

Case History

The following events have occurred since the publication of the Department of Commerce's (the Department) notice of initiation in the **Federal Register**. See *Notice of Initiation of Countervailing Duty Investigation: Lightweight Thermal Paper from the People's Republic of China*, 72 FR 62209 (November 2, 2007) ("Initiation Notice").

On November 23, 2007, the Department selected two Chinese producers/exporters of lightweight thermal paper ("LWTP"), Shanghai Hanhong Paper Co., Ltd. ("Hanhong"), and Xiamen Anne Paper Co., Ltd. ("Xiamen"), as mandatory respondents. See Memorandum to Stephen J. Claeys, Deputy Assistant Secretary for Import Administration, "Respondent Selection" (November 23, 2007). This memorandum is on file in the Department's Central Records Unit in Room 1117 of the main Department building ("CRU"). On November 29, 2007, Xiamen notified the Department that it did not ship the subject merchandise to the United States during the period of investigation ("POI"). The Department is accepting Xiamen's claim of no shipments of subject merchandise, pending verification. On December 4, 2007, we issued the countervailing duty ("CVD") questionnaire to the Government of the People's Republic of China ("GOC"), and Hanhong.

On December 11, 2007, the International Trade Commission ("ITC") issued its affirmative preliminary determination that there is a reasonable indication that an industry in the United States is threatened with material injury by reason of allegedly subsidized imports of LWTP from the People's Republic of China ("PRC") and Germany. See *Certain Lightweight Thermal Paper from China, Germany and Korea*, Investigation Nos. 701-TA-415 and 731-TA-1126-1128, 72 FR 70343 (Preliminary) (December 11, 2007).

On December 11, 2007, the Department postponed the preliminary determination of this investigation until March 7, 2008. See *Lightweight Thermal Paper from the People's Republic of China: Notice of Postponement of Preliminary Determination in the Countervailing Duty Investigation*, 72 FR 70303 (December 11, 2007).

On December 14, 2007, the Department sent questionnaires to producers/exporters Shenzhen Yuanming Industrial Development Co., Ltd. ("Shenzhen Yuanming") and MDCN Technology Co., Ltd. ("MDCN") asking these companies to provide their levels of shipments to the United States

DEPARTMENT OF COMMERCE

International Trade Administration

[C-570-921]

Lightweight Thermal Paper from the People's Republic of China: Preliminary Affirmative Countervailing Duty Determination and Alignment of Final Countervailing Duty Determination with Final Antidumping Duty Determination

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

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

EFFECTIVE DATE: March 14, 2008.

FOR FURTHER INFORMATION CONTACT: David Layton, David Neubacher, or Scott Holland, AD/CVD Operations, Office 1, Import Administration, International Trade Administration, U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230; telephone: (202) 482-0371, (202) 482-5823, or (202) 482-1279, respectively.

SUPPLEMENTARY INFORMATION:

during the POI. On December 26, 2007, we received a response from Shenzhen Yuanming to this questionnaire. MDCN did not respond to the Department's request for shipment information. For a detailed discussion on MDCN, please see the "Use of Facts Otherwise Available" section below.

On January 7, 2008, the Department issued its memorandum selecting two additional mandatory respondents: Shenzhen Yuanming and Guangdong Guanhao High-Tech Co., Ltd. ("GG"). See Memorandum to Stephen J. Claeys, Deputy Assistant Secretary for Import Administration, "Respondent Selection: Shenzhen Yuanming Industrial Co., Ltd. and Guangdong Guanhao High-Tech Co., Ltd." (January 7, 2008). This memorandum is on file in the Department's CRU. On January 4, 2008, we issued the CVD questionnaire to Shenzhen Yuanming and GG. We did not receive a response from Shenzhen Yuanming. For a detailed discussion on Shenzhen Yuanming, please see the "Use of Facts Otherwise Available" section below.

On January 24, 2008, Appleton Papers, Inc. (the "petitioner") requested that the Department extend the deadline for the submission of new subsidy allegations beyond January 27, 2008, the deadline established by the Department's regulations. See 19 CFR 351.301(d)(4)(i)(A). The Department granted an extension of the deadline to February 14, 2008.

We received new subsidy allegations from the petitioner on February 8, 2008, and February 14, 2008. On March 7, 2008, the Department determined to investigate aspects of the newly alleged subsidies relating to the provision of land, electricity, and chemicals at less than adequate remuneration, Special Fund for Technology Innovation Projects in Guangdong Province, Zhanjiang Municipality Grants to Famous Brand/Famous Trademark Enterprises, Government Interest Discounts, "Enterprise Innovation Funds" Grants, Grants from the Zhanjiang Economic and Technology Development Zone for High and New Technology Enterprises, Funding for Construction of Enterprise Technology R&D Centers from the Guangdong Government, Grants under the Three Science and Technology Expenditure Fund, and Prohibited Export Subsidies for Enterprises Registered in Shenzhen Municipality programs. See Memorandum to Susan Kuhbach, Director, AD/CVD Operations, Office 1, "New Subsidy Allegations" (March 7, 2008). Questions regarding these newly alleged subsidies will be sent to the

GOC and the respondent companies after the preliminary results are issued.

We received responses to our CVD questionnaires from the responding companies and the GOC on January 17, 2008, January 31, 2008, and February 19, 2008. The petitioner filed comments on these responses as follows for Hanhong on January 24, 2008, and for the GOC on February 8, 2008.

We issued supplemental questionnaires to: Hanhong on January 30, 2008; the GOC on February 14, 2008; and GG on February 27, 2008. We received responses to these supplemental questionnaires from Hanhong on February 6, 2008; the GOC on February 21, 2008; and GG on February 29, 2008. The petitioner filed comments on Hanhong's supplemental response on February 14, 2008.

On February 27, 2008, the petitioner submitted comments for consideration in the preliminary determination. On February 28, 2008, the petitioner submitted comments on the appropriate attribution methodology for subsidies received by cross-owned input suppliers.

On March 3, 2008, petitioner requested that the final determination of this countervailing duty investigation be aligned with the final determination in the companion antidumping duty investigation in accordance with section 705(a)(1) of the Tariff Act of 1930, as amended (the Act). We address this request below.

Scope of the Investigation

The merchandise subject to this investigation includes certain lightweight thermal paper, which is thermal paper with a basis weight of 70 grams per square meter ("g/m²") (with a tolerance of ± 4.0 g/m²) or less; irrespective of dimensions;¹ with or without a base coat² on one or both sides; with thermal active coating(s)³ on one or both sides that is a mixture of the dye and the developer that react and form an image when heat is applied; with or without a top coat;⁴ and without

¹ LWTP is typically produced in jumbo rolls that are slit to the specifications of the converting equipment and then converted into finished slit rolls. Both jumbo rolls and converted rolls (as well as LWTP in any other forms, presentations, or dimensions) are covered by the scope of these investigations.

² A base coat, when applied, is typically made of clay and/or latex and like materials and is intended to cover the rough surface of the paper substrate and to provide insulating value.

³ A thermal active coating is typically made of sensitizer, dye, and co-reactant.

⁴ A top coat, when applied, is typically made of polyvinyl acetone, polyvinyl alcohol, and/or like materials and is intended to provide environmental protection, an improved surface for press printing, and/or wear protection for the thermal print head.

an adhesive backing. Certain lightweight thermal paper is typically (but not exclusively) used in point-of-sale applications such as ATM receipts, credit card receipts, gas pump receipts, and retail store receipts. The merchandise subject to these investigations may be classified in the Harmonized Tariff Schedule of the United States ("HTSUS") under subheadings 4811.90.8040 and 4811.90.9090.⁵ Although HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of this investigation is dispositive.

Scope Comments

In accordance with the preamble to the Department's regulations, we set aside a period of time in our *Initiation Notice* for parties to raise issues regarding product coverage, and encouraged all parties to submit comments within 20 calendar days of publication of that notice. See *Antidumping Duties; Countervailing Duties*, 62 FR 27296, 27323, (May 19, 1997) and *Initiation Notice*, 72 FR at 62210.

