



OTTAWA, November 29, 2018

## **STATEMENT OF REASONS**

**Concerning the final determinations with respect to the dumping and subsidizing of**

**CERTAIN SUCKER RODS  
ORIGINATING IN OR EXPORTED FROM CHINA**

### **DECISION**

On November 14, 2018, pursuant to paragraph 41(1)(b) of the *Special Import Measures Act*, the Canada Border Services Agency made final determinations respecting the 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

<b>SUMMARY OF EVENTS</b> .....	1
<b>PERIOD OF INVESTIGATION</b> .....	2
<b>PROFITABILITY ANALYSIS PERIOD</b> .....	2
<b>INTERESTED PARTIES</b> .....	2
COMPLAINANT.....	2
IMPORTERS .....	3
EXPORTERS.....	3
SURROGATE PRODUCERS.....	4
GOVERNMENT .....	4
<b>PRODUCT INFORMATION</b> .....	4
DEFINITION.....	4
ADDITIONAL PRODUCT INFORMATION.....	4
PRODUCTION PROCESS .....	6
PRODUCT USE.....	7
CLASSIFICATION OF IMPORTS .....	8
<b>LIKE GOODS AND CLASS OF GOODS</b> .....	8
<b>THE CANADIAN INDUSTRY</b> .....	9
<b>IMPORTS INTO CANADA</b> .....	9
<b>INVESTIGATION PROCESS</b> .....	9
<b>DUMPING INVESTIGATION</b> .....	11
NORMAL VALUE .....	11
EXPORT PRICE .....	11
MARGIN OF DUMPING.....	12
SECTION 20 INQUIRY .....	12
SUMMARY OF THE RESULTS OF THE SECTION 20 INQUIRY .....	21
NORMAL VALUES – SECTION 20.....	21
RESULTS OF THE DUMPING INVESTIGATION .....	22
SUMMARY OF RESULTS - DUMPING.....	27
<b>SUBSIDY INVESTIGATION</b> .....	28
RESULTS OF THE SUBSIDY INVESTIGATION.....	29
SUMMARY OF RESULTS – SUBSIDY .....	33
<b>FUTURE ACTION</b> .....	33
<b>RETROACTIVE DUTY ON MASSIVE IMPORTATIONS</b> .....	34
<b>PUBLICATION</b> .....	34
<b>INFORMATION</b> .....	35
<b>APPENDIX 1 - SUMMARY OF MARGINS OF DUMPING AND AMOUNTS OF SUBSIDY</b> .....	36
<b>APPENDIX 2 - SUMMARY OF FINDINGS FOR SUBSIDY PROGRAMS</b> .....	37
<b>APPENDIX 3 - DUMPING AND SUBSIDY REPRESENTATIONS</b> .....	54
DUMPING REPRESENTATIONS .....	54
SUBSIDY REPRESENTATIONS .....	57

## SUMMARY OF EVENTS

[1] On March 29, 2018, the Canada Border Services Agency (CBSA) received a written complaint from Apergy Canada ULC – Alberta Oil Tool Division of Edmonton, Alberta, (hereinafter, “the complainant” or “AOT”),<sup>1</sup> alleging that imports of certain sucker rods originating in or exported from the People’s Republic of China (China) are being 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.<sup>2</sup> The CBSA also notified the Government of China (GOC) that a properly documented complaint had been received.<sup>3</sup> The GOC was also provided with the non-confidential version of the subsidy complaint and was invited for consultations pursuant to Article 13.1 of the World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures, prior to the initiation of the subsidy investigation.

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

[6] Upon receiving notice of the initiation of the investigations, the Canadian International Trade Tribunal (CITT) commenced a preliminary injury inquiry, pursuant to subsection 34(2) of SIMA, into whether the evidence discloses a reasonable indication that the alleged dumping and subsidizing of the above-mentioned goods have caused injury or retardation or are threatening to cause injury to the Canadian industry producing the like goods.

[7] On July 17, 2018, pursuant to subsection 37.1(1) of SIMA, the CITT made a preliminary determination that there is evidence that discloses a reasonable indication that the alleged dumping and subsidizing of certain sucker rods from China have caused injury or are threatening to cause injury to the domestic industry.

---

<sup>1</sup> Exhibits 1 (PRO) & 2 (NC), Certain Sucker Rods Complaint

<sup>2</sup> Exhibit 5 (PRO), Notice of Properly Documented Complaint – AOT.

<sup>3</sup> Exhibit 6 (PRO), Notice of Properly Documented Complaint – Embassy Notice – China.

[8] On August 16, 2018, as a result of the CBSA's preliminary investigations and pursuant to subsection 38(1) of SIMA, the CBSA made preliminary determinations of dumping and subsidizing of certain sucker rods originating in or exported from China.

[9] On August 16, 2018, pursuant to subsection 8(1) of SIMA, provisional duty was imposed on imports of dumped and subsidized goods that are of the same description as any goods to which the preliminary determinations apply, and that are released during the period commencing on the day the preliminary determinations were made and ending on the earlier of the day on which the CBSA causes the investigations in respect of any goods to be terminated pursuant to subsection 41(1) of SIMA or the day the CITT makes an order or finding pursuant to subsection 43(1) of SIMA.

[10] Based on the available evidence, the CBSA is satisfied that certain sucker rods originating in or exported from China have been dumped and subsidized. Therefore, on November 14, 2018, the CBSA made final determinations of dumping and subsidizing pursuant to paragraph 41(1)(b) of SIMA in respect of those goods.

[11] The CITT's inquiry into the question of injury to the Canadian industry is continuing, and it will issue its decision by December 14, 2018. Provisional duties will continue to be imposed on the subject goods from China until the CITT renders its decision.

### **PERIOD OF INVESTIGATION**

[12] The period of Investigation (POI) for the dumping and subsidy investigations is January 1, 2017 to March 31, 2018.

### **PROFITABILITY ANALYSIS PERIOD**

[13] The Profitability Analysis Period (PAP) for the dumping investigation is October 1, 2016 to March 31, 2018.

### **INTERESTED PARTIES**

#### **Complainant**

[14] AOT is a manufacturer and supplier of steel products for the oil and gas sector. 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. AOT's production facilities are located in Edmonton, Alberta.<sup>4</sup>

[15] The complainant accounts for all production of like goods in Canada.

---

<sup>4</sup> <http://www.albertaoiltool.com/about.htm>.

[16] The contact information of the complainant is as follows:

Dover Canada ULC – Alberta Oil Tool Division  
9530 – 60<sup>th</sup> Avenue  
Edmonton, Alberta, T6E 0C1

### **Importers**

[17] At the initiation of the investigations, the CBSA identified 22 potential importers of the subject goods based on both information provided by the complainant and CBSA import documentation. All of the potential importers were asked to respond to the CBSA's Importer Request for Information (RFI).<sup>5</sup> The CBSA received five responses to the Importer RFI: Exceed (Canada) Oilfield Equipment Inc. (Exceed Canada), Imex Canada Inc. (Imex), Lifting Solutions Inc., Weatherford Canada Ltd. (Weatherford Canada) and Westcan Oilfield Supply Ltd.<sup>6</sup>

[18] CBSA officers conducted an on-site verification at the premises of Weatherford Canada in Calgary, Alberta.

### **Exporters**

[19] At the initiation of the investigations, the CBSA identified 40 potential exporters/producers of the subject goods located in China from CBSA import documentation and from information submitted in the complaint. The potential exporters located in China were asked to respond to the CBSA's Dumping RFI, Section 20 RFI and Subsidy RFI.<sup>7</sup>

[20] Three exporters/producers in China provided substantially complete responses to the Dumping and Subsidy RFIs: Shandong Nine-Ring Petroleum Machinery Co., Ltd. (Nine-Ring), Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd. (Shandong Kunlong) and Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd. (Zibo Weatherford). In addition, one exporter, FOUND Petroleum Equipment Co., Ltd. (FOUND), provided a response which was considered substantially complete for the purposes of the preliminary determinations, but was subsequently determined to be incomplete and inaccurate in the final phase of the investigations. Two exporters, FOUND and Zibo Weatherford, also provided responses to the Section 20 RFI. See the "Dumping Investigation" and "Subsidy Investigation" sections for information on the results of the investigations pertaining to the responding exporters.

[21] CBSA officers conducted on-site verifications at the premises of FOUND in Baotou, Inner Mongolia and Zibo Weatherford in Zibo, Shandong. The information provided by Nine-Ring and Shandong Kunlong was verified through desk audits.

---

<sup>5</sup> Exhibit 15 (NC), Notice of Initiation of Investigations – Importers.

