STATEMENT OF REASONS

Concerning the initiation of investigations into the dumping and subsidizing of

CERTAIN SUCKER RODS
ORIGINATING IN OR EXPORTED FROM CHINA

DECISION

Pursuant to subsection 31(1) of the Special Import Measures Act, the Canada Border Services Agency initiated investigations on May 18, 2018 respecting the alleged injurious dumping and subsidizing of certain sucker rods originating in or exported from China.

Cet Énoncé des motifs est également disponible en français. This Statement of Reasons is also available in French.
# TABLE OF CONTENTS

SUMMARY ......................................................................................................................... 1
INTERESTED PARTIES ........................................................................................................ 1
  COMPLAINANT ................................................................................................................ 1
  EXPORTERS ..................................................................................................................... 2
  IMPORTERS ..................................................................................................................... 2
  GOVERNMENT OF CHINA ............................................................................................... 2
PRODUCT INFORMATION ................................................................................................. 2
  DEFINITION ................................................................................................................... 2
  ADDITIONAL PRODUCT INFORMATION .................................................................... 2
  PRODUCTION PROCESS ................................................................................................. 4
  CLASSIFICATION OF IMPORTS .................................................................................... 6
LIKE GOODS AND CLASS OF GOODS ............................................................................ 7
THE CANADIAN INDUSTRY ............................................................................................... 7
  STANDING ...................................................................................................................... 7
CANADIAN MARKET ......................................................................................................... 8
EVIDENCE OF DUMPING ................................................................................................. 9
  NORMAL VALUE ............................................................................................................ 9
  EXPORT PRICE ............................................................................................................ 10
  ESTIMATED MARGINS OF DUMPING ...................................................................... 11
SECTION 20 INQUIRY ..................................................................................................... 11
EVIDENCE OF SUBSIDIZING .......................................................................................... 13
  CBSA’S CONCLUSION .................................................................................................. 17
  ESTIMATED AMOUNT OF SUBSIDY ........................................................................... 17
EVIDENCE OF INJURY ....................................................................................................... 17
  LOSS OF MARKET SHARE ............................................................................................ 18
  PRICE SUPPRESSION AND CONCESSION ................................................................ 18
  LOST SALES .................................................................................................................. 19
  REduced PROFITABILITY .............................................................................................. 19
  UNDER-UTILIZATION OF CAPACITY AND REDUCED EMPLOYMENT .................. 20
THREAT OF INJURY ........................................................................................................... 20
  MARKET CONDITIONS ................................................................................................. 20
  MASSIVE PRODUCTION CAPACITY OF CHINESE PRODUCERS .............................. 21
  MAGNITUDE OF ESTIMATED MARGINS OF DUMPING AND ESTIMATED AMOUNTS OF SUBSIDY ...................................................................................................................... 22
  PRICE SUPPRESSION .................................................................................................. 22
  CBSA’S CONCLUSION – INJURY/THREAT OF INJURY FACTORS .............................. 23
CAUSAL LINK – DUMPING/SUBSIDIZING AND INJURY .................................................. 23
CONCLUSION .................................................................................................................... 23
SCOPE OF THE INVESTIGATION ...................................................................................... 23
FUTURE ACTION ............................................................................................................... 24
RETROACTIVE DUTY ON MASSIVE IMPORTATIONS ....................................................... 25
UNDERTAKINGS ............................................................................................................... 25
PUBLICATION .................................................................................................................... 26
INFORMATION ................................................................................................................... 26
APPENDIX – DESCRIPTION OF IDENTIFIED PROGRAMS ........................................... 28

Trade and Anti-dumping Programs Directorate
SUMMARY

[1] On March 29, 2018, the Canada Border Services Agency (CBSA) received a written complaint from Dover Canada ULC – Alberta Oil Tool Division (hereinafter, “the complainant or AOT”), located in Edmonton, Alberta, alleging that imports of certain sucker rods originating in or exported from China are being injuriously dumped and subsidized. The complainant alleged that the dumping and subsidizing have caused injury and are threatening to cause injury to the Canadian industry producing like goods.

[2] On April 19, 2018, pursuant to paragraph 32(1)(a) of the Special Import Measures Act (SIMA), the CBSA informed the complainant that the complaint was properly documented. The CBSA also notified the government of China (GOC) that a properly documented complaint had been received. The GOC was provided with the non-confidential version of the subsidy complaint and was invited for consultations prior to the initiation of the subsidy investigation, pursuant to Article 13.1 of the Agreement on Subsidies and Countervailing Measures.

[3] On May 15, 2018, consultations were held between the Government of Canada and the Government of China via video conference. During the consultations, the Government of China made representations with respect to its views on the evidence presented in the non-confidential version of the subsidy complaint. On May 17, 2018, the Government of China provided written representations related to the consultations. The CBSA considered the representations made by the Government of China in its analysis.

[4] The complainant provided evidence to support the allegations that certain sucker rods from China have been dumped and subsidized. The evidence also discloses a reasonable indication that the dumping and subsidizing have caused injury and are threatening to cause injury to the Canadian industry producing like goods.

[5] On May 18, 2018, pursuant to subsection 31(1) of SIMA, the CBSA initiated investigations respecting the dumping and subsidizing of certain sucker rods from China.

INTERESTED PARTIES

Complainant


[7] The name and address of the complainant is as follows:

Dover Canada ULC – Alberta Oil Division
9530 – 60th Avenue
Edmonton, Alberta, T6E 0C1
AOT is a manufacturer and supplier of steel products for the oil and gas sector. AOT is the only producer of solid steel sucker rods in Canada. The company’s production facility is in Edmonton, Alberta. AOT’S product range includes conventional sucker rods, specialty Drive Rods® for progressing cavity pump applications, polished rods, sinker bars, pony rods and sucker rod/polished rod couplings. The company also manufactures other oil tubular products, including pup joints at another facility in Edmonton, Alberta.¹

Exporters

The CBSA has identified 40 potential exporters of the subject goods from CBSA import documentation and from information submitted in the complaint.

Importers

The CBSA has identified 22 potential importers of the subject goods from CBSA import documentation and from information submitted in the complaint.

Government of China

For the purpose of these investigations, “GOC” refers to all levels of government, i.e. federal, central, provincial/state, regional, municipal, city, township, village, local, legislative, administrative or judicial, singular, collective, elected or appointed. It also includes any person, agency, enterprise, or institution acting for, on behalf of, or under the authority of, or under the authority of any law passed by, the government of that country or that provincial, state or municipal or other local or regional government.

PRODUCT INFORMATION

Definition

For the purpose of these investigations, subject goods are defined as:

*Sucker rods, including pony rods, with or without couplings attached and with or without guides attached, manufactured to American Petroleum Institute (API) 11B specifications, equivalent standards or proprietary standards, including in a finished or semi-finished state, made of solid steel, including carbon, alloy and special grades of steel, of 2.5 inches (63.5 mm) or less in diameter of rod body, with stated measurements subject to permissible tolerances originating in or exported from the People’s Republic of China.*

Additional Product Information ²

Sucker rods are used in oil and gas extraction. In an oil or gas well, the rod string connects the above-ground drive to the down well pump(s). They are usually produced to 25 feet in length but can be longer.

¹ [http://www.albertaoiltool.com/about.htm](http://www.albertaoiltool.com/about.htm)
² Exhibit 2 (NC) – Sucker Rods Complaint, Section 2.1.
Pony rods are shorter lengths of sucker rods used to obtain the proper length of rod string when a full sucker rod would make the string too long. Pony rods are connected to each other, or to sucker rods, with couplings. They are usually produced in lengths of 1, 2, 4, 6, 8, 10 or 12 feet. Pony rods are usually made in the same diameters as sucker rods in the rod string.

Sucker rods are “semi-finished” at any point following the forming of the ends of the material input (i.e. solid bar) into the essential sucker rod shape (e.g. forging) which typically creates the pin shoulder, wrench square and transition/upset of the sucker rod.

The diameter of the sucker rod always refers to the outer diameter of the rod body, rather than any part of the forged end.

Special grades of steel referred to in the product definition includes steel grades which may not meet standard industry specifications including proprietary grades.

For greater clarify, the product definition does not cover:

- Polished rods, which are above ground connections to the rod strings;
- Sinker bars, which are used to add weight to the rod string;
- Fiberglass sucker rods (Fiber reinforced plastic);
- Hollow sucker rods; and
- Continuous sucker rods.

A “polished rod” connects the rest of the rod string to the above-ground drive. A polished rod is a special rod required to endure exposure to the surface conditions, unlike sucker rods which remain below ground the entire time they are being used. The polished rod’s placement requires particular sizing and characteristics which make it quite different from a sucker rod.

A “sinker bar” is at the opposite end from the polished rod, as it connects the sucker rod string to the pump. The bar provides weight so that the tool will lower properly into the well.

A fiberglass sucker rod or pony rod is typically manufactured in three pieces and assembled by a process that connects two metal end-fittings to a non-metallic fiber reinforced plastic rod body.

A hollow sucker rod is made of seamless steel pipe, and the screw thread joint is connected with the rod body through friction welding and heat treatment. Hollow sucker rod is used for the exploitation of heavy oil, high freezing point and waxy crude oil. The hollow rod presents the ability to inject diluents through the hollow rod in progressive cavity pumping (PCP) operations.
Continuous (coiled) sucker rods have an entire rod string in one piece with only two connections; on at the top and one at the bottom. These rods are available in either round or elliptical configurations. Continuous rod eliminates all the couplings along the entire wellbore except for the top connection to the polished rod and the bottom connection to the pump itself.