On November 20, 2007, the petitioner submitted timely comments concerning the scope of the LWTP antidumping and countervailing duty investigations. On December 18, 2007, the Department issued a scope modification proposal to interested parties.⁶ The Department received no responses from interested parties to the scope modification proposal. The Department is currently evaluating the comments submitted by the petitioner and will issue its decision regarding the scope of the investigation prior to the preliminary determinations in the companion anti-dumping investigations due on May 6, 2008.

Alignment of Final Countervailing Duty Determination with Final Antidumping Duty Determination

On November 2, 2007, the Department initiated the countervailing duty and

⁵ HTSUS subheading 4811.90.8000 was a classification used for LWTP until January 1, 2007. Effective that date, subheading 4811.90.8000 was replaced with 4811.90.8020 (for gift wrap, a non-subject product) and 4811.90.8040 (for "other," including LWTP). HTSUS subheading 4811.90.9000 was a classification for LWTP until July 1, 2005. Effective that date, subheading 4811.90.9000 was replaced with 4811.90.9010 (for tissue paper, a non-subject product) and 4811.90.9090 (for "other," including LWTP). Petitioner indicated that, from time to time, LWTP also may have been entered under HTSUS subheading 3703.90, HTSUS heading 4805, and perhaps other subheadings of the HTSUS.

⁶ See Letter from the Department of Commerce, "Scope Modification Proposal" to Interested Parties (December 18, 2007). This letter is on the public record of each of the LWTP antidumping and countervailing duty investigations in the Department's CRU.

antidumping duty investigations on LWTP from the PRC. *See Initiation Notice and Notice of Initiation of Antidumping Duty Investigations: Lightweight Thermal Paper from Germany, the Republic of Korea, and the People's Republic of China*, 72 FR 62430 (November 5, 2007). The countervailing duty investigation and the antidumping duty investigation have the same scope with regard to the merchandise covered.

On March 3, 2008, petitioner submitted a letter, in accordance with section 705(a)(1) of the Act, requesting alignment of the final countervailing duty determination with the final determination in the companion antidumping duty investigation of LWTP from the PRC. Therefore, in accordance with section 705(a)(1) of the Act, and 19 CFR 351.210(b)(4), we are aligning the final countervailing duty determination with the final determination in the companion antidumping duty investigation of LWTP from the PRC. Consequently, the final countervailing duty determination will be issued on the same date as the final antidumping duty determination, which is currently scheduled to be issued on or about July 21, 2008.

Period of Investigation

The period for which we are measuring subsidies, or the POI, is calendar year 2006.

Application of the Countervailing Duty Law to Imports from the PRC

In *CFS*,⁷ the Department found that, “. . . given the substantial differences between the Soviet-style economies and the PRC's economy in recent years, the Department's previous decision not to apply the CVD law to these Soviet-style economies does not act as a bar to proceeding with a CVD investigation involving products from China.” *See CFS*, and accompanying Issues and Decision Memorandum at Comment 6; *see also* Memorandum to David M. Spooner, “Countervailing Duty Investigation of Coated Free Sheet Paper from the People's Republic of China - Whether the Analytical Elements of the Georgetown Steel Opinion are Applicable to China's Present-Day Economy,” (March 29, 2007) at 2 (“Georgetown Steel Memo”).

More recently, the Department preliminarily determined that it is appropriate and administratively desirable to identify a uniform date from which the Department will identify and

measure subsidies in the PRC for purposes of the CVD law. *See Circular Welded Carbon Quality Steel Pipe from the People's Republic of China: Preliminary Affirmative Countervailing Duty Determination; Preliminary Affirmative Determination of Critical Circumstances; and Alignment of Final Countervailing Duty Determination with Final Antidumping Duty Determination*, 72 FR 63875 (November 13, 2007) (“*CWP from the PRC*”). In *CWP from the PRC*, we preliminarily determined that date to be December 11, 2001, the date on which the PRC became a member of the WTO. Therefore, for the reasons outlined in *CWP from the PRC*, we have limited our analysis to subsidies bestowed after December 11, 2001, for this preliminary determination.

Use of Facts Otherwise Available

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

Where the Department determines that a response to a request for information does not comply with the request, section 782(d) of the Act provides that the Department will so inform the party submitting the response and will, to the extent practicable, provide that party the opportunity to remedy or explain the deficiency. If the party fails to remedy the deficiency within the applicable time limits and subject to section 782(e) of the Act, the Department may disregard all or part of the original and subsequent responses, as appropriate. Section 782(e) of the Act provides that the Department “shall not decline to consider information that is submitted by an interested party and is necessary to the determination but does not meet all applicable requirements established by the administering authority” if the information is timely, can be verified, is not so incomplete that it cannot be used, and if the interested party acted to the best of its ability in providing the information. Where all of these conditions are met, the statute requires the Department to use the information if it can do so without undue difficulties.

In this case, MDCN and Shenzhen Yuanming did not provide information we requested that is necessary to determine a countervailing duty rate for this preliminary determination. Specifically, MDCN did not respond to the Department's December 14, 2007, request for shipment data, and Shenzhen Yuanming did not respond to the Department's January 4, 2008, CVD questionnaire. Thus, in reaching our preliminary determination, pursuant to section 776(a)(2)(A), and (C) of the Act, we have based the countervailing duty rate on facts otherwise available for MDCN and Shenzhen Yuanming.

Use of Adverse Inferences

Section 776(b) of the Act further provides that the Department may use an adverse inference in applying the facts otherwise available when a party has failed to cooperate by not acting to the best of its ability to comply with a request for information. Section 776(b) of the Act also authorizes the Department to use as adverse facts available (“AFA”) information derived from the petition, the final determination, a previous administrative review, or other information placed on the record.

Section 776(c) of the Act provides that, when the Department relies on secondary information rather than on information obtained in the course of an investigation or review, it shall, to the extent practicable, corroborate that information from independent sources that are reasonably at its disposal. Secondary information is defined as “{i}nformation derived from the petition that gave rise to the investigation or review, the final determination concerning the subject merchandise, or any previous review under section 751 concerning the subject merchandise.” *See Statement of Administrative Action (SAA)* accompanying the Uruguay Round Agreements Act, H. Doc. No. 316, 103d Cong., 2d Session (1994) at 870. Corroborate means that the Department will satisfy itself that the secondary information to be used has probative value. *See SAA* at 870. To corroborate secondary information, the Department will, to the extent practicable, examine the reliability and relevance of the information to be used. The SAA emphasizes, however, that the Department need not prove that the selected facts available are the best alternative information. *See SAA* at 869.

In selecting from among the facts available, the Department has determined that an adverse inference is warranted, pursuant to section 776(b) of the Act because, by failing to submit

⁷ *See Coated Free Sheet Paper from the People's Republic of China: Final Determination of Countervailing Duty Investigation*, 72 FR 60645, 60646 (October 25, 2007) (“*CFS*”).

responses to the Department's requests for information, MDCN and Shenzhen Yuanming did not cooperate to the best of their ability in this investigation. Therefore, our preliminary determinations for these companies are based on AFA.

Selection of the Adverse Facts Available Rate

In deciding which facts to use as AFA, section 776(b) of the Act and 19 CFR 351.308(c)(1) authorize the Department to rely on information derived from (1) the petition, (2) a final determination in the investigation, (3) any previous review or determination, or (4) any information placed on the record. It is the Department's practice to select, as AFA, the highest calculated final net subsidy rate for the same type of program at issue. Where such information is not available, it is the Department's practice to apply the highest subsidy rate for any program otherwise listed. See *CFS* and accompanying Issues and Decision Memorandum at Comment 24.

The Department's practice when selecting an adverse rate from among the possible sources of information is to ensure that the rate is sufficiently adverse "as to effectuate the purpose of the facts available role to induce respondents to provide the Department with complete and accurate information in a timely manner." See *Notice of Final Determination of Sales at Less than Fair Value: Static Random Access Memory Semiconductors From Taiwan*; 63 FR 8909, 8932 (February 23, 1998). The Department's practice also ensures "that the party does not obtain a more favorable result by failing to cooperate than if it had cooperated fully." See SAA at 870. In choosing the appropriate balance between providing a respondent with an incentive to respond accurately and imposing a rate that is reasonably related to the respondent's prior commercial activity, selecting the highest prior rate "reflects a common sense inference that the highest prior margin is the most probative evidence of current margins, because, if it were not so, the importer, knowing of the rule, would have produced current information showing the margin to be less." See *Rhone Poulenc, Inc. v. United States*, 899 F. 2d 1185, 1190 (Fed. Cir. 1990).

