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**BEFORE THE  
UNITED STATES DEPARTMENT OF COMMERCE AND THE  
UNITED STATES INTERNATIONAL TRADE COMMISSION**

**DRILL PIPE  
FROM CHINA**

**PETITION FOR THE IMPOSITION  
OF ANTIDUMPING AND COUNTERVAILING DUTIES PURSUANT TO  
SECTIONS 701 AND 731 OF THE TARIFF ACT OF 1930, AS AMENDED**

**VOLUME III**

**COUNTERVAILING DUTIES**

**Petitioners:**

VAM Drilling USA, Inc.  
Texas Steel Conversions, Inc.  
Rotary Drilling Tools  
TMK IPSCO  
United Steel, Paper and Forestry, Rubber,  
Manufacturing, Energy, Allied Industrial  
and Service Workers International  
Union, AFL-CIO

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## TABLE OF CONTENTS

<b>I.</b>	<b><u>THE DEPARTMENT SHOULD IMPOSE COUNTERVAILING DUTIES ON DRILL PIPE FROM CHINA</u></b> .....	<b>1</b>
<b>A.</b>	<b>INTRODUCTION</b> .....	<b>1</b>
<b>B.</b>	<b>THE DEPARTMENT SHOULD INVESTIGATE THE PROGRAMS THAT IT HAS INVESTIGATED IN THE OCTG AND SEAMLESS TUBE CASES</b> .....	<b>2</b>
<b>C.</b>	<b>PETITIONERS HAVE UNDERTAKEN CONSIDERABLE EFFORT TO INVESTIGATE SUBSIDIES TO THE DRILL PIPE INDUSTRY ...</b>	<b>4</b>
<b>D.</b>	<b>THE DATE OF CHINA’S WTO ACCESSION IS NOT RELEVANT TO WHETHER THE DEPARTMENT SHOULD INVESTIGATE SUBSIDIES</b> .....	<b>5</b>
<b>E.</b>	<b>THE DEPARTMENT SHOULD CONSIDER THE MOST RECENT PERIOD OF INVESTIGATION PRACTICAL</b> .....	<b>6</b>
<b>F.</b>	<b>IDENTITIES OF PRODUCERS OF SUBJECT MERCHANDISE</b> .....	<b>6</b>
<b>II.</b>	<b><u>COUNTERVAILABLE SUBSIDY ALLEGATIONS</u></b> .....	<b>6</b>
<b>A.</b>	<b>PREFERENTIAL LOANS AND INTEREST RATES</b>	
1.	Policy loans to the drill pipe industry .....	6
2.	Export loans from Policy Banks and SOCBs .....	8
3.	Treasury Bond loans .....	9
4.	Preferential loans for state-owned enterprises .....	10
5.	Preferential loans for key projects and technologies .....	11
6.	Preferential lending to drill pipe producers and exporters classified as “honorable enterprises” .....	13
<b>B.</b>	<b>DEBT-TO-EQUITY SWAPS AND LOAN FORGIVENESS</b> .....	<b>14</b>
1.	Debt-to-equity swaps .....	14
2.	Loan and interest forgiveness for SOEs .....	15

<b>C.</b>	<b>INCOME TAX AND OTHER DIRECT TAX BENEFIT PROGRAMS ...</b>	<b>15</b>
1.	Income tax credits for domestically owned companies purchasing domestically produced equipment .....	15
2.	Reduction in or exemption from fixed assets investment orientation regulatory tax .....	16
<b>D.</b>	<b>SUBSIDIES FOR FOREIGN-INVESTED ENTERPRISES (“FIEs”) .....</b>	<b>18</b>
1.	“Two Free, Three Half Program” .....	18
2.	Local income tax exemption and reduction programs for “productive” foreign-invested enterprises .....	19
3.	Preferential tax programs for foreign-invested enterprises recognized as high or new technology enterprises .....	20
4.	Income tax reductions for export-oriented foreign-invested enterprises .....	20
<b>E.</b>	<b>INDIRECT TAX AND TARIFF EXEMPTION PROGRAMS .....</b>	<b>21</b>
1.	Import tariff and VAT exemptions for FIEs and certain domestic enterprises using imported equipment in encouraged industries .....	21
2.	Deed tax exemption for SOEs undergoing mergers or restructuring .....	22
3.	Export subsidies characterized as “VAT Rebates” .....	24
<b>F.</b>	<b>GOVERNMENT PROVISION OF GOODS AND SERVICES FOR LESS THAN ADEQUATE REMUNERATION .....</b>	<b>24</b>
1.	Provision of land to SOEs for less than adequate remuneration .....	24
2.	Provision of land use rights within designated geographical areas for less than adequate remuneration .....	25
3.	Provision of steel inputs for less than adequate remuneration .....	26
a.	Steel rounds for less than adequate remuneration .....	28
b.	Green tube for less than adequate remuneration .....	28
4.	Provision of hot-rolled steel for less than adequate remuneration .....	29

5.	Provision of electricity for less than adequate remuneration .....	30
6.	Provision of electricity and water at less than adequate remuneration to seamless pipe producers located in Jiangsu Province .....	31
7.	Provision of coking coal for less than adequate remuneration .....	32
<b>F.</b>	<b>GRANT PROGRAMS .....</b>	<b>33</b>
1.	The State Key Technology Project Fund .....	33
2.	Export assistance grants .....	34
3.	Programs to rebate antidumping legal fees .....	35
4.	GOC and sub-central government grants, loans, and other incentives for development of Famous Export Brands and China World Top Brands .....	35
5.	Grants to loss-making SOEs .....	37
<b>G.</b>	<b>SUBSIDIES TO DRILL PIPE PRODUCERS LOCATED IN ECONOMIC DEVELOPMENT ZONES .....</b>	<b>38</b>
1.	Economic and Technological Development Zones .....	39
2.	High-Tech Industrial Development Zones .....	42
<b>III.</b>	<b><u>INJURY TO THE DOMESTIC INDUSTRY</u> .....</b>	<b>43</b>
<b>IV.</b>	<b><u>CONCLUSION AND REQUEST FOR INVESTIGATION</u> .....</b>	<b>43</b>
	<b>EXHIBIT LIST .....</b>	<b>44</b>

**I. THE DEPARTMENT SHOULD IMPOSE COUNTERVAILING DUTIES ON DRILL PIPE FROM CHINA**

**A. INTRODUCTION**

This volume of the Petition presents information reasonably available to Petitioners demonstrating that the production of drill pipe from the People’s Republic of China (“China”) is benefiting from countervailable subsidies within the meaning of Section 771(5) of the Tariff Act of 1930, as amended (the “Act”).<sup>1</sup> The general information required by Section 351.202 of the regulations of the U.S. Department of Commerce (“Commerce” or the “Department”)<sup>2</sup> and Section 207.11 of the regulations of the U.S. International Trade Commission (“ITC” or the “Commission”)<sup>3</sup> can be found in Volume I of these Petitions.

Pursuant to 19 U.S.C. § 1671(a)(1) and (2), the Department shall impose a countervailing duty on merchandise imported from a “Subsidies Agreement” country where the imported merchandise (1) is produced or exported by manufacturers that benefit from countervailable subsidies and (2) materially injures or threatens a domestic industry.<sup>4</sup> The Department has consistently determined that the countervailing duty laws may be applied to imports of merchandise from China.<sup>5</sup> Accordingly, Petitioners request that the Department apply the countervailing duty laws to the policies and programs set forth herein and any other

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<sup>1</sup> 19 U.S.C. § 1677(5) (2006).

<sup>2</sup> 19 C.F.R. § 351.202 (2009).

<sup>3</sup> *Id.* § 207.11.

<sup>4</sup> China, as a member of the World Trade Organization (“WTO”), is a “Subsidies Agreement” country as defined by 19 U.S.C. § 1671(b).

<sup>5</sup> *E.g., Coated Free Sheet Paper from the People’s Republic of China*, 72 Fed. Reg. 60,645, issues and decision memorandum (“IDM”) at 19-20 (Dep’t Commerce Oct. 25, 2007).

countervailable subsidies discovered in the course of the requested countervailing duty investigation.

**B. THE DEPARTMENT SHOULD INVESTIGATE THE PROGRAMS THAT IT HAS INVESTIGATED IN THE OCTG AND SEAMLESS TUBE CASES**

The Department already has considerable knowledge of the Chinese drill pipe industry, because it comprises one segment of the Chinese OCTG industry and of the broader seamless tube industry, both of which the Department is investigating. The American Iron and Steel Institute has identified six end-use categories for steel pipe and tube.<sup>6</sup> One of these is oil country tubular goods (“OCTG”), which consists of steel pipes and tubes used to drill wells for oil and gas and to convey these products to ground level.<sup>7</sup> Besides drill pipe, OCTG includes casing, which encases the well, and tubing, which conveys oil or gas to the surface. The Department has determined that casing, tubing, and at least unfinished drill pipe constitute the same like product.<sup>8</sup> While drill pipe tends to be shorter and heavier than casing and tubing, and is usually made of stronger low-alloy steel, the products overlap in terms of diameter, wall thickness, length, strength, and alloy composition.<sup>9</sup>

The Department has recently reached a final affirmative determination that the Government of China (“GOC”) subsidizes the manufacture of casing and tubing.<sup>10</sup> In many

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<sup>6</sup> *Certain Oil Country Tubular Goods from China*, Nos. 701-TA-463 and 731-TA-1159, Staff Report at I-10 (Nov. 16, 2009) (“OCTG Staff Report”), Exhibit III-1.

<sup>7</sup> OCTG Staff Report at I-10 to I-11 n.16.

<sup>8</sup> *Oil Country Tubular Goods from Austria*, 67 Fed. Reg. 20,739, 20,740 (Dep’t Commerce Apr. 26, 2002) (CVD investigation initiation).

<sup>9</sup> *Oil Country Tubular Goods from Austria*, 67 Fed. Reg. 20,739, 20,740 (Dep’t Commerce Apr. 26, 2002) (CVD investigation initiation).