Production Process 3

Sucker rods described in the product definition are produced world-wide using materially similar production processes.

Steel bars are the raw material for sucker rods. In North America, suitable steel bars are typically referred to as special bar quality (SBQ), however this is not a rigidly standardized term. In some cases, including in other countries, the input material could be referred to as engineered bar or merchant bar. Ultimately, any steel bar that meets the relevant requirements (chemical, mechanical, dimensional and so forth) can be used as input material.

SBQ arrives at AOT’s facility and is inspected and received into inventory. The SBQ is cut to length for 25 foot sucker rods.

The SBQ is transferred to a straightener, and it is straightened by passing through straightener rollers.

Bars then get passed through an Eddy Current tester to check for any surface quality defects. All good bars are collected to form a bundle and rejected bars are kicked out in reject pockets.

Good bars are then transferred to forge machines. Each bar end (between 8 – 14 inches of material) is induction heated to 2300°F ±50°F and upset forged to dimensions specified by the drawing for one end. The bar end is measured and documented on AOT’s quality plan. After one end is completed, the bar is rotated 180 degrees and the same processes are performed on the other end.

During the forging process, the material is stamped with: AOT’s name as the manufacturer, the size, pin type, grade, heat code and date of manufacturing.

After forging, the rod is transferred to the normalizing furnace. Forged rods are put on conveyor chains which take them through the furnace at a preset speed and furnace temperatures above the critical transformational temperature (1550°F – 1675°F, depending on the desired finished grade) where the rods undergo beneficial microstructure changes. Essentially, normalizing allows for the re-crystallization of steel to offset any defects arising from the working of the metal (particularly the prior forging).

3 Exhibit 2 (NC) – Sucker Rods Complaint, pages 8-10.
Upon exiting the normalizing furnace, the rods will be brittle and have poor ductility, so the rods are then tempered. When the rods come out of the normalizing furnace, they are then slowly moved (to allow air cooling for a certain time) to the tempering furnace at preset speed and temperature. Again the speed and temperatures are governed by the finished grades, but are approximately 500°F lower than normalizing temperatures. Tempering improves the ductility and toughness of the steel.

The rods are then transferred on another conveyor which takes them through the shot peener. In this process the rods are blasted with tiny metal balls which produce compressive residual stresses on the rod surface which improves the fatigue life of the rod making them a superior quality product over non peened rods.

Rods are then settled in output table pockets to allow for cooling to room temperatures. Once cooled, rod bundles are moved to computer numerical control ("CNC") machines where they are machined and threaded on the ends. AOT uses cold-formed rolled threads on its sucker rods. The cold-formed process displaces, rather than removes metal, to maintain consistent steel grain follow. This strengthens the shear, yield, and fatigue resistance of the threads. As necessary, couplings are attached on one end and pin protector plastic caps are added to the other.

Machined rods are then sent to paint tables where they are inspected for straightness. Rods that are out of straightness are straightened. The rods are then dipped into a paint vat.

Painted rods are then arranged in a stack for bundling and strapping. Rods are covered in an oil-soluble coating to reduce atmospheric corrosion in storage. Rods are bundled to prevent handling damages during transportation. Bundled rods are then moved to the storage area from where they get loaded onto trucks for shipping out to distributors.

Product Use

Sucker rods are lengths of steel, usually with externally threaded (also referred to as male threaded) ends. Couplings are typically threaded hollow cylinders used to connect rods.

They are used in oil and gas extraction. In an oil or gas well, the rod string connects the above-ground drive to the down well pump(s).

In extracting oil or gas from a well, some form of "drive" (which includes the motor) is required to provide the motive force and power for the extraction. The drive may be located above ground, or it may be located down well. Sucker rods are only used with drives that are located above ground.

---

4 Sucker rods may fail (bend or break) when the metal becomes “fatigued” from the repeated stresses the sucker rod experiences. Improving the fatigue life means that the product will last longer before being prone to a fatigue related failure.

5 Exhibit 2 (NC) – Sucker Rods Complaint, pages 1-2.
The above-ground drive is physically connected to the down well pump(s) by a rod string. The rod string is primarily composed of a series interconnected sucker rods. The number and length of sucker rods may vary widely from well to well, depending on the various requirements established by engineers of the purchasing end users. A string of sucker rods could consist of dozens or even hundreds of sucker rods and have a total length of thousands of feet. Rod strings in Canada are typically in the range of 2,500 to 7,500 feet (roughly 100 to 300 sucker rods of 25 feet in length).

A down well pump will either be a reciprocating pump or a progressive cavity pump (“PCP”). Reciprocating pumps require the rod string to move up and down to extract oil and gas out. This style of pump is more traditional. For these kind of pumps, the drive will connect to a “walking beam” and “horse head,” which will then reciprocate by pulling the rod string up and then pushing it down.

A single “polished rod” connects the rest of the rod string to the above-ground drive. A polished rod is a special rod required to endure exposure to the surface conditions, unlike sucker rods which remain below ground the entire time they are being used. The polished rod’s placement requires particular sizing and characteristics which make it quite different from a sucker rod.

On the other extreme of the sucker rod string there is often a “sinker bar.” A sinker bar is similar to a polished rod and has special requirements based on its role. It connects the sucker rod string to the pump.

In contrast to the up-down movement of sucker rods in a reciprocating pump application, PCPs require the rod string to spin. This spinning motion is what causes the PCP to extract oil and gas from the well. The basic layout and components of a PCP well are similar to a reciprocating pump well.

Classification of Imports

The allegedly dumped and subsidized goods are normally classified under the following tariff classification number:

8413.91.00.10

The tariff classification number is for convenience of reference only. Refer to the product definition for authoritative details regarding the subject goods.
LIKE GOODS AND CLASS OF GOODS

[46] Subsection 2(1) of SIMA defines “like goods” in relation to any other goods as goods that are identical in all respects to the other goods, or in the absence of any identical goods, goods the uses and other characteristics of which closely resemble those of the other goods. In considering the issue of like goods, the Canadian International Trade Tribunal (CITT) typically looks at a number of factors, including the physical characteristics of the goods, their market characteristics and whether the domestic goods fulfill the same customer needs as the subject goods.

[47] While sucker rods come in a variety of sizes, they are nevertheless a commodity-type product. The complainant submits that all sucker rods, including pony rods, serve the same purpose of connecting the above-ground drive to the down-hole pump. All sucker rods are finished goods with compatible threading intended to be connected together and subject to the API 11B or comparable specification. They all consist of specific types of carbon or alloy (including specialty) steel and are produced on the same machinery using essentially the same production process. In addition, they are all sold through the same channel of distribution to the same oil and gas company end-users.

[48] After considering questions of use, physical characteristics and all other relevant factors, the CBSA is of the opinion that domestically produced sucker rods are like goods to the subject goods. Further, the CBSA is of the opinion that subject goods and like goods constitute only one class of goods.

THE CANADIAN INDUSTRY

[49] The complaint included data on domestic production and on domestic sales of sucker rods for domestic consumption. As previously stated, the complainant accounts for all known domestic production of like goods.

Standing

[50] Subsection 31(2) of SIMA requires that the following conditions for standing be met in order to initiate an investigation:

- the complaint is supported by domestic producers whose production represents more than 50% of the total production of like goods by those domestic producers who express either support for or opposition to the complaint; and
- the production of the domestic producers who support the complaint represents 25% or more of the total production of like goods by the domestic industry.

[51] As the only producer in Canada, the complainant exceeds the 50% threshold of support required under paragraph 31(2)(a) of SIMA and exceeds the 25% threshold for standing required under paragraph 31(2)(b) of SIMA.
CANADIAN MARKET

[52] The complainant provided estimates of imports into Canada with reference to publicly available data from Statistics Canada. Given that polished rods (non-subject goods) are also imported under the same tariff classification number as sucker rods, the complainant estimated the amount of sucker rod imports by reducing the aggregate imports reported by Statistics Canada under the subject tariff classification number using their own ratio of sucker rods to polished rods sales in Canada.

[53] The CBSA conducted its own analysis of imports of the goods based on actual import data from CBSA documentation obtained through ACROSS. 6

[54] Detailed information regarding the volume and value of imports of sucker rods and domestic production cannot be divulged for confidentiality reasons. The CBSA, however, has prepared the following tables to show the import share of sucker rods in Canada in addition to the share of the Canadian apparent market, as estimated by the CBSA.

Table 1
CBSA Estimates of Import Share
(percentage based on estimated value)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>17.8%</td>
<td>18.2%</td>
<td>19.5%</td>
<td>44.4%</td>
<td>47.6%</td>
</tr>
<tr>
<td>United States</td>
<td>65.3%</td>
<td>64.3%</td>
<td>68.3%</td>
<td>33.0%</td>
<td>30.5%</td>
</tr>
<tr>
<td>All Other Countries</td>
<td>16.9%</td>
<td>17.5%</td>
<td>12.2%</td>
<td>22.5%</td>
<td>21.8%</td>
</tr>
<tr>
<td><strong>Total Imports</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

*Note: Some totals may not add to 100% due to rounding.

Table 2
CBSA Estimates of Apparent Canadian Market Share
(percentage based on estimated value)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian Production</td>
<td>48.7%</td>
<td>41.0%</td>
<td>37.5%</td>
<td>45.7%</td>
</tr>
<tr>
<td>Imports:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>9.1%</td>
<td>10.7%</td>
<td>12.2%</td>
<td>24.1%</td>
</tr>
<tr>
<td>United States</td>
<td>33.5%</td>
<td>37.9%</td>
<td>42.7%</td>
<td>17.9%</td>
</tr>
<tr>
<td>All others</td>
<td>8.7%</td>
<td>10.3%</td>
<td>7.6%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Total Imports</td>
<td>51.3%</td>
<td>59.0%</td>
<td>62.5%</td>
<td>54.2%</td>
</tr>
<tr>
<td><strong>Estimated Canadian Market</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

*Note: Some totals may not add to 100% due to rounding.