Because MDCN and Shenzhen Yuanming failed to act to the best of their ability, as discussed above, for each program examined, we made the adverse inference that both companies benefitted from the program unless the record evidence made it clear that neither could have benefitted from that

program because, for example, we have preliminarily found the program to be not countervailable. See, e.g., *Certain Cold-Rolled Carbon Steel Flat Products From Korea; Final Affirmative CVD Determination*, 67 FR 62102 (October 3, 2002) and accompanying Issues and Decision Memorandum at "Methodology and Background Information." To calculate the program rates, we have generally relied upon the highest program rate calculated for any responding company in this investigation as adverse facts available. See *Certain In-shell Roasted Pistachios from the Islamic Republic of Iran: Final Results of Countervailing Duty Administrative Review*, 71 FR 66165 (November 13, 2006) and accompanying Issues and Decision Memorandum at "Analysis of Programs."

As discussed in further detail below, for the policy lending program, we have used the applied rate of 4.16 percent *ad valorem*. For value added tax ("VAT") programs, we have used GG's rate for the VAT and tariff exemptions on imported equipment program of 0.57 percent *ad valorem*. For grant programs, we have used GG's rate of 0.08 percent *ad valorem*. For income tax deduction or credit programs, we are applying the highest subsidy rate for any program otherwise listed, which in this instance is 4.16 percent *ad valorem*.

Finally, to calculate the program rate for the eight alleged income tax programs pertaining to either the reduction of the income tax or the payment of no tax, we have applied an adverse inference that MDCN and Shenzhen Yuanming paid no income tax during the POI (*i.e.*, calendar year 2006). The standard income tax rate for corporations in China is 30 percent, plus a 3 percent provincial income tax rate. Therefore, the highest possible benefit for these eight income tax programs is 33 percent. We are applying the 33 percent AFA rate on a combined basis (*i.e.*, the eight programs combined provided a 33 percent benefit). This 33 percent AFA rate does not apply to tax credit and refund programs.

On this basis, the AFA countervailable subsidy rate determined for MDCN and Shenzhen Yuanming is 59.50 percent *ad valorem*. See Memorandum to the File regarding "Adverse Facts Available Rate for Shenzhen Yuanming Industrial Development Co., Ltd. and MDCN Technology Co., Ltd." (March 7, 2008). A copy of this memorandum is on file in the CRU. We do not need to corroborate the calculated subsidy rates we are using as AFA because they are not considered secondary information as they are based on information

obtained in the course of this investigation. See section 776(c) of the Act; see also the SAA at 870.

Subsidies Valuation Information

Allocation Period

The average useful life ("AUL") period in this proceeding as described in 19 CFR 351.524(d)(2) is 13 years according to the U.S. Internal Revenue Service's 1977 Class Life Asset Depreciation Range System for assets used to manufacture the subject merchandise. No party in this proceeding has disputed this allocation period.

Attribution of Subsidies

The Department's regulations at 19 CFR 351.525(b)(6)(i) state that the Department will normally attribute a subsidy to the products produced by the corporation that received the subsidy. However, 19 CFR 351.525(b)(6)(ii) directs that the Department will attribute subsidies received by certain other companies to the combined sales of those companies if (1) cross-ownership exists between the companies, and (2) the cross-owned companies produce the subject merchandise, are a holding or parent company of the subject company, produce an input that is primarily dedicated to the production of the downstream product, or transfer a subsidy to a cross-owned company. The Court of International Trade ("CIT") has upheld the Department's authority to attribute subsidies based on whether a company could use or direct the subsidy benefits of another company in essentially the same way it could use its own subsidy benefits. See *Fabrique de Fer de Charleroi v. United States*, 166 F. Supp. 2d 593, 604 (CIT 2001).

According to 19 CFR 351.525(b)(6)(vi), cross-ownership exists between two or more corporations where one corporation can use or direct the individual assets of the other corporation(s) in essentially the same ways it can use its own assets. This regulation states that this standard will normally be met where there is a majority voting interest between two corporations or through common ownership of two (or more) corporations.

Hanhong: Hanhong responded to the Department's questionnaire on behalf of itself and two affiliates. The affiliates provide Hanhong with raw material (jumbo rolls of LWTP) for processing under a tolling arrangement, while maintaining title to the merchandise throughout the production process. These companies are located outside of

the PRC and are not included in our analysis.

In its questionnaire responses, Hanhong acknowledged that it has several affiliated companies inside the PRC. However, Hanhong reported that these affiliates do not produce the subject merchandise and do not provide inputs to Hanhong. Therefore, because these companies do not produce subject merchandise or otherwise fall within the situations described in 19 CFR 351.525(b)(6)(iii)-(v), we do not reach the issue of whether these companies and Hanhong are cross-owned within the meaning of 19 CFR 351.525(b)(6)(iii)-(vi), and we are not attributing any subsidies received by these companies to Hanhong. Consequently, we are limiting our investigation to subsidies received by Hanhong.

GG: GG responded to the Department's questionnaire on behalf of itself and its affiliate Zhanjiang Guanlong Paper Industrial Co., Ltd. ("Guanlong"). GG reported that Guanlong does not produce subject merchandise, but it supplies GG with base paper inputs for the subject merchandise. Based on information currently on the record supplied by GG, we preliminarily determine that cross-ownership exists within the meaning of 19 CFR 351.525(b)(6)(vi) and that Guanlong supplies an input to GG that is primarily dedicated to the production of the downstream product within the meaning of 19 CFR 351.525(b)(6)(iv). Therefore, pursuant to 19 CFR 351.525(b)(6)(iv), we are attributing the subsidies received by Guanlong to the combined sales of GG and Guanlong, excluding the sales between the two companies.

In its questionnaire responses, GG also acknowledged that it has several other affiliated companies in addition to Guanlong. However, GG reported that these affiliates do not produce the subject merchandise and do not provide inputs to GG. Therefore, because these companies do not produce subject merchandise or otherwise fall within the situations described in 19 CFR 351.525(b)(6)(iii)-(v), we do not reach the issue of whether these companies and GG are cross-owned within the meaning of 19 CFR 351.525(b)(6)(iii)-(vi), and we are not attributing any subsidies received by these companies to GG. Consequently, we are limiting our investigation to subsidies received by GG and Guanlong.

Denominator

When selecting an appropriate denominator for use in calculating the *ad valorem* subsidy rate, the Department

considers the basis for respondents' receipt of benefits under each program at issue. See 19CFR 351.525(b). As discussed in the "Attribution of Subsidies" section above, GG is cross-owned with Guanlong, a supplier of base paper, an input primarily dedicated to production of the downstream product. Guanlong did not export subject merchandise to the United States, but reported receiving certain benefits that were tied to export performance. For reasons discussed in the Calculation Memorandum for Guangdong Guanlong High-Tech Co., Ltd. (March 7, 2008) ("GG Calculation Memorandum"), we preliminarily determine these benefits do not provide a countervailable subsidy to the subject merchandise. Accordingly, for all benefits received by Guanlong that we find to be countervailable subsidies, we are using total sales of all products by GG and Guanlong (less any internal sales between GG and Guanlong) as the denominator in our calculations. See 19 CFR 351.525(b)(6)(iv).