<sup>10</sup> *Certain Oil Country Tubular Goods from the People’s Republic of China*, 74 Fed. Reg. 64,045 (Dep’t Commerce Dec. 7, 2009) (“OCTG CVD Final”).

instances, the same Chinese companies produce casing, tubing, and drill pipe. Indeed, all four of the OCTG producers that the Department specifically investigated in the OCTG case also produce drill pipe.<sup>11</sup> Of the 32 Chinese certified drill pipe manufacturers identified on the American Petroleum Institute (API) website, at least eleven also appear on the API list of certified Chinese casing and tubing manufacturers.<sup>12</sup> By the same token, the Department has recently initiated a CVD investigation of Chinese seamless pipe, including line pipe.<sup>13</sup> Many Chinese drill pipe manufacturers also manufacture seamless line pipe.<sup>14</sup>

Subsidies provided to Chinese OCTG producers and line pipe producers therefore also necessarily go to at least some drill pipe producers, and *vice versa*. Likewise, the Department last year issued a final affirmative countervailing duty determination in its Line Pipe from the

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<sup>11</sup> Tianjin Pipe (Group) Corporation, Wuxi Seamless Oil Pipe Co., and Zhejiang Jianli Co. Ltd. all are API-certified drill pipe manufacturers. “API Composite List: Manufacturer of Drill Pipe,” Exhibit III-2. Jiangsu Changbao is not listed as an API-certified manufacturer under that name but claims to manufacture drill pipe. Jiangsu Chang Bao Steel Tube Limited Company alibaba.com website listing, Exhibit III-3.

<sup>12</sup> These are 1<sup>st</sup> Huabei OCTG Machinery Co., Baoshan Iron & Steel Co., Hengyang Valin Steel Tube Co., Jiangsu Chengde Steel Tube Share Co., Shandong Molong Petroleum Machinery Co., Shengli Oilfield Shengji Petroleum Equipment Co., Tianjin City Tian Yi Seamless Steel Tube Co., Tianjin Jintong Seamless Steel Pipe Co., Tianjin Seamless Steel Pipe Plant, Wuxi Zhendong Steel Pipe Works, and Zhejiang Jianli Co. *Compare* “API Composite List: Manufacturer of Drill Pipe,” Exhibit III-2 *with* “API Composite List: Manufacturer of Casing or Tubing Plain End,” Exhibit III-4.

<sup>13</sup> *Certain Seamless Carbon and Alloy Steel Standard, Line, and Pressure Pipe from the People’s Republic of China*, 74 Fed. Reg. 52,945 (Dep’t Commerce Oct. 15, 2009) (notice CVD initiation) (“Seamless Pipe Initiation Notice”).

<sup>14</sup> Based on a search of API licensees with a 5L license from API’s on-line “composite list,” <[www.compositelist.api.org](http://www.compositelist.api.org)>, these include at least Hengyang Valin, Jiangsu Changbao, Jiangsu Chengde, Jiangsu Tiancheng, Shandong Molong, Tianjin City Tian Yi, Tianjin Jintong, TPCO, Wuxi Seamless (WSP), and Wuxi Zhendong.

PRC investigation.<sup>15</sup> Some of the larger producers of welded line pipe, such as Baoshan Iron and Steel, also make drill pipe.

For purposes of this Petition, therefore, except where noted, Petitioners ask that the Department investigate the same subsidy programs that it has already investigated for other segments of the OCTG and seamless tube industries. Petitioners are attaching as Exhibit III-5 the Seamless Pipe petition's description of programs alleged here, to which the Department can refer for additional information. The questionnaires developed in the Seamless Pipe and OCTG investigations should also guide and expedite the Department's investigation here.

In the interests of efficiency, Petitioners are not alleging programs investigated in the Seamless Pipe or OCTG cases that appear unlikely to play a role in an investigation of drill pipe producers, such as subsidies available only in the older industrial Northeast region. Of course, once the Department establishes which company or companies it will examine, additional company or region-specific subsidy programs may prove relevant.

**C. PETITIONERS HAVE UNDERTAKEN CONSIDERABLE EFFORT TO INVESTIGATE SUBSIDIES TO THE DRILL PIPE INDUSTRY**

Petitioners have conducted extensive research to document subsidies provided to the drill pipe tube industry by the GOC and provincial and local governments. The sources examined include the following: the financial statements of Chinese drill pipe producers where available; company websites; market and industry research; news sources; reports issued by the WTO, the United States, and the GOC; and recent Department countervailing duty investigations with respect to China. While the Department has already investigated China's top drill pipe producers in those cases, Petitioners have updated this information to the extent necessary to relate it to

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<sup>15</sup> *Circular Welded Carbon-Quality Steel Line Pipe from the People's Republic of China*, 73 Fed. Reg. 70,961 (Dep't Commerce Nov. 24, 2008) (final CVD determ.) ("Welded Line Pipe Final" and "Welded Line Pipe IDM").

drill pipe. Again, the lack of publicly available data has limited the amount of evidence reasonably available to Petitioners. The United States Trade Representative (“USTR”) has identified this lack of transparency as a major obstacle to the identification and measurement of subsidies in China. As the USTR observed in its 2007 National Trade Estimate Report:

A general lack of transparency makes it difficult to identify and quantify possible ... subsidies provided by the Chinese government. China’s subsidy programs are often the result of internal administrative measures and are not publicized. Sometimes they take the form of income tax reductions or exemptions. They can also take a variety of other forms, including mechanisms such as credit allocations, low interest loans, debt forgiveness, and reduction of freight charges.<sup>16</sup>

Similarly, the U.S.-China Economic and Security Review Commission has highlighted the “lack of transparency in regulatory process” in China as an impediment to the identification and measurement of subsidies there and a violation of its WTO commitments.<sup>17</sup> These and other difficulties inherent in documenting subsidization have led the Department to conclude that “there are typically no independent sources for data on company-specific benefits resulting from countervailable subsidy programs.”<sup>18</sup>

**D. THE DATE OF CHINA’S WTO ACCESSION IS NOT RELEVANT TO WHETHER THE DEPARTMENT SHOULD INVESTIGATE SUBSIDIES**

For the reasons stated in the Seamless Pipe petition (attached), Petitioners submit that the Department should not refuse to investigate subsidies bestowed before China’s WTO accession.

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<sup>16</sup> Office of the United States Trade Representative, "National Trade Estimate Report on Foreign Trade Barriers" at 104 (2007).

<sup>17</sup> U.S.-China Economic and Security Review Commission, "2008 Report to Congress" (Nov. 2008) at 42; *see also* U.S.-China Economic and Security Review Commission, "2007 Report to Congress" 40, 226 (Nov. 2007).

<sup>18</sup> *Certain Tow-Behind Lawn Groomers and Parts thereof from the People’s Republic of China*, 74 Fed. Reg. 29,180, IDM at Section IV (Dep’t Commerce June 19, 2009) (final CVD determ.).

**E. THE DEPARTMENT SHOULD CONSIDER THE MOST RECENT PERIOD OF INVESTIGATION PRACTICAL**

Data for the complete year 2009 are not yet available and this Petition therefore relies where possible on evidence from 2008, as well as 2009 where it exists. The Department should examine the most recent completed fiscal year for the GOC and the companies investigated. 19 C.F.R. § 351.204(b)(2). This will presumably be 2009.

**F. IDENTITIES OF PRODUCERS OF SUBJECT MERCHANDISE**

As required by section 351.202(b)(7)(ii)(A), Volume I of this Petition lists the names and addresses of the identifiable manufacturers of subject merchandise who benefit from subsidy programs. Information on the list derives from the American Petroleum Institute's list of licensed drill pipe producers in China, which is Exhibit III-2 to this volume, and other research. Petitioners do not know the proportion of total exports to the United States accounted for by each company on the list but believe that the list includes substantially all of the major Chinese producers of subject merchandise.

**II. COUNTERAVAILABLE SUBSIDY ALLEGATIONS**

**A. PREFERENTIAL LOANS AND INTEREST RATES**

**1. Policy loans to the drill pipe industry**

The Department has found that "the GOC has a policy in place to encourage the development of OCTG production through policy lending."<sup>19</sup> After reviewing extensive evidence,<sup>20</sup> the Department concluded that loans received by OCTG producers from state-owned

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<sup>19</sup> OCTG CVD IDM at 12.

<sup>20</sup> *Certain Oil Country Tubular Goods from the People's Republic of China*, 74 Fed. Reg. 47,210, 47,217 (Dep't Commerce Sept. 15, 2009) (prelim. CVD determ.) ("OCTG Prelim.").

commercial banks (SOCBs) and Policy Banks in China constitute financial contributions under section 771(5)(D)(i) of the Tariff Act of 1930 (“the Act”), provide a benefit equal to the difference between the interest on the loan and the rate they would have paid on comparable commercial loans, and are specific under section 771(5A)(D)(i) of the Act due to the GOC’s policy of supporting OCTG production.<sup>21</sup> It concluded that all of the four investigated OCTG producers had received subsidies under this program, ranging from 0.01 percent to 1.53 percent *ad valorem*.<sup>22</sup>

These findings provide a basis to investigate provision of this subsidy program to drill pipe producers for many reasons. First, the drill pipe industry comprises part of the OCTG industry, as discussed above. Second, many of the same Chinese producers make drill pipe and OCTG casing and tubing which the Department has already investigated, as well as the other seamless pipe products such as line pipe that the Department is now investigating. Third, the Department’s OCTG investigation has already specifically revealed four drill pipe producers to have benefited from this program. The benefit was not tied to the production solely of casing and tubing, and also benefits these companies’ drill pipe production. Fourth, the references to state support for OCTG production on which the Department relied in the OCTG case also indicate state support for drill pipe production. These include, among many other examples, references to development of “high-end, value added steel products,” “development of high strength, anticrushing and corrosion resistant petroleum pipe,” “seamless steel tube,” and “oil steel pipe,” all of which describe drill pipe as well as other forms of OCTG.<sup>23</sup> The 11th Five-

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<sup>21</sup> OCTG CVD IDM at 12.

<sup>22</sup> *Id.*

<sup>23</sup> OCTG CVD Prelim., 74 Fed. Reg. at 47,217-18.

Year Program for the Development of the Industrial Economy of Tianjin, an important seamless pipe production center, specifically encourages drill pipe manufacture.<sup>24</sup>

As further described at pages 29-35 of the Seamless Pipe petition,<sup>25</sup> the Department therefore should investigate provision of policy loans to drill pipe production.