---

6 Accelerated Commercial Operating Support System (ACROSS).
[55] The CBSA will continue to gather and analyze information on the volume of imports during the period of investigation (POI) of January 1, 2017 to March 31, 2018 as part of the preliminary phase of the dumping and subsidy investigations and will refine these estimates.

**EVIDENCE OF DUMPING**

[56] The complainant alleged that the subject goods from China have been injuriously dumped into Canada. Dumping occurs when the normal value of the goods exceeds the export price to importers in Canada.

[57] Normal values are generally based on the domestic selling price of like goods in the country of export where competitive market conditions exist or as the aggregate of the cost of production of the goods, a reasonable amount for administrative, selling and all other costs, and a reasonable amount for profits.

[58] The complainant provided information to support the allegation that the steel oil and gas products sector in China, which includes sucker rods, may not be operating under competitive market conditions and as such, normal values should be determined under section 20 of SIMA.

[59] If there is sufficient reason to believe that the conditions described in section 20 of SIMA exist in the sector under investigation, normal values will be determined, where such information is available, on the basis of the domestic selling price or as the aggregate of the cost of production, a reasonable amount for administrative, selling and all other costs, and a reasonable amount for profits of the like goods sold by producers in any country designated by the CBSA and adjusted for price comparability; or on the basis of the selling price in Canada of like goods imported from any country designated by the CBSA and adjusted for price comparability.

[60] The export price of goods sold to importers in Canada is generally the lesser of the exporter’s selling price and the importer’s purchase price, less all costs, charges, and expenses resulting from the exportation of the goods.

[61] The complainant identified its seven top selling models of sucker rods, including its strongest selling pony rod, to act as benchmarks. The complainant’s allegations of dumping are based on a comparison of estimated normal values and estimated export prices of these seven benchmark models of subject goods.

**Normal Value**

[62] The complainant submitted that they are unable to estimate the normal values on the basis of domestic prices, using the methodology of section 15 of SIMA, because domestic prices in China are not readily available.
[63] Accordingly, the complainant estimated the normal values on the basis of the methodology of paragraph 19(b) of SIMA, by estimating the costs of production of the goods, a reasonable amount for administrative, selling and all other costs, and a reasonable amount for profits.

[64] The complainant also provided information supporting the initiation of a section 20 inquiry respecting the allegedly dumped goods from China. They alleged that the prices of sucker rods in the Chinese domestic market are not reliable for determining normal values due to the presence of the conditions of section 20 of SIMA.

[65] In order to estimate the cost of production for the like goods, the complainant used, as a basis, their own cost of production, and adjusted these figures downward to reflect the estimated differences in labour and labour components of overhead costs, which reflect those in a surrogate country.

[66] For all products, the complainant estimated the cost of material as being equal to their own cost to acquire the required steel bar. The complainant reasoned that its cost structure reflects those in other competitive markets.\(^7\)

[67] The administrative, selling, and all other costs were also based on the complainant’s costs and added to the adjusted cost of production to estimate the total cost of the like goods.

[68] An amount for profit of 21.9% was added, based upon the recent financial performance of a large multinational producer of oil and gas components, including sucker rods, pony rods, polished rods and couplings.\(^8\)

[69] Generally, the CBSA found that the complainant’s normal value estimates were reasonable and consistent with approaches used by the CBSA in recent investigations.

[70] As discussed above, if there is sufficient reason to believe that the conditions described in section 20 of SIMA exist in the sector under investigation, normal values will be determined pursuant to section 20 of SIMA.

[71] As detailed in the “Section 20 Inquiry” section of this Statement of Reasons, the CBSA has information which demonstrates that the conditions of section 20 may exist in the sector under investigation.

**Export Price**

[72] The export price of goods sold to an importer in Canada is generally determined in accordance with section 24 of SIMA as being an amount equal to the lesser of the exporter’s sale price for the goods and the price at which the importer has purchased or agreed to purchase the goods adjusted by deducting all costs, charges, expenses, and duties and taxes resulting from the exportation of the goods.

---

\(^7\) Exhibit 2 (NC) – Sucker Rods Complaint, page 13.

\(^8\) Exhibit 2 (NC) – Sucker Rods Complaint, page 16; Appendix 15.
The export prices estimated by the complainant were based on price quotations obtained by AOT.\(^9\) The price quotations are FOB China port and covered multiple months and several vendors in China over the 2017 period.

In estimating the export prices, the CBSA relied on actual import data from commercial and customs documentation.

The CBSA used the value for duty and quantity reported in its Customs Commercial System (CCS) database for goods imported during the period of January 1, 2017 to March 31, 2018. Some data was adjusted by the CBSA after reviewing the import entry documentation to account for non-subject goods and inaccurate quantities.

*Estimated Margins of Dumping*

The CBSA estimated the margin of dumping by comparing the total estimated normal value with the total estimated export price of the seven benchmark models imported into Canada during the period of January 1, 2017 to March 31, 2018. This provided a reasonable estimate of the margin of dumping of all subject goods from China. Based on this analysis, it is estimated that the subject goods from China were dumped.

The estimated margin of dumping for China is 92.5% of the export price.

**SECTION 20 INQUIRY**

Section 20 is a provision of SIMA that may be applied to determine the normal value of goods in a dumping investigation where certain conditions prevail in the domestic market of the exporting country. In the case of a prescribed country under paragraph 20(1)(a) of SIMA, it is applied where, in the opinion of the CBSA, the government of that country substantially determines domestic prices and there is sufficient reason to believe that the domestic prices are not substantially the same as they would be in a competitive market.\(^{10}\)

The complainant alleged that the conditions described in section 20 prevail in the steel oil and gas products sector in China. The complainant alleged that this industry sector in China does not operate under competitive market conditions and consequently, prices established in the Chinese domestic market for sucker rods are not reliable for determining normal values.

The CBSA recognizes that governments can both directly and indirectly determine domestic prices through a variety of mechanisms. These can include influencing the supply or price of the inputs used in the production of subject goods or manipulating the supply or price of the goods themselves. In this regard, the complainant presented evidence that the GOC influences the supply and price of long-product inputs for sucker rods.

---

\(^9\) Exhibit 2 (NC) – Sucker Rods Complaint Sucker (NC), page 27.

\(^{10}\) China is a prescribed country under section 17.1 of the *Special Import Measures Regulations*. 

Trade and Anti-dumping Programs Directorate
[81] The complainant provided a variety of evidence supporting the claim that the GOC substantially determines prices of sucker rods sold in China, including a pricing analysis of long-product inputs.\(^{11}\) The complainant provided evidence of state-ownership in the steel industry, involving both producers and purchasers, including those in the steel oil and gas products sector. The complainant also provided evidence of subsidization in the steel industry, which includes the steel oil and gas products sector.

[82] Finally, the complainant cited specific GOC policies such as China's 13th Five-Year Plan,\(^{12}\) the 2016 Iron and Steel Industry Adjustment and Upgrade Plan\(^{13}\) and the State Council Decision on Accelerating the Development of Strategic Emerging Industries\(^{14}\) as evidence of continued influence on market forces in China, including the steel oil and gas products sector, which includes sucker rods.

[83] The information currently available to the CBSA confirms that there are numerous GOC industrial policies that have been implemented which influence the steel industry and the steel oil and gas products sector in China. In previous section 20 inquiries, the GOC's industrial plans have been found to strongly influence the decisions of enterprises in China.

[84] With respect to the steel oil and gas products sector, the CBSA has information which demonstrates that the input prices of sucker rods may be significantly affected by the GOC's policies and that these input prices may not be substantially the same as they would be if they were determined in a competitive market.

[85] Consequently, on May 18, 2018, the CBSA included in its investigation a section 20 inquiry in order to determine whether the conditions set forth in paragraph 20(1)(a) of SIMA prevail in the steel oil and gas products sector in China. A section 20 inquiry refers to the process whereby the CBSA collects information from various sources so that the CBSA may, on the basis of this information, form an opinion regarding the presence of the conditions described under section 20 of SIMA, in the sector which includes the goods under investigation.

[86] As part of this section 20 inquiry, the CBSA sent section 20 questionnaires to all potential producers and exporters of sucker rods in China, as well as to the GOC requesting detailed information related to the steel oil and gas products sector in China.

\(^{11}\) Long products (i.e. bars) are the primary input material for solid steel sucker rods.\(^{12}\) Exhibit 2 (NC) – Sucker Rods Complaint Sucker (NC), page 20; Appendix 25.\(^{13}\) Exhibit 2 (NC) – Sucker Rods Complaint Sucker (NC), page 20; Appendix 26.\(^{14}\) Exhibit 2 (NC) – Sucker Rods Complaint Sucker (NC), page 20; Appendix 27.
[87] In the event that the CBSA forms the opinion that domestic prices of sucker rods in China are substantially determined by the GOC and there is sufficient reason to believe that the domestic prices are not substantially the same as they would be if they were determined in a competitive market, the normal values of the goods under investigation will be determined, pursuant to paragraph 20(1)(c), where such information is available, on the basis of the domestic selling price or the aggregate of the cost of production, a reasonable amount for GS&A, and a reasonable amount for profits of the like goods sold by producers in any country designated by the CBSA and adjusted for price comparability; or, pursuant to paragraph 20(1)(d), where such information is available, on the basis of the selling price in Canada of like goods imported from any country designated by the CBSA and adjusted for price comparability.