Benchmarks and Discount Rates

Benchmarks for Short-Term RMB Denominated Loans

The Department is investigating loans received by respondents from policy banks and state-owned commercial banks ("SOCBs"), which are alleged to have been granted on a preferential, non-commercial basis. Section 771(5)(E)(ii) of the Act explains that the benefit for loans is the "difference between the amount the recipient of the loan pays on the loan and the amount the recipient would pay on a comparable commercial loan that the recipient could actually obtain on the market." Normally, the Department uses comparable commercial loans reported by the company for benchmarking purposes. See 19 CFR 351.505(a)(2)(i). However, the Department does not treat loans from government banks as commercial if they were provided pursuant to a government program. See 19 CFR 351.505(a)(2)(ii). Because the loans provided to the respondents by SOCBs were made under the Government Policy Lending program, as explained below, these loans are the very loans for which we require a suitable benchmark. Additionally, if respondents received any loans from private Chinese or foreign-owned banks, these would be unsuitable for use as benchmarks because, as explained in detail in *CFS*, the GOC's intervention in the banking sector creates significant distortions, restricting and influencing even foreign banks within the PRC. See *CFS*, at Comments 8 and 10.

If the firm did not have any comparable commercial loans during the period, the Department's regulations provide that we "may use a national interest rate for comparable commercial loans." See 19 CFR 351.505(a)(3)(ii). However, the Chinese national interest rates are not reliable as benchmarks for these loans because of the pervasiveness of the GOC's intervention in the banking sector. Loans provided by Chinese banks reflect significant government intervention and do not reflect the rates that would be found in a functioning market. See *CFS* at Comment 10.

The statute directs that the benefit is normally measured by comparison to a "loan that the recipient could actually obtain on the market." See section 771(5)(E)(ii) of the Act. Thus, the benchmark should be a market-based rate; however, there is not a functioning market for loans within the PRC. Therefore, because of the special difficulties inherent in using a Chinese benchmark for loans, the Department is selecting a market-based benchmark interest rate based on the inflation-adjusted interest rates of countries with similar per capita gross income (GNI) to the PRC, using the same regression-based methodology that we employed in *CFS*. See *CFS*, at Comment 10.

The use of an external benchmark is consistent with the Department's practice. For example, in *Softwood Lumber*, the Department used U.S. timber prices to measure the benefit for government-provided timber in Canada. See *Final Results of the Countervailing Duty Investigation of Certain Softwood Lumber Products from Canada*, 67 FR 15545 (April 2, 2002), and accompanying Issues and Decision Memorandum, at Comment 34 ("*Softwood Lumber*"). In the current proceeding, the Department preliminarily finds that the GOC's predominant role in the banking sector results in significant distortions that render the lending rates in the PRC unsuitable as market benchmarks. Therefore, as in *Softwood Lumber*, where domestic prices are not reliable, we have resorted to prices (*i.e.*, benchmarks) outside the PRC. *Discussion:* In our analysis of the PRC as a non-market economy in the antidumping duty investigation of *Certain Lined Paper Products from the PRC*, the Department found that the PRC's banking sector does not operate on a commercial basis and is subject to significant distortions, primarily arising out of the continued dominant role of the government in the sector. See "the People's Republic of China ("PRC") Status as a Non-Market Economy," May 15, 2006 (May 15 Memorandum); and

“China’s Status as a Non-Market Economy,” August 30, 2006 (August 30 Memorandum), both of which are referenced in *Notice of Final Determination of Sales at Less Than Fair Value, and Affirmative Critical Circumstances, In Part: Certain Lined Paper Products From the People’s Republic of China*, 71 FR 53079 (September 8, 2006), and as placed on the file of this investigation in a memorandum from Scott Holland to the File titled “Loan Benchmark Information” (March 5, 2008) (“*Loan Benchmark Memo*”) on file in the Department’s CRU. See, also, *CFS*, at Comment 10. In *CFS*, the Department found that the GOC still dominates the domestic Chinese banking sector and prevents banks from operating on a fully commercial basis.

We continue to find that these distortions are present in the PRC banking sector and, therefore, preliminarily determine that the interest rates of the domestic Chinese banking sector do not provide a suitable basis for benchmarking the loans provided to respondents in this proceeding.

Moreover, while foreign-owned banks do operate in the PRC, they are subject to the same restrictions as the SOCBs. Further, their share of assets and lending is negligible compared with the SOCBs. Therefore, as discussed in greater detail in *CFS*, because of the market-distorting effects of the GOC in the PRC banking sector, foreign bank lending does not provide a suitable benchmark. See *CFS*, at Comment 10.

We now turn to the issue of choosing an external benchmark. Selecting an appropriate external interest rate benchmark is particularly important in this case because, unlike prices for certain commodities and traded goods, lending rates vary significantly across the world. Nevertheless, as discussed in *CFS*, there is a broad inverse relationship between income levels and lending rates. In other words, countries with lower per capita GNI tend to have higher interest rates than countries with higher per capita GNI, a fact demonstrated by the lending rates across countries reported in *International Financial Statistics* (“*IFS*”). See <http://www.imfstatistics.org>, at attachment 3 of the *Loan Benchmark Memo*. The Department has therefore preliminarily determined that it is appropriate to compute a benchmark interest rate based on the inflation-adjusted interest rates of countries with similar per capita GNIs to the PRC, using the same regression-based methodology that we employed in *CFS*. As explained in *CFS* at Comment 10, this pool of countries

captures the broad inverse relationship between income and interest rates. We determined which countries are similar to the PRC in terms of GNI, based on the World Bank’s classification of countries as: low income; lower-middle income; upper-middle income; and high income. The PRC falls in the lower-middle income category, a group that includes 55 countries as of July 2007. See <http://web.worldbank.org>, search engine term: “lower middle income,” at attachment 4 of the *Loan Benchmark Memo*.

Many of these countries reported short-term lending and inflation rates to *IFS*. With the exceptions noted below, we used this data set to develop an inflation-adjusted market benchmark lending rate for short-term RMB loans. See Attachment 3 of the *Loan Benchmark Memo*. We did not include those economies that the Department considered to be non-market economies for AD purposes for any part of 2006: the PRC, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Turkmenistan, and Ukraine. The benchmark necessarily also excludes any economy that did not report lending and inflation rates to *IFS* for 2005 or 2006. Finally, the Department also excluded three aberrational countries, Angola, with an inflation-adjusted 2005 rate of 44.72, the Dominican Republic, with an inflation-adjusted 2004 interest rate of negative 18.83 percent; and Samoa, with an inflation-adjusted 2004 rate of negative 5.11 percent. For the reasons explained in *CFS*, this regression provides the most suitable market-based benchmark to measure the benefit from the Government Policy Lending Program, because it takes into account a key factor involved in interest rate formation, that of the quality of a country’s institutions, that is not directly tied to state-imposed distortions in the banking sector discussed above. See www.worldbank.org/wbi/governance, placed on the record in this Investigation in *Loan Benchmark Memo*.

Consistent with the regression model employed in *CFS*, the Department calculated inflation-adjusted benchmark lending rates of: 7.42 percent for 2006; 8.09 percent for 2005; 8.53 percent for 2004; and 9.96 percent for 2003. Because these are inflation-adjusted benchmarks, it is also necessary to adjust the interest paid by respondents on these RMB loans for inflation. This was done using the PRC inflation figure as reported to *IFS*. See Attachment 3 of the *Loan Benchmark Memo*.

Benchmarks for Long-Term Loans

The lending rates reported in *IFS* represent short-term lending, and there is not sufficient publicly available long-term interest rate data upon which to base a robust benchmark for long-term loans. To address this problem in *CFS*, the Department developed an adjustment to the short-term rates to convert them to long-term rates, using a ratio of short-term and long-term average one-year and five-year interest rates on interest rate swaps reported by the Federal Reserve for 2005.

On February 27, 2008, the petitioner filed comments regarding this aspect of our long-term benchmark calculation. Petitioner argues that the Department should modify its methodology for calculating the adjustment by applying the swap rates applicable to the year in which the respondent took out the loan.

We agree in part with the petitioner’s argument. Just as interest rates vary from year-to-year, so can the relationship between short- and long-term rates. Our consideration of the petitioner’s proposal has led us to make additional changes for this preliminary determination.