## 2. Export loans from Policy Banks and SOCBs

In its OCTG investigation the Department found that TPCO, a producer of OCTG and drill pipe, had received a 0.08 percent *ad valorem* countervailable subsidy benefit from provision of an export loan from the Export-Import Bank of China, a government policy bank.<sup>26</sup> The Department also found this a countervailable subsidy program in Line Pipe from the PRC.<sup>27</sup> In its seamless tube investigation, the Department has initiated an investigation of export loans from SOCBs and policy banks.<sup>28</sup> The Department has determined that such loans constitute a financial contribution under section 771(5)(D)(i) of the Act, are specific export subsidies under section 771(5A)(B) of the Act, and confer a benefit to the extent the loan rates fall below commercial loan benchmarks.<sup>29</sup>

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<sup>24</sup> *Id.*, 74 Fed. Reg. at 47,218.

<sup>25</sup> Attached hereto as Exhibit III-5. References to the Seamless Pipe petition refer to Volume III of that petition.

<sup>26</sup> OCTG CVD IDM at 12-13. The Department also found that drill pipe producer Jianli had received such loans, albeit at *de minimis* levels during the POI. *Id.* at 23-24.

<sup>27</sup> Welded Line Pipe IDM at 23-24.

<sup>28</sup> Seamless Pipe Initiation Checklist at 8.

<sup>29</sup> OCTG CVD IDM at 12-13.

Accordingly, as further described at pages 35-36 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate the provision of this program to drill pipe production as well.

### 3. Treasury Bond loans

The GOC annually announces high-priority projects slated to receive financial support through Treasury bond proceeds. The Department is investigating this program in its Seamless Pipe investigation.<sup>30</sup> The Department preliminarily found this program, also referred to as the Resource Saving and Environmental Protection program, to have conferred a countervailable benefit in its Wire Strand investigation.<sup>31</sup> Loans or grants under the program constitute a financial contribution, and the program is *de jure* specific under Section 771(5A)(D)(i) of the Act, as the central government designates projects and enterprises that will benefit, and *de facto* specific under Section 771(5A)(D)(iii)(IV) of the Act, as government officials exercise discretion in awarding it.<sup>32</sup>

Evidence indicates that at least drill pipe producer TPCO has benefited from this program previously, though the OCTG investigation did not disclose the program's use in 2008.<sup>33</sup> Production of drill pipe, particularly using new high-technology methods or in environmentally

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<sup>30</sup> Seamless Pipe Initiation Checklist at 9.

<sup>31</sup> *Prestressed Concrete Steel Wire Strand from the People's Republic of China*, 74 Fed. Reg. 56,576, 56,590 (Dep't Commerce Nov. 2, 2009) (prelim. CVD determ.).

<sup>32</sup> Seamless Pipe Initiation Checklist at 9.

<sup>33</sup> "Treasury Bond Interest Discount Helps to Promote Technological Reform in Tianjin – Two Projects in the City Approved at the Premier's Working Meeting of the State Council, with support of 1.55 Billion Yuan in Loans and 279 Million Yuan in Treasury Bond Interest Discounts," *Tianjin Daily* (Dec. 7, 2002), Exhibit III-6; OCTG IDM at 25. In the OCTG case the Department limited its investigation geographically, but has not done so in the PC Strand or Seamless Pipe investigations and should not do so here.

improved ways, is the sort of high-priority program that Treasury bonds may be used to fund.

As further described in pages 36-38 of the Seamless Pipe petition, Exhibit III-5, the Department should therefore investigate whether any drill pipe producers have received benefits under this program in the relevant period.

#### 4. Preferential loans for state-owned enterprises

In the Seamless Pipe investigation, the Department is investigating provision of preferential loans to state-owned enterprises (“SOEs”).<sup>34</sup> Extensive evidence exists that government banks have provided low-interest loans to state-owned drill pipe producers, such as TPCO, Baoshan (also known as Baosteel), and Hengyang Valin.<sup>35</sup> In the OCTG case, the Department countervailed low-interest loans to TPCO, although designating them as part of the Policy Loan program.<sup>36</sup>

Preferential loans from state-owned banks to SOEs constitute financial contributions under Section 771(5)(D)(i) of the Act. The preferential loans in question are *de facto* specific under Section 771(5A)(D)(iii)(I) of the Act, as the recipients are a limited group of enterprises, and *de jure* specific under Section 771(5A)(D)(iii)(IV) of the Act, as government officials

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<sup>34</sup> Seamless Pipe Initiation Checklist at 9-10.

<sup>35</sup> See Seamless Pipe Petition, at 31-33, Exhibit III-5; Xinhua General News Services, “China’s Largest Policy Banks Team up with Steel Giant” (Jan. 9, 2001), Exhibit III-7; International Finance Daily, “Import and Export Bank’s 10 Billion Yuan Loan to Help Baogang Group Expand Abroad” (Sept. 10, 2004), Exhibit III-8; China Exim Bank, “Cooperation Agreement of RMB 10 Billion Export Credit for Supporting International Operations Signed between the Export-Import Bank of China (China Eximbank) and Shanghai Baosteel Group Corporation (Baosteel)” (Sept. 8, 2004), Exhibit III-9; Asiainfo Daily China News, “Export and Import Bank Backing Steel Tube Export” (June 26, 1998), Exhibit III-10; Thomas Howell, “China: Government Policies Affecting U.S. Trade in Selected Sectors,” Submission on Behalf of IPSCO in Inv. No. 332-491, at 58-78 (Oct. 30, 2007), Exhibit III-11.

<sup>36</sup> OCTG CVD IDM at 12.

exercise great discretion in guiding funds to chosen projects.<sup>37</sup> They provide a benefit to recipients equal to the difference between what the recipients paid on the preferential loans and the amount they would have paid on comparable commercial loans pursuant to Section 771(5)(E)(ii) of the Act.

As further described at pages 38-39 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate their provision to drill pipe producers to the extent that it investigates any SOEs.

### **5. Preferential loans for key projects and technologies**

In the Seamless Pipe investigation, the Department is investigating a program of preferential loans for key projects and technologies.<sup>38</sup>

Evidence indicates that drill pipe manufacturers have also benefited from this program. In 2006, the GOC issued the S&T Development Plan (2006-2020).<sup>39</sup> This calls for increasing innovation through “fiscal incentives, soft loan facilities including interest discounts and preferential loan provision, governmental investment measures, schemes for the promotion of ‘re-innovation’ by assimilation of Chinese industry- and product-standards.”<sup>40</sup> The guidelines for implementation of the S&T Development Plan (2006-2020) issued by the GOC’s Banking Regulatory Commission direct China’s state-owned policy banks to provide preferential loans to

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<sup>37</sup> Seamless Pipe Initiation Checklist at 9. The Department also investigated this program in the OCTG case, though it found that none of the four countries at issue had applied for or received benefits under the program. *Id.* at 10.

<sup>38</sup> *Id.* at 10.

<sup>39</sup> Markus Taube & Christian Schmidkonz, “The State-Business Nexus in China’s Steel Industry – Chinese Market Distortions in Domestic and International Perspective,” at 67 (Jan. 2009) (“Taube & Schmidkonz”), Exhibit III-12.

<sup>40</sup> *Id.*

“hi-tech industrialization projects, projects on digestion and absorption of brought-in technologies, hi-tech product export projects, and so on.”<sup>41</sup>

Drill pipe producer Baosteel was one of the companies specifically required to issue its own plans for achievement of the goals of the S&T Development Plan (2006-2020).<sup>42</sup> Drill pipe producers TPCO and Jiangsu Chengde Steel Tube Co., Ltd. are also identified as producers of “hi-tech” products eligible to receive preferential loans provided pursuant to the S&T Development Plan (2006-2020).<sup>43</sup>

The GOC’s preferential loan program for key projects and technologies constitutes a financial contribution within the meaning of section 771(5)(D)(i) of the Act because it offers loans at less than market interest rates, and is specific under section 771(5A)(D)(iii) of the Act because the GOC exercised discretion in deciding which companies receive benefits, and has targeted it at 30 steel enterprises.<sup>44</sup>

As further described at pages 39-42 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate provision of this subsidy program to drill pipe production.

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<sup>41</sup> China Banking Regulatory Commission, “Notice of China Banking Regulatory Commission on Printing and Distributing the ‘Detailed Rules for Implementation of the Policies on Policy Finance for Supporting Major National Scientific and Technological Projects’” at Articles 1-7 (Dec. 28, 2006), Exhibit III-13.

<sup>42</sup> Taube & Schmidkonz, Exhibit III-12.

<sup>43</sup> For example, the Export-Import Bank of China states on its website that it has financed TPCO’s “export of high- and new-tech products.” “Supporting the Export of High- and New-tech Products,” Export-Import Bank of China, Exhibit III-14. Jiangsu Chengde Steel Tube Co., Ltd., displays on its website a certificate from the GOC designating it as a “Key High and New Technology Enterprise.” Jiangsu Chengde Steel Tube Co., Ltd. Certificate, Exhibit III-15.

<sup>44</sup> Seamless Pipe Initiation Notice at 10.

**6. Preferential lending to drill pipe producers and exporters classified as “honorable enterprises”**

The GOC encourages certain “large-scale enterprises” with an annual export volume of over USD \$200 million by classifying them as “Honorable Enterprises” that receive preferential access to foreign trade funds.<sup>45</sup> Lending rates for companies designated as Honorable Enterprises can also be lowered by up to 10 percent based on the lending rates fixed by the People’s Bank of China.<sup>46</sup> In addition, Honorable Enterprises are able to retain profits in foreign exchange for twice the normal period of 6 months before they must be repatriated and do not need to provide guarantees to the GOC, thus allowing such companies greater access to capital in the form of foreign exchange that may be used in support of exports and for other purposes.<sup>47</sup> Major seamless pipe producers such as Baosteel and WSP had exports in 2008 totaling more than USD \$200 million, thus qualifying them for classification as Honorable Enterprises.<sup>48</sup> The provision of loans under this program is a direct transfer of funds by the GOC constituting a financial contribution under Section 771(5)(D)(i) of the Act, while the ability of companies to retain foreign exchange for twice the normal period of time constitutes a financial contribution under Section 771(5)(D)(ii) of the Act because the GOC is foregoing collection of revenues

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<sup>45</sup> Circular of the People’s Bank of China, the State Administration of Foreign Exchange, the Ministry of Foreign Trade and Economic Cooperation, and the State Administration of Taxation Concerning Printing and Distributing Detailed Rules on Rewarding and Punishment Concerning Provisional Regulations over Examination of Export Collections of Foreign Exchange, YinFa (2000) No. 58, at Arts. 3-5 (Feb. 17, 2000), Exhibit III-16.