[88] To enable the determination of normal values, should paragraph 20(1)(a) of SIMA be applicable, the CBSA requested domestic pricing and costing information from producers of sucker rods in Argentina, Brazil, India, Kazakhstan, Mexico, Romania, Russia and the United States. These countries were selected as they are all producers of sucker rods.

[89] The CBSA also requested information from Canadian importers of sucker rods regarding their sales of sucker rods from other countries.

EVIDENCE OF SUBSIDIZING

[90] In accordance with section 2 of SIMA, a subsidy exists where there is a financial contribution by a government of a country other than Canada that confers a benefit on persons engaged in the production, manufacture, growth, processing, purchase, distribution, transportation, sale, export or import of goods. A subsidy also exists in respect of any form of income or price support within the meaning of Article XVI of the General Agreement on Tariffs and Trade, 1994, being part of Annex 1A to the World Trade Organization (WTO) Agreement that confers a benefit.

[91] Pursuant to subsection 2(1.6) of SIMA, a financial contribution exists where:

a) practices of the government involve the direct transfer of funds or liabilities or the contingent transfer of funds or liabilities;

b) amounts that would otherwise be owing and due to the government are exempted or deducted or amounts that are owing and due to the government are forgiven or not collected;

c) the government provides goods or services, other than general governmental infrastructure, or purchases goods; or

d) the government permits or directs a non-governmental body to do anything referred to in any of paragraphs (a) to (c) above where the right or obligation to do the thing is normally vested in the government and the manner in which the non-governmental body does the thing does not differ in a meaningful way from the manner in which the government would do it.
[92] A state-owned enterprise (SOE) may be considered to constitute “government” for the purposes of subsection 2(1.6) of SIMA if it possesses, exercises, or is vested with, governmental authority. Without limiting the generality of the foregoing, the CBSA may consider the following factors as indicative of whether the SOE meets this standard: 1) the SOE is granted or vested with authority by statute; 2) the SOE is performing a government function; 3) the SOE is meaningfully controlled by the government; or 4) some combination thereof.

[93] If a subsidy is found to exist, it may be subject to countervailing measures if it is specific. A subsidy is considered to be specific when it is limited, in law or in fact, to a particular enterprise or is a prohibited subsidy. An “enterprise” is defined under SIMA as also including a “group of enterprises, an industry and a group of industries”. Any subsidy which is contingent, in whole or in part, on export performance or on the use of goods that are produced or that originate in the country of export is considered to be a prohibited subsidy and is, therefore, specific according to subsection 2(7.2) of SIMA for the purposes of a subsidy investigation.

[94] In accordance with subsection 2(7.3) of SIMA, notwithstanding that a subsidy is not specific in law, a subsidy may also be considered specific in fact, having regard as to whether:

- a) there is exclusive use of the subsidy by a limited number of enterprises;
- b) there is predominant use of the subsidy by a particular enterprise;
- c) disproportionately large amounts of the subsidy are granted to a limited number of enterprises; and
- d) the manner in which discretion is exercised by the granting authority indicates that the subsidy is not generally available.

[95] For purposes of a subsidy investigation, the CBSA refers to a subsidy that has been found to be specific as an “actionable subsidy”, meaning that it is countervailable.

[96] The complainant alleged that subject goods have been subsidized at a significant level and maintained that exporters/producers of subject goods have received countervailable subsidies from various levels of the GOC, including the central government as well as provincial and local government authorities.\(^\text{15}\)

[97] The complainant provided information in respect of specific subsidy programs identified in the following CBSA investigations concerning steel products from China:\(^\text{16}\)

Chinese steel oil and gas products:

i. Seamless Casing
ii. Oil Country Tubular Goods I
iii. Pup Joints
iv. Small Diameter Line Pipe
v. Large Diameter Line Pipe
vi. Fabricated Industrial Steel Components
vii. Carbon Steel Welded Pipe I

\(^{15}\) Exhibit 2 (NC) – Sucker Rods Complaint, pages 27-28.
\(^{16}\) Exhibit 2 (NC) – Sucker Rods Complaint, page 28.
Other Chinese steel products:

viii. Steel Grating
ix. Stainless Steel Sinks
x. Steel Piling Pipe
xi. Galvanized Steel Wire
xii. Rebar 1

[98] The complainant alleged that at least a quarter of the manufacturers of sucker rods in China also manufacture oil country tubular goods and/or line pipe at the same facilities used to produce sucker rods. More specifically, the complainant identified ten sucker rod manufacturers in China, out of a total of 37 licensed facilities, which are also licensed producers of oil country tubular goods (OCTG).17

[99] The complainant also relied on other publicly available information to identify subsidy programs, including investigations by the USA, the European Union and Australian authorities, as well as publications issued by the World Trade Organization and the GOC.

[100] Through this approach, the complainant identified a list of 610 Chinese subsidy programs which they alleged to have been identified in previous subsidy investigations of steel products, and of which 364 were investigated in respect of Chinese steel producers who are making products for the oil and gas industry. The complainant provided a general description of each alleged subsidy program.18

[101] The CBSA reviewed the relevant public reports for the subsidy investigations identified in the complaint. The CBSA also reviewed the descriptions of subsidy programs provided in reports for other investigations and re-investigations not listed in the complaint. Further, the CBSA reviewed China’s most recent Subsidy Notifications to the WTO.19

[102] Of particular note is the CBSA’s findings from its last re-investigation concerning Certain Seamless Casing, Certain Oil Country Tubular Goods (OCTG) and Certain Pup Joints.20 These three products are used for the exploration and exploitation of oil and natural gas.

---

17 Exhibit 2 (NC) - Sucker Rods Complaint, Attachment 4 (NC) - List of API 11B certified suppliers of sucker rods.
18 Exhibit 2 (NC) - Sucker Rods Complaint, page 29; Appendix 38.
19 New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measure; China; 30 October, 2015; and New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the Agreement on Subsidies and Countervailing Measure – China - Supplement; 29 July 2016.
20 OSP Reinvestigation 2015; https://www.cbsa-asfc.gc.ca/sima-lmsi/ri-re/ad1371-1385-1390-1404/ad1371-1385-1390-1404-ri15-nc-eng.html. Note: All three cases concern products that are in the general category of “OCTG.”
[103] Essentially these products are used in conjunction with sucker rods in the down-hole extraction of oil and gas. OCTG (seamless and welded), which includes both casing and tubing, are used to prevent the walls of the bored hole from collapsing (casing), both during drilling and after the well has been completed and to convey oil and gas to the surface (tubing). Pup joints are short lengths of OCTG tubing or casing.

[104] Twelve Chinese exporters were found to have benefited from subsidies in that re-investigation. In addition to being certified to manufacture OCTG to the API 5CT standard, two of these exporters, namely, *Freet Petroleum Machinery Equipment Co., Ltd. of Shengli Oil Field* and *Shandong Molong Petroleum Machinery Co., Ltd* are also API 11B certified to produce sucker rods. 21 This indicates that subsidy programs may be available to exporters and producers of the subject goods.

[105] Furthermore, the following 8 certified API 11B sucker rods producers are also certified for the API 5CT 22 specification for OCTG production: 23

i. Bohai Equipment New Century Machinery Manufacturing Co., Ltd.
ii. Dadi Petroleum Machinery Co., Ltd. of Inner Mongolia First Machinery (Group) Co., Ltd.
iii. Dongying City Jinyili Petroleum Machinery Co., Ltd.
iv. Henan Shuangfa Petroleum Equipment Manufacturing Incorporated Company
v. The Machinery Plant, Tuha Oilfield Company
vi. Tieling Yida Petroleum Machinery Manufacture Co., Ltd.
vii. Yan’an JiaSheng Petroleum Machinery Co., Ltd.
viii. ZYZJ Petroleum Equipment Co., Ltd 24

[106] As a result, based on the information available, the CBSA identified 22 potentially actionable subsidy programs that may have benefited Chinese sucker rod producers/exporters. Many of these are programs that the CBSA has already countervailed in respect of previous subsidy investigations concerning steel pipe and long steel from China. 25

[107] The description of the identified programs are found in the Appendix.

[108] If information becomes available during the investigation process that indicates that some exporters/producers of subject goods may have benefited from any of the alleged programs or any other programs during the POI, the CBSA will request complete information from the GOC and exporters/producers of subject goods to pursue the investigation of the program.

---

21 Exhibit 2 (NC) – Sucker Rods Complaint, Attachment 4 – List of API 11B certified suppliers of sucker rods.
23 [https://mycerts.api.org/Search/CompositeSearch](https://mycerts.api.org/Search/CompositeSearch).
25 In rare instances, the program may not have involved steel pipe but is believed to be available, or it may be investigated because it is closely related to another program. (i.e. Loan Guarantees).
CBSA’s Conclusion

[109] Sufficient evidence is available to support the allegations that certain sucker rods originating in or exported from China have been subsidized. In investigating these programs, the CBSA has requested information from the GOC, exporters and producers to determine whether exporters/producers of subject goods received benefits under these programs and whether these programs, or any other programs, are actionable subsidies and, therefore, countervailable under SIMA.