First, rather than base our calculation on swap rates, we have preliminarily determined that it is more appropriate to use bank rates as the basis for calculating the adjustment. The interest differential reflected in the swap rates can be characterized as the difference between the expectations of the lender and borrower on a loan set for a particular period. As such, the swap rates only look at the expectations of the market rather than factors that might influence the premium between short-term versus long-term loans. In contrast, bonds rates reflect the actions of industrial borrowers raising funds under market conditions and also take into account the risks involved with defaulting on principal and interest, which swap rates do not consider. Therefore, as bond rates appear to better reflect market conditions and factors associated with borrowing, we are replacing the Federal Reserve swap rates with the Bloomberg U.S. corporate BB-rated bond rates to calculate the adjustment for long-term loans.

Second, we have also reconsidered calculating the adjustment based on the rates of one-year and five-year rates. Long-term loans are taken out for varying time periods, and there is no reason that a single five-year premium should apply to all loans. Therefore, for this preliminary determination, we have calculated the adjustment factor based on the length of the long-term loan being countervailed.

Parties are invited to comment on these refinements in the adjustment factor for long-term loans for our final determination.

Benchmarks for Short-Term Foreign Currency-Denominated Loans

For foreign currency-denominated loans, the Department was unable to locate sufficient data on short-term lending rates for the countries in the basket of "lower middle-income countries" used for its benchmark for RMB loans. Therefore, for purposes of this preliminary determination, the Department used as a benchmark the one-year dollar interest rates for the London Interbank Offering Rate ("LIBOR"), plus the average spread between LIBOR and the one-year corporate bond rates for companies with a BB rating. Bloomberg provides data on average corporate bond rates for companies with a range from A-rated to B-rated. See Bloomberg data, placed on the record of this investigation in *Loan Benchmark Memo*. For this preliminary determination, we have determined that BB-rated bonds, which are the highest non-investment-grade and near the middle of the overall range, are the most appropriate basis for calculating the spread over LIBOR. Several of the countries in the basket report bond rates, but not all of these countries report corporate bond rates and none report corporate bond rates for firms in the industrial sector. The Department, therefore, relied on corporate bond rates for the industrial sector in the United States and the eurozone, because the market for dollars and euros is international in scope. Based on our change in methodology for both long-term RMB and foreign currency loans, we invite interested parties to comment on this change.

Discount Rates

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

Creditworthiness

The examination of creditworthiness is an attempt to determine if the company in question could obtain long-term financing from conventional commercial sources. See 19 CFR 351.505(a)(4). According to 19 CFR 351.505(a)(4)(i), the Department will generally consider a firm to be uncreditworthy if, based on information available at the time of the government-provided loan, the firm could not have

obtained long-term loans from conventional commercial sources. In making this determination, according to 19 CFR 351.505(a)(4)(i)(A)-(D), the Department normally examines the following four types of information: (1) receipt by the firm of comparable commercial long-term loans; (2) present and past indicators of the firm's financial health; (3) present and past indicators of the firm's ability to meet its costs and fixed financial obligations with its cash flow; and (4) evidence of the firm's future financial position. If a firm has taken out long-term loans from commercial sources, this will normally be dispositive of the firm's creditworthiness. However, if the firm is government-owned, the existence of commercial borrowings is not dispositive of the firm's creditworthiness. This is because, in the case of a government-owned firm, a bank is likely to assume that the government will repay the loan in the event of a default. See *Countervailing Duties; Final Rule*, 63 FR 65348, 65367 (November 28, 1998). For government-owned firms, we will make our creditworthiness determination by examining this factor and the other factors listed in 19 CFR 351.505 (a)(4)(i).

GG and Guanlong: In the petition filed on September 19, 2007, the petitioner alleged that GG was uncreditworthy beginning in 2004 through 2006. The petitioner also alleged that Guanlong was uncreditworthy in 2003 and 2004 in its comments on the preliminary determination, submitted on February 27, 2008.

Based upon our review of the allegation regarding GG, we find that the information provided by the petitioner does not provide a reasonable basis to believe or suspect that GG was uncreditworthy during the period 2004 through 2006. See Memorandum from the Team to Susan Kuhbach, "Uncreditworthiness Allegation for Guangdong Guanhao High-Tech Co., Ltd." dated March 7, 2008. Regarding Guanlong, the Department received the petitioner's allegation on February 27, 2008, and thus continues to analyze the allegation in order to determine whether there is a sufficient basis for investigating whether Guanlong is uncreditworthy. We will issue the results of our analysis after this preliminary determination.

Analysis of Programs

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

Programs Preliminarily Determined to Be Countervailable

Preferential Lending

A. Government Policy Lending Program

In *CFS*, the Department found that: (1) the GOC had in place a policy to promote the paper industry through initiatives that involved preferential financing and, hence, loans provided by Policy Banks and state-owned commercial banks (SOCBs) in the PRC constituted a direct financial contribution from the government (see section 771(5)(D)(i) of the Act); (2) the loans were *de jure* specific because the GOC had a policy "to encourage and support the growth and development of the forestry and paper industry" (see section 751(5A)(D)(i) of the Act); and (3) the loans conferred a benefit equal to the difference between what the recipient paid on the loans and what the recipient would have paid for a comparable commercial loans (see section 771(5)(E)(ii)). See *CFS*, 72 FR at 60645.

In its questionnaire response in the instant investigation, the GOC argues that the Department erred in *CFS* in finding that: (1) loans by SOCBs are financial contributions; (2) that Chinese loans could not be used as benchmarks; and, (3) that the plans and policies cited by the Department serve as a basis for finding specificity. Regarding the role of SOCBs and the propriety of using a Chinese benchmark, the GOC points to reforms in the Chinese banking sector, including reduced state ownership of certain banks in 2006 (*i.e.*, since the *CFS* period of investigation). Regarding the plans and policies, the GOC challenges the Department's interpretation of documents considered in *CFS*, and submits information about such plans and policies after 2005.

Based on our review of the GOC's claims and new information, we preliminarily determine, as we did in *CFS*, that loans provided by Policy Banks and SOCBs in the PRC constitute a direct financial contribution from the government and that Chinese national interest rates are not reliable as benchmarks because of the pervasiveness of the GOC's intervention in the banking sector. The information submitted by the GOC shows a decreasing level of state ownership in two of the "Big Four" banks, but for both, the GOC remains the majority and largest shareholder. Thus, the GOC has not provided a basis for the Department to revisit those aspects of the *CFS* determination.

Regarding the plans and policies relied upon by the Department in *CFS*,

we have considered the GOC's claims regarding their purpose and reach. We have also reviewed the Guidelines of the Eleventh Five-Year Plan for National Economic and Social Development (2006–2010) (the Eleventh Five-Year Plan), the State Council Circular on Realizing the Major Targets in the {Eleventh Five-Year Plan} and the Division of Tasks (Eleventh Five-Year Plan Implementing Circular). Because these documents were not in effect during the *CFS* POI, they were not analyzed in that case. The GOC has also submitted for this record the 2007 Development Policy for the Papermaking Industry (2007 Paper Plan). We have reviewed this document and find that, although it postdates our POI, it contains relevant information to our analysis in this investigation to the extent it illustrates trends in policy lending at the national level.

The GOC has made several claims in this case regarding the 11th Five-Year Plan and its implementing circular as well as our findings regarding 10th Five-Year Plan and the contemporaneous plans and policies in *CFS*. Among the key arguments made by the GOC are that none of these plans set mandatory requirements for the development of the industry or the financing of the industry, at least not in a way that pertains to the respondents in this case. Rather, the planning documents focus solely on encouraging vertical integration within the industry.

We did not make a finding in *CFS* that the plans in effect during that investigation were focused on vertical integration, and we are not reconsidering those earlier findings at this time. However, the GOC also makes the vertical integration argument with respect to the more recent planning documents relevant to the POI in this case. In response to that argument, we have reviewed the national plans and policies and note that there appears to be some evidence that support at the national level for the papermaking industry has become increasingly focused. Specifically, beginning with the Integration Plan, references in these national level plans and policies, are less general and more targeted to particular activities. A key target appears to be the promotion of vertical integration. As explained in the Integration Plan, in order for the paper making industry to grow and develop, China must develop forests grown for papermaking and, as that supply becomes available, the ability to make pulp.