<sup>46</sup> *Id.* at Art. 6.

<sup>47</sup> *Id.* at Art. 7.

<sup>48</sup> *See* Baosteel 2008 Interim Annual Report at 5, Exhibit III-17; WSP Holdings 2008 Form 20-F at 42, Exhibit III-18.

otherwise due.<sup>49</sup> The program is specific under Section (5A)(B) of the Act because benefits are contingent upon export performance.

The Department has found that this program has terminated, but is investigating this program in the Seamless Pipe case to determine if any preferential loans remain outstanding.<sup>50</sup> As further described in pages 42-44 of the Seamless Pipe petition, Exhibit III-5, the Department should follow the same approach here.

## **B. DEBT-TO-EQUITY SWAPS AND LOAN FORGIVENESS**

### **1. Debt-to-equity swaps**

The Seamless Pipe petition documented debt-to-equity swaps on preferential terms supplied by the GOC and its organs to a number of major pipe producers, including drill pipe producers Baosteel, TPCO, and Hengyang Valin.<sup>51</sup> It explained that these are financial contributions in the form of grants, specific to particular enterprises. The Department refused to initiate an investigation of these programs, however, except with respect to TPCO and Pangang, on the grounds that the only evidence supplied indicated that the swaps had occurred prior to China's WTO accession.<sup>52</sup> In its OCTG investigation, the Department ultimately found that TPCO had benefited from debt forgiveness arising after the WTO accession related to previous debt-to-equity swaps, as discussed below, but found no other benefits from this program.<sup>53</sup>

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<sup>49</sup> Seamless Pipe Initiation Checklist 10-11.

<sup>50</sup> *Id.* at 11.

<sup>51</sup> Seamless Pipe Petition at 46-49 (Exhibit III-5); *see also* Seamless Pipe Initiation Checklist at 12-13 (detailing evidence).

<sup>52</sup> Seamless Pipe Initiation Checklist at 13.

<sup>53</sup> OCTG CVD IDM 22.

Petitioners submit that the Department should reconsider its policy of not investigating pre-accession Chinese subsidies, as discussed above, and initiate an investigation of this program's benefits to Baosteel, TPCO, or Hengyang Valin.

## **2. Loan and interest forgiveness for SOEs**

The Department has found that drill pipe producer TPCO in 2006 and 2008 settled claims relating to debt-to-equity transactions from 2001.<sup>54</sup> The Department found that through these settlements the GOC forgave debt to TPCO, conferring a countervailable benefit to it of 0.14 percent *ad valorem* (of which part was allocated and part expensed to the POI).<sup>55</sup> As the Department found, loan and interest forgiveness for SOEs constitutes a financial contribution under Section 771(5)(D)(i) of the Act, it is specific under Section 771(5A)(D)(iii)(I) and (IV) of the Act because it is only available to a limited number of enterprises (i.e., SOEs) and government officials exercise great discretion in deciding how such forgiveness is provided, and it provides a benefit equal to the amount of the loans and interest forgiven.

As further described at pages 64-65 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate this program for any state-owned drill pipe producers.

## **C. INCOME TAX AND OTHER DIRECT TAX BENEFIT PROGRAMS**

### **1. Income tax credits for domestically owned companies purchasing domestically produced equipment**

In the OCTG investigation, the Department found that under China's *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 up to 40 percent on the purchase of domestic equipment if the

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<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

project is compatible with the industrial policies of the GOC.<sup>56</sup> The Department found this program to provide a countervailable financial contribution under Section 771(5)(D)(ii) and benefit in terms of revenue forgone, specific under Section 771(5A)(C) of the Act because contingent upon use of domestic over imported goods.<sup>57</sup> It found that a subsidiary of drill pipe producer WSP had received a countervailable subsidy of 0.14 percent *ad valorem* under this program.<sup>58</sup>

The Department is now investigating this program in the Seamless Pipe case.<sup>59</sup> As further described at pages 65-67 of the Seamless Pipe petition, Exhibit III-5, it should also do so here.

## **2. Reduction in or exemption from fixed assets investment orientation regulatory tax**

The GOC taxes enterprises that invest in fixed assets pursuant to the “Provisional Regulations on Fixed Assets Investment Orientation Regulatory Tax” (“Fixed Asset Tax Regulations”).<sup>60</sup> The tax is levied on the amount of fixed capital investment made in a given year,<sup>61</sup> but the actual tax rate paid by an enterprise varies from zero to 30 percent “in accordance

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<sup>56</sup> OCTG CVD IDM 18.

<sup>57</sup> *Id.*

<sup>58</sup> *Id.*

<sup>59</sup> Seamless Pipe Initiation Checklist 17.

<sup>60</sup> “Provisional Regulations on Fixed Assets Investment Orientation Regulatory Tax of the People’s Republic of China,” State Council Order No. 82 (Apr. 16, 1991), Exhibit III-19.

<sup>61</sup> *Id.* See also Lu Ding, Prospect of Industrial Policy Regime after the WTO (2000), Seamless Pipe Petition Exhibit III-20. The tax is also sometimes identified as the “coordinating tax” for direction of fixed capital investment. See *id.*

with the state industrial policy and in light of the scale of the project” of fixed asset investment.<sup>62</sup> For example, a zero-percent tax rate is applied to fixed capital investment in projects urgently needed by the state.<sup>63</sup> Additionally, projects encouraged by the state and renewal and transformation projects are subject to preferential tax rates of five and ten percent, respectively.

As established herein, the GOC, as well as provincial and local governments in China, have identified the steel industry, including drill pipe, as a key industry to be supported pursuant to government industrial policies. Accordingly, fixed capital investments by producers of drill pipe likely enjoy the preferential tax rates provided under the Fixed Asset Tax Regulations.

The preferential tax rates offered under the Fixed Assets Tax Regulations constitute a financial contribution in the form of revenue foregone under Section 771(5)(D)(ii) of the Act. The subsidy is specific under Section 771(5A)(D)(i) of the Act because it is limited by law to a specific group of enterprises identified by the GOC. The Fixed Assets Tax Regulations provide a benefit to seamless pipe producers in the amount of taxes reduced or exempted, within the meaning of Section 771(5)(E) of the Act.

As further described at pages 72-73 of the Seamless Pipe petition, Exhibit III-5, the Department should further investigate this program here.

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<sup>62</sup> “Provisional Regulations on Fixed Assets Investment Orientation Regulatory Tax of the People’s Republic of China,” State Council Order No. 82 (Apr. 16, 1991), Seamless Pipe Petition Exhibit III-108.

<sup>63</sup> See Fixed Assets Investment Orientation Regulation Tax, Beijing Local Taxation Bureau, Seamless Pipe Petition Exhibit III-110. See also Fixed Asset Tax Regulations, Seamless Pipe Petition Exhibit III-108 at 6.

## D. SUBSIDIES FOR FOREIGN INVESTED ENTERPRISES (“FIEs”)

### 1. “Two Free, Three Half Program”

Under Article 8 of the GOC’s “Foreign Invested Enterprise and Foreign Enterprise Income Tax Law” (“FIE Tax Law”), an FIE that is “productive” and is scheduled to operate for more than ten years may, among other things, 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.<sup>64</sup> The Department has repeatedly found this program to constitute a countervailable subsidy and is investigating it in the Seamless Pipe case.<sup>65</sup> This program provides a financial contribution under Section 771(5)(D)(ii) of the Act and is specific under Section 771(5A)(D)(i) of the Act because it is limited to a specific group of enterprises, FIEs.<sup>66</sup> In OCTG, the Department found that drill pipe producer Jianli, a FIE, had received a countervailable subsidy benefit under this program of 0.20 percent *ad valorem*.<sup>67</sup> The financial reports of drill pipe producer Henyang Valin indicate that it is an FIE that has also benefited from this program.<sup>68</sup> As further described at pages 75-77 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate this program here.

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<sup>64</sup> OCTG CVD IDM at 16.

<sup>65</sup> *Id.* at 16 & n.44; Seamless Pipe Initiation Checklist at 19-20.

<sup>66</sup> OCTG CVD IDM at 16 & n.45; Seamless Pipe Initiation Checklist at 19.

<sup>67</sup> OCTG CVD IDM at 16.

<sup>68</sup> *See, e.g.*, Hunan Valin 2005 First Half Report at 28-29, Exhibit III-21.

## 2. 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.<sup>69</sup> Accordingly, the *Regulations on Exemption and Reduction of Local Income Tax of FIEs in Jiangsu Province*, a “productive” FIE in Jiangsu Province (where WSP and many of the other largest drill pipe producers are located) may be exempted from the three percent local income tax during the “Two Free, Three Half” period.<sup>70</sup> Similarly, 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 (such as Jianli) 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.<sup>71</sup> Other provinces undoubtedly also exercise this authority.

This program provides a financial contribution under Section 771(5A)(D)(i) and (D)(iv) of the Act, and is specific under Section 771(5A)(D)(iv) of the Act.<sup>72</sup> The Department has found this program countervailable in the OCTG and other cases, and is now investigating it again in the Seamless Pipe case.<sup>73</sup> In OCTG, it determined that drill pipe makers Jianli and WSP received countervailable subsidy benefits of 0.02 and 0.29 percent *ad valorem* respectively.<sup>74</sup> As

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<sup>69</sup> OCTG CVD IDM at 17.

<sup>70</sup> *Id.*

<sup>71</sup> *Id.*

<sup>72</sup> *Id.*

<sup>73</sup> *Id.* at 17 & n.52; Seamless Pipe Initiation Checklist at 20.

<sup>74</sup> OCTG CVD IDM at 17.

further described at pages 77-79 of the Seamless Pipe petition, the Department should again investigate this program here.