Estimated Amount of Subsidy

[110] The complainant did not estimate amounts of subsidy on a program-basis due to an absence of information. However, the complainant did estimate an amount of subsidy based on the difference between the estimated export price and the estimated cost of production of the subject goods. The complainant concluded that this indicates that the subject goods are being sold to Canada substantially below their estimated costs of production, which indicates a significant amount of subsidy. 26

[111] The CBSA estimated the amount of subsidy conferred on exporters of the subject goods by comparing the estimated weighted average full costs of the subsidized goods with the estimated weighted average export prices. The CBSA’s methodologies to estimate the full costs and the export prices for China are the same as those discussed above in the dumping section.

[112] It is the CBSA’s understanding that subsidies have the effect of lowering the cost of production of goods which allows exporters to pass-through the subsidy benefits in reducing the selling price of those goods to Canada. Therefore, the CBSA is satisfied that the exporter’s ability to sell subject goods to Canada at prices substantially below their estimated costs supports the complainant’s allegations that the imported goods are subsidized.

[113] The CBSA’s analysis of the information indicates that subject goods imported into Canada during the period of January 1, 2017 to March 31, 2018, were subsidized and that the estimated amount of subsidy is 28.9% of the estimated export price of the subject goods.

EVIDENCE OF INJURY

[114] The complainant alleged that the subject goods have been dumped and subsidized and that such dumping and subsidizing have caused material injury to the domestic industry producing like goods in Canada.

[115] SIMA refers to material injury caused to the domestic producers of like goods in Canada. The CBSA has concluded that sucker rods produced by the domestic industry are like goods to the subject goods from the named countries.

26 Exhibit 2 (NC) – Sucker Rods Complaint, pages 29-30.
In support of these allegations, the complainant has provided evidence of loss of market share, price suppression and concession, lost sales, reduced profitability, under-utilization of capacity and reduced employment.\(^{27}\)

**Loss of Market Share**\(^{28}\)

The import volumes provided by the complainant show an increase in the volume of subject goods since 2014 in both absolute and relative terms. Based on the import data provided by the complainant, imports of subject goods from China increased from 113,704 pieces in 2014 to 201,547 pieces in 2017. Relative to total imports from all countries, imports of subject goods from China increased from 9.5% in 2014 to almost 22.9% in 2017.

These imports were increasing despite market weakness from 2015 into 2016, and have since been growing faster than the market recovery after the 2014-2015 drop in the price of oil. Chinese import volumes have continued to grow from late 2016 onwards.

The CBSA’s estimates of import volumes are based on the import data found in CCS. Imports of subject goods from China increased from $9.3 million in 2014 to $15 million in 2017. Relative to total imports from all countries, imports of subject goods from China increased from 17.8% in 2014 to 44.4% in 2017.

The CBSA finds the claim of lost market share to be reasonable and well supported.

**Price Suppression and Concession**

The complainant stated that the unfair pricing of sucker rods from China has caused material injury by undercutting the price of sucker rods sold in the Canadian market, and preventing price increases that otherwise would have likely occurred. The complainant stated that round steel bar is a key cost for sucker rod production, representing the most significant factor in cost of production. Since 2016, the complainant’s actual bar costs have increased substantially,\(^{29}\) leading to an overall significant increase in the cost of production for sucker rods.

The complainant attempted a price increase in 2017 in an attempt to offset some of the growth in steel input costs; however, the market would not accept the increase. It was apparent that such an increase would result in existing customers switching to subject goods to keep pricing down.\(^{30}\)

In addition, the complainant stated that it has been forced to offer price concessions to keep business due to competing offers from Chinese subject goods.

In support, the complainant submitted evidence of nine price concessions which represented a substantial loss of profit in the POI.\(^{31}\)

---

\(^{27}\) Exhibit 2 (NC) – Sucker Rods Complaint, pages 31-49.

\(^{28}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendix 39 and narrative pages 34-37.

\(^{29}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendices 34 and 35.

\(^{30}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendix 41.

\(^{31}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendices 7 and 47.
[125] Based on the information provided in the complaint, the CBSA finds that the allegations of price suppression and concession are supported and sufficiently linked to the dumped and subsidized imports of the subject goods.

Lost Sales

[126] Due to the low prices offered by sucker rods exporters from China, the complainant submitted that it suffered significant lost sales accounts. The complainant submitted numerous specific examples to confirm lost sales in its confidential submission.

[127] The lost sales cover multiple large-scale customers, numerous product grades and extend throughout the POI including Q1-2018. AOT's lost sales include a customer which effective Q1-2018, intends to purchase 100% of its sucker rods from China.\(^{32}\)

[128] Based on the information provided in the complaint, the CBSA finds that the allegation of lost sales is supported and sufficiently linked to the dumped and subsidized imports of the subject goods.

Reduced Profitability

[129] The complainant alleged that the injury from dumped and subsidized imports of sucker rods from China reduced their profitability. To support this allegation, the complainant provided the financial statements for 2014 through 2017.\(^{33}\)

[130] AOT's financial results have dropped in 2017 in the face of rapidly increasing Chinese import volumes and has trended downwards since 2014.

[131] The complainant submitted that Chinese imports aggressively began flooding the Canadian market at heavily dumped and/or subsidized prices in 2016.

[132] The complainant submitted that it retained some profitability in the face of escalating market penetration of subject goods by lowering costs where possible. However, its inability to increase selling prices to reflect direct material cost increases noted above has significantly eroded profitability. The complainant has been unable to recoup this material cost increase because of the alleged dumped and subsidized subject goods in the market.

[133] Based on the information provided in the complaint, the CBSA finds that the complainant's reduced profitability can be reasonably attributed to the allegedly dumped and subsidized imports.

\(^{32}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendix 40.5.
\(^{33}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendix 10.
Under-utilization of capacity and reduced employment

[134] The complainant submitted that domestic capacity utilization remains inadequate, even with the market recovering. Even in a weak market, current Canadian demand would allow for much higher capacity utilization. The complainant alleged that current low capacity utilization is caused by injurious dumping and subsidizing of subject goods.

[135] The complainant also alleged that employment levels remain at depressed levels and provided evidence of hourly workers on a yearly basis in support.

[136] The complainant submitted that despite the increase in demand for sucker rods in Canada for 2017 compared to 2015 or 2016, employment levels remain depressed.

THREAT OF INJURY

[137] The complainant alleged that the dumped and subsidized goods from China threaten to cause further material injury to the Canadian domestic industry. The complainant submits that the threat posed by the subject goods is evident in a number of factors which are likely to have an impact.

[138] The complainant provided the following information to support the allegation that the subject imports from China threaten to cause further injury to the Canadian domestic industry.

Market conditions

[139] The complainant submits that the demand for sucker rods in Canada has followed the trend of the collapse of global oil prices at the end of the 2014, and the resulting decline in oil and gas exploration, followed by a hesitant recovery that has been underway since mid-2016.

[140] After the price of Brent crude oil averaged about US$100/barrel for the first three quarters of 2014, oil prices dropped significantly. The average was about US$50/barrel in 2015, before falling down below US$40 in the first half of 2016. Since then, the price has hovered around US$50/barrel during the second half of 2016 through October 2017.

[141] Oil prices are experiencing a slight recovery, as Saudi Arabia and Russia, as well as the rest of OPEC and nine non-OPEC countries, have agreed to an extension of production cuts. These signals from two of the largest oil producers in the world, led to a slight rebound in prices for October 2017.

[142] There remains significant market uncertainty in Canada. The Petroleum Services Association of Canada (PSAC) also forecasts a slight increase in wells drilled from the 7,550 forecasted for 2017 up to 7,900 in 2018. These numbers remain far below the 2012 – 2014 average numbers of 11,000.

---

34 Exhibit 1 (PRO) – Sucker Rods Complaint (PRO) – Page 45.
35 Exhibit 2 (NC) – Sucker Rods Complaint, page 44.
36 Exhibit 2 (NC) – Sucker Rods Complaint (NC), Appendix 29, pages 1, 3-26, 29, 31, 41-44, 62, 72-79.
The Canadian Association of Petroleum Producers (CAPP) projects that Canadian capital investments in oil and gas will increase somewhat from 2016 to 2017, but still remain around half the level of investment in 2014. The Daily Oil Bulletin reports the same trend.

Other concerns specific to Canada include new regulatory restrictions brought in by the National Energy Board that have resulted in the cancellation of the Energy East Pipeline project. This will hinder producers trying to get their product to market, and will further diminish demand for oil and gas production equipment such as sucker rods.

The complainant alleged that the overall decline in the price of oil has had and will continue to have a negative effect on oil exploration and the resulting demand for sucker rods. The lower return on investment in oil projects has already started to shrink capital investments in new rigs and drilling activity and will continue to do so. Lower oil and gas production reduces the derived demand for sucker rods.

Massive production capacity of Chinese producers

The complainant alleged that Chinese producers are operating at a very low level of capacity utilization – as low as 25 – 30% – and have massive excess capacity. As a result, even a single Chinese producer’s excess capacity is able to dwarf the entire Canadian market.

The complainant submitted the estimated production capacity of 10 sucker rod producers in China, which range from 461,000 to 6,000,000 37 pieces/year. The complainant emphasized that these producers represent only roughly one quarter of the 37 API certified 38 steel sucker rod producers in China.

For instance, Shandong Nine-Ring Petroleum Machinery Co., Ltd. (Nine-Ring) purports to be China’s largest producer of sucker rods. Based on Nine-Ring’s statements, its production capacity is 6 million pieces/year, but it only produces between 1,300,000 pieces and 1,800,000 pieces/year.39 This means Nine-Ring has a capacity utilization of between 22 – 30%. Given these estimates, Nine-Ring’s excess capacity alone is several times the size of the entire Canadian market.