<sup>6</sup> Exhibits 37 (PRO) & 38 (NC), Response to Importer RFI – Exceed Oilfield Equipment Inc.; Exhibits 39 (PRO) & 40 (NC), Response to Importer RFI – Imex Canada Inc.; Exhibits 45 (PRO) & 46 (NC), Response to Importer RFI – Lifting Solutions Inc.; Exhibits 47 (PRO) & 48 (NC), Response to Importer RFI – Weatherford Canada Ltd.; Exhibits 34 (PRO) & 35 (NC), Response to Importer RFI – Westcan Oilfield Supply Ltd.

<sup>7</sup> Exhibit 14 (NC), Notice of Initiation of Investigations – Exporters.

## Surrogate Producers

[22] As part of the section 20 inquiry, the CBSA identified 12 known foreign producers of sucker rods located in the following eight countries: Argentina, Brazil, India, Kazakhstan, Mexico, Romania, Russia and the United States. The CBSA sent a Surrogate Producer RFI to those 12 producers. The CBSA received three substantially complete responses, two from producers located in the United States, Norris Rods<sup>8</sup> and Weatherford Artificial Lift Systems LLC (Weatherford ALS)<sup>9</sup>, and one from a producer located in Romania, S.C. Silcotub S.A. (Silcotub).<sup>10</sup> CBSA officers conducted an on-site verification at the premises of Norris Rods in Tulsa, Oklahoma.

## Government

[23] For the purposes of these investigations, “Government of China” 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.

[24] At the initiation of the investigations, the CBSA sent a Government Subsidy RFI and Government Section 20 RFI to the GOC. The GOC did not respond to the CBSA’s Subsidy or Section 20 RFI.

## PRODUCT INFORMATION

### Definition

[25] For the purposes 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<sup>11</sup>

[26] 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.

---

<sup>8</sup> Exhibits 51 (PRO) & 52 (NC), Surrogate Producer RFI Response – Norris Rods.

<sup>9</sup> Exhibits 91 (PRO) & 92 (NC), Surrogate Producer RFI Response – Weatherford Artificial Lift Systems LLC.

<sup>10</sup> Exhibits 85 (PRO) & 86 (NC), Surrogate Producer RFI Response – S.C. Silcotub S.A.

<sup>11</sup> Exhibit 2 (NC) – Sucker Rods Complaint, Section 2.1.

[27] 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.

[28] 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.

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

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

[31] 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.

[32] 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.

[33] 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.

[34] 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.

[35] 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 oil and waxy crude oil. The hollow rod presents the ability to inject diluents through the hollow rod in progressive cavity pumping (PCP) operations.

[36] Continuous (coiled) sucker rods have an entire rod string in one piece with only two connections; one 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<sup>12</sup>**

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

[38] 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.

[39] SBQ arriving at the production facility is inspected and received into inventory. The SBQ is cut to length for 25 foot sucker rods.

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

[41] 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.

[42] 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.

[43] During the forging process, the material is stamped with: the name of the manufacturer, the size, pin type, grade, heat code and date of manufacturing.

[44] 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).

[45] 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.

---

<sup>12</sup> Exhibit 2 (NC), Sucker Rods Complaint, pages 8-10.



[46] 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.<sup>13</sup>

[47] Rods are then settled in output table pockets to allow for cooling to room temperature. 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 size. 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.

[48] 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.

[49] 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 <sup>14</sup>**

[50] 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.

[51] 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).

[52] 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.

[53] 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 of 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).

---

<sup>13</sup> 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.

<sup>14</sup> Exhibit 2 (NC) – Sucker Rods Complaint, pages 1-2.

[54] 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.

[55] 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.

[56] 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.

[57] 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**

[58] The subject goods are normally imported under the following tariff classification number:

8413.91.00.10

[59] The tariff classification number is for convenience of reference only. The tariff classification number may include non-subject goods. Refer to the product definition for authoritative details regarding the subject goods.

### **LIKE GOODS AND CLASS OF GOODS**

[60] 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.

[61] In considering the issue of like goods, the 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.

[62] After considering questions of use, physical characteristics and all other relevant factors, the CBSA initiated its investigations under the premise that domestically produced sucker rods are like goods to the subject goods. Further, the CBSA was of the opinion that subject goods and like goods constitute only one class of goods.

[63] In its preliminary injury inquiry for these investigations, the CITT reviewed the matter of like goods and classes of goods. On July 17, 2018, it issued its preliminary injury inquiry determination and reasons indicating that “domestically produced sucker rods of the same description as the subject goods are like goods in relation to the subject goods and that there is a single class of goods.”<sup>15</sup>

### **THE CANADIAN INDUSTRY**

[64] As previously stated, the complainant accounts for all of the known domestic production of like goods.

### **IMPORTS INTO CANADA**

[65] The following table presents the CBSA’s analysis of imports of certain sucker rods for purposes of the final determinations:

**Imports of Sucker Rods  
(% of Volume)**

<b>Country</b>	<b>Dumping and Subsidy POI (January 1, 2017, to March 31, 2018)</b>
China	59.7%
All Other Countries	40.3%
<b>Total Imports</b>	<b>100%</b>

### **INVESTIGATION PROCESS**

[66] Regarding the dumping investigation, information was requested from all known and potential exporters, producers, vendors and importers, concerning shipments of certain sucker rods released into Canada during the POI.

[67] Regarding the section 20 inquiry, information was requested from all known and potential exporters and producers of sucker rods in China and from the GOC. The CBSA also sent Surrogate RFIs to all known producers of sucker rods in Argentina, Brazil, India, Kazakhstan, Mexico, Romania, Russia and the United States to collect domestic pricing and costing information concerning sucker rods to determine normal values under paragraph 20(1)(c) of SIMA. These countries were selected as they have well-developed sucker rod industries. Furthermore, importers were requested to provide information respecting re-sales in Canada of like goods imported from a third country in order to gather information to determine normal values under paragraph 20(1)(d) of SIMA.

<sup>15</sup> <http://www.citt.gc.ca/en/node/8372>

[68] Regarding the subsidy investigation, information related to potential actionable subsidies was requested from all known and potential exporters and producers in China. Information was also requested from the GOC concerning financial contributions made to exporters or producers of certain sucker rods released into Canada during the subsidy POI. The GOC was also requested to forward the RFIs to all subordinate levels of government that had jurisdiction over the exporters.

[69] The GOC and the exporters/producers were also notified that failure to submit all required information and documentation, including non-confidential versions, failure to comply with all instructions contained in the RFI, failure to permit verification of any information or failure to provide documentation requested during the verification visits may result in the margin of dumping, the amount of subsidy and the assessment of dumping and/or countervailing duties on subject goods being based on facts available to the CBSA. Further, they were notified that a determination on the basis of facts available could be less favorable to them than if complete, verifiable information was made available.

[70] Several parties (i.e., importers, exporters and surrogate producers) requested an extension to respond to their respective RFIs. The CBSA reviewed each request and granted extensions in instances where the reasons for making the requests constituted unforeseen circumstances or unusual burdens. Where an extension request was denied, the CBSA informed the parties that it could not guarantee that submissions received after the RFI response deadline would be taken into consideration for purposes of the preliminary phase of the investigations.

[71] After reviewing the RFI responses, supplemental RFIs (SRFIs) were sent to several responding parties to clarify information provided in the responses and request any additional information.

[72] On-site verifications were conducted at the premises of one importer in Canada, two exporters in China and one surrogate producer in United States. Desk audits were conducted for the remaining responding exporters in China and the two surrogate producers in United States and Romania.

[73] Details pertaining to the information submitted by the exporters in response to the Dumping RFI as well as the results of the CBSA's dumping investigation are provided in the "Dumping Investigation" section of this document. Details pertaining to the information submitted by the exporters and governments in response to the Subsidy RFI as well as the results of the CBSA's subsidy investigation are provided in the "Subsidy Investigation" section of this document.

[74] As part of the final phase of the investigations, case briefs and reply submissions were provided by counsels representing the complainant and two exporters/producers. Details of all representations are provided in **Appendix 3**.

## **DUMPING INVESTIGATION**

[75] The following presents the results of the investigation into the dumping of certain sucker rods originating in or exported from China.

### **NORMAL VALUE**

[76] Normal values are generally determined based on the domestic selling prices of like goods in the country of export, in accordance with section 15 of SIMA, or on the aggregate of the cost of production of the goods, a reasonable amount for administrative, selling and all other costs, plus a reasonable amount for profits, in accordance with paragraph 19(b) of SIMA.

[77] In the case of a prescribed country such as China, if, 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, the normal values are generally determined on the basis of section 20 of SIMA using either the selling prices or the full cost and profits of like goods in a “surrogate” country, or using re-sales in Canada of goods imported from a “surrogate” country.

[78] Where, in the opinion of the CBSA, sufficient information has not been furnished or is not available, normal values are determined pursuant to a ministerial specification in accordance with subsection 29(1) of SIMA.