**3. Preferential tax programs for foreign-invested enterprises recognized as high or new technology enterprises**

The Department has also found that drill pipe producer WSP has benefited from preferential tax benefits provided to FIEs that are recognized as high or new technology enterprises and that are established in high or new technology industrial development zones.<sup>75</sup> Under this program, FIEs designated as new or high technology enterprises that are established in high or new technology industrial development zones are entitled to a reduced income tax rate of 15 percent.<sup>76</sup> This program provides a countervailable subsidy *de jure* specific to a limited group of enterprises under Section 771(5A)(D)(iv) of the Act, with a financial contribution in the amount of revenue forgone under Section 771(5)(D)(ii) of the Act.<sup>77</sup> The Department is also investigating this program in the Seamless Pipe investigation.<sup>78</sup>

As further described at pages 79-81 of the Seamless Pipe petition, Exhibit III-5, the Department should also investigate this program here.

**4. Income tax reductions for export-oriented foreign-invested enterprises**

According to China's subsidies notification to the WTO, a FIE may continue to pay half of its applicable income tax rate following the expiration of "Two Free, Three Half" tax

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<sup>75</sup> OCTG CVD IDM at 17.

<sup>76</sup> *Id.* at 16.

<sup>77</sup> *Id.* at 17.

<sup>78</sup> Seamless Pipe Initiation Checklist at 20-21.

subsidies if exports constitute 70 percent of the company's sales.<sup>79</sup> Export-oriented enterprises in specially designated zones already eligible to pay half the standard income tax rate may receive a further rate reduction through this program pursuant to the Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises.<sup>80</sup>

The Department investigated this program in the OCTG case and is now investigating it in the Seamless Pipe case.<sup>81</sup> It provides a financial contribution under Section 771(5)(D)(ii) of the Act in the form of foregone revenue, and is contingent on export performance, and so is specific under Section 771(5A)(A) and (B) of the Act. FIE drill pipe producers that export are eligible. As further described at pages 81-82 of the Seamless Pipe petition, the Department should investigate this program here.

## **E. INDIRECT TAX AND TARIFF EXEMPTION PROGRAMS**

### **1. Import tariff and VAT exemptions for FIEs and certain domestic enterprises using imported equipment in encouraged industries**

The GOC provides a separate subsidy to FIEs and certain domestic enterprises in the form of VAT and import tariff exemptions on imported equipment, including components and parts.<sup>82</sup> The purpose of the subsidy is to encourage foreign investment and to introduce advanced technology, and it is limited to FIEs and domestic enterprises that undertake

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<sup>79</sup> China WTO Subsidies Notification at II, p. 3; *see also* United States Consultation Request with China on Export and Domestic Preference Subsidies (Feb. 2007).

<sup>80</sup> *See* Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, Exhibit III-22.

<sup>81</sup> OCTG CVD IDM at 26; Seamless Pipe Initiation Checklist at 21.

<sup>82</sup> Circular of the State Council Concerning the Adjustment in the Taxation Policy of Import Equipment, GuoFa No. 37 at Art. I(1) (Dec. 29, 1997), Exhibit III-23.

“encouraged” projects as set forth in the “Catalogue of Industries for Guiding Foreign Investment.”<sup>83</sup> The Department has previously determined that such VAT and tariff exemptions on imported equipment constitute countervailable subsidies, and is investigating this subsidy program in the Seamless Pipe investigation.<sup>84</sup> Revenue forgone constitutes a financial contribution under Section 771(5)(D)(ii) of the Act, and the program is *de jure* and *de facto* specific under Sections 771(5A)(D)(i) and (iii)(I) of the Act because Chinese law limits it to FIEs and domestic enterprises engaged in “encouraged” projects.<sup>85</sup> Many drill pipe producers are eligible, either because they are FIEs as discussed above or they engage in “encouraged” projects such as “construction and management of oil and gas delivery pipes.”<sup>86</sup>

Accordingly, as further described at pages 86-87 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate this subsidy program.

## **2. Deed tax exemption for SOEs undergoing mergers or restructuring**

The GOC imposes a deed tax on transfers of land and real estate. In the context of an ownership transfer accomplished by means of an asset sale, as opposed to a stock sale, a deed tax of 3 to 5 percent is levied on the amount of the purchase price, with the purchaser responsible for

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<sup>83</sup> See Order of National Development and Reform Commission and the Ministry of Commerce (No.57), The Catalogue of Industries for Guiding Foreign Investment (Oct. 31, 2007), Exhibit III-24.

<sup>84</sup> Coated Paper IDM at 13-14; *Certain New Pneumatic Off-the-Road Tires from the People’s Republic of China*, 73 Fed. Reg. 40,480 (“OTR Tires”), Issues and Decision Memorandum (“IDM”) at 22-23 (July 15, 2008) (final CVD determ.); Seamless Tube Initiation Notice at 22.

<sup>85</sup> Seamless Tube Initiation Notice at 22.

<sup>86</sup> Catalogue of Industries for Guiding Foreign Investment, Exhibit III-24, at V.12.

paying the tax.<sup>87</sup> Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Several Deed Tax Policies Concerning Enterprise Reorganization and Restructuring, however, the deed tax is exempted where the transfer of ownership occurs as part of the restructuring or merger of an SOE.<sup>88</sup> Some drill pipe producers are state-owned, and the information reasonably available to Petitioners shows that SOE drill pipe producer Baosteel has in fact acquired land and real estate as part of recent mergers directed by the GOC.<sup>89</sup> This acquisition would normally have been assessed deed taxes, but GOC policy would have exempted it.

Tax exemptions constitute a financial contribution under Section 771(5)(D)(ii) of the Act, and are specific under Section 771(5A)(D)(i) of the Act where limited to SOEs involved in mergers or restructuring.<sup>90</sup> The Department is investigating this program in the Seamless Pipe investigation,<sup>91</sup> and as further described at pages 87-88 of the Seamless Pipe petition, Exhibit III-5, the Department should also investigate it here.

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<sup>87</sup> Mergers and Acquisitions – Asian Taxation Guide 2008 (China), PricewaterhouseCoopers (Mar. 2008) at 32 and 36, Exhibit III-25.

<sup>88</sup> Cai Shui (2003) No. 184, Exhibit III-26; Circular of the Ministry of Finance and State Administration of Taxation on Extending the Execution Period for the Several Deed Tax Policies Concerning Enterprise Reorganization and Restructuring, Cai Shui (2006) No. 41, Exhibit III-27.

<sup>89</sup> “China to speed M&A to boost production, competitiveness,” Steel Business Briefing (Mar. 13, 2008), Exhibit III-28.

<sup>90</sup> Seamless Pipe Initiation Checklist at 23.

<sup>91</sup> *Id.*

### **3. Export subsidies characterized as “VAT Rebates”**

The Department has previously initiated investigations of China’s provision of VAT rebates on exports, including in the OCTG and Seamless Pipe investigations.<sup>92</sup> The Department has limited this investigation to examining whether producers of subject merchandise actually pay VAT on their inputs and whether they receive excessive rebates under 19 C.F.R.

§ 351.517.<sup>93</sup> While recognizing that Department’s actions in this regard, Petitioners submit that the Department should initiate an investigation in this case without such limitation, for the reasons advanced at pages 88-98 of the Seamless Pipe petition, Exhibit III-5.

#### **F. GOVERNMENT PROVISION OF GOODS AND SERVICES FOR LESS THAN ADEQUATE REMUNERATION**

##### **1. Provision of land to SOEs for less than adequate remuneration**

The Department has consistently investigated provision of land use rights to SOEs for less than adequate remuneration as a countervailable subsidy.<sup>94</sup> Indeed, the Department has found that state-owned drill pipe producer TPCO has benefited from provision of land for less than adequate remuneration.<sup>95</sup> Provision of land constitutes a financial contribution within the meaning of section 771(5)(D)(iii) of the Act, and is specific under Section 771(5A)(D)(i) of the Act because it is limited to a specific group of enterprises, SOEs (and certain other categories described below).<sup>96</sup> As further described at pages 98-100 of the Seamless Pipe petition, Exhibit

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<sup>92</sup> OCTG Initiation Checklist at 39-40; Seamless Pipe Initiation Checklist at 23-24.

<sup>93</sup> Seamless Pipe Initiation Checklist at 24.

<sup>94</sup> Seamless Pipe Initiation Checklist at 24; OCTG Initiation Checklist at 41; *Certain Off-the-Road Tires from the People’s Republic of China*, 72 Fed. Reg. 44,122, 44,124 (Aug. 7, 2007) (notice CVD initiation).

<sup>95</sup> OCTG CVD IDM at 20. Note that benefits under this program also arose from TPCO’s location in an economic development zone, as described below.

III-5, the Department should initiate an investigation of this program's benefits to state-owned drill pipe producers.

**2. Provision of land use rights within designated geographical areas for less than adequate remuneration**

The Department has also found that when a sub-national jurisdiction within China sells land-use rights in an industrial park for less than adequate remuneration, it provides a regionally specific countervailable subsidy.<sup>97</sup> The Department has found that drill pipe producer TPCO has benefited from provision of land for less than adequate remuneration within the Tianjin Binhai New Area economic development zone.<sup>98</sup> The Department determined that besides being specific under section 771(5A)(D)(iv) of the Act, provision of land-use rights within a designated geographic area constituted a financial contribution under section 771(5)(D)(iii) of the Act, and conferred a benefit of 0.11 percent *ad valorem* for purchase of land rights and of 2.55 percent for lease interests. As described further below, moreover, drill pipe producer DP-Master is also located in an economic development zone that offers, among other benefits, preferential land use rights.

Accordingly, as further described at pages 100-103 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate provision of land for less-than-adequate remuneration to drill pipe producers located in designated geographical areas.

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<sup>96</sup> Seamless Pipe Initiation Checklist at 24; OCTG Initiation Checklist at 41.

<sup>97</sup> OCTG CVD IDM at 20 ("The Department has also found that when land is in an industrial park located within the seller's . . . jurisdiction, the provision of the land-use rights is regionally specific.") (citation omitted); Line Pipe CVD IDM at 14 (sale of land in an economic development zone within the jurisdiction of the selling authority is a regionally specific subsidy).

<sup>98</sup> OCTG CVD IDM at 20.

### 3. Provision of steel inputs for less than adequate remuneration

As the Department has previously determined, the GOC subsidizes Chinese producers of steel pipe and tube products by supplying them with semi-finished steel inputs in various forms for less than adequate remuneration.<sup>99</sup> In the OCTG investigation, the Department found that all four drill pipe manufacturers under investigation had received steel rounds for less-than-adequate-remuneration, conferring countervailable subsidy benefits ranging from 4.48 percent to 15.48 percent.<sup>100</sup>

Drill pipe producers may use either steel rounds or green tube (*i.e.*, seamless unfinished drill pipe) as one of their key raw materials, depending on the level of integration of their production process and the drill pipe products they manufacture. Evidence reasonably available to Petitioners supports the allegation that the GOC provides green tube to OCTG producers that do not make it themselves for less-than-adequate remuneration.