The complainant submitted that China has massive excess capacity, which it has increasingly turned towards Canada, as shown by subject goods effectively doubling their market share between 2016 and 2017. The complainant alleged that continued increases are both imminent and foreseeable.

37 Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 42.
38 Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 4.
39 Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 43.
Magnitude of estimated margins of dumping and estimated amounts of subsidy

[151] The complainant submitted that based on normal values estimated and quotes received from Chinese suppliers, estimated margins of dumping may be up to 155% of estimated export price. In terms of subsidies, the complainant calculated that these may be as high as 53% of the estimated export price of Chinese sucker rods. The complainant alleged that based on available information, the combined estimated margin of dumping and amount of subsidies could be as high as 208%. This magnitude of dumped and/ or subsidized Chinese imports combined with excess Chinese capacity pose an imminent and foreseeable threat of injury to the complainant.

[152] The CBSA has found that sufficient evidence exists that the subject goods are being dumped and subsidized, and that the estimated margin of dumping and estimated amount for subsidy are not insignificant.

Price suppression

[153] The complainant argued that the inability to pass on increases in the material costs (i.e. SBQ) of sucker rod will exacerbate injury from price suppression. Bar prices have been quickly escalating throughout 2017 and are expected to continue to grow or remain at elevated levels for the immediate future.\(^{40}\)

[154] The complainant alleged that the inability to implement even small price increases because of dumped/subsidized subject goods in the market, means that in the future the complainant will be forced to absorb these significant raw material cost increases, with an imminent and foreseeable impact on gross and net margins.

[155] As Chinese subject goods continue to flood into the Canadian market, they will continue to gain acceptance and extend market penetration. The complainant alleged that the transition from the basic sucker rods into higher grades has already begun. Given the amount of excess capacity in China, and the unfairly low pricing made possible by the alleged dumping and subsidization, the complainant stated that it is imminent and foreseeable that subject goods will come to include a greater proportion of high grade goods, and thereby do additional injury to the complainant across its full range of production.\(^{41}\)

[156] The CBSA finds that the information provided in the complaint as described above, provides a reasonable indication that the dumping and subsidizing are threatening to cause injury to the Canadian industry.

\(^{40}\) Exhibit 1 (PRO) – Sucker Rods Complaint, Appendix 45.
\(^{41}\) Exhibit 2 (NC) – Sucker Rods Complaint, page 46.
CBSA’s Conclusion – Injury/Threat of Injury Factors

[157] The nature of the injury and threat of injury is reasonably documented by the complainant. The CBSA has reviewed the injury factors discussed above and the evidence provided by the complainant. The CBSA is satisfied that the evidence linking the alleged dumping and subsidization of certain sucker rods from China with the injury incurred by the complainant is reasonable. The injury factors specifically suffered by the complainant include loss of market share, price suppression and lost sales, reduced profitability, under-utilization of capacity and reduced employment.

CAUSAL LINK – DUMPING/SUBSIDIZING AND INJURY

[158] The CBSA finds that the complaint has sufficiently linked the injury it has suffered to the alleged dumping and subsidizing of the subject goods imported into Canada from China. The injury that the complainant has suffered, in terms of loss of market share, price suppression and concession, lost sales, reduced profitability, under-utilization of capacity and reduced employment, is related directly to the price advantage the apparent dumping and subsidizing have produced between the subject imports and the Canadian produced goods. Evidence has been provided to establish this link in the form of market data, price quotes, lost sales, and financial information related to their production and sales of like goods in Canada.

[159] The CBSA also finds that the complainant has provided sufficient evidence that there is a reasonable indication that continued alleged dumping and subsidizing of subject goods imported into Canada threaten to cause injury to the Canadian industry producing these goods.

CONCLUSION

[160] Based on information provided in the complaint, other available information, and the CBSA’s internal import documentation, the CBSA is of the opinion that there is evidence that certain sucker rods originating in or exported from China, have been dumped and subsidized, and there is a reasonable indication that such dumping and subsidizing have caused or are threatening to cause injury to the Canadian industry. As a result, based on the CBSA’s examination of the evidence and its own analysis, dumping and subsidy investigations were initiated on May 18, 2018.

SCOPE OF THE INVESTIGATION

[161] The CBSA is conducting investigations to determine whether the subject goods have been dumped and/or subsidized.

[162] The CBSA has requested information from all potential exporters and importers to determine whether or not subject goods imported into Canada during the period of investigation (POI) of January 1, 2017 to March 31, 2018, were dumped. The information requested will be used to determine the normal values, export prices and margins of dumping, if any.
[163] The CBSA requested information from producers and exporters of sucker rods in China, as well as the GOC, to determine whether the conditions of section 20 exist in the sector under investigation. The CBSA has also requested costing and sales information from producers of sucker rods in Argentina, Brazil, India, Kazakhstan, Mexico, Romania, Russia and the USA. Where sufficiently available, this information may be used to determine normal values of the goods in the event that the CBSA forms an opinion that the evidence in this investigation demonstrates that section 20 conditions exist in the steel oil and gas products sector, which includes sucker rods, in China.

[164] The CBSA has also requested information from the GOC and all potential exporters in China to determine whether or not subject goods imported into Canada during the POI of January 1, 2017 to March 31, 2018, were subsidized. The information requested will be used to determine the amounts of subsidy, if any.

[165] All parties have been clearly advised of the CBSA’s information requirements and the time frames for providing their responses.

**FUTURE ACTION**

[166] The CITT will conduct a preliminary inquiry to determine whether the evidence discloses a reasonable indication that the alleged dumping and subsidizing of the goods have caused or are threatening to cause injury to the Canadian industry. The CITT must make its decision on or before the 60th day after the date of the initiation of the investigations. If the CITT concludes that the evidence does not disclose a reasonable indication of injury to the Canadian industry, the investigations will be terminated.

[167] If the CITT finds that the evidence discloses a reasonable indication of injury to the Canadian industry and the CBSA investigation(s) preliminarily reveals that the goods have been dumped and/or subsidized, the CBSA will make a preliminary determination(s) of dumping and/or subsidizing within 90 days after the date of the initiation of the investigations, by August 16, 2018. Where circumstances warrant, this period may be extended to 135 days from the date of the initiation of the investigations.

[168] Under section 35 of SIMA, if, at any time before making preliminary determinations, the CBSA is satisfied that the volume of goods of a country is negligible, the investigation(s) will be terminated with respect to goods of that country.

[169] Imports of subject goods released by the CBSA on and after the date of a preliminary determination of dumping and/or subsidizing, other than a preliminary determination in which a determination was made that the margin of dumping of, or the amount of subsidy on, the goods is insignificant, may be subject to provisional duty in an amount not greater than the estimated margin of dumping or the estimated amount of subsidy on the imported goods.

[170] Should the CBSA make preliminary determinations of dumping and/or subsidizing, the investigations will be continued for the purpose of making final decisions within 90 days after the date of the preliminary determinations.
[171] After the preliminary determination, if, in respect of goods of a particular exporter, the CBSA’s investigations reveal that imports of the subject goods have not been dumped or subsidized, or that the margin of dumping of, or amount of subsidy on, the goods is insignificant, the investigation(s) will be terminated in respect of those goods.

[172] If final determinations of dumping and/or subsidizing are made, the CITT will continue its inquiry and hold public hearings into the question of material injury to the Canadian industry. The CITT is required to make a finding with respect to the goods to which the final determinations of dumping and/or subsidizing apply, not later than 120 days after the CBSA’s preliminary determinations.

[173] In the event of an injury finding by the CITT, imports of subject goods released by the CBSA after that date will be subject to anti-dumping duty equal to the applicable margin of dumping and countervailing duty equal to the amount of subsidy on the imported goods. Should both anti-dumping and countervailing duties be applicable to subject goods, the amount of any anti-dumping duty may be reduced by the amount that is attributable to an export subsidy.

RETROACTIVE DUTY ON MASSIVE IMPORTATIONS

[174] When the CITT conducts an inquiry concerning injury to the Canadian industry, it may consider if dumped and/or subsidized goods that were imported close to or after the initiation of investigations constitute massive importations over a relatively short period of time and have caused injury to the Canadian industry.

[175] Should the CITT issue such a finding, anti-dumping and countervailing duties may be imposed retroactively on subject goods imported into Canada and released by the CBSA during the period of 90 days preceding the day of the CBSA making preliminary determinations of dumping and/or subsidizing.

[176] In respect of importations of subsidized goods that have caused injury, however, this provision is only applicable where the CBSA has determined that the whole or any part of the subsidy on the goods is a prohibited subsidy, as explained in the previous “Evidence of Subsidizing” section. In such a case, the amount of countervailing duty applied on a retroactive basis will be equal to the amount of subsidy on the goods that is a prohibited subsidy.

UNDERTAKINGS

[177] After a preliminary determination of dumping by the CBSA, other than a preliminary determination in which a determination was made that the margin of dumping of, or the amount of subsidy on, the goods is insignificant, an exporter may submit a written undertaking to revise selling prices to Canada so that the margin of dumping or the injury caused by the dumping is eliminated. An acceptable undertaking must account for all or substantially all of the exports to Canada of the dumped goods.
Similarly, after a preliminary determination of subsidizing by the CBSA, a foreign government may submit a written undertaking to eliminate the subsidy on the goods exported or to eliminate the injurious effect of the subsidy, by limiting the amount of the subsidy or the quantity of goods exported to Canada. Alternatively, exporters with the written consent of their government may undertake to revise their selling prices so that the amount of the subsidy or the injurious effect of the subsidy is eliminated.