### **EXPORT PRICE**

[79] The export price of goods sold to importers in Canada is generally determined in accordance with section 24 of SIMA based on the lesser of the adjusted exporter’s sale price for the goods or the adjusted importer’s purchase price. These prices are adjusted where necessary by deducting the costs, charges, expenses, duties and taxes resulting from the exportation of the goods as provided for in subparagraphs 24(a)(i) to 24(a)(iii) of SIMA.

[80] Where there are sales between associated persons or a compensatory arrangement exists, the export price may be determined based on the importer’s resale price of the imported goods in Canada to non-associated purchasers, less deductions for all costs incurred in preparing, shipping and exporting the goods to Canada that are additional to those incurred on the sales of like goods for use in the country of export, all costs that are incurred in reselling the goods (including duties and taxes) or associated with the assembly of the goods in Canada and an amount representative of the average industry profit in Canada, pursuant to paragraphs 25(1)(c) and 25(1)(d) of SIMA. In any cases not provided for under paragraphs 25(1)(c) and 25(1)(d) of SIMA, the export price is determined in such a manner as the Minister specifies, pursuant to paragraph 25(1)(e).

[81] Where, in the opinion of the CBSA, sufficient information has not been furnished or is not available, export prices are determined pursuant to a ministerial specification under subsection 29(1) of SIMA.

## MARGIN OF DUMPING

[82] The margin of dumping by exporter is equal to the amount by which the total normal value exceeds the total export price of the goods, expressed as a percentage of the total export price. All subject goods imported into Canada during the POI are included in the margins of dumping of the goods. Where the total normal value of the goods does not exceed the total export price of the goods, the margin of dumping is zero.

## SECTION 20 INQUIRY

[83] 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.

[84] The provisions of section 20 are applied on a sector basis rather than on the country as a whole. The sector reviewed will normally only include the industry producing and exporting the goods under investigation.

[85] A section 20 inquiry refers to the process whereby the CBSA collects information from various sources in order to form an opinion as to whether the conditions described under subsection 20(1) of SIMA exist with respect to the sector under investigation.

[86] The CBSA is required to examine whether the government of that country substantially determines domestic prices. The CBSA is also required to examine the price effect resulting from substantial government determination of domestic prices and whether there is sufficient information on the record for the CBSA to have reason to believe that the resulting domestic prices are not substantially the same as they would be in a competitive market.

[87] The complainant alleged that the conditions described in section 20 prevail in the steel oil and gas products sector, which includes sucker rods, in China. That is, 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.

[88] 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.<sup>16</sup> 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 cited specific GOC policies such as *China's 13th Five-Year Plan*, the *2016 Iron and Steel Industry Adjustment and Upgrade Plan* and the *State Council Decision on Accelerating the Development of Strategic Emerging Industries* as evidence of continued influence on market forces in China.

---

<sup>16</sup> Long products (i.e. steel bars) are the primary input material for sucker rods.

[89] At the initiation of the investigations, the CBSA had sufficient evidence, supplied by the complainant and from its own research and past investigation findings, to support the initiation of a section 20 inquiry to examine the extent of GOC involvement in pricing in the steel oil and gas products sector, which includes sucker rods. The information indicated that prices in China in this sector have been influenced by various GOC industrial policies. Consequently, the CBSA sent Section 20 RFIs to producers and exporters of sucker rods in China, as well as to the GOC, to obtain information on the extent to which the GOC is involved with the determination of domestic prices in the steel oil and gas products sector, which includes sucker rods.

### **Responses to Section 20 Inquiry**

[90] The CBSA received responses to the Section 20 RFIs from two exporters/producers. In general, the parties who provided a response did attempt to address each question. However, the responses did not include the information with respect to GOC influence on the steel oil and gas products sector.

[91] An RFI was sent to the GOC requesting information for the purposes of the section 20 inquiry, however, no response was received.

[92] As part of the section 20 inquiry, Surrogate Producer RFIs were sent to all known producers of sucker rods in Argentina, Brazil, India, Kazakhstan, Mexico, Romania, Russia and the United States. These countries were selected as they all have well-developed sucker rods industries. As previously stated the CBSA received responses from three surrogate producers, Norris Rods and Weatherford ALS located in the United States and Silcotub located in Romania.

[93] As part of the section 20 inquiry, the RFIs sent to importers requested information on re-sales in Canada of sucker rods imported from countries other than China. The CBSA received responses from five importers; however, only one importer, Weatherford Canada, provided information on re-sales in Canada of like goods.

### **CBSA's Analysis with Respect to Section 20 Inquiry**

[94] The following is the CBSA's analysis of the relevant factors that are present in the steel oil and gas products sector in China, which includes sucker rods.

### **GOC Industrial Policies**

[95] The CBSA has information on the record that indicates the involvement of the GOC in the steel industry, which include the following:

- *The National Steel Policy and the Steel Revitalization/Rescue Plan;*
- *The 12<sup>th</sup> Five-Year Development Plan for the Steel Industry;*
- *The 13<sup>th</sup> Five-Year Plan for National Economic and Social Development;*
- *State Council Decision on Accelerating the Development of Strategic Emerging Industries; and*
- *List of Industries, Products and Technologies Currently Encouraged by the State for Development (2000)*

### *The National Steel Policy and the Steel Revitalization/Rescue Plan*

[96] The *Development Policies for the Iron and Steel Industry – Order of the National Development and Reform Commission* [No. 35], (*National Steel Policy*)<sup>17</sup> was promulgated on July 8, 2005 and outlines the GOC's future plans for the Chinese domestic steel industry. The major objectives of the *National Steel Policy* are:

- The structural adjustment of the Chinese domestic steel industry;
- Industry consolidations through mergers and acquisitions;
- The regulation of technological upgrading with new standards for the steel industry;
- Measures to reduce material and energy consumption and enhance environmental protection; and
- Government supervision and management in the steel industry.

[97] On March 20, 2009, the GOC promulgated the *Blueprint for the Adjustment and Revitalization of the Steel Industry* issued by the General Office of the State Council (*Steel Revitalization/Rescue Plan*)<sup>18</sup>. This macro-economic policy was the GOC's response to the global financial crisis and is also the action plan for the steel industry for the 2009 through 2011 period. This plan included the following major tasks:

- Maintain the stability of the domestic market and improve the export environment;
- Strictly control the total output of steel and accelerate the process of eliminating what is backward (obsolete);
- Enhance enterprise reorganization and improve the industrial concentration level;
- Spend more on technical transformation and promote technical progress;
- Optimize the layout of the steel industry and overall arrangements of its development;
- Adjust the steel product mix and improve the product quality;
- Maintain stable import of iron ore resources and rectify the market order; and
- Develop domestic and overseas resources and guarantee the safety of the industry.

[98] There are common measures between these two GOC policies, as *the Steel Revitalization/Rescue Plan* is an acceleration of the major objectives of *the National Steel Policy*. In *the Steel Revitalization/Rescue Plan*, the GOC asserts its strict control over new or additional steel production capacity, promotes new GOC directed mergers and acquisitions to reform the Chinese steel industry into larger conglomerates, along with an increased emphasis on steel product quality. These measures and reforms affect all of the steel industry in China, including the steel oil and gas products sector, which includes sucker rods.

---

<sup>17</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 1.

<sup>18</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 2.



### ***12<sup>th</sup> Five-Year Development Plan for the Steel Industry***

[99] The *12<sup>th</sup> Five-Year Development Plan for the Steel Industry*<sup>19</sup> is a policy document that was released by the GOC's Ministry of Industry and Information Technology on November 7, 2011. It served as the guiding document for the development of the Chinese steel industry for the 2011-2015 period. Some of the key objectives in the plan included:

- Increased mergers and acquisitions to create larger, more efficient steel companies;
- GOC restrictions on steel capacity expansion;
- Upgrading of steel industry technology;
- Greater GOC emphasis on high-end steel products; and
- GOC directed relocation of iron and steel companies to coastal areas.

[100] Also included in this plan were minimum requirements for steel production in order to eliminate smaller players in the market. Through this plan, the GOC continued its reform and restructuring of the Chinese steel industry. The GOC's target was that by 2015, China's top 10 steel producers would represent 60% of the country's total steel output. According to *the National Steel Policy*, the long-range GOC target for mergers and acquisitions is to have the top 10 Chinese steel producers account for 70% of total national steel production by 2020. This plan was the next development stage of GOC directives aimed at achieving this long-range 2020 target.

[101] Additional GOC policies and measures in the *12<sup>th</sup> Five-Year Development Plan for the Steel Industry* include:

- Improve the industry management system;
- Create an environment for fair competition, strengthen and improve macro adjustment and control;
- Regulate the production and standardize the operation of the steel industry;
- Strengthen the macro guidance of the policy;
- Promote international exchange and co-operation;
- Improve industry information flow, capital flow and material flow. Support enterprise groups to establish and improve the information system in different regions; and
- Improve planning by regional authorities of industries to develop the steel industry, combine the regional mergers and reconstruction and eliminate obsolete construction.