No price data are published for unfinished green tube for drill pipe production. However, as discussed above, green drill pipe tube is a seamless tube product like other forms of OCTG, and the Department has noted the “overlap between unfinished drill pipe and casing and tubing with respect to diameter, wall thickness, and length.”<sup>101</sup> Strength and alloy requirements also overlap.<sup>102</sup> Casing and tubing are also often sold to specialized intermediate processing

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<sup>99</sup> See *Circular Welded Pipe IDM* at 11; *Welded Line Pipe IDM* at 18; *Rectangular Pipe IDM* at Section I.A.

<sup>100</sup> OCTG CVD IDM at 15.

<sup>101</sup> *Oil Country Tubular Goods from Austria*, 67 Fed. Reg. 20,739, 20,740 (Dep’t Commerce Apr. 26, 2002) (CVD investigation initiation).

<sup>102</sup> *Id.*

companies plain-end (without threading and coupling) and without heat treatment,<sup>103</sup> just like unfinished drill pipe. Thus, prices for casing and tubing make a good proxy for prices for unfinished drill pipe. Indeed, it makes a conservative benchmark, as to the extent they differ, green drill pipe tends to be stronger.<sup>104</sup> Published price data indicate that Chinese prices for non-heat-treated grades of casing are consistently lower than prices for the same grades everywhere else in the world, including the United States, Europe, Japan, and the Middle East.<sup>105</sup>

It also is likely that the GOC owns or controls a predominant share of the green tube production industry. The GOC has never supplied complete information on the ownership of steel input providers, compelling the Department repeatedly to resort to adverse facts available. In the Line Pipe investigation, for example, the Department concluded that the GOC owned or controlled the entire Chinese hot-rolled steel industry.<sup>106</sup> In OCTG, the Department had to resort entirely to adverse facts available to identify the ownership of suppliers of steel rounds, and concluded that the government owned all suppliers of steel rounds to the OCTG industry.<sup>107</sup> The Department has found that many Chinese steel producers are integrated,<sup>108</sup> so many of these same government-controlled producers of upstream steel products also make green tube. Indeed, the four largest OCTG producers in China are state-owned and make plain-end casing or tubing, including Angang Steel Co., Baoshan Iron & Steel, Hengyang Valin, Pangang Group Beihai

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<sup>103</sup> *Certain Oil Country Tubular Goods from China*, Nos. 701-TA-463 & 731-TA-1159, Staff Report at I-18 (Nov. 16, 2009) (Exhibit III-1).

<sup>104</sup> *Id.*

<sup>105</sup> Exhibit I-15 (attached to volume I). Grades with letters before “P” are not heat-treated.

<sup>106</sup> OCTG CVD IDM at 5 (discussing Line Pipe case).

<sup>107</sup> *Id.* at 4-5.

<sup>108</sup> *Id.* at 5.

Steel Pipe Corp.<sup>109</sup> Thus, it is quite likely that the drill pipe producers that do not make all of their own green tube obtain it from SOEs, directly or through trading companies, and the GOC and its SOEs control the price.

Accordingly, the Department should investigate provision of the following two steel inputs to drill pipe producers.

**a. Steel rounds for less-than-adequate remuneration**

In the OCTG investigation, the Department found that four drill pipe manufacturers had received steel rounds for less-than-adequate-remuneration.<sup>110</sup> Again, provision of goods constitutes a financial contribution under section 771(D)(iii) and the Department found this program specific under section 771(5A)(D)(iii)(I) of the Act because the number of recipients is limited.<sup>111</sup> The Department found the program to confer countervailable subsidy benefits ranging from 4.48 percent to 15.48 percent.<sup>112</sup>

**b. Green tube for less-than-adequate remuneration**

As discussed above, evidence indicates that Chinese drill pipe producers receive unfinished drill pipe for less-than-adequate remuneration. Provision of goods constitutes a financial contribution under section 771(D)(iii) of the Act. Only producers of OCTG would use green tube, so only a limited number of recipients receive this subsidy and it is specific under

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<sup>109</sup> API Composite List, Exhibit III-2; Thomas Howell, "China: Government Policies Affecting U.S. Trade in Selected Sectors," Submission on Behalf of IPSCO in Inv. No. 332-491, at 52, 79 (Oct. 30, 2007), Exhibit III-11.

<sup>110</sup> OCTG CVD IDM at 15.

<sup>111</sup> *Id.* at 15.

<sup>112</sup> *Id.* at 15.

section 771(5A)(D)(iii)(I) of the Act. The benefit is likely to be comparable to the benefit from receipt of steel rounds as assessed by the Department, as discussed above.

#### 4. Provision of hot-rolled steel for less-than-adequate remuneration

The Department has repeatedly investigated the provision of hot-rolled steel to Chinese tube producers, and found it to be provided for less-than-adequate remuneration.<sup>113</sup> Many drill pipe producers make a wide range of tube products and have undoubtedly benefited from this subsidy. The Department has found that this program provides a financial contribution under section 771(D)(iii) of the Act and is *de facto* specific under section 771(5A)(D)(iii) of the Act.<sup>114</sup> The Department has found it to have conferred countervailable subsidy benefits of over 33 percent.<sup>115</sup>

Hot-rolled steel is not an input to seamless drill pipe. However, if a manufacturer receives hot-rolled steel at less-than-adequate remuneration, it can use the money saved for other purposes, as with any other subsidy. Therefore, a manufacturer of drill pipe that also makes products such as welded pipe that are produced using hot-rolled steel would derive a benefit to its drill pipe manufacturing operations. Many of the larger drill pipe manufacturers also produce welded pipe, such as Baosteel, Hengyang Valin, and TPCO. Thus, to the extent that the Department continues not to treat provision of inputs as tied to a particular downstream product – *i.e.*, if the Department divides the benefit of provision of inputs across all products, not just those produced by the input – it should also, to be consistent, investigate and countervail

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<sup>113</sup> *Circular Welded Carbon-Quality Steel Pipe from the People's Republic of China*, 73 Fed. Reg. 31,966, IDM at 11, 61-62 (Dep't Commerce June 5, 2008) (final CVD determ.); *Welded Line Pipe* IDM at 18-20.

<sup>114</sup> *Line Pipe* IDM at 18.

<sup>115</sup> *Id.* at 20. For additional information, *see* pages 113-18 of the Seamless Pipe petition, Exhibit III-5.

provision of other non-input goods for less-than-adequate remuneration provided they are bestowed on a manufacturer of subject merchandise, its cross-owned affiliates, or others to which cross-attribution of subsidies is appropriate under 19 C.F.R. § 351.525.

#### **5. Provision of electricity for less than adequate remuneration**

The Department has investigated the provision of electricity for less than adequate remuneration in at least six other investigations, including OCTG and Seamless Pipe.<sup>116</sup> In these investigations, the Department has found that electricity rates vary across regions and has stated that it would continue to investigate the provision of electricity for less than adequate remuneration in future investigations and administrative reviews.<sup>117</sup>

The Department has found that provision of electricity constitutes a financial contribution under Section 771(5)(D)(iii) of the Act, and that this program is specific under Section 771(5A).<sup>118</sup> In OCTG, the Department found that the four drill pipe producers under investigation had received countervailable subsidies of between .07 percent and 1.53 percent.<sup>119</sup> Notably, drill pipe producer Baosteel has also reported an electricity subsidy (“subsidy for power supply”) worth RMB 1,344,244.10 at the beginning of 2003.<sup>120</sup> As further described at pages

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<sup>116</sup> Seamless Pipe Initiation Checklist at 26-27; OCTG Initiation Checklist at 43.

<sup>117</sup> Welded Line Pipe IDM at 29-30.

<sup>118</sup> OCTG CVD IDM at 23. Electricity rates are preferential under Section 771(5A)(D)(iv) of the Act, because China’s National Development and Reform Commission (“NDRC”) sets electricity rates at different levels in different provinces. Line Pipe IDM at 29-30. Further, the ITC has recognized that local officials favor particular businesses and industries with better electricity rates. China: Description of Selected Government Practices and Policies Affecting Decision-Making in the Economy, USITC Pub. No. 3978 at 55 (Dec. 2007), Exhibit III-29.

<sup>119</sup> OCTG CVD IDM at 23.

<sup>120</sup> Baosteel 2003 Annual Report at 68, Exhibit III-30.

113-18 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate this subsidy program in this case.

**6. Provision of electricity and water at less than adequate remuneration to seamless pipe producers located in Jiangsu Province**

Jiangsu Province Jiangsu Regulations and Preferential Policies provide that:

For export-oriented and technologically advanced enterprises with foreign investment, cost of water and electricity will be charged at the planning price. Other foreign-invested enterprise will have their charges calculated on the same basis as and be charged at the same price paid by local state-owned enterprises.<sup>121</sup>

Drill pipe producers Jiangsu Changbao and Jiangsu Chengde are FIEs in Jiangsu, potentially eligible for this program.<sup>122</sup> The provision of electricity and water by the Jiangsu provincial government constitutes a financial contribution under Section 771(5)(D)(iii) of the Act. The subsidies are specific under Section 771(5A)(D)(i) and (iii) because they are limited to specific enterprises or industries, *i.e.*, FIEs. The Department is investigating this subsidy program in the Seamless Pipe case.<sup>123</sup> Accordingly, as further described at pages 118-20 of the Seamless Pipe petition, the Department should investigate provision of this subsidy to drill pipe.

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<sup>121</sup> Jiangsu Regulations and Preferential Policies (Aug. 30, 2005), Exhibit III-31; Focus and Orientation for Encouragement of Foreign Investment in Jiangsu (Aug. 30, 2005), Exhibit III-32 (identifying “metallurgical” as an industry that is encouraged by the Provincial Government of Jiangsu).

<sup>122</sup> “New seamless tube jv in eastern China to start up in Q3,” Steel Business Briefing (Jan. 8, 2007), Exhibit III-33; “Carlyle buys a 49% stake in Chinese pipe maker,” Steel Business Briefing (Apr. 2, 2007), Exhibit III-34.