Interested parties may provide comments regarding the acceptability of undertakings within nine days of the receipt of an undertaking by the CBSA. The CBSA will maintain a list of parties who wish to be notified should an undertaking proposal be received. Those who are interested in being notified should provide their name, telephone and fax numbers, mailing address and e-mail address to one of the officers identified in the “Information” section of this document.

If undertakings were to be accepted, the investigations and the collection of provisional duties would be suspended. Notwithstanding the acceptance of an undertaking, an exporter may request that the CBSA’s investigations be completed and that the CITT complete its injury inquiry.

Publication

Notice of the initiation of these investigations is being published in the Canada Gazette pursuant to subparagraph 34(1)(a)(ii) of SIMA.

Information

Interested parties are invited to file written submissions presenting facts, arguments, and evidence that they feel are relevant to the alleged dumping and subsidizing. Written submissions should be forwarded to the attention of one of the officers identified below.

To be given consideration in these investigations, all information should be received by the CBSA by September 26, 2018.

Any information submitted to the CBSA by interested parties concerning these investigations is considered to be public information unless clearly marked “confidential”. Where the submission by an interested party is confidential, a non-confidential version of the submission must be provided at the same time. This non-confidential version will be made available to other interested parties upon request.

Confidential information submitted to the CBSA will be disclosed on written request to independent counsel for parties to these proceedings, subject to conditions to protect the confidentiality of the information. Confidential information may also be released to the CITT, any court in Canada, or a WTO/NAFTA dispute settlement panel. Additional information respecting the Directorate’s policy on the disclosure of information under SIMA may be obtained by contacting one of the officers identified below or by visiting the CBSA’s website.
[186] The investigation schedules and a complete listing of all exhibits and information are available at: www.cbsa-asfc.gc.ca/sima-lmsi/i-e/menu-eng.html. The exhibits listing will be updated as new exhibits and information are made available.

[187] This Statement of Reasons has been provided to persons directly interested in these proceedings. It is also available through the CBSA’s website at the address below. For further information, please contact the officers identified as follows:

Mail: SIMA Registry and Disclosure Unit
      Trade and Anti-dumping Programs Directorate
      Canada Border Services Agency
      100 Metcalfe Street, 11th floor
      Ottawa, Ontario K1A 0L8
      Canada

Telephone: Andrew Manera 613-946-2052
           Khatira Akbari 613-952-0532

Fax: 613-948-4844

E-mail: simaregistry@cbsa-asfc.gc.ca

Web site: www.cbsa-asfc.gc.ca/sima-lmsi

MAY 3 1 2018

Doug Band
Director General
Trade and Anti-dumping Programs Directorate

ATTACHMENT

Appendix 1 – Description of Identified Programs
APPENDIX – DESCRIPTION OF IDENTIFIED PROGRAMS

PREFERENTIAL LOANS AND LOAN GUARANTEES

Program 1: Loans from State-Owned Banks at Preferential Rates

This program relates to government loans at a preferential rate of interest. The benefit provided is a lower rate of interest than would otherwise be available if the enterprises had to obtain a non-guaranteed commercial loan. Financial institutions may be considered to constitute “government” if they possess, exercise or are vested with government authority, which may be indicated by the following factors:

- Where a statute or other legal instrument expressly vests government authority in the entity concerned;
- Evidence that an entity is, in fact, exercising governmental functions; and
- Evidence that a government exercises meaningful control over an entity.

In Canada – Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that one exporter received benefits from this program. In addition, in Certain Carbon and Alloy Steel Line Pipe, the CBSA determined four exporters received benefits from this program.

In US – Carbon Quality Steel Line Pipe and US – High Pressure Steel Cylinders, the American authority countervailed this program.

This program may constitute a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA, in that amounts that would otherwise be owing and due to the government are reduced or exempted, and would confer a benefit to the recipient equal to the amount of the reduction/exemption. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 2: Loan guarantees through the Government of China/SOE banks/public bodies

Assurance provided by the Government of China, a SOE bank or public body (the guarantor) to assume the debt obligation of a borrower if that borrower defaults. A guarantee can be limited or unlimited, making the guarantor liable for only a portion or all of the debt.

In Australia – Rebar and in EU – Rod in Coils, authorities countervailed this program.
This program may constitute a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA, in that amounts that would otherwise be owing and due to the government are reduced or exempted, and would confer a benefit to the recipient equal to the amount of the reduction/exemption. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 3: Debt Forgiveness on loans from State-Owned Banks

The GOC forgives certain debts owing by certain companies.

In Canada – Certain Seamless Casing, the CBSA determined one exporter received benefits from this program.

In US - Carbon and Alloy Steel Standard, Line and Pressure Pipe and US - Circular Welded Carbon Quality Steel Pipe, and in US – Oil Tubular Goods, the American authority determined that a respondent received benefits as debt forgiveness.

In Australia – Carbon and Alloy Steel Cut-to-Length Plate and Australian - Cold Rolled Steel Flat products, the Australian authority countervailed this program.

This program may constitute a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA, in that amounts that would otherwise be owing and due to the government are reduced or exempted, and would confer a benefit to the recipient equal to the amount of the reduction/exemption. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 4: Preferential Export Financing

Export loans by the Export-Import Bank of China, GOC policy banks, and SOCBs constitute direct financial contributions from the GOC, rather than commercial loans, because the GOC banking system remains under state control and “continues to suffer from the legacies associated with the longstanding pursuit of government objectives.”

In Canada – Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that one exporter received benefits from this program.

In US – Carbon and Alloy Steel Cut-to-Length Plate and Cold-Rolled Steel Flat Products, the American authority countervailed this program.

In Australia – Carbon and Alloy Steel Cut-to-Length Plate, the Australian authority countervailed this program.

\[\text{Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 38, Program 613.}\]
This program may constitute a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA; i.e., amounts that would otherwise be owing and due to the government are exempted or deducted or amounts that are owing and due to the government are forgiven or not collected. The above confers a benefit to the exporter by way of reducing its financial costs upon obtaining loans from a financial institution, and the benefit is equal to the amount of the exemption/deduction. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

**GRANTS AND GRANT EQUIVALENTS**

**Program 5: Insurance Grants**

Local and Provincial Government Reimbursement Grants on Credit Insurance Fees.

In Canada – *Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints*, the CBSA determined that two exporters received benefits from this program.

In US – *Concrete Steel Wire Strand*, the American authority countervailed this program as a local and provincial grant.

The financial contribution by the government is the direct transfer of funds pursuant to section 2(1.6)(a) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

**Program 6: Design, research and development Grants**

A grant that provides financial aid for enterprises determined to have undertaken expenses in design or research and development.

In Canada – *Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints*, the CBSA determined that one exporter received benefits from this program.

The financial contribution by the government is the direct transfer of funds pursuant to section 2(1.6)(a) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.
Program 7: Export performance Grants

This program was established in the Circular of the Trial Measures of the Administration of International Market Development Funds for Small and Medium-Sized Enterprises Cai Qi No. 467, 2000, which came into force on October 24, 2000. The program was established to support the development of small and medium-sized enterprises (SMEs), to encourage them to join in the competition of international markets, to reduce the business risks of the enterprises, and to promote the development of the national economy. The granting authority is the Foreign Trade and Economic Department and the program is administered at the local levels.

In Canada – Certain Oil Country Tubular Goods the CBSA determined that at least one exporter received benefits under this program.

In US - Steel Wheels as an instance where the American authority countenanced this program.

The financial contribution by the government is the direct transfer of funds pursuant to section 2(1.6)(a) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 8: Performance award Grants

A grant that provides financial aid for enterprises determined to have had excellent performances.

In Canada – Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that one exporter received benefits from this program.

The financial contribution by the government is the direct transfer of funds pursuant to section 2(1.6)(a) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 9: Reductions in land use and/or rental fees

This program is administered in accordance with Article 4.5 of the Circular on Further Encouraging Foreign Investment Opinions of the Ministry of Foreign Trade and Economic Cooperation and Other Ministries Transmitted by the General Office of the State Council.

In Canada – Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints and Certain Carbon and Alloy Line Pipe, the CBSA determined that two exporters received benefits from this program;

In US – Galvanised Steel and Aluminium Zinc Coated Steel, Hot Rolled Plate Steel, Hollow Structural Sections, Rod in Colls, the American authority countenanced this program.

---

CBSA Final Determination SOR – OCTG (2010).
In Australia – *Hollow Structural Sections*, the Australian authority countervailed this program. The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

**Preferential Tax Programs**

**Program 10: Corporate Income Tax Exemption and/or Reduction in Special Economic Zones (SEZs) and Other Designated Areas**

This program was established under Article 73 of 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*, which came into effect on July 1, 1991. The program was allegedly established to absorb investment in special economic zones (SEZs) and designated areas to take the lead in their economic development. The granting authority responsible for this program is believed to be the State Administration of Taxation and the program is administered by local tax authorities. Under this program, it is believed that an eligible enterprises may receive a reduced corporate income tax rate of 15%.

In Canada – *Certain Carbon and Alloy Line Pipe*, one exporter and in *Certain Seamless Casing*, the CBSA determined that two exporter received benefits from this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

**Program 11: Corporate Income Tax Reduction for New High Tech Enterprises ("NHTE")**

This program was established in the *Enterprise Income Tax Law of China*, which came into effect as of January 1, 2008. This program was established to provide income tax reduction for new high-technology enterprises and to promoted enterprise technology upgrades. Under this program, new high-technology enterprises may apply for and receive an income tax reduction at a reduced rate of 15%. In its notification of subsidy programs to the WTO, the GOC listed this program.

In Canada – *Certain Seamless Casing*, *Certain Oil Country Tubular Goods and Certain Pup Joints*, the CBSA determined that four exporters received benefits from this program. In addition, in *Certain Carbon and Alloy Line Pipe*, two exporters received benefit from this program;

In Australia – *Aluminum Extrusions*, *Oil Country Tubular Goods*, the authorities countervailed this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be
considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 12: Corporate Income Tax Reduction for Newly Profitable Enterprises

This program was originally found pursuant to Article 57 of the *Income Tax Law of the People's Republic of China for Enterprises* and the *Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax, Guo Fa (2007), No. 39.*

The complainant alleged that “productive” enterprises scheduled to operate more than ten years may be exempt from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three to five years.

In Canada – *Certain Oil Country Tubular Goods*, the CBSA determined that two exporters have received benefits from this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 13: Municipal/Local Income or Property Tax Reductions

This program covers the *Reduction, Exemption or Refund of Land Use Fees, Land Rental Rates, and Land Purchase/Transfer Prices.*

In Canada – *Certain Carbon and Alloy Line Pipe*, the CBSA determined that at least one exporter have received benefits from this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 14: Preferential Tax Policies for Foreign-Invested Enterprises (FIEs)

This program is provided for in Article 8 of the *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises*, which was promulgated on April 9, 1991 and came into effect on July 1, 1991. This program was established to expand foreign economic cooperation. The authorities responsible for administering this program are the State Administration of Taxation and local tax authorities.

Under this program, export oriented enterprises invested in and operated by foreign business may pay a reduced income tax rate of 15% if their annual output value of all export products amounts to 70% or more of the output value of the products of the enterprises for that year. Export

---

45 Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 38, Program 200.
oriented enterprises in the SEZs and ETDZs and other such enterprises subject to enterprise income tax at the tax rate of 15% that qualify under the abovementioned conditions, shall pay enterprise income tax at the tax rate of 10%.

In Canada — Certain Seamless Casing, the CBSA determined that an exporter received benefits from this program.

Further, the GOC has listed this title in its notification of subsidy programs to the WTO.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 15: Preferential Tax Policies related to Research and Investment

This program was established in the Circular of the State Administration of Taxation on the Issues Related with the Offset Taxable Income on Technology Development Fee for Foreign Investment Enterprises (Guo Shui Fa [1999] No. 173), which was promulgated on September 17, 1999, and came into effect on January 1, 2000. This program was established to encourage the research and development of enterprises. The authorities responsible for administering this program are the State Administration of Taxation and local tax authorities.

Under this program, certain foreign investment enterprises may offset their taxable income by 150% of their R&D expenses for the same year, not to exceed the taxable income for the year.

In Canada — Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that two exporters received benefits from this program.

Further, the GOC has listed this title in its notification of subsidy programs to the WTO.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.
RELIEF FROM DUTIES AND TAXES IN INPUTS, MATERIAL AND MACHINERY

Program 16: Offsets to Taxable Income related to purchases of Domestic Machinery

According to the European Union in EU - Organic Steel, the program allows a company to claim tax credits on the purchase of domestic equipment if a project is consistent with the industrial policies of the GOC. A tax credit up to 40% of the purchase price of domestic equipment may apply to the incremental increase in tax liability from the previous year. The legal bases of this program are the Provisional measures on enterprise income tax credit for investment in domestically produced equipment for technology renovation projects of July 1, 1999 and the Notice of the State Administration of Taxation on Stopping the Implementation of the Enterprise Income Tax Deduction and Exemption Policy of the Investments of an Enterprise in Purchasing Home-made Equipment, No. 52 [2008] of the State Administration of Taxation, effective January 1, 2008.

The GOC replied to the EU that this program was terminated effective January 2008 according to the Notice No. 52 and that to the best of its knowledge, no program had replaced it.

Nevertheless, it is believed that a tax benefit accrued in one year may be carried forward to future years and thus the benefits can extend beyond its period of validity even if the program has since been terminated.

In Canada – Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that one exporter received benefits from this program.

In EU – Organic Steel, the authority countervailed this program.

In US – Circular Welded Carbon Quality Steel Line Pipe, the American authority countervailed this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.
Program 17: Exemption or Refund of Tariff and Import Value-Added Tax (VAT) for Imported Technologies and Equipment

This program was established in the Regulations on Special Economic Zones in Guangdong Province and approved for implementation on August 26, 1980. The program was established to absorb investment in SEZs and encourage districts to take the lead in development. The granting authority responsible for this program is the General Administration of Customs and this program is administered by local customs authorities. Under this program, machinery and equipment, spare parts, raw and semi-processed materials, means of transportation and other capital goods necessary for production that are imported by enterprises in SEZs shall be exempted from import duties.

In Canada - Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, two exporters received benefits from this program and in Carbon and Alloy Line Pipe, the CBSA determined that four exporters received benefits from this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 18: Relief from Duties and Taxes on Imported Material and Other Manufacturing Inputs

Under a duty drawback program, a subsidy may exist where the amount of duties and taxes relieved or refunded on inputs incorporated into exported goods is found to be in excess of the actual liability that existed on those imports.

In Canada - Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints, the CBSA determined that one exporter received benefits from this program.

The financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 19: Offset of Taxable Income on purchases of Domestic Equipment

The legal bases of this program are the Provisional measures on enterprise income tax credit for investment in domestically produced equipment for technology renovation projects effective July 1, 1999 and the Notice of the State Administration of Taxation on Stopping the Implementation of the Enterprise Income Tax Deduction and Exemption Policy of the Investments of an Enterprise in Purchasing Home-made Equipment, No. 52 [2008] of the State Administration of Taxation, effective January 1, 2008.

---

46 Final Determination SOR – OCTG (2010).
According to the European Union in EU - *Organic Steel*, this program allows a company to claim tax credits on the purchase of domestic equipment if a project is consistent with the industrial policies of the GOC. A tax credit up to 40% of the purchase price of domestic equipment may apply to the incremental increase in tax liability from the previous year.

The GOC replied to the EU that this program was terminated effective January 2008 according to Notice No. 52 and that to the best of its knowledge, no program has replaced it.

Nevertheless, it is believed that a tax benefit accrued in one year may be carried forward to future years and thus the benefits can extend beyond its period of validity even if the program has since been terminated.

In the EU – *Organic Steel*, the authority determined that exporters benefited from this program.

In US – *Circular Welded Carbon Quality Steel Line Pipe*, the authority determined that an exporter benefited from this program.

This financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

**GOOD / SERVICES PROVIDED BY THE GOVERNMENT AT LESS THAN FAIR MARKET VALUE**

**Program 20: Acquisition of Government Assets/Inputs at Less Than Fair Market Value**

The complainant alleged that numerous exporters may avail themselves of input materials or assets from state-owned enterprises (SOE) at below fair market value.

In Canada – *Certain Seamless Casing, Certain Oil Country Tubular Goods and Certain Pup Joints*, the CBSA determined that several exporters received benefits from this program.

This program may constitute a financial contribution pursuant to paragraph 2(1.6)(c) of SIMA as they involve the provision of goods or services, other than general governmental infrastructure. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.
Program 21: Provision of Land for Less Than Adequate Remuneration by Government

All land in China belongs to the government (i.e., either national or local governments, or through a “collective” at the township or village level), and government land agencies across China control the allocation of land through the granting of land-use right favored projects and producers.

In Canada – Certain Carbon and Alloy Steel Line Pipe, the CBSA determined that one exporter received benefits from this program.

This financial contribution by the government consists of government revenue that is otherwise due is foregone or not collected, pursuant to section 2(1.6)(b) of SIMA. The program may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.

Program 22: Debt-to-Equity swaps for Less Than Fair Market Value

Pursuant to the Regulations of Asset Management Companies (promulgated by decree on November 20, 2000), the State Council established four asset management companies (AMCs) that were directed to purchase certain non-performing loans from state-owned banks.

The debt-to-equity swap was a measure used in the financial restructuring of China’s state owned enterprises (SOE) and state-owned banks. The four AMCs were supervised and managed by the People's Bank of China, China's Ministry of Finance and the China Securities Regulatory Commission. One of the authorized business activities available for the management of non-performing loans purchased by the AMCs was the debt-to-equity swap.

A debt-to-equity swap is a transaction in which a creditor, in this case an AMC, forgives some or all of a company's debt in exchange for equity in the company.

In Canada – Certain Seamless Casing, the CBSA determined that one exporter received benefits from this program.

In EU – Organic Steel, Rod in Coils, the authority determined that cooperating exporters benefited from this program.

Australia – Carbon and Alloy Steel Cut-to-Length Plate, Cold Rolled Steel Flat Products, the authority determined that cooperating exporters benefited from this program.
Determination of Subsidy and Specificity

Available information indicates that the programs identified above may constitute financial contributions pursuant to subsection 2(1.6) of SIMA. The available information indicates that financial contributions may exist due to: the direct transfer of funds or liabilities or the contingent transfer of funds or liabilities from the Government of China; amounts that would otherwise be owing and due to these governments are reduced or exempted, and would confer a benefit to the recipient equal to the amount of the reduction/exemption; and these governments may provide goods or services, other than general governmental infrastructure.

Further, the benefits provided may be limited to certain types of enterprises or limited to enterprises located in certain geographic areas and may be considered specific pursuant to paragraph 2(7.2)(a) of SIMA. Other programs may be considered specific pursuant to subsection 2(7.3) of SIMA in that the manner in which discretion is exercised by the granting authority indicates that the subsidy may not be generally available.