[102] The GOC's direction of the steel industry includes enabling regional or provincial governments to combine enterprises across boundaries. Furthermore, as a result of the GOC's administration of steel production capacity, the Chinese steel industry is very much under the purview of the GOC.

---

<sup>19</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 3.

[103] Together with the GOC's: *Criterion for the Production and Operation of Steel Industry*<sup>20</sup> – GY [2010] No. 105 and *Several Observations of the General Office of the State Council on Further Strengthening Energy-saving and Emission Reduction Efforts as well as Accelerating of Restructuring of Steel Industry*<sup>21</sup> – GBF (2010) No. 34, these policies set out the detailed requirements for existing production and operations of steel enterprises in China.

[104] The intent of these latter policies is to further support and carry out the *Steel Revitalization/Rescue Plan*, to achieve the energy-saving and emission targets, in addition to the restructuring of the steel industry in China as approved by the State Council. One main objective of the State Council is to “resolutely suppress the excessive growth of steel production capacity” and “strictly implement the approval and review process of steel projects.”

[105] Should steel enterprises not acquiesce to the GOC's requirements, laws and industrial policies, there are repercussions which include the withdrawal of steel production licenses and credit support. In respect of new construction or renovation of Chinese steel enterprises, the GOC's steel development policies also apply.

### ***13<sup>th</sup> Five-Year Plan for National Economic and Social Development***

[106] The GOC adopted its *13<sup>th</sup> Five-Year Plan for National Economic and Social Development of the People's Republic of China (2016-2020) (13<sup>th</sup> Five-Year Plan)*<sup>22</sup>, on March 15, 2016 and issued the plan in December 2016 through the National Development Reform Commission (NDRC). The *13<sup>th</sup> Five-Year Plan* outlines China's goals, principles and targets for its development for the period of 2016-2020.

[107] The objectives outlined in the *13<sup>th</sup> Five-Year Plan* continue the themes expressed in the *12<sup>th</sup> Five-Year Steel Plan*, including the strengthening of state owned enterprises (SOE) and control over the economy, including the steel industry.

[108] The *13<sup>th</sup> Five-Year Plan* calls for greater involvement of SOEs in the development of the Chinese economy. Specifically, Chapter 11 of the plan states:

“We will ensure that public ownership is dominant and that economic entities under diverse forms of ownership develop side by side ... We will exercise oversight over economic entities under all forms of ownership in accordance with the law ... We will remain firmly committed to ensuring that state-owned enterprises grow stronger, better and bigger and work to see that a member of such enterprises develop the capacity for innovation and become internationally competitive, thereby injecting a greater life into the state-owned sector, helping it exercise a greater level of influence and control over the economy, increasing its resilience against risk, and enabling it to contribute more effectively to accomplishing national strategic objectives.”<sup>23</sup>

---

<sup>20</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 4.

<sup>21</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 5.

<sup>22</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 6.

<sup>23</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 6, Chapter 11, page 34.

[109] Given the overcapacity in the steel industry causing excess supply, the above statement supports GOC intentions to further consolidate the steel industry through mergers and restructuring and that the GOC views SOEs as having an important role to play in the economy.

***State Council Decision on Accelerating the Development of Strategic Emerging Industries***

[110] The initial policy pertaining to Strategic Emerging Industries (SEIs) is *the State Council Decision on Accelerating the Development of Strategic Emerging Industries*<sup>24</sup>, issued in October 2010. The policy established a quantitative target for SEIs to account for eight percent of the gross domestic product by 2015 and 15 percent by 2020.

[111] The complainant provided information supporting that sucker rods falls within the seven specific SEIs denoted by the GOC for two main reasons:

- i. The energy efficiency and environmental objectives of the decision will necessarily affect steel producers because energy is such a significant input for the production of steel. Steel production can also have significant environmental impacts.
- ii. The decision directs the “development of high-quality special steel, new alloy materials...” Given the demanding applications in which sucker rods are used, they can benefit greatly from advances in steel technology, particularly in special service and high strength products.

[112] The policies on SEIs indicate that the GOC considers the steel oil and gas products sector, which includes sucker rods, to be an important industry in China. Given the importance of the steel oil and gas products sector in China’s economy, the GOC will have a vested interest in maintaining influence over this sector.

***List of Industries, Products and Technologies Currently Encouraged by the State for Development (2000)***

[113] Issued by the State Planning Commission and State Economic and Trade Commission, *the List of Industries, Products and Technologies Currently Encouraged by the State for Development (Revised in 2000)*<sup>25</sup> was approved by the State Council on July 27, 2000.

[114] The list came into force on September 1, 2000, and includes the following encouraged industries: iron and steel, petrochemical, oil and natural gas, nuclear energy and electric power. In promoting the development of these industries, it is clear that the steel oil and gas products sector, which includes sucker rods, is impacted due to the use of sucker rods in these encouraged industries.

---

<sup>24</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 7.

<sup>25</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 8.

## **GOC Ownership of Suppliers/Producers**

[115] As part of its section 20 analysis with respect to the influence of SOEs, the CBSA examined:

- *Decree of the State Council of the People's Republic of China No. 378;*
- *Circular of the State-Council on Supervision of State-Owned Enterprises to Prevent Loss of State Assets;* and
- *State Ownership of the Steel and Oil & Gas Industries in China.*

### ***Decree of the State Council of the People's Republic of China No. 378***

[116] The *Decree of the State Council of the People's Republic of China No.378 (the Decree)*<sup>26</sup>, promulgated on May 27, 2003, provides the authority for the State Council, the chief administrative authority of China, to control, supervise and manage SOEs.

[117] According to Article 12 of *the Decree*, "The State-owned assets supervision and administration authority of the State Council is a specially established authority directly subordinated to the State Council which, on behalf of the State Council, performs the responsibilities of investor, supervises and manages state-owned assets of enterprises." This indicates that the GOC has significant authority over the actions of SOEs in China.

### ***Circular of the State-Council on Supervision of State-Owned Enterprises to Prevent Loss of State Assets***

[118] On November 10, 2015, the State Council issued *the Circular of the State-Council on Supervision of State-Owned Enterprises to Prevent Loss of State Assets*.<sup>27</sup> According to a summary of the circular released by the GOC, "inside and outside supervision will be strengthened on SOEs." A range of increased supervision efforts were listed in the summary by the GOC, including:

- improving supervision of SOEs' key departments and subsidiaries in areas of finance, procurement, marketing, and investment;
- enhancing supervision of board of directors at SOEs;
- establishing an audit committee made of outside directors; and reinforcing board of supervisors;
- better oversight by State assets supervisory agencies of SOEs covering investment plans;
- restructuring and reorganization;
- property rights management;
- financial evaluation;
- performance appraisal;
- employment and promotion, and salary distribution;
- regular inspections on all business operations and random inspections on key projects;

---

<sup>26</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 9.

<sup>27</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 10.

- improvement of board of external supervisors dispatched by the government to monitor finance, major decisions, operation, managers, and board of directors of SOEs; and
- improvement of auditing on SOEs, especially during replacement of SOEs' top executives.

[119] Based on the summary of the GOC of its *Circular of the State-Council on Supervision of State-Owned Enterprises to Prevent Loss of State Assets*, the GOC increased its supervision of all SOEs in 2015, which includes SOEs in the steel industry.

### ***State Ownership of the Steel and Oil & Gas Industries in China***

[120] Information on the record indicates that China accounted for just under half of the world's crude steel production in 2016. The same data reports that five of the top ten steel producers in the world are in China and four are SOEs. These five companies accounted for over one-quarter of all Chinese production of crude steel. Of the total of 808.4 million metric tonnes (mmt) of crude steel produced by Chinese steel producers in 2016, the private Chinese companies accounted for only 107.1 mmt, meaning Chinese SOEs accounted for 87% of all Chinese crude steel production in that period.<sup>28</sup>

[121] China's oil and gas industry is dominated by three SOE oil companies, Sinopec, China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation. Together these three SOE oil companies accounted for approximately 92% of Chinese oil production in 2017. The complainant provided information indicating that both Sinopec and CNPC own several large-scale producers of sucker rods in China. In addition, the three companies control the vast majority of purchases of sucker rods in China, and this gives the GOC monopolist power.<sup>29</sup>

[122] The above information suggests that there is substantial state ownership in the steel oil and gas products sector in China, which includes sucker rods.

### **Summary of the GOC's Influence on Domestic Prices**

[123] The GOC's measures, notices and stated objectives detailed above illustrate that the GOC is closely administering the steel industry in China. Based on the information on the record and the scope of the GOC's macro-economic policies and measures, there is a compelling factual basis to believe that the GOC is influencing the Chinese steel oil and gas products sector, which includes sucker rods. These policies and measures change the supply and demand balance in the domestic market and materially alter the domestic prices of steel products such as input steel bars, as well as sucker rods.