<sup>123</sup> Seamless Pipe Initiation Checklist at 27.

## 7. Provision of coking coal for less than adequate remuneration

The evidence reasonably available to Petitioners shows that the Chinese government is providing integrated drill pipe producers such as Baosteel and Hengyang Valin with coking coal for less than adequate remuneration.

State-owned mines are the predominant source of the coking coal used by integrated seamless pipe producers in China. For example, in the largest coal producing province, Shanxi Province, state-owned coal mines produced 63 percent of the province's coal in 2004.<sup>124</sup> Coking coal production in Henan province, the second largest source of coal in China, is dominated by two massive state-owned mining companies, Pingdingshan Coal Company ("Pingdingshan") and Hebi Coal Industry Group ("HBCG").<sup>125</sup> Both mining giants were founded in the 1950s and each is listed as one of the 520 national key state-owned enterprises.<sup>126</sup> Under the terms of an agreement with Pingdingshan, "Baosteel will be given priority when buying coal products from Pingdingshan."<sup>127</sup>

The supply of coking coal to China's integrated seamless pipe producers is further ensured by the GOC's system of export quotas, tariffs, and licensing requirements. The GOC increased the export duty on coke to 40 percent in 2008, and tightened export quotas.<sup>128</sup>

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<sup>124</sup> "State mines in China's Shanxi account for larger slice of output," Asia Pulse (Feb. 8, 2005), Exhibit III-35.

<sup>125</sup> "An outline of coal industry in Henan province," Chinamining.org, April 29, 2008, Exhibit III-36.

<sup>126</sup> *Id.*

<sup>127</sup> "Shanghai Baosteel Forms 2 JVs with Pingdingshan Coal," Business Daily Update (July 12, 2004), Exhibit III-37.

<sup>128</sup> "Coal export quota slashed by 24% for this year," American Metal Market (Mar. 18, 2008), Exhibit III-38; "Beijing lifts coke export duty to 40%," American Metal Market (Aug. 17, 2008), Exhibit III-39.

Price and quantity controls on domestic coking coal, combined with extensive government ownership of the coking coal industry, have resulted in an estimated benefit of nearly \$14 billion to the Chinese steel industry since 2002.<sup>129</sup>

The Department is investigating this program in the Seamless Pipe investigation.<sup>130</sup> Provision of coking coal is a financial contribution under Section 771(5)(D)(iii) of the Act, and the program is specific under Section 771(5)(E)(iv) of the Act because integrated steel producers are the predominant users of coking coal.<sup>131</sup> As further described at pages 126-30 of the Seamless Pipe petition, the Department should investigate provision of coke to integrated drill pipe producers.

## **F. GRANT PROGRAMS**

### **1. The State Key Technology Project Fund**

The GOC uses its Key Technology Project Fund to facilitate technology upgrades, improve product quality and supply, and perform other services for qualifying industries.<sup>132</sup> Recipients of these funds are mainly selected from large SOEs and state holding enterprises among 512 key enterprises, 120 pilot enterprise groups and the leading enterprises in industries.<sup>133</sup> Preference in recipient selection will be given to the “old industrial bases in north-

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<sup>129</sup> Usha C.V. Haley, *Shedding Light on Energy Subsidies in China: An Analysis of China’s Steel Industry from 2000 – 2007*, Alliance for American Manufacturing (Dec. 2007) at 30, Exhibit III-40.

<sup>130</sup> Seamless Pipe Initiation Checklist at 44-46.

<sup>131</sup> *Id.* at 29.

<sup>132</sup> *Coated Paper*, 72 Fed. Reg. at 17,491.

<sup>133</sup> Off-Road Tires IDM at 23.

east, central and west areas.”<sup>134</sup> In 2002, Wang Wanbin, Deputy Director of the State Economic and Trade Commission stated that payments under the fund were being directed to the steel industry for “import substitution of key products.”<sup>135</sup> Drill pipe producers that have received significant assistance from the fund include Hengyang Valin and Baosteel.<sup>136</sup>

This subsidy provides a financial contribution because it represents a direct transfer of funds within the meaning of Section 771(5)(D)(i) of the Act. The subsidy is specific under Section 771(5A)(D)(i) of the Act because it is limited as a matter of law to certain enterprises. In the OCTG investigation, the Department found that drill pipe producer TPCO had received a 0.01 percent *ad valorem* benefit from the program. As further described at pages 130-32 of the Seamless Pipe petition, the Department should investigate provision of this subsidy program to drill pipe producers.

## 2. Export assistance grants

The Department has repeatedly investigated provision of export assistance grants by the GOC, including in the OCTG and Seamless Pipe investigations.<sup>137</sup> Many drill pipe producers obviously export. Export assistance grants are financial contributions from the GOC under Section 771(5)(D)(i) of the Act, and are specific because they are contingent upon export performance under Sections 771(5A)(A) and (B) of the Act. As further described at pages 133-

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<sup>134</sup> Off-Road Tires IDM at 27.

<sup>135</sup> “Speech delivered at meeting of the High Tech Industries of the Chinese Academy of Sciences,” (Nov. 11, 2002), Exhibit III-41.

<sup>136</sup> Notice of Ministry of Finance on Taxation Issues of Imported Equipment for Some Technological Renovation Projects Financed by National Debt Fund, Cai Shui No. 94 (May 7, 2003), Exhibit III-42.

<sup>137</sup> Seamless Pipe Initiation Checklist at 30-31; OCTG CVD IDM at 26.

34 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate this program here.

### **3. Programs to rebate antidumping legal fees**

The Department has investigated province-specific programs to rebate antidumping legal fees in several other investigations, including OCTG and Seamless Pipe.<sup>138</sup> Drill pipe producers also are eligible to benefit from this program. For example, the Fair Trade Department of Zhejiang Province “offers professional advice to local enterprises and has helped set up a fund for fighting anti-dumping duties.”<sup>139</sup> Seamless pipe producer Zhejiang Jianli is located in Zhejiang Province<sup>140</sup> and is now subject to CVD and antidumping duties in the OCTG case.

This program provides a financial contribution because it represents a direct transfer of funds under Section 771(5)(D)(i) of the Act. This program is specific under Sections 771(5A)(A) and (B) of the Act because it is limited to companies that export. As further described at pages 134-36 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate provision of this program to drill pipe.

### **4. GOC and sub-central government grants, loans, and other incentives for development of Famous Export Brands and China World Top Brands**

Recently, the United States requested consultations with the GOC at the WTO concerning two GOC central government subsidy programs, *i.e.*, the Famous Export Brand program and the China World Top Brand program, and similar programs at the sub-central

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<sup>138</sup> Seamless Pipe Initiation Checklist at 32; OCTG CVD IDM at 26.

<sup>139</sup> “China Improves Advice to Enterprises on Anti-Dumping,” *Xinhua General News Service* (June 5, 2002), Exhibit III-43.

<sup>140</sup> Exhibit III-2.

government level for participants in the GOC programs.<sup>141</sup> As summarized by USTR, these programs provide “grants, loans, and other incentives to enterprises in China, apparently in part to implement an industrial policy of promoting the development of global Chinese brand names, and to increase sales of Chinese-branded and other Chinese merchandise around the world.”<sup>142</sup> Moreover, USTR stated that because the subsidies thus provided are explicitly tied to exports, they constitute prohibited subsidies under the SCM Agreement.<sup>143</sup>

Drill pipe producers clearly are eligible for this program. Steel pipes used in the petrochemical industry (*e.g.*, drill pipe) are specifically named by the GOC as key products eligible for support under the programs.<sup>144</sup> USTR has identified a policy of Jiangsu Province as one of the provincial programs that support Famous Export Brands.<sup>145</sup> Jiangsu Chengde’s website prominently features a copy of a “Jiangsu Famous Brand Certificate” recognizing that the company has “been affirmed as Jiangsu Famous Brand by Jiangsu Promotion Commission for Famous Brand strategy.”<sup>146</sup>

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<sup>141</sup> See *WTO Dispute Settlement Proceeding Regarding China – Grants, Loans, and Other Incentives*, 74 Fed. Reg. 7494 (USTR Feb. 17, 2009) (notice and request for comments) (“USTR Notice”).

<sup>142</sup> *Id.*

<sup>143</sup> *Id.* at 7496.

<sup>144</sup> Announcement of Chinese Famous Brand Promotion Committee and Directory Catalogue of Key Products to Become China Famous Brands, Nov. 7, 2006, Exhibit III-44.

<sup>145</sup> USTR Notice, 74 Fed. Reg. at 7495, number 20 (identifying the “Notice Regarding Selection of 2007-2008 ‘Jiangsu Province Export Brands for focused Cultivation and Development’” as a provincial Famous Export Brands program).

<sup>146</sup> Jiangsu Chengde, Jiangsu Famous Brand Certificate, Exhibit III-45.

USTR has noted that the GOC and sub-central program provides grants, loans, and “other incentives,” so it is a financial contribution under Section 771(5)(D) of the Act. It is specific under Section 771(5A)(A) because it is available only to exporters. The Department is investigating it in the Seamless Pipe investigation (as separate but linked programs).<sup>147</sup> As further described at pages 136-40 of the Seamless Pipe petition, the Department should investigate provision of this subsidy here.

#### **5. Grants to loss-making SOEs**

The GOC has notified to the WTO Subsidies Committee two programs, one local and one national, to subsidize loss-making SOEs with grants and tax benefits. These programs are intended to maintain employment.<sup>148</sup> The Department is investigating this program in the Seamless Pipe case, as it has in other cases.<sup>149</sup> As discussed above, several drill pipe producers are SOEs, and 2009 was a disastrous year for pipe producers generally, so it is likely that some have lost money (unless GOC assistance has been so massive that the global recession has not affected them). The Chinese steel industry lost a total of RMB 47.6 billion in the fourth quarter of 2008 alone.<sup>150</sup>

Grants provided under this program constitute a financial contribution pursuant to Section 771(5)(D)(i) of the Act in the form of a direct transfer of funds. The program’s tax benefits also provide a financial contribution within the meaning of Section 771(5)(D)(ii) of the

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<sup>147</sup> Seamless Pipe Initiation Checklist at 31-33.