The GOC's emphasis on vertical integration is also reflected in Decision No. 40 and the Guidance Catalogue

which lists a single "encouraged" activity for the papermaking industry: "forest-paper integrated wood slurry, paper and cardboard production consistent with the requirements of economic scale." While it is unclear what significance this has, the Eleventh Five-Year Plan and its Implementing Circular make a distinction between allocated goals, *i.e.*, "Those targets and tasks that involve government functions . . . ," and other "targets and tasks whose realization depends on the autonomous actions of market subjects . . ." The only allocated task related to papermaking is the forestry paper integration project, which the NDRC is to coordinate.

Information put on the record by the petitioner in its February 27, 2008, submission further reflects the emphasis on building an integrated production system extending back to include forestry and pulp making. This information shows that the PRC has been highly dependent on imported fiber, and that in 2003, the NDRC approved two large-scale plantation and pulp processing projects in Hainan (Asia Pulp and Paper) and Zhanjiang (originally UPM Kymmene, a Finnish company, but subsequently taken over by Shandong Chenming Paper Holdings). The information also indicates that in 2006, the NDRC had plans to build 5M hectares of forest base within ten years and to produce 5.5 million tons more wood pulp a year.

Moreover, references to financing or investment generally focus on vertical integration. This can be seen in the Integration Plan, which under "Policies and Measures" discusses the provision of capital and loans with interest grants, "with a view to promoting the organic formation of the industrial chain of papermaking industry, forestry and agriculture and eventually to enabling the construction of the national forestry and papermaking integration project to embark on the road of marketized development in which businesses make their own decision to invest." The Integration Plan also refers to "Widening the financing channels for the construction of forestry and papermaking integration." In Article 12 of Decision No. 40, it states that the Guidance Catalogue is "an important basis for guiding investment directions," and for governments "to formulate and implement policies on public finance, taxation, credit " and, as noted above, the Guidance Catalogue lists integration as being encouraged. Regarding "allocated" tasks in the Eleventh Five-Year Plan, the section of the Implementing Circular entitled "Priority Policy Tasks" indicates that

the NDRC is to "formulate and improve the investment policies for the priority sectors and regions that are supported by central government investment."

However, based on our review of these plans and policy documents, it is also clear that the GOC continues to view the development of the Chinese paper industry as important. Papermaking is one of a handful of light industries named in both the Tenth and Eleventh Five-Year Plans, and its importance to the national economy is spelled out in the Integration Plan, which states: "In our country, with the rapid development of national economy, there has been a fast growth in the consumption of paper products and an increase in import, providing a wide market for the development of papermaking industry; papermaking industry may be cultivated into an important industry of the national economy, becoming a new growth pole for our economy."

Also, we are not persuaded by the GOC's claim that the 2001 Papermaking Plan ceased to be in effect after the administering agency was dissolved in 2003. We dismissed this claim in *CFS* at comment 8. Moreover, in reviewing the status of the Chinese papermaking industry, the 2007 Papermaking Plan describes progress made under the Tenth Five-Year Plan by reference to the industry's position in 2005, which indicates that the Tenth Five-Year Plan was in place through 2005.

Furthermore, any emphasis on vertical integration projects in these planning documents does not mean that the GOC is pursuing vertical integration to the exclusion of other goals or targets for the papermaking industry. For example, the Integration Plans identified other problems faced by the industry: scale (the average size of Chinese pulp and paper producers was considerably less than in other countries); backward technology; water consumption and environmental pollution. Scale was also a concern in Decision No. 40 and the Guidance Catalogue. Finally, among the non-"allocated" goals of the Eleventh Five-Year Plan is to reduce water resource consumption and pollutant discharge."

Turning to the 2007 Papermaking Plan as an indication of the trend in policy planning, we note that it continues to place importance on the development of the paper industry generally, similar to that seen in the planning documents that we examined in *CFS*. The 2007 Papermaking Plan does not appear to place a sole or primary emphasis on vertical integration but, rather, appears to pick up on many of the same broader

concerns and goals regarding the development of the industry as those evident in certain previous planning documents. Moreover, while Article 1 of the 2007 Papermaking Plan calls for resources to be allocated by the market, with the government playing a supplementary role, Article 54 calls on domestic banks to “first” consider providing financing for large, backbone pulp and papermaking enterprises. This raises questions about the extent to which the Integration Plan or the 11th Five-Year Plan and related implementation documents represent a definitive, permanent shift away from the previous focus.

According to the GOC, none of the respondent companies in this investigation “achieved the required vertical integration with required economic scale,” and, hence, none was covered by the plans and policies discussed above. Information from the companies’ responses confirms that they are not integrated to the extent that they are involved in forestry or pulp making. Nonetheless, in light of the ambiguities in the record evidence regarding the plans and policies, we are not making any finding in this preliminary determination as to whether the national government plans and policies in themselves result in policy lending to the LWTP industry. Before the final determination we intend to seek further information to address the ambiguities. Among other things, we will seek information on how the national government supports increasing the scale of paper production, pollution control, and other activities mentioned in the plans and policies. We will also seek further information about the Eleventh Five-year and allocated targets and tasks under that Plan.

Although we are making no preliminary finding as to whether the national government plans and policies by themselves have resulted in policy lending to the LWTP industry, the petitioner has submitted certain provincial and local plans.⁸ The Guangdong Province 2005 – 2010 Papermaking Industry Development Plan (Guangdong Paper Plan) and the Zhanjiang City Eleventh Five-Year Economic and Social Development Plan (Zhanjiang Eleventh Five-Year Plan) both include the national government’s plan and policies regarding vertical integration for forestry, pulp and paper.

⁸ Although our questionnaire asked the GOC to include lower level governments in its response, these Plans were not submitted. In its supplemental questionnaire response, the GOC stated that it is consulting with the Guangdong province and Shanghai governments about their own plans for the paper-making industry.

The parallel nature of the national, provincial, and local plans supports our finding in CFS (cite at 53) that there is a requirement at the local level to implement central government industrial policies. In implementing those policies, it is clear that the provincial and local plans go beyond supporting vertical integration in the papermaking industry. In particular, the Guangdong Paper Plan states:

- In 1998, the Guangdong People’s Government determined to foster the papermaking industry (including pulping, paper-making, and paper products).
- Under “Development Emphasis,” the Plan states “expand the enterprises with dominant advantage including,” Guanlong; and “specialize hi-tech industries including” Guanlong.
- Both GG and Guanlong are named as “backbone enterprises.”
- Calls for support to “key papermaking enterprises in various ways,” including, “Financial institutes should expand their support to leading paper making enterprises.”

The Zhangjiang Eleventh Five-Year Plan states the government will:

- Continue prioritize backbone industries such as paper-making (among others).
- Develop fine paper products and special type paper.
- Further increase the service consciousness and efficiency of government branches and financial institutes, . . . , continue working on VAT rebate, financing.

The Shanghai Paper-making Industry Eleventh Five-Year Development Plan states that the government:

- Should focus on the development and construction of Pudong Kangqiao paper-making base, adding it to two other paper-making bases developed under the Tenth Five-Year Plan.
- Prioritize paper products that have high value added (many types listed, though thermal paper not explicitly named)
- Try to finance through various channels to change the current shortage of funds. Solve this shortage of funds by, *inter alia*, gaining bank loans.

As these excerpts demonstrate, the lower level governments have in place specific and detailed policies to encourage the development their paper industries through preferential financing initiatives. While the Shanghai plan postdates the POI in this investigation, it implies that support was also given to the papermaking

industry during the period of the Tenth Five-Year Plan. Similarly, the Guangdong Paper Plan states that paper-making has been a key-backbone industry since 1998.

Therefore, we preliminarily determine that the GOC has a policy in place to encourage and support the growth of the paper industry through preferential financing initiatives, as expressly reflected in the provincial and local government five-year plans. Consistent with CFS, we preliminarily determine that loans from Policy Banks and SOCBs in the PRC constitute a direct financial contribution from the government, pursuant to section 771(5)(D)(i) of the Act and that they provide a benefit equal to the difference between what the recipients paid on their loans and the amount they would have paid on comparable commercial loans. Furthermore, we preliminarily determine that the loans are *de jure* specific because of the GOC’s policy, as illustrated in the provincial and local government plans, to encourage and support the growth and development of the paper industry.