---

<sup>28</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, page 13.

<sup>29</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, pages 13.

[124] The major macro-economic policies and measures of the GOC identified above have resulted in an environment where steel enterprises have conflicting objectives. The GOC objectives are likely to conflict with the commercial objectives of steel enterprises, including sucker rods producers, affecting the type of products to be produced, production volumes and ultimately prices. In addition to the industrial policies and measures, the GOC is closely administering the oil & gas industry, including the steel oil and gas products sector, through state ownership of three large-scale oil companies and their subsidiary producers of sucker rods.

[125] The cumulative impact of the GOC's actions, measures and control indicate that prices of sucker rods in China are being indirectly determined by the GOC.

### **Chinese Domestic Price Analysis**

[126] In order to determine normal values pursuant to section 20 of SIMA, in addition to the requirement in paragraph 20(1)(a) of SIMA that the CBSA be of the opinion that the government of a prescribed country substantially determines domestic prices, the CBSA must be of the opinion that there is sufficient reason to believe that the domestic prices are not substantially the same as they would be in a competitive market.

[127] At the initiation, the CBSA requested information regarding the domestic price of sucker rods in China from exporters/producers in that country. The CBSA received responses to the Dumping and Section 20 RFIs from several producers and exporters of sucker rods in China. The responses included information regarding the domestic selling prices of sucker rods sold by those producers and exporters. Publically available information on the domestic pricing of sucker rods in China could not be obtained.

[128] As mentioned above, during the course of the investigation, the CBSA obtained additional information regarding the prices of sucker rods in surrogate countries, namely the United States and Romania. The following summarizes the comparison of the domestic prices in China to the domestic prices in the surrogate countries for sucker rods.

[129] In conducting its price analysis of sucker rods, the CBSA calculated quarterly average domestic prices of sucker rods in both China and the surrogate countries during the PAP. The quarterly average Chinese prices were then compared to the quarterly average surrogate prices. Results are found in the table below:

**Price Comparison of Sucker Rods (China vs. Surrogate Countries)**

<b>Quarter</b>	<b>2016-Q4</b>	<b>2017-Q1</b>	<b>2017-Q2</b>	<b>2017-Q3</b>	<b>2017-Q4</b>	<b>2018-Q1</b>	<b>PAP</b>
Chinese price (US\$/piece)	17.7	17.3	19.4	18.3	20.7	20.0	18.8
Surrogate Price (US\$/piece)	55.1	56.7	57.5	58.3	57.2	59.4	57.3
% of Surrogate Price above Chinese price	211%	227%	196%	219%	176%	197%	205%

[130] The results summarized in the table above demonstrate a significant difference in the price of sucker rods in China when compared to the price in the surrogate countries (i.e. the United States and Romania). The quarterly average surrogate price was 176% to 227% higher than the price of those goods in China. On average, Chinese prices were 205% below the surrogate countries' during the PAP.<sup>30</sup>

[131] The analysis performed above supports the conclusion that the domestic prices of sucker rods in China are not substantially the same as they would be if they were determined in a competitive market.

#### **SUMMARY OF THE RESULTS OF THE SECTION 20 INQUIRY**

[132] The wide range and material nature of the GOC measures have resulted in significant influence on the steel oil and gas products sector in China, which includes sucker rods. Based on the preceding, the CBSA is of 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 in a competitive market.

[133] Based on the above analysis, for the purposes of the final determination, the CBSA affirmed the opinion rendered at the preliminary determination that the conditions of paragraph 20(1)(a) of SIMA exist in the steel oil and gas products sector in China, which includes sucker rods.

#### **NORMAL VALUES – SECTION 20**

[134] Normal values could not be determined on the basis of the domestic selling prices in China or on the full cost of goods plus profit, because the CBSA formed the opinion that the conditions of paragraph 20(1)(a) of SIMA exist in the steel oil and gas products sector in China, which includes sucker rods.

[135] Where section 20 conditions exist, the CBSA may determine normal values pursuant to paragraph 20(1)(c) or 20(1)(d) of SIMA based on the domestic selling price or cost of production of the goods, plus 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 President 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 President and adjusted for price comparability.

[136] The CBSA designated the United States and Romania as surrogate countries. These countries were selected as they have well-developed sucker rods industries and the CBSA received substantially complete responses to the Surrogate Producer RFI from producers in these countries. Given that more than one country was designated as a surrogate country and that those countries do not have a common currency, the normal values were calculated in U.S. dollars.

---

<sup>30</sup> Exhibit 154 (PRO) – Section 20 Report – Final Determination, Attachment 11.

[137] For exporters that provided a substantially complete response for purposes of the final determination, normal values were determined in accordance with subparagraph 20(1)(c)(i) of SIMA using the profitable domestic sales of liked goods of producers in the surrogate countries. In the absence of liked goods, normal values could not be determined in accordance with subparagraph 20(1)(c)(ii) of SIMA because sufficient cost information was not available. In addition, normal values could not be determined in accordance with paragraph 20(1)(d) of SIMA as the CBSA had insufficient information on re-sales in Canada of like goods imported from countries other than China.

[138] As a result, in absence of sufficient like good information under paragraph 20(1)(c) of SIMA, normal values were determined pursuant to a ministerial specification in accordance with subsection 29(1) of SIMA using domestic sales of the closest matching products in the surrogate countries, taking into consideration all relevant characteristics such as grade, length, coupling types and underlying mechanical and chemical properties of the input steel bar.

#### **RESULTS OF THE DUMPING INVESTIGATION**

[139] The following summarizes the results of the dumping investigation for the exporters in China that provided a responses to the CBSA:

##### FOUND Petroleum Equipment Co., Ltd.

[140] FOUND is a producer and exporter of subject goods located in Baotou, Inner Mongolia, China. FOUND has one production facility in Baotou where subject goods are produced and directly exported to Canada. During the POI, all subject goods exported by FOUND to Canada were sold to an unrelated importer in Canada, Imex.

[141] FOUND provided substantially complete responses to the Dumping RFI and one SRFI<sup>31</sup>, which was sent to gather additional information and seek clarification regarding their original Dumping RFI response. CBSA officials performed an on-site verification at the premises of FOUND in August 2018.<sup>32</sup>

[142] Although FOUND's information was used for the purposes of the preliminary determination, during the on-site verification CBSA officials discovered major discrepancies between the information in FOUND's responses to the Dumping RFI and SRFI, and the information in their financial system. As a result, officials from FOUND and the CBSA agreed to terminate the verification.

[143] As FOUND's information could not be verified and was determined to be incomplete and inaccurate, the CBSA has determined normal values and export prices for FOUND in accordance with subsection 29(1) of SIMA, based on the methodologies described below under "All Other Exporters".

---

<sup>31</sup>Exhibits 69 (PRO) & 70 (NC), Response to Exporter Dumping RFI – FOUND Petroleum Equipment Co., Ltd; Exhibits 104 (PRO) & 105 (NC), Supplemental RFI #1 Response – FOUND Petroleum Equipment Co., Ltd.

<sup>32</sup>Exhibit 134 (PRO) & 135 (NC), Verification Exhibits – FOUND Petroleum Equipment Co., Ltd.



[144] For purposes of the final determination, the total normal value compared to the total export price results in a margin of dumping of 149.9% for FOUND, expressed as a percentage of the export price.

Shandong Nine-Ring Petroleum Machinery Co., Ltd.

[145] Nine-Ring is a producer and exporter of subject goods located in Binzhou, Shandong, China. During the POI, all subject goods exported by Nine-Ring to Canada were sold to a related importer, Exceed Canada.

[146] Nine-Ring provided substantially complete responses to the Dumping RFI and two SRFIs<sup>33</sup>, which were sent to gather additional information and seek clarification regarding their original Dumping RFI response. A desk audit was completed in order to verify the information provided by Nine-Ring.

[147] As explained above, where possible, normal values were determined pursuant to subparagraph 20(1)(c)(i). Therefore, normal values for the goods Nine-Ring exported to Canada during the POI were determined on the basis of the selling prices of like goods sold domestically by producers in the surrogate countries during the PAP. However, for a small amount of transactions, where like goods were not produced or sold by surrogate producers, the normal values were determined pursuant to subsection 29(1) of SIMA using domestic sales of the closest matching products in the surrogate countries.

[148] Due to the relationship between Nine-Ring and Exceed Canada, it is necessary for the CBSA to determine whether the section 24 export prices are reliable for SIMA purposes by performing a reliability test. This test is conducted by comparing the export prices determined under section 24 of SIMA, based on the lesser of the exporter's selling prices and the importer's purchase prices, with the export prices determined under section 25 of SIMA. Although both the exporter and its related importer provided complete, timely and accurate information, the CBSA was unable to determine export prices under section 25 of SIMA based on that information. As such, the CBSA was unable to make a comparison between the export prices. However, based on the information provided by the exporter and the importer, the section 24 export prices are not reliable.

