Confer Subsidies").

B. Sub-Central Government Programs To Promote Famous Export Brands and China World Top Brands

TPCO reported that it received a grant under this program in 2007. On page 50 of the TQR, TPCO stated that the program relates to TPCO's trademark and does not relate to any specific merchandise.

We preliminarily determine that the total amount of the grant was less than 0.5 percent of TPCO's consolidated and unconsolidated sales in 2007. Thus, without prejudice to whether this is a countervailable subsidy, we preliminarily have allocated the benefit exclusively to 2007 pursuant to 19 CFR 351.524(b)(2). As a result, we preliminarily determine that TPCO received no benefit from this program during the POI.

C. Jiangsu Province Famous Brands

Wuxi reported that it received a grant under this program. See WQR at 26 and W1SR at 24–25. The GOC also provided information on the program. See G1SR at 39–45.

Based on our analysis, any potential benefit to Wuxi under this program is less than 0.005 percent *ad valorem*. As such, consistent with our past practice, we would not include this program in our preliminary net countervailing duty rate. See, e.g., *CFS from the PRC* at "Analysis of Programs, Programs Determined Not To Have Been Used or Not To Have Provided Benefits During the POI for GE," and *Uranium from France*. Therefore, without prejudice to whether this is a countervailable subsidy, we preliminarily determine that Wuxi received no benefit from this program during the POI.

D. Export Incentive Payments Characterized as "VAT Rebates"

The Department's regulations state that in the case of an exemption upon export of indirect taxes, a benefit exists only to the extent that the Department determines that the amount exempted "exceeds the amount levied with respect to the production and distribution of like products when sold for domestic consumption." See 19 CFR 351.517(a); see also 19 CFR 351.102 (for a definition of "indirect tax").

To determine whether the GOC provided a benefit under this program, we compared the VAT exemption upon export to the VAT levied with respect to the production and distribution of like products when sold for domestic

²⁵ See *Certain New Pneumatic Off-The-Road Tires from the People's Republic of China: Final Affirmative Determination of Sales at Less Than Fair Value and Partial Affirmative Determination of Critical Circumstances*, 73 FR 40485 (July 15, 2008) ("*OTR Tires*"), and the accompanying Issues and Decision Memorandum at Comment F.12.

consumption. On page 39 of the GQR, the GOC reported that the VAT levied on OCTG sales in the domestic market (17 percent) exceeded the amount of VAT exempted upon the export of OCTG (13 percent). Thus, we preliminarily determine that the VAT exempted upon the export of OCTG does not confer a countervailable benefit.

Based upon responses by the GOC, Changbao, TPCO, Wuxi, and Jianli, we preliminarily determine that the above companies did not apply for or receive benefits during the POI under the programs listed below.

A. Preferential Loan Programs

1. *Treasury Bond Loans to Northeast*
2. *Preferential Loans for State-Owned Enterprises*
3. *Preferential Loans for Key Projects and Technologies*
4. *Loans and Interest Subsidies Provided Pursuant to the Northeast Revitalization Program*

B. Equity Programs

1. *Debt-to-Equity Swap for Pangang*
2. *Equity Infusions*

C. Tax Benefit Programs

1. *Preferential Income Tax Policy for Enterprises in the Northeast Region*
2. *Forgiveness of Tax Arrears For Enterprises in the Old Industrial Bases of Northeast China*

D. Tariff and Indirect Tax Programs

1. *Stamp Exemption on Share Transfers Under Non-Tradable Share Reform*
2. *Value Added Tax ("VAT") and Tariff Exemptions for Purchases of Fixed Assets Under the Foreign Trade Development Fund*

E. Land Grants and Discounts

1. *Provision of Land Use Rights for Less Than Adequate Remuneration to Huludao*
2. *Provision of Land to SOEs for Less Than Adequate Remuneration*

F. Provision of Inputs for Less than Adequate Remuneration

1. *Provision of Hot-Rolled Steel (flat products) for Less than Adequate Remuneration*
2. *Provision of Coking Coal for Less than Adequate Remuneration*

G. Grant Programs

1. *Foreign Trade Development Fund (Northeast Revitalization Program)*
2. *Export Assistance Grants*
3. *Program to Rebate Antidumping Fees*
4. *Subsidies for Development of*

Famous Export Brands and China World Top Brands

5. *Grants to Loss-Making SOEs*

6. *Export Interest Subsidies*

H. Other Regional Programs

1. *Five Points, One Line Program*
2. *High-Tech Industrial Development Zones*

I. Subsidies for Foreign-Invested Enterprises

1. *Reduced Income Tax Rates for Export-Oriented FIEs*

III. Program Preliminarily Determined Not Countervailable

Provision of Low-cost Coke Through the Imposition of Export Restraints

Petitioners alleged that the GOC imposed export restrictions on coke in the form of export quotas, related export licensing and export duties. Petitioners maintain that such export restraints had a direct and discernable effect on the Chinese domestic prices of coke, thereby, artificially lowering them compared to world market prices. Accordingly, petitioners asserted that the GOC's export restraints on coke provided a countervailable subsidy to Chinese OCTG producers during the POI.

The Department has countervailed export restraint allegations in only a limited number of cases. In *Leather from Argentina*, we found an embargo on hide exports to provide a countervailable subsidy to Argentine leather producers based on a long-term historical price comparison that demonstrated a clear link between the imposition of the embargo and the divergence of prices.²⁶ In *Coated Free Sheet Paper from Indonesia: Final Affirmative Countervailing Duty Determination*, 72 FR 60642 (October 25, 2007) ("*CFS from Indonesia*"), we found that a log embargo provided a countervailable benefit to paper producers, in part, based upon independent studies that stated that the log embargo provided a subsidy to downstream producers.²⁷ The

²⁶ See *Final Affirmative Countervailing Duty Determination and Countervailing Duty Order; Leather from Argentina; Final Affirmative Countervailing Duty Determination and Countervailing Duty Order*, 55 FR 40212 (October 2, 1990) ("*Leather from Argentina*").

²⁷ See *Coated Free Sheet Paper from Indonesia: Final Affirmative Countervailing Duty Determination*, 72 FR 60642 (October 25, 2007) ("*CFS from Indonesia*") and accompanying Issues and Decision Memorandum, at Comment 22.

information on the record with respect to coke does not support such a finding. Therefore, we preliminarily determine that this program is not countervailable.

IV. Programs for Which More Information Is Required

A. Exemptions for SOEs From Distributing Dividends to the State

In TSR1a at Exhibit S1–10, TPCO provided the amount of dividends that it distributed to its owners during the POI. Based on proprietary information in this exhibit, we intend to seek additional information on this program after the preliminary determination.

B. Government Provision of Electricity for Less than Adequate Remuneration

Recently, the Department found that "that the provision of electricity in the PRC confers a countervailable subsidy." See *Certain Kitchen Shelving and Racks from the People's Republic of China: Final Affirmative Countervailing Duty Determination*, 74 FR 37012 (July 27, 2009), and accompanying Issues and Decision Memorandum ("*Kitchen Racks Issues and Decision Memorandum*") at Comment 11. That finding was based on facts available. See *Kitchen Racks Decision Memorandum* at pages 5–6 and Comment 11. *Id.*

In the instant investigation, the GOC has provided certain requested information regarding the provision of electricity. However, the Department has requested additional information on this program which is still outstanding and we intend to seek further information regarding the GOC's electricity rate-setting policy after the preliminary determination.

Verification

In accordance with section 782(i)(1) of the Act, we will verify the information submitted by the respondents prior to making our final determination.

Suspension of Liquidation

In accordance with section 703(d)(1)(A)(i) of the Act, we calculated an individual rate for each producer/exporter of the subject merchandise individually investigated. We preliminarily determine the total estimated net countervailable subsidy rates to be:

Exporter/Manufacturer	Net subsidy rate
Jiangsu Changbao Steel Tube Co. and Jiangsu Changbao Precision Steel Tube Co., Ltd	24.33
Tianjin Pipe (Group) Co., Tianjin Pipe Iron Manufacturing Co., Ltd., Tianguan Yuantong Pipe Product Co., Ltd., Tianjin Pipe International Economic and Trading Co., Ltd., and TPCO Charging Development Co., Ltd	10.90
Wuxi Seamless Pipe Co, Ltd., Jiangsu Fanli Steel Pipe Co, Ltd, Tuoketuo County Mengfeng Special Steel Co., Ltd	24.92
Zhejiang Jianli Enterprise Co., Ltd., Zhejiang Jianli Steel Steel Tube Co., Ltd., Zhuji Jiansheng Machinery Co., Ltd., and Zhejiang Jianli Industry Group Co., Ltd	30.69
All Others	21.33

In accordance with sections 703(d) and 705(c)(5)(A) of the Act, for companies not investigated, we determined an “all others” rate by weighting the individual company subsidy rate of each of the companies investigated by the company’s exports of the subject merchandise to the United States. The “all others” rate does not include zero and *de minimis* rates or any rates based solely on the facts available. In accordance with sections 703(d)(1)(B) and (2) of the Act, we are directing U.S. Customs and Border Protection (“CBP”) to suspend liquidation of all entries of OCTG from the PRC that are entered, or withdrawn from warehouse, for consumption on or after the date of the publication of this notice in the **Federal Register**, and to require a cash deposit or bond for such entries of merchandise in the amounts indicated above.

ITC Notification

In accordance with section 703(f) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all non-privileged and non-proprietary information relating to this investigation. We will allow the ITC access to all privileged and business proprietary information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Assistant Secretary for Import Administration.

In accordance with section 705(b)(2) of the Act, if our final determination is affirmative, the ITC will make its final determination within 45 days after the Department makes its final determination.

Disclosure and Public Comment

In accordance with 19 CFR 351.224(b), we will disclose to the parties the calculations for this preliminary determination within five days of its announcement. Due to the anticipated timing of verification and issuance of verification reports, case

briefs for this investigation must be submitted no later than one week after the issuance of the last verification report. See 19 CFR 351.309(c)(i) (for a further discussion of case briefs). Rebuttal briefs must be filed within five days after the deadline for submission of case briefs, pursuant to 19 CFR 351.309(d)(1). A list of authorities relied upon, a table of contents, and an executive summary of issues should accompany any briefs submitted to the Department. Executive summaries should be limited to five pages total, including footnotes. See 19 CFR 351.309(c)(2) and (d)(2).

Section 774 of the Act provides that the Department will hold a public hearing to afford interested parties an opportunity to comment on arguments raised in case or rebuttal briefs, provided that such a hearing is requested by an interested party. If a request for a hearing is made in this investigation, the hearing will be held two days after the deadline for submission of the rebuttal briefs, pursuant to 19 CFR 351.310(d), at the U.S. Department of Commerce, 14th Street and Constitution Avenue, NW., Washington, DC 20230. Parties should confirm by telephone the time, date, and place of the hearing 48 hours before the scheduled time.

Interested parties who wish to request a hearing, or to participate if one is requested, must submit a written request to the Acting Assistant Secretary for Import Administration, U.S. Department of Commerce, Room 1870, 14th Street and Constitution Avenue, NW., Washington, DC 20230, within 30 days of the publication of this notice, pursuant to 19 CFR 351.310(c). Requests should contain: (1) The party’s name, address, and telephone; (2) the number of participants; and (3) a list of the issues to be discussed. Oral presentations will be limited to issues raised in the briefs. See *id.*

This determination is published pursuant to sections 703(f) and 777(i) of the Act.

Dated: September 8, 2009.

Ronald K. Lorentzen,
Acting Assistant Secretary for Import
Administration.

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