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DEPARTMENT OF COMMERCE

International Trade Administration

(C-570-944)

Certain Oil Country Tubular Goods from the People's Republic of China: Initiation of Countervailing Duty Investigation

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

EFFECTIVE DATE: (Insert date of publication in the Federal Register.)

FOR FURTHER INFORMATION CONTACT: Yasmin Nair and Joseph Shuler, AD/CVD Operations, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230; telephone: (202) 482-3813 and (202) 482-1293, respectively.

SUPPLEMENTARY INFORMATION

The Petition

On April 8, 2009, the Department of Commerce ("Department") received a petition filed in proper form by Maverick Tube Corporation; United States Steel Corporation; TMK IPSCO; V&M Star L.P.; Wheatland Tube Corporation; Evraz Rocky Mountain Steel; and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO-CLC (collectively, "petitioners"), domestic producers of certain oil country tubular goods ("OCTG"). In response to the Department's requests, the petitioners provided timely information supplementing the petition on April 20, 22, and 24, 2009.

In accordance with section 702(b)(1) of the Tariff Act of 1930, as amended (“the Act”), the petitioners allege that manufacturers, producers, or exporters of OCTG in the People’s Republic of China (“PRC”) receive countervailable subsidies within the meaning of section 701 of the Act, and that such imports are materially injuring, or threatening material injury to, an industry in the United States.

The Department finds that the petitioners filed the petition on behalf of the domestic industry because they are interested parties as defined in section 771(9)(C) and (D) of the Act, and the petitioners have demonstrated sufficient industry support with respect to the countervailing duty (“CVD”) investigation (see “Determination of Industry Support for the Petition” section below).

Period of Investigation

The period of investigation is January 1, 2008, through December 31, 2008.

Scope of Investigation

The products covered by this investigation are certain OCTG from the PRC. For a full description of the scope of the investigation, please see the “Scope of Investigation” in Appendix I of this notice.

Comments on Scope of Investigation

During our review of the petition, we discussed the scope with the petitioners to ensure that it is an accurate reflection of the products for which the domestic industry is seeking relief. Moreover, as discussed in the preamble to the Department’s regulations (Antidumping Duties; Countervailing Duties; Final Rule, 62 FR 27296, 27323 (May 19, 1997)), we are setting aside a period for interested parties to raise issues regarding product coverage. The Department

encourages all interested parties to submit such comments by May 18, 2009, twenty calendar days from the signature date of this notice. Comments should be addressed to Import Administration's APO/Dockets Unit, Room 1870, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230. The period of scope consultations is intended to provide the Department with ample opportunity to consider all comments and to consult with parties prior to the issuance of the preliminary determinations.

Consultations

Pursuant to section 702(b)(4)(A)(ii) of the Act, the Department invited representatives of the Government of the PRC for consultations with respect to the CVD petition. The Department held these consultations in Washington, DC, on April 21, 2009. See the Memorandum from Yasmin Nair and Joseph Shuler to the File, entitled, "Consultations with Officials from the Government of the People's Republic of China on the Countervailing Duty Petition regarding Certain Oil Country Tubular Goods," (April 23, 2009), which is on file in the Central Records Unit ("CRU") of the main Department of Commerce building, Room 1117.

Determination of Industry Support for the Petition

Section 702(b)(1) of the Act requires that a petition be filed on behalf of the domestic industry. Section 702(c)(4)(A) of the Act provides that a petition meets this requirement if the domestic producers or workers who support the petition account for: (i) at least 25 percent of the total production of the domestic like product; and (ii) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Moreover, section 702(c)(4)(D) of the Act provides that, if the petition does not establish support of domestic producers or workers accounting for more than 50 percent of the total production of the domestic like product, the Department shall: (i) poll the

industry or rely on other information in order to determine if there is support for the petition, as required by subparagraph (A); or (ii) determine industry support using a statistically valid sampling method.

Section 771(4)(A) of the Act defines the “industry” as the producers as a whole of a domestic like product. Thus, to determine whether a petition has the requisite industry support, the statute directs the Department to look to producers and workers who produce the domestic like product. The U.S. International Trade Commission (“ITC”), which is responsible for determining whether “the domestic industry” has been injured, must also determine what constitutes a domestic like product in order to define the industry. While both the Department and the ITC must apply the same statutory definition regarding the domestic like product (section 771(10) of the Act), they do so for different purposes and pursuant to a separate and distinct authority. In addition, the Department’s determination is subject to limitations of time and information. Although this may result in different definitions of the like product, such differences do not render the decision of either agency contrary to law. See USEC, Inc. v. United States, 132 F. Supp. 2d 1, 8 (CIT 2001), citing Algoma Steel Corp. Ltd. v. United States, 688 F. Supp. 639, 644 (CIT 1988), aff’d 865 F.2d 240 (Fed. Cir. 1989), cert. denied 492 U.S. 919 (1989).

Section 771(10) of the Act defines the domestic like product as “a product which is like, or in the absence of like, most similar in characteristics and uses with, the article subject to an investigation under this title.” Thus, the reference point from which the domestic like product analysis begins is “the article subject to an investigation” (i.e., the class or kind of merchandise to be investigated, which normally will be the scope as defined in the petition).

With regard to the domestic like product, the petitioners do not offer a definition of

domestic like product distinct from the scope of the investigation. Based on our analysis of the information submitted on the record, we have determined that OCTG constitute a single domestic like product and we have analyzed industry support in terms of that domestic like product. For a discussion of the domestic like product analysis in this case, see Countervailing Duty Investigation Initiation Checklist: Certain Oil Country Tubular Goods from the People's Republic of China ("Initiation Checklist") at Attachment II (Analysis of Industry Support), on file in the CRU, Room 1117 of the main Department of Commerce building.

With regard to section 702(c)(4)(A), in determining whether the petitioners have standing, (i.e., those domestic workers and producers supporting the petition account for: (1) at least 25 percent of the total production of the domestic like product; and (2) more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition), we considered the industry support data contained in the petition with reference to the domestic like product as defined in the "Scope of Investigation" at Appendix I. To establish industry support, the petitioners provided their production of the domestic like product for the year 2008, and compared this to an estimate of production of the domestic like product for the entire domestic industry. See Volume I of the petition, at pages 3-4 and Exhibit I-3a. To estimate 2008 production of the domestic like product Petitioners used an industry publication which reports data in shipments. The petitioners approximated domestic production of OCTG by inflating the volume of domestic shipments reported by the ratio of the difference between the petitioners' production and shipments in the applicable calendar year. See Volume I of the petition, at page 3 and Exhibits I-3b and I-3c, and Supplement to the petition, dated April 22, 2009, at pages 10-11 and Exhibit Supp. I-6. For further discussion, see Initiation Checklist at Attachment II.

The Department's review of the data provided in the petition, supplemental submissions, and other information readily available to the Department, indicates that the petitioners have established industry support. First, the petition establishes support from domestic producers (or workers) accounting for more than 50 percent of the total production of the domestic like product and, as such, the Department is not required to take further action in order to evaluate industry support (e.g., polling). See section 702(c)(4)(D) of the Act and Initiation Checklist at Attachment II. Second, the domestic producers (or workers) have met the statutory criteria for industry support under section 702(c)(4)(A)(i) of the Act because the domestic producers (or workers) who support the petition account for at least 25 percent of the total production of the domestic like product. See Initiation Checklist at Attachment II. Finally, the domestic producers (or workers) have met the statutory criteria for industry support under section 702(c)(4)(A)(ii) of the Act because the domestic producers (or workers) who support the petition account for more than 50 percent of the production of the domestic like product produced by that portion of the industry expressing support for, or opposition to, the petition. Accordingly, the Department determines that the petition was filed on behalf of the domestic industry within the meaning of section 702(b)(1) of the Act. See Initiation Checklist, at Attachment II.

The Department finds that the petitioners filed the petition on behalf of the domestic industry because they are interested parties as defined in section 771(9)(C) of the Act and have demonstrated sufficient industry support with respect to the CVD investigation that they are requesting the Department initiate. See Initiation Checklist, at Attachment II.

Injury Test

Because the PRC is a "Subsidies Agreement Country" within the meaning of section 701(b) of the Act, section 701(a)(2) of the Act applies to this investigation. Accordingly, the

ITC must determine whether imports of the subject merchandise from the PRC materially injure, or threaten material injury to, a U.S. industry.

Allegations and Evidence of Material Injury and Causation

The petitioners allege that imports of OCTG from the PRC are benefitting from countervailable subsidies and that such imports are causing or threaten to cause, material injury to the domestic industries producing OCTG. In addition, the petitioners allege that subsidized imports exceed the negligibility threshold provided for under section 771(24)(A) of the Act.

The petitioners contend that the industry's injured condition is illustrated by reduced market share, increased import penetration, underselling and price depressing and suppressing effects, lost sales and revenue, reduced production and capacity utilization, reduced shipments and increased inventories, reduced employment, and an overall decline in financial performance. We have assessed the allegations and supporting evidence regarding material injury, threat of material injury, and causation, and we have determined that these allegations are properly supported by adequate evidence and meet the statutory requirements for initiation. See Initiation Checklist at Attachment III (Analysis of Allegations and Evidence of Material Injury and Causation for the Petition).

Initiation of Countervailing Duty Investigation

Section 702(b) of the Act requires the Department to initiate a CVD proceeding whenever an interested party files a petition on behalf of an industry that: (1) alleges the elements necessary for an imposition of a duty under section 701(a) of the Act; and (2) is accompanied by information reasonably available to the petitioner(s) supporting the allegations. The Department has examined the CVD petition on OCTG from the PRC and finds that it complies with the requirements of section 702(b) of the Act. Therefore, in accordance with

section 702(b) of the Act, we are initiating a CVD investigation to determine whether manufacturers, producers, or exporters of OCTG in the PRC receive countervailable subsidies. For a discussion of evidence supporting our initiation determination, see Initiation Checklist.

We are including in our investigation the following programs alleged in the petition to have provided countervailable subsidies to producers and exporters of the subject merchandise in the PRC:

A. Preferential Loans

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

B. Equity Programs

1. Debt-to-equity Swap for Pangang
2. Equity Infusions
3. Exemptions for SOEs From Distributing Dividends to the State
4. Loan and Interest Forgiveness for SOEs

C. Tax Benefit Programs

1. Income Tax Credits for Domestically Owned Companies Purchasing Domestically Produced Equipment
2. Preferential Income Tax Policy for Enterprises in the Northeast Region

3. 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 Program
3. Export Incentive Payments Characterized as “VAT rebates”

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 for Less Than Adequate Remuneration
2. Provision of Steel Rounds for Less Than Adequate Remuneration
3. Provision of Electricity for Less Than Adequate Remuneration
4. Provision of Low-cost Coke through the Imposition of Export Restraints
5. Provision of Coking Coal for Less than Adequate Remuneration

G. Grant Programs

1. The State Key Technology Project Fund
2. Foreign Trade Development Fund (Northeast Revitalization Program)
3. Export Assistance Grants
4. Program to Rebate Antidumping Duties
5. Subsidies for Development of Famous Export Brands and China World Top Brands

6. Sub-central Government Programs to Promote Famous Export Brands and China World Top Brands
7. Grants to Loss-Making SOEs
8. Export Interest Subsidies

H. Other Regional Programs

1. Subsidies Provided in the Tianjin Binhai New Area and the Tianjin Economic and Technological Development Area
2. Five Points, One Line Program
3. High-Tech Industrial Development Zones

I. Subsidies for Foreign Invested Enterprises (“FIEs”)

1. “Two Free, Three Half” Program
2. Local Income Tax Exemption and Reduction Programs for “Productive” Foreign-Invested Enterprises
3. Preferential Tax Programs for Foreign-Invested Enterprises Recognized as High or New Technology Enterprises
4. Reduced Income Tax Rates for Export-Oriented FIEs

For further information explaining why the Department is investigating these programs, see Initiation Checklist.

We are not including in our investigation the following programs alleged to benefit producers and exporters of the subject merchandise in the PRC:

A. Equity Programs

1. Tradable Shares Reform Program

The petitioners allege that, in April 2005, the China Securities Regulatory Commission announced a plan that allowed certain companies to transform their non-tradable shares into tradable shares. The petitioners allege that Baoshan Iron & Steel Co., Ltd.'s ("Baosteel") share values would have been vulnerable to decline during the transition from non-tradable to tradable stock. Citing to notes in the Baoshan Iron & Steel Co., Ltd. Third Quarter Report, the petitioners allege that Baosteel's parent company, state-owned Baosteel Group, made share purchases to prevent Baosteel's share prices from falling below a certain market price and that these purchases provided a countervailable subsidy to Baosteel. Because we found the program not countervailable in OTR Tires from the PRC,¹ we do not plan to investigate this program.

B. Tax Benefit Programs

1. Tax Reduction for Companies Engaging in Research and Development

The petitioners allege that according to China's World Trade Organization subsidies notification, domestic industrial enterprises whose research and development expenses increased by 10 percent from the previous year may offset 150 percent of the research expenditures from their income tax obligations. The petitioners have not sufficiently established that this tax reduction program is specific. Consequently, we do not plan to investigate this program.

C. Provision of Inputs for Less than Adequate Remuneration

1. Provision of Natural Gas for Less Than Adequate Remuneration

The petitioners allege that, in 2007, the Chinese Vice Premier indicated that the central government would increase electricity rates charged to steel enterprises that have outdated production capacities. The petitioners further assert that this increase likely resulted in OCTG

¹ See 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 at pages 21 and 159-160 ("OTR Tires from the PRC").

producers receiving lower, preferential rates, because OCTG producers have the largest and most advanced production capabilities. The petitioners propose that OCTG producers, being among the largest and most advanced producers of high-technology steel, would have perhaps received similar benefits from the preferential provision of natural gas. The petitioners have failed to show how the provision of natural gas for less than adequate remuneration program is specific. Consequently, we do not plan to investigate this program.

2. Provision of Scrap for Less Than Adequate Remuneration

The petitioners allege that the PRC imposes export restrictions, such as export quotas, related export licensing and bidding requirements, minimum export prices and duties, on the raw materials used for producing OCTG. The petitioners contend that these restrictions have resulted in artificially suppressing raw material prices of scrap in the PRC. The petitioners have not provided sufficient pricing data for scrap. In addition, the source documents referenced by the petitioners do not provide any information that the export restraints on scrap have resulted in lower Chinese domestic scrap prices. Consequently, we do not plan to investigate this program.

Critical Circumstances

The petitioners have alleged that critical circumstances exist with regard to imports of OCTG from the PRC, and have supported their allegation with the following information.

Section 703(e)(1) of the Act states that if a petitioner alleges critical circumstances, the Department will find that such critical circumstances exist, at any time after the date of initiation, when there is a reasonable basis to believe or suspect that under paragraph (A), the alleged countervailable subsidies are inconsistent with the Subsidies Agreement, and that, under paragraph (B), there have been massive imports of the subject merchandise over a relatively

short period of time. Section 351.206(h) of the Department's regulations defines "massive imports" as imports that have increased by at least 15 percent over the imports during an immediately preceding period of comparable duration. Section 351.206(i) of the Department's regulations states that a "relatively short period" will normally be defined as the period beginning on the date the proceeding begins and ending at least three months later.

As discussed above, the petitioners have provided documentation supporting allegations of countervailable subsidies which are inconsistent with the Subsidies Agreement.

The petitioners also have alleged that imports from the PRC have been massive over a relatively short period. Arguing that there was sufficient pre-filing notice of this CVD petition, the petitioners contend that the Department should compare imports of OCTG from the PRC from January through June 2008 to imports during July through December 2008 for purposes of this determination. The petitioners supported this allegation with copies of news articles discussing the likelihood of filing unfair trade complaints against producers of OCTG. In particular, the petitioners cite to an international news article from July 2008 discussing the likelihood that U.S. steel producers would file unfair trade cases related to seamless pipe, and explaining that OCTG makes up approximately half of total exports of Chinese seamless pipe. Their comparison of the six month period prior to that article (January-June 2008) with the six month period immediately following (July-December 2008) shows that U.S. imports of OCTG from the PRC increased 165 percent. In addition, the petitioners cite to a number of other news articles, ITC decisions on other pipe and tube products, and recent cases on the same or similar products in other countries.

Although the ITC has not yet made a preliminary decision with respect to injury, the petitioners note that in the past the Department has also considered the extent of the increase in

the volume of imports of the subject merchandise as one indicator of whether a reasonable basis exists to impute knowledge that material injury was likely. In this case involving the PRC, the petitioners note that the increase in imports far exceeds the amount considered “massive.”

We find that the petitioners have alleged the elements of critical circumstances and supported them with information reasonably available for purposes of initiating a critical circumstances inquiry. We will investigate this matter further and will make a preliminary determination at the appropriate time, in accordance with section 735(e)(1) of the Act and Department practice (see Policy Bulletin 98/4 (63 FR 55364, October 15, 1998)). The petitioners have also requested an expedited review, which the Department will consider.

Respondent Selection

For this investigation, the Department expects to select respondents based on U.S. Customs and Border Protection (“CBP”) data for U.S. imports during the period of investigation. We intend to make our decision regarding respondent selection within 20 days of publication of this Federal Register notice. The Department invites comments regarding the CBP data and respondent selection within seven calendar days of publication of this Federal Register notice.

Distribution of Copies of the Petition

In accordance with section 702(b)(4)(A)(i) of the Act, a copy of the public version of the petition has been provided to the Government of the PRC. As soon as and to the extent practicable, we will attempt to provide a copy of the public version of the petition to each exporter named in the petition, consistent with section 351.203(c)(2) of the Department’s regulations.

ITC Notification

We have notified the ITC of our initiation, as required by section 702(d) of the Act.

Preliminary Determination by the ITC

The ITC will preliminarily determine, within 25 days after the date on which it receives notice of the initiation, whether there is a reasonable indication that imports of subsidized OCTG from the PRC are causing material injury, or threatening to cause material injury, to a U.S. industry. See section 703(a)(2) of the Act. A negative ITC determination will result in the investigation being terminated; otherwise, the investigation will proceed according to statutory and regulatory time limits.

This notice is issued and published pursuant to section 777(i) of the Act.

Ronald K. Lorentzen
Acting Assistant Secretary
for Import Administration

Date

Appendix I

Scope of the Investigation

The merchandise covered by this investigation consists of certain oil country tubular goods (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 covered by the 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 the investigation is dispositive.