[149] As export prices could not be determined pursuant to either section 24 or section 25 of SIMA, export prices for subject goods exported by Nine-Ring and sold to Exceed Canada were determined pursuant to a ministerial specification in accordance with subsection 29(1) of SIMA.

---

<sup>33</sup> Exhibits 43 (PRO) & 44 (NC), Exporter Dumping RFI Response – Shandong Nine-Ring Petroleum Machinery Co., Ltd.; Exhibits 100 (PRO) & 101 (NC), Supplemental RFI #1 Response – Shandong Nine-Ring Petroleum Machinery Co., Ltd; Exhibits 125 (PRO) & 126 (NC), Supplemental RFI #2 Response – Shandong Nine-Ring Petroleum Machinery Co., Ltd.

[150] In establishing the methodology for determining export prices, the CBSA examined information on the record that was provided by cooperative exporters and customs import documentation. The CBSA decided that export prices determined for the cooperative exporters whose submissions were substantially complete and verified for the final determination, would be used to establish the methodology for determining export prices since it reflects the exporters' trading practices during the POI.

[151] The submissions of Shandong Kunlong and Zibo Weatherford were substantially complete for purposes of the final determination. The CBSA examined the difference between normal value and the export price for each individual transaction from these exporters in order to obtain an appropriate amount for the export price methodology.

[152] The CBSA considered that the highest amount by which the export price differed from the normal value on an individual transaction of the two exporters mentioned above (expressed as a percentage) was an appropriate basis for determining export prices. Therefore, the export prices were determined based on the normal value, less an amount equal to 59.9% of that normal value. Based on its analysis, the CBSA considered that this methodology was the most appropriate basis for determining export prices.

[153] For purposes of the final determination, the total normal value compared to the total export price results in a margin of dumping of 149.9% for Nine-Ring, expressed as a percentage of the total export price.

Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.

[154] Shandong Kunlong is a producer and exporter of subject goods. Its headquarters and factory are located in Shouguang, China. During the POI, Shandong Kunlong exported a single shipment of sucker rods to an unrelated customer in Canada.

[155] Shandong Kunlong provided substantially complete responses to the Dumping RFI and one SRFI<sup>34</sup>, which was sent to gather additional information and seek clarification regarding their original Dumping RFI response. A desk audit was completed in order to verify the information provided by Shandong Kunlong.

[156] Normal values for the goods Shandong Kunlong exported to Canada during the POI were determined pursuant to subparagraph 20(1)(c)(i) on the basis of the selling price of like goods sold domestically by producers in the surrogate countries during the PAP.

---

<sup>34</sup> Exhibits 62 (PRO) & 63 (NC), Exporter Dumping RFI Response – Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd ; Exhibits 95 (PRO) & 96 (NC), Dumping Supplemental RFI #1 Response - Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.

[157] For the subject good exported to Canada by Shandong Kunlong during the POI the export prices were determined pursuant to section 24 of SIMA based on the exporter's selling price less all costs, charges and expenses resulting from the exportation of the good.

[158] For purposes of the final determination, the total normal value compared to the total export price results in a margin of dumping of 141.1% for Shandong Kunlong, expressed as a percentage of the total export price.

Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.

[159] Zibo Weatherford is a producer and exporter of subject goods located in Zibo, Shandong, China. During the POI, all subject goods exported by Zibo Weatherford to Canada were sold to a related importer, Weatherford Canada.

[160] Zibo Weatherford provided substantially complete responses to the Dumping RFI and one SRFI<sup>35</sup>, which was sent to gather additional information and seek clarification regarding their original Dumping RFI response. CBSA officials performed an on-site verification at the premises of Zibo Weatherford in August 2018.<sup>36</sup>

[161] As explained above, where possible, normal values were determined pursuant to subparagraph 20(1)(c)(i). Therefore, normal values for most of the goods Zibo Weatherford exported to Canada during the POI were determined on the basis of the selling prices of like goods sold domestically by producers in the surrogate countries during the PAP. However, for a small amount of transactions, where like goods were not produced or sold by surrogate producers, the normal values were determined pursuant to subsection 29(1) of SIMA using domestic sales of the closest matching products in the surrogate countries.

[162] Due to the relationship between Zibo Weatherford and Weatherford Canada, for subject goods exported during the POI by Zibo Weatherford, a reliability test under section 25 was performed to determine whether the section 24 export prices were reliable. The test was conducted by comparing the section 24 export prices with the export prices calculated in accordance with paragraph 25(1)(c) of SIMA.

---

<sup>35</sup> Exhibits 74 (PRO) & 75 (NC), Exporter Dumping RFI Response – Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.; Exhibits 93 (PRO) & 94 (NC), Supplemental RFI #1 Response – Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.

<sup>36</sup> Exhibits 132 (PRO) & 133 (NC), Verification Exhibits – Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.

[163] The export prices determined under paragraph 25(1)(c) were based on Weatherford Canada's resales of the subject goods in Canada during the POI less deductions for all costs incurred in preparing, shipping and exporting the goods that were additional to those incurred on sales of like goods for use in the country of export, all costs incurred in reselling the goods (including duties and taxes) and an amount representative of the industry profit. The amount for profit used for the section 25 calculations was determined in accordance with paragraph 22(a) of the SIMR, based on the profit information relating to vendors who are at the same or substantially the same trade level as Weatherford Canada and that operated at a profit during the POI in Canada. The reliability test revealed that the export prices determined in accordance with section 24 of SIMA were reliable and, therefore, export prices for Zibo Weatherford were determined pursuant to section 24 of SIMA.

[164] For purposes of the final determination, the total normal value compared to the total export price results in a margin of dumping of 100.4% for Zibo Weatherford, expressed as a percentage of the total export price.

#### All Other Exporters

[165] For exporters of subject goods that did not provide a response to the Dumping RFI or did not furnish sufficient information, the normal values and export prices were determined under subsection 29(1) of SIMA pursuant to a ministerial specification, on the basis of facts available.

[166] In establishing the methodology for determining the normal values and export prices, the CBSA considered all of the information on the administrative record, including the complaint filed by the domestic industry, the CBSA's estimates at the initiation of the investigation, information submitted by exporters of sucker rods from China, information provided by surrogate producers in the United States and Romania and customs import documentation.

[167] The CBSA decided that the normal values and export prices determined for the cooperative exporters whose submissions were substantially complete and verified for the final determination, rather than the information provided in the complaint or estimated at initiation, would be used to establish the methodology for determining normal values for all other exporters in China since it reflects the exporters' trading practices during the POI.

[168] The submissions of Nine-Ring, Shandong Kunlong and Zibo Weatherford were substantially complete for purposes of the final determination. The CBSA examined the difference between normal value and the export price for each individual transaction from these exporters in order to obtain an appropriate amount for the normal value methodology. For the purposes of this exercise, the CBSA excluded transactions concerning pony rods, a shorter length sucker rod, as the pony rod transactions represent less than three percent of all export sales of subject goods to Canada and are not representative of the remaining sucker rods transactions. The remaining transactions were examined to ensure that no anomalies were considered, such as a very low volume and value, effects of seasonality or other business factors.

[169] The CBSA considered that the highest amount by which the normal value exceeded the export price on an individual transaction of the three exporters mentioned above (expressed as a percentage of export price) was an appropriate basis for determining normal values. This methodology limits the advantage that an exporter may gain from not providing the necessary information requested in a dumping investigation as compared to an exporter that did provide the necessary information.

[170] Therefore, the normal values were determined based on the export price, plus an amount equal to 149.9% of that export price.

[171] The CBSA considered that the information submitted on the CBSA customs entry documentation was the best information on which to determine the export price of the goods for all other exporters as it reflects actual import data. This information is more comprehensive than what was available in the complaint.

[172] Based on the above methodologies, the subject goods exported to Canada from China, by all other exporters were found to be dumped by a margin of dumping of 149.9%, expressed as a percentage of the export price.

**SUMMARY OF RESULTS - DUMPING**

[173] A summary of the results of the dumping investigation respecting all subject goods released into Canada during the dumping POI are as follows (also available in **Appendix 1**):

**Summary of Results - Dumping  
Period of Investigation (January 1, 2017 to March 31, 2018)**

Country of Origin or Export	Margin of Dumping*
<b>China</b>	
Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.	141.1%
Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.	100.4%
All Other Exporters	149.9%

\*Expressed as a percentage of the export price.

[174] Under paragraph 41(1)(a) of SIMA, the CBSA is required to terminate an investigation in respect of the goods of an exporter if it is satisfied that the goods have not been dumped or the margin of dumping of the goods of that exporter is insignificant, meaning a margin of dumping that is less than 2% of the export price of the goods.