<sup>148</sup> Protocol on the Accession of the People’s Republic of China to the WTO, and Annex 5A thereto, at XI.

<sup>149</sup> Seamless Pipe Initiation Checklist at 33.

<sup>150</sup> “China’s steelmakers’ losses double in Dec: reports,” *Agence France Presse* (Feb. 5, 2009), Exhibit III-46.

Act in the form of revenue foregone by the GOC. The subsidy is specific under Section 771(5A)(D)(i) of the Act because it is limited by law to loss-making SOEs. Moreover, pursuant to Article 10.2 of China's WTO Accession protocol, subsidies provided to SOEs are deemed specific if SOEs are the predominant recipients of such subsidies or receive disproportionately large amounts of such subsidies. That is certainly true here. As further described at pages 140-43 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate provision of such subsidies to drill pipe.

**G. SUBSIDIES TO DRILL PIPE PRODUCERS LOCATED IN ECONOMIC DEVELOPMENT ZONES**

Since the 1980s, the GOC has created economic development zones in specially designated areas in China. Under the GOC's guidance, provincial and local governments have also implemented their own economic development zones.<sup>151</sup> Presently, the number of such zones totals around 2,000.<sup>152</sup> China's economic development zones fall into several categories, including "Economic and Technological Development Zones" and "High-Tech Industrial Development Zones."<sup>153</sup>

The Department has previously investigated a number of individual economic development zones and has found that subsidies provided to companies located in such zones are

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<sup>151</sup> U.S. Department of Commerce, Commercial Service, *Regional Development and Free Trade Zones* (June 1, 2007) at 1-4 (available at [http://www.usembassy-china.org.cn/fcs/china%20pulse/regional\\_dftz\\_may.doc](http://www.usembassy-china.org.cn/fcs/china%20pulse/regional_dftz_may.doc)).

<sup>152</sup> *Id.* at 2.

<sup>153</sup> *Id.* at 2-4.

countervailable.<sup>154</sup> It should do so again here with regard to the subsidies provided to drill pipe producers under each of the economic development zone subsidy programs discussed below.

### 1. Economic and Technological Development Zones

Economic and Technological Development Zones (“ETDZs”) were one of the earliest types of economic development zones established by the GOC.<sup>155</sup> According to a recent study prepared by the U.S. Department of Commerce’s Commercial Service, a major purpose of these economic development zones is the promotion of exports. Specifically, ETDZs are designed to serve as “windows and bases” to open China to the outside world and to foster “export enlargement” in critical sectors of the Chinese economy.<sup>156</sup>

For example, the Tianjin Binhai New Area (TBNA) is an ETDZ located on China’s seacoast at the city of Tianjin. Domestic enterprises and FIEs located in the Tianjin Binhai New Area receive subsidies including reduced income taxes at the rate of 15%, the right to shorten the depreciation life of fixed assets by up to 40% for tax purposes, unspecified “favorable tax terms for export-oriented and hi-tech enterprises” located in the zone, and exemption for up to three years from the enterprise income tax on the profits derived from “new products” developed by foreign-invested enterprises located in the Tianjin Binhai New Area.<sup>157</sup>

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<sup>154</sup> Coated Paper IDM at Section I.G.; Lightweight Thermal Paper IDM at Section I.G.; Off-Road Tires IDM at Section IV.A.6.

<sup>155</sup> U.S. Department of Commerce, Commercial Service, *Regional Development and Free Trade Zones*, at 3.

<sup>156</sup> *Id.* at 3-4.

<sup>157</sup> Notice of the Ministry of Finance and the State Administration of Taxation on the Relevant Preferential Enterprise Income Tax Policies for Supporting the Development and Openness of Binhai New Area of Tianjin (Nov. 15, 2006), Exhibit III-47; Favorable Tax Terms for Export-oriented and Hi-tech Enterprises, Enorth.com (Aug. 27, 2006), Exhibit III-48; Tentative Regulations on Encouraging Foreign Merchants to Invest New

In the OCTG investigation, the Department found that drill pipe producer TPCO had benefited from two programs available in the TBNA, the Science and Technology Fund and the Accelerated Depreciation Program, with benefits of 0.03 percent and 0.51 percent *ad valorem* respectively (as well as provision of land, discussed above).<sup>158</sup> The Department is also investigating the TBNA in the Seamless Pipe case.<sup>159</sup>

As another example, the Tianjin Economic and Technological Development Area (“TEDA”) offers a number of subsidies to drill pipe maker TPCO and other companies located within it, including preferential income tax rates for FIEs,<sup>160</sup> exemption from export tariffs and VAT upon export of products incorporating overseas-origin material, the right to use VAT paid on Chinese material to offset VAT owed on purchases of imports, a credit when the VAT paid on domestic purchases exceeds the VAT paid on purchases of inputs from overseas, the ability to shorten the life of fixed assets for tax purposes, the right to repatriate unlimited foreign exchange earnings, land at a 50 percent discount (for enterprises investing in “new advance technology projects”), and utilities and infrastructure at preferential rates.<sup>161</sup>

Similarly, major drill pipe producer DP-Master Manufacturing Co. is located in the “Yangtze Riverside Economic Development Zone in Jiangyin, Jiangsu Province.”<sup>162</sup> Based on

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& Hi-tech R&D Industrialized Projects, Tianjin Binhai New Area (June 10, 2008) at Section 8, Exhibit III-49.

<sup>158</sup> OCTG CVD IDM at 19-20.

<sup>159</sup> Seamless Pipe initiation checklist at 34.

<sup>160</sup> TEDA Comprehensive Preferential Policy (June 10, 2008) at Section 1, Exhibit III-50.

<sup>161</sup> *Id.* at Sections 6-11; TEDA, Utilities and E-Infrastructure (available at [http://en.investteda.org/whyteda/utilities/utilities/t20050124\\_0426.htm](http://en.investteda.org/whyteda/utilities/utilities/t20050124_0426.htm)), Exhibit III-51.

<sup>162</sup> D-P Master Manufacturing Co., Ltd., “Company Profile,” Exhibit III-52.

evidence reasonably available to Petitioners, this offers a variety of preferential policies, including tax exemptions for FIEs, a “financial reward” from a “investment adjustable fund of the Zone,” a VAT refund from the “three items fund of science and technology,” a tax refund from the “foreign investment adjustable fund,” exemptions from administrative fees, and preferential land-use rights.<sup>163</sup>

The Department is investigating the TBNA and Tianjin Economic and Technological Development Area in the Seamless Pipe investigation.<sup>164</sup> These and other Economic Development Zones such as the Yangtze Riverside Economic Development Zone provide financial contributions in the form of grants, tax exemptions, and other forms of foregoing revenue that are financial contributions under Section 771(5)(D)(i) and (D)(ii) of the Act. They are specific under Section 771(5A)(D)(iv) of the Act, as they are limited to denizens of a particular zone within the territory of the bestowing jurisdiction. As further described at pages 146-53 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate whether drill pipe producers are located in such economic development zones and benefit thereby.

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<sup>163</sup> This is based on the Investment Guide of Jingjiang Economic Development Zone, Jiangsu Province, Exhibit 53. Jingjiang is in Jiangsu Province directly across the Yangtze from Jiangyin, and the two cooperate closely in the operation of economic development zones, maintaining the “Jiangyin Economic Development Zone in Jingjiang.” *Id.* at “Four Zones”; Xiaolong Luo and Jianfa Shen, “Cross-border Urban growth: the Case of Jiangyin Economic Development Zone in Jingjiang,” paper presented to the 15<sup>th</sup> Biennial Conference of the Asian Studies Association of Australia in 2005, at 6, 8, 16-17, Exhibit 54. Petitioners have not been able to find any other references to the “Yangtze Riverside Economic Development Zone in Jiangyin, Jiangsu Province,” but it is reasonable to believe that it is related to, if not the same as, the Jingjiang Economic Development Zone, the Jiangyin Economic Development Zone in Jingjiang, and/or the Jingjiang Economic Development Zone, which are all located along the Yangtze River in Jiangsu.

<sup>164</sup> Seamless Pipe Initiation Checklist at 34.

## 2. High-Tech Industrial Development Zones

China also provides “High-Tech Industrial Development Zones” (“HTDZs”). Companies located in HTDZs that are designated as “new and high technology enterprises” by the GOC receive a number of subsidies, including exemptions from export duties, exemptions from import duties on imported instruments and equipment that cannot be produced domestically, priority funding from state-owned banks, income taxes assessed at a reduced rate of 15%, and income taxes assessed at a reduced rate of 10% for enterprises which export 70% or more of their total annual output.<sup>165</sup>

The Department is investigating this program in the Seamless Pipe investigation, as it did in the OCTG case.<sup>166</sup> Major drill pipe producer WSP, at least, benefits, as it has facilities located in the Wuxi HTDZ, one of the HTDZs established by the GOC.<sup>167</sup> This program provides varied financial contributions under Section 771(5)(D) of the Act and is specific under Section 771(5A)(D)(iv) of the Act because it is limited to entities within a particular geographic region under the jurisdiction of the bestowing authority.<sup>168</sup> As further described at pages 153-56 of the Seamless Pipe petition, Exhibit III-5, the Department should investigate provision of this program to drill pipe.

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<sup>165</sup> Preferential Policies To Support The Construction of HTDZs and Support The Development of High and New Technology Industry, GOC State Council (Mar. 6, 1991) at Articles 4(3), 4(5), 5 and 6, Exhibit III-55.

<sup>166</sup> Seamless Pipe initiation checklist at 34-35.

<sup>167</sup> See WSP 2008 Form 20F at “Taxation” and Asset Transfer Agreement, p. 1, Exhibit III-18.

<sup>168</sup> Seamless Pipe Initiation Checklist at 24-35.

### **III. INJURY TO THE DOMESTIC INDUSTRY**

Petitioners allege that subsidized imports of drill pipe from China have caused, are causing, and are threatening to cause material injury to the domestic industry. The factual information in support of this allegation is provided to the Department and the International Trade Commission ("ITC") in Volume I of this Petition.

### **IV. CONCLUSION AND REQUEST FOR INVESTIGATION**

As demonstrated above, Chinese producers and exporters of drill pipe benefit from massive countervailable subsidies provided by the GOC and provincial and local governments in China. Accordingly, Petitioners request that the Department initiate a countervailing duty investigation of drill pipe from China.