To calculate the benefit under the policy lending program, we used the benchmarks described in the Benchmarks and Discount Rates section above. And the methodology described in 19 CFR 351.505(c)(1) and (2). On this basis, we preliminarily determine that GG received a countervailable subsidy of 4.16 percent *ad valorem* and Hanhong received a countervailable subsidy of 0.18 *ad valorem* under this program.

B. Income Tax Reduction Under the “Torch” Program

GG reported that it has been designated a high-tech domestic enterprise and, therefore, pays a 15% income tax rate, compared to the regular income tax rate of 33% (30% national plus 3% local). As shown in GG’s 2006 financial statements, the company was designated as a “Key High-tech Enterprise of the Torch Program” in 1997 through Guo-Ke-Huo-Zi (1997) No. 52. The company was also placed on Guangdong Province’s list of high-tech enterprises through Yue-Di-Shui-Han (1997) No. 49. According to Yue-Fa (1998) No. 16 (Decision on Promoting the Optimization and Updating of Industrial Structure through Scientific and Technological Progress by Guangdong Provincial Party Committee and the Municipal Government of Guangdong Province of the Central Committee), GG pays a reduced 15% tax because it is on the provincial list of high-tech industries.

We preliminarily determine that the reduced income tax rate applied to GG under the Yue–Fa (1998) No. 16 is a financial contribution in the form of revenue forgone by the GOC, and it provides a benefit to the recipient in the amount of the tax savings. See section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We also preliminarily determine that the reduction afforded by this program is limited as a matter of law to certain high–tech enterprises listed on Yue–Di–Shui–Han (1997) No. 49, and, hence, is specific under section 771(5A)(D)(i) of the Act.

To calculate the benefit, we treated the income tax savings enjoyed by GG as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the company's total sales during that period. To compute the amount of the tax savings, we compared the rate GG would have paid in the absence of the program (30 percent) with the rate it paid (15 percent).

On this basis, we preliminarily determine a countervailable subsidy of 0.75 percent *ad valorem* for GG for this program.

C. Reduced Income Tax Rates for Foreign Invested Enterprises (“FIEs”) Based on Location

FIEs are encouraged to locate in designated coastal economic zones, special economic zones, and economic and technical development zones in the PRC through preferential tax rates. This program was originally created in June 1988 by the Finance Ministry under the “Provisional Rules on Exemption and Reduction of Corporate Income Tax and Business Tax of FIE in Coastal Economic Zone” and is currently administered under the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (FIE Tax Law). Under Article 7 of the FIE Tax Law, productive FIEs located in the designated economic zones pay corporate income tax at a reduced rate of either 15 or 24 percent, depending on the zone. Guanlong has reported that its tax rate is reduced because of its location.

We preliminarily determine that the reduced income tax rate paid by “productive” FIEs under this program confers a countervailable subsidy. The reduced rate is a financial contribution in the form of revenue forgone by the GOC and it provides a benefit to the recipient in the amount of the tax savings. See section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We further determine preliminarily that the reduction afforded by this program is

limited to enterprises located in designated geographic regions and, hence, is specific under section 771(5A)(D)(iv) of the Act. The Department has previously found this program to be countervailable. See *CFS*.

To calculate the benefit, we treated the income tax savings enjoyed by Guanlong as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the combined total sales of GG and Guanlong (less any sales between the two companies) during that period. To compute the amount of the tax savings, we compared the rate Guanlong would have paid for taxes at the national level in the absence of the program (30 percent) with the rate the company paid.

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

D. Two Free Three Half

Under Article 8 of the FIE Tax Law, an FIE that is “productive” and is scheduled to operate for not less than ten years may be exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years. The GOC states that in order to participate in the program a company only needs to meet the above criteria (*i.e.*, foreign invested, productive, ten–year operation term). Guanlong reported that it was in the “two free” period under this program during the POI.

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

To calculate the benefit, we treated the income tax savings enjoyed by Guanlong as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the combined total sales of GG and Guanlong (less any sales between the two companies) during that period. To

compute the amount of the tax savings, we compared the rate Guanlong would have paid in the absence of the program (see “Reduced Income Tax Rates for Foreign Invested Enterprises (FIEs) Based on Location,” above) with the rate the company paid. On this basis, we preliminarily determine that GG received a countervailable subsidy of 0.09 percent *ad valorem* under this program.

E. Local Income Tax Exemption and Reduction Program for “Productive” FIEs

Under Article 9 of the FIE Tax Law, the provincial governments have the authority to grant an exemption or reduction in local income taxes to “productive” FIEs. The GOC states that, according to the “Equity Joint Venture Tax Law,” the local income tax rate is set at ten percent of the enterprise income tax rate, which is currently 30 percent.

Guanlong reported receiving a reduced rate or exemption of local income tax during the POI.

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

To calculate the benefit, we treated the income tax savings enjoyed by Guanlong as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the combined total sales of GG and Guanlong (less any sales between the two companies) during that period. To compute the amount of the tax savings, we compared the rate Guanlong would have paid in the absence of the program (3 percent) with the rate the company paid. On this basis, we preliminarily determine the countervailable subsidy attributable to GG to be 0.01 percent *ad valorem* under this program.

F. Reduced Income Tax Rates and Exemption from Local Tax Based on Location in Pudong New Area

Hanhong reported that it is located in Shanghai Pudong New Area, which has been designated as a special economic zone and, as a result, Hanhong pays a reduced income tax rate for both the national and local taxes. The GOC confirmed that the Shanghai tax authorities apply a reduced income tax rate for virtually all enterprises located in the Shanghai Pudong New Area.

We preliminarily determine that the reduced income tax rate paid by Hanhong confers a countervailable subsidy. The reduced rate is a financial contribution in the form of revenue forgone by the GOC and it provides a benefit to the recipient in the amount of the tax savings. *See* section 771(5)(D)(ii) of the Act and 19 CFR 351.509(a)(1). We also preliminarily determine that the reduction is limited to enterprises located in designated geographical regions and, hence, is specific under section 771(5A)(D)(iv) of the Act.

To calculate the benefit, we treated the income tax savings enjoyed by Hanhong as a recurring benefit, consistent with 19 CFR 351.524(c)(1), and divided the company's tax savings received during the POI by the company's total sales during that period. To compute the amount of the tax savings, we compared the rate Hanhong would have paid in the absence of the program (33 percent) with the rate it actually paid. On this basis, we preliminarily determine a countervailable subsidy of 0.39 percent *ad valorem* for Hanhong for this program.

Indirect Tax and Import Tariff Programs

G. VAT and Tariff Exemptions on Imported Equipment

Enacted in 1997, the *Circular of the State Council on Adjusting Tax Policies on Imported Equipment* (GUOFA No. 37) (Circular No. 37) exempts both FIEs and certain domestic enterprises from the VAT and tariffs on imported equipment used in their production so long as the equipment does not fall into prescribed lists of non-eligible items. Qualified enterprises receive a certificate either from the NDRC or its provincial branch. The objective of the program is to encourage foreign investment and to introduce foreign advanced technology equipment and industry technology upgrades.

GG and its cross-owned company, Guanlong, received VAT and duty exemptions under this program. GG received these exemptions due to its

status as a qualified domestic enterprise, while Guanlong received its exemption due to its status as a qualified FIE. To receive the exemptions, a qualified enterprise only has to show this certificate depending on the scale of the enterprise and other factors to the customs officials upon importation of the equipment.

We preliminarily determine that VAT and tariff exemptions on imported equipment confer a countervailable subsidy. The exemptions are a financial contribution in the form of revenue forgone by the GOC and they provide a benefit to the recipients in the amount of the VAT and tariff savings. *See* section 771(5)(D)(ii) of the Act and 19 CFR 351.510(a)(1).

As described above, FIEs and certain domestic enterprises are eligible to receive VAT and tariff exemptions under this program. No information has been provided to demonstrate that the beneficiary companies are a non-specific group. As noted above under 2F/3H, the Department finds FIEs to be a specific group under section 771(5A)(D)(i). The addition of certain enterprises requiring approval by the NDRC does not render the program non-specific. *See CFS* at Comment 16, discussing and affirming the preliminary determination that this program is specific under section 771(5A)(D)(iii)(I) of the Act despite the fact that the "pool of companies eligible for benefits is larger than FIEs."

Normally, we treat exemptions from indirect taxes and import charges, such as the VAT and tariff exemptions, as recurring benefits, consistent with 19 CFR 351.524(c)(1) and allocate these benefits only in the year that they were received. However, when an indirect tax or import charge exemption is provided for, or tied to, the capital structure or capital assets of a firm, the Department may treat it as a non-recurring benefit and allocate the benefit to the firm over the AUL. *See* 19 CFR 351.524(c)(2)(iii) and 19 CFR 351.524(d)(2).

In the instant investigation, GG and Guanlong have provided lists of VAT and tariff exemptions that they received for imported capital equipment during the 13-year AUL period. In light of our preliminary determination to find subsidies only after December 11, 2001, we have examined VAT and tariff exemptions in 2002 and following years. For all years, the total amount of the VAT and tariff exemptions received by Guanlong was less than 0.5% of the combined sales of GG and Guanlong (less any sales between the two companies). Therefore, we do not need to reach the issue of whether the

importations were tied to the capital structure or capital assets of the firm.

For GG, the total amount of exempted VAT and tariff exemptions exceeded 0.5% of the company's sales for one year. Moreover, based on GG's information, the VAT and tariff exemption were for capital equipment. Accordingly, the Department is treating the exemptions as non-recurring benefits consistent with 19 CFR 351.524(c)(2)(iii).

To calculate the countervailable subsidy, we used our standard methodology for non-recurring grants. *See* 19 CFR 351.524(b). Specifically, we used the discount rate described above in the "Benchmarks and Discount Rates" section to calculate the amount of the benefit for the POI. On this basis, we preliminarily determine that a countervailable benefit of 0.57 percent *ad valorem* exists for GG.

Provincial Subsidy Programs

H. Funds for Outward Expansion of Industries in Guangdong Province

This program was established by the Implementing Measures of Guangdong Province concerning the Support of Development of Outward Privately-Held Enterprises (YUEBANFA {2003} No. 17) (Implementing Measures). The purpose of the program is to provide eligible private enterprises in Guangdong Province special funding for the development of export activities. The Implementing Measures indicate that this program supports the development of international trade and economic cooperation through the establishment of different funds to provide payments to enterprises for international market exploration, export credit insurance assistance, the development of trade through science and technology, export product research and development, support for defense expenses in antidumping duty cases, loan interest grants for various export-related loans and development of outward-looking enterprises. The local Department of Foreign Trade and Economic Cooperation is responsible for approving applications filed under this program and the local Bureau of Finance disburses the approved funds. GG reported receiving a grant under the Outward Expansion Program during the POI.

We preliminarily determine that the Outward Expansion Program grant is a countervailable subsidy within the meaning of section 771(5) of the Act. It is a financial contribution under section 771(5)(D)(i), and it provides a benefit in the amount of the grant (*see* 19 CFR 351.504(a)). Finally, because it is

contingent upon export performance, the subsidy is specific under section 771(5A)(B).

For grants reported by GG under this program, we divided the amount approved by GG's export sales in the year of approval and found that the amount was less than 0.5%. Therefore, in accordance with 19 CFR 351.524(b)(2), we are allocating the total amount of the subsidy to the year received. On this basis, we preliminarily determine that a countervailable subsidy of 0.08 percent *ad valorem* exists for GG.

II. Programs Preliminarily Determined To Be Not Used By GG and Hanhong

We preliminarily determine that Hanhong and GG (including Guanlong) did not apply for or receive benefits during the POI under the programs listed below.

- A. Loans provided pursuant to the Northeast Revitalization Program
 - B. Loan guarantees from government-owned and controlled banks
 - C. Income tax exemption program for export-oriented foreign investment enterprises
 - D. Corporate income tax refund program for reinvestment of FIE Profits in export-oriented enterprises
 - E. Reduced income tax rate for technology and knowledge intensive FIEs
 - F. Reduced income tax rate for high or new technology FIEs
 - G. Preferential tax policies for research and development at FIEs
 - H. Income tax credits on purchases of domestically produced equipment by domestically owned companies
 - I. Export incentive payment characterized as VAT rebates
 - J. State Key Technology Renovation Program Fund
 - K. Export interest subsidy funds for enterprises located in Shenzhen City and Zhejiang Province
 - L. Loans and interest subsidies pursuant to Liaoning Province's Five-year Framework
 - M. Currency retention program
- For purposes of this preliminary determination, we have relied on the GOC's and respondent companies' responses to preliminarily determine non-use of the programs listed above. During the course of verification, the Department will further investigate whether these programs were used by respondent companies during the POI.

IV. Programs for Which More Information is Required

As mentioned under the "Case History" section of this notice, the Department determined to investigate

several additional programs including: provision of goods for less than adequate remuneration (for electricity, land, and papermaking chemicals); and the "Prohibited Export Subsidies for Residents of the Shenzhen Special Economic Zone" program on March 7, 2008. In addition, GG and Guanlong reported that they received different municipal grants related to export assistance, research and development, and environmental protection in 2006. We are investigating some of the grants reported by GG and Guanlong as a result of the petitioner's new subsidy allegations. At this time, we do not have sufficient information to determine whether these programs confer a countervailable subsidy. We intend to seek further information on these programs from the GOC and the respondents and issue an interim analysis describing our preliminary findings with respect to these programs before the final determination so that parties will have the opportunity to comment on our findings before the final determination.

Verification

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

Suspension of Liquidation

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

Exporter/Manufacturer	Net Subsidy Rate
Guangdong Guanhao High-Tech Co., Ltd./Zhanjiang Guanlong Paper Industrial Co., Ltd.	5.68
Shanghai Hanhong Paper Co., Ltd.	0.57 (<i>de minimis</i>)
Shenzhen Yuanming Industrial Development Co., Ltd./59.50MDCN Technology Co., Ltd.	59.50
All Others	5.68

In accordance with sections 703(d) and 705(c)(5)(A) of the Act, for companies not investigated, we determined an "all others" rate by weighting the individual company subsidy rate of each of the companies investigated by each company's exports of the subject merchandise to the United States. The "all others" rate does not include zero and *de minimis* rates or

any rates based solely on the facts available. In this investigation, because we have only one rate that can be used to calculate the all-others rate, GG's rate, we have assigned that rate to all-others.

In accordance with sections 703(d)(1)(B) and (2) of the Act, we are directing U.S. Customs and Border Protection ("CBP") to suspend liquidation of all entries of LWTP from the PRC that are entered, or withdrawn from warehouse, for consumption on or after the date of the publication of this notice in the **Federal Register**, and to require a cash deposit or bond for such entries of merchandise in the amounts indicated above.

ITC Notification

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

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

Disclosure and Public Comment

In accordance with 19 CFR 351.224(b), we will disclose to the parties the calculations for this preliminary determination within five days of its announcement. Case briefs for this investigation must be submitted no later than one week after the issuance of the last verification report. See 19 CFR 351.309(c) (for a further discussion of case briefs). Rebuttal briefs must be filed within five days after the deadline for submission of case briefs, pursuant to 19 CFR 351.309(d)(1). A list of authorities relied upon, a table of contents, and an executive summary of issues should accompany any briefs submitted to the Department. Executive summaries should be limited to five pages total, including footnotes.

Section 774 of the Act provides that the Department will hold a public hearing to afford interested parties an opportunity to comment on arguments raised in case or rebuttal briefs, provided that such a hearing is requested by an interested party. If a

request for a hearing is made in this investigation, the hearing will tentatively be held two days after the deadline for submission of the rebuttal briefs, pursuant to 19 CFR 351.310(d), at the U.S. Department of Commerce, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230. Parties should confirm by telephone the time, date, and place of the hearing 48 hours before the scheduled time.

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

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

Dated: March 7, 2008.

David M. Spooner,
*Assistant Secretary for Import
Administration.*

[FR Doc. E8-5182 Filed 3-13-08; 8:45 am]

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