[175] As can be seen from the table above, the goods under investigation have been dumped and the margins of dumping determined in respect of the goods of the exporters are greater than the threshold of 2% and are therefore not considered insignificant.

## SUBSIDY INVESTIGATION

[176] In accordance with section 2 of SIMA, a subsidy exists if 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 WTO Agreement that confers a benefit.

[177] Pursuant to subsection 2(1.6) of SIMA, there is a financial contribution by a government of a country other than Canada 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) 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.

[178] Where subsidies exist they may be subject to countervailing measures if they are specific in nature. According to subsection 2(7.2) of SIMA a subsidy is considered to be specific when it is limited, in a legislative, regulatory or administrative instrument, or other public document, to a particular enterprise within the jurisdiction of the authority that is granting the subsidy; or is a prohibited subsidy.

[179] A “prohibited subsidy” is either an export subsidy or a subsidy or portion of a subsidy that is contingent, in whole or in part, on the use of goods that are produced or that originate in the country of export. An export subsidy is a subsidy or portion of a subsidy contingent, in whole or in part, on export performance. An “enterprise” is defined as including a group of enterprises, an industry and a group of industries. These terms are all defined in section 2 of SIMA.

[180] Notwithstanding that a subsidy is not specific in law, under subsection 2(7.3) of SIMA a subsidy may also be considered specific 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.

[181] 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 subject to countervailing measures if the persons engaged in the production, manufacture, growth, processing, purchase, distribution, transportation, sale, export or import of goods under investigation have benefited from the subsidy.

[182] Financial contributions provided by state-owned enterprises (SOEs) may also be considered to be provided by the government for purposes of this investigation. A 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 some combination thereof.

## RESULTS OF THE SUBSIDY INVESTIGATION

[183] The following presents the results of the investigation into the subsidizing of certain sucker rods originating in or exported from China.

[184] The GOC did not respond to the CBSA’s Government Subsidy RFI, which limited the CBSA’s ability to determine the amount of subsidy in the prescribed manner as the required information relating to financial contribution, benefit and specificity was not provided. It also limited the CBSA’s ability to determine whether producers, or other suppliers of goods and services are public bodies.

[185] Due to a lack of government response, subsidy amounts for all exporters were determined pursuant to subsection 30.4(2) of SIMA, based on a ministerial specification. However, in consideration of the fact that Shandong Kunlong, Nine-Ring and Zibo Weatherford provided sufficient information in response to their subsidy RFI, for each of these exporters, an individual amount of subsidy was determined based on the information provided in response to the Subsidy RFI and obtained during the on-site verification or desk audit.

[186] For exporters that did not provide sufficient information in response to the RFI, amounts of subsidy were determined under subsection 30.4(2) of SIMA on the basis of facts available.

[187] At the initiation of the subsidy investigation, the CBSA identified 22 potential subsidy programs. Information concerning these programs is provided in **Appendix 2**.

FOUND Petroleum Equipment Co., Ltd.

[188] FOUND is a producer and exporter of subject goods to Canada.

[189] FOUND provided substantially complete responses to the Subsidy RFI and one SRFI<sup>37</sup> for purposes of the preliminary determination. However, major discrepancies discovered with FOUND's responses led to the termination of the on-site verification. As FOUND's information could not be verified and was considered incomplete and inaccurate for the final determination. As such, the CBSA determined the amount of subsidy under a ministerial specification based on the methodology as described below under "All Other Exporters".

[190] The amount of subsidy determined for FOUND is 119.54 RMB/piece or 68.1%, expressed as a percentage of the export price.

Shandong Nine-Ring Petroleum Machinery Co., Ltd.

[191] Nine-Ring is a producer and exporter of subject goods to Canada. It provided substantially complete responses to the Subsidy RFI and two SRFIs.<sup>38</sup>

[192] For purposes of the final determination, the CBSA determined that Nine-Ring benefited from the following subsidy programs during the POI:

Program 6:	Design, Research and Development Grants;
Program 11:	Corporate Income Tax Reduction for New High-Tech Enterprises;
Program 15:	Preferential Tax Policies Related to Research and Investment;
Program 17:	Exemption or Refund of Tariff and Import Value-Added Tax (VAT) for Imported Technologies and Equipment; and,
Program 20:	Acquisition of Government Assets/Inputs at Less Than Fair Market Value.

[193] The amount of subsidy for Nine-Ring is 28.78 RMB/piece or 21.0%, expressed as a percentage of export price.

---

<sup>37</sup> Exhibits 56 (PRO) & 57 (NC), Exporter Subsidy RFI Response – FOUND Petroleum Equipment Co., Ltd.; Exhibits 104 (PRO) & 105 (NC), Exporter Supplemental RFI Response – FOUND Petroleum Equipment Co., Ltd.

<sup>38</sup> Exhibits 49 (PRO) and 50 (NC), Exporter Subsidy RFI Response – Shandong Nine-Ring Petroleum Machinery Co., Ltd.; Exhibits 100 (PRO) & 101 (NC), Supplemental RFI #1 Response – Shandong Nine-Ring Petroleum Machinery Co., Ltd; Exhibits 125 (PRO) & 126 (NC), Supplemental RFI #2 – Shandong Nine-Ring Petroleum Machinery Co., Ltd.



Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.

[194] Shandong Kunlong is a producer and exporter of subject goods to Canada. It provided substantially complete responses to the Subsidy RFI and two SRFIs.<sup>39</sup>

[195] For purposes of the final determination, the CBSA determined that Shandong Kunlong benefited from the following subsidy programs during the POI:

Program 11:	Corporate Income Tax Reduction for New High-Tech Enterprises;
Program 13:	Municipal/Local Income or Property Tax Reductions - Export Deductible Tax Refund Policy;
Program 15:	Preferential Tax Policies related to Research and Investment; and
Program 20:	Acquisition of Government Assets/Inputs at Less Than Fair Market Value.

[196] With respect to program 13 and as noted in Appendix 2, the information available indicates that this program is considered a specific subsidy under paragraph 2(7.2)(b) of SIMA as it is contingent upon export performance and, therefore constitutes a prohibited subsidy as defined in subsection 2(1) of SIMA.

[197] The amount of subsidy for Shandong Kunlong is 31.21 RMB/piece or 24.4%, expressed as a percentage of export price.

Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.

[198] Zibo Weatherford is a producer and exporter of subject goods. It provided substantially complete responses to the Subsidy RFI and one SRFI.<sup>40</sup>

[199] For purposes of the final determination, the CBSA determined that Zibo Weatherford benefited from the following subsidy programs during the POI:

Program 7:	Export Performance Grants; and
Program 20:	Acquisition of Government Assets/Inputs at Less Than Fair Market Value

[200] The amount of subsidy for Zibo Weatherford is 5.81 RMB/piece or 2.8% expressed as a percentage of export price.

---

<sup>39</sup> Exhibits 60 (PRO) & 61 (NC), Exporter Subsidy RFI Response - Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.; Exhibits 102 (PRO) & 103 (NC), Subsidy Supplemental RFI #1 Response - Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd. & Exhibits 136 (PRO) & 137 (NC), Revised exhibit D31 - Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.

<sup>40</sup> Exhibits 72 (PRO) & 73 (NC), Exporter Subsidy RFI Response – Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.; Exhibits 93 (PRO) & 94 (NC), Subsidy Supplemental RFI #1 Response – Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.

## All Other Exporters

[201] For exporters of subject goods originating in or exported from China that did not provide a response to the Subsidy RFI or provided incomplete or unreliable information, the CBSA determined an amount of subsidy pursuant to subsection 30.4(2) of SIMA on the basis of facts available.

[202] In establishing the methodology for determining the amounts of subsidy, the CBSA examined all information on the record, including information from the complaint, information provided by exporters and publically available information. The CBSA considered that the information provided by exporters who provided sufficient information in response to the CBSA's Subsidy RFI, as well as the information on the potentially actionable subsidy programs that were identified at the initiation of the investigation was the best information on which to base the methodology for determining amounts of subsidy. Therefore, the amounts of subsidy were determined pursuant to a ministerial specification on the basis of the following methodology:

- 1) the highest amount of subsidy for each of the seven programs, as found at the final determination, for the exporters located in China that provided a substantially complete response to the Subsidy RFI, plus;
- 2) the average amount of subsidy for the seven programs listed in (1), applied to each of the remaining 15 potentially actionable subsidy programs for which sufficient information was not provided for the final determination.

[203] The CBSA considers that this is an appropriate basis for determining the amounts of subsidy since the information available supports that the potentially actionable subsidy programs may be available to exporters and producers of the subject goods in China. Furthermore, the amount of subsidy applied to each of these potentially actionable subsidy programs is based on the benefits received by the responding exporters. This method of determining the amounts of subsidy is based on information on the record and limits the advantage that an exporter may gain from not providing necessary information requested in a subsidy investigation as compared to an exporter that did provide the necessary information.

[204] Using the above methodology, the amount of subsidy for all other exporters in China is 119.54 RMB/piece or 68.1%, expressed as a percentage of the export price.

## SUMMARY OF RESULTS – SUBSIDY

[205] A summary of the results of the subsidy investigation respecting all subject goods released into Canada during the subsidy POI follows (also available in **Appendix 1**):

### Summary of Results - Subsidy Period of Investigation (January 1, 2017 to March 31, 2018)

Country of Origin or Export	Amount of Subsidy*
<b>China</b>	
Shandong Nine-Ring Petroleum Machinery Co., Ltd.	21.0%
Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.	24.4%
Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.	2.8%
All Other Exporters	68.1%

\*Expressed as a percentage of the export price.

[206] Under paragraph 41(1)(a) of SIMA, the CBSA is required to terminate an investigation in respect of the goods of an exporter if the CBSA is satisfied that the goods have not been subsidized or the amount of subsidy on the goods of that exporter is insignificant.

[207] Pursuant to subsection 2(1) of SIMA, an amount of subsidy of less than 1% of the export price of the goods is defined as insignificant. As can be seen from the table above, the goods under investigation have been subsidized and the amounts of subsidy on the goods are above 1% and are, therefore, not insignificant.

## DECISIONS

[208] On November 14, 2018, pursuant to paragraph 41(1)(b) of SIMA, the CBSA made final determinations of dumping and subsidizing respecting certain sucker rods originating in or exported from China.

## FUTURE ACTION

[209] The provisional period began on August 16, 2018, and will end on the date the CITT issues its finding. The CITT is expected to issue its decision by December 14, 2018. Provisional anti-dumping and countervailing duties will continue to apply until this date on imports of subject goods from China. For further details on the application of provisional duties, refer to the Statement of Reasons issued for the preliminary determinations, which is available through the CBSA's website at: [www.cbsa-asfc.gc.ca/sima-lmsi/menu-eng.html](http://www.cbsa-asfc.gc.ca/sima-lmsi/menu-eng.html).

[210] If the CITT finds that the dumped and subsidized goods have not caused injury and do not threaten to cause injury, all proceedings will be terminated. In this situation, all provisional duties paid or security posted by importers will be returned.

[211] If the CITT finds that the dumped and subsidized goods have caused injury, the anti-dumping and/or countervailing duties payable on subject goods released by the CBSA during the provisional period will be finalized pursuant to section 55 of SIMA. Imports released by the CBSA after the date of the CITT's finding will be subject to anti-dumping duty equal to the margin of dumping and countervailing duty equal to the amount of subsidy.

[212] The importer in Canada shall pay all applicable duties. If the importers of such goods do not indicate the required SIMA code or do not correctly describe the goods in the customs documents, an administrative monetary penalty could be imposed. The provisions of the *Customs Act* apply with respect to the payment, collection or refund of any duty collected under SIMA. As a result, failure to pay duty within the prescribed time will result in the application of interest.

### **RETROACTIVE DUTY ON MASSIVE IMPORTATIONS**

[213] Under certain circumstances, anti-dumping and/or countervailing duty can be imposed retroactively on subject goods imported into Canada. When the CITT conducts its inquiry on material injury to the Canadian industry, it may consider if dumped and/or subsidized goods that were imported close to or after the initiation of the investigations constitute massive importations over a relatively short period of time and have caused injury to the Canadian industry. Should the CITT issue a finding that there were recent massive importations of dumped and/or subsidized goods that caused injury, imports of subject goods released by the CBSA in the 90 days preceding the day of the preliminary determinations could be subject to anti-dumping and/or countervailing duty.

[214] In respect of importations of subsidized goods that have caused injury, 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. In such a case, the amount of countervailing duty applied on a retroactive basis will equal the amount of subsidy on the goods that is a prohibited subsidy. An export subsidy is a prohibited subsidy according to subsection 2(1) of SIMA.

### **PUBLICATION**

[215] A notice of these final determinations of dumping and subsidizing will be published in the *Canada Gazette* pursuant to paragraph 41(3)(a) of SIMA.

## **INFORMATION**

[216] This *Statement of Reasons* has been provided to persons directly interested in these proceedings. It is also posted on 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, 11<sup>th</sup> floor  
Ottawa, Ontario K1A 0L8  
Canada

**Telephone:** Jason Huang 613-954-7388  
Khatira Akbari 613-952-0532

**E-mail:** [simaregistry@cbsa-asfc.gc.ca](mailto:simaregistry@cbsa-asfc.gc.ca)

**Web site:** [www.cbsa-asfc.gc.ca/sima-lmsi](http://www.cbsa-asfc.gc.ca/sima-lmsi)



Doug Band  
Director General  
Trade and Anti-dumping Programs Directorate

## **ATTACHMENTS**

- Appendix 1: Summary of Margins of Dumping and Amounts of Subsidy**
- Appendix 2: Summary of Findings for Subsidy Programs**
- Appendix 3: Dumping and Subsidy Representations**

**APPENDIX 1 -  
SUMMARY OF MARGINS OF DUMPING AND AMOUNTS OF SUBSIDY**

Country of Origin or Export	Margin of Dumping*	Amount of Subsidy*	Amounts of Subsidy per piece
<b>China</b>			
Shandong Nine-Ring Petroleum Machinery Co., Ltd.	149.9%	21.0%	28.78 RMB
Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd.	141.1%	24.4%	31.21 RMB
Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd.	100.4%	2.8%	5.81 RMB
All Other Exporters	149.9%	68.1%	119.54 RMB

\* As a percentage of export price.

Note: The margins of dumping and amounts of subsidy reported in this table were determined by the CBSA for the purposes of the final determination. These margins and amounts may not reflect the amount of anti-dumping or countervailing duty to be levied on future importations of dumped or subsidized goods. In the event of an injury finding by CITT, normal values and amounts of subsidy for future shipments to Canada have been provided to the exporters who provided sufficient information in their response to the CBSA RFI, as appropriate. These normal values and amounts of subsidy would come into effect the day after an injury finding. Information regarding normal values of the subject goods and amounts of subsidy should be obtained from the exporters. Imports from any other exporters will be subject to an anti-dumping duty rate and a countervailing duty rate, as applicable, in accordance with a ministerial specification and in an amount equal to the margin of dumping or the amount of subsidy found for "all other exporters" at the final determination.

Section 10 of SIMA directs that where the whole (or a portion of the) margin of dumping is attributable to an export subsidy, that portion of the margin of dumping shall not be leviable, collectable and payable as anti-dumping duty.

Please consult the [SIMA Self-Assessment Guide](#) for more detailed information explaining how to determine the amount of SIMA duties owing.

Normally, normal values will not be applied retroactively. However, normal values may be applied retroactively in cases where the parties have not advised the CBSA in a timely manner of substantial changes that affect values for SIMA purposes. Therefore, where substantial changes occur in prices, market conditions, costs associated with production and sales of the goods, the onus is on the concerned parties to advise the CBSA.

## **APPENDIX 2 - SUMMARY OF FINDINGS FOR SUBSIDY PROGRAMS**

This Appendix consists of descriptions of the subsidy programs which the responding exporters, Shandong Nine-Ring Petroleum Machinery Co., Ltd., Shandong Shouguang Kunlong Petroleum Machinery Co., Ltd. and Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd., benefited from during the course of the Period of Investigation (POI), and other potentially actionable subsidy programs identified by the Canada Border Services Agency (CBSA) that were not used by the responding exporters during the POI. Note that, the Government of China (GOC) did not submit a response to the subsidy Request for Information (RFI).

The CBSA has used the best information available to describe the potentially actionable subsidy programs that were not used by the responding exporters in the current investigation. This includes using information obtained from CBSA research on potential subsidy programs in China and information provided by the responding exporters, related suppliers and descriptions of programs that the CBSA has previously published in recent *Statement of Reasons* relating to subsidy investigations involving China.

### **Subsidy Programs Used by the Responding Exporters**

#### **Program 6: Design, Research and Development Grants**

##### **General Information**

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

During the course of the investigation the following information was provided by Nine-Ring.

##### **(a) Special Fund for Patent Invention**

This program was established in the *Interim Measures for the Administration of Intellectual Property (Patent) Special Funds* in Shandong Province, which was issued by the Department of Finance of Shandong Province.

##### **(b) Special Fund for Energy Conservation and Recycling Economy**

This program was established in the *Notice on Disbursement of National Subsidy for Resource-Saving Recycling Key Projects for Central Infrastructure Investment Budget [2017]*, which was issued by the Department of Finance of Bincheng, Binzhou City.

##### **(c) Special Fund for Specialist**

This program was established in the *Notice on Distribution of Talent Support Funds [2016]*, which was issued by the Department of Finance of Bincheng, Binzhou City.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(a) of SIMA as it involves the direct transfer of funds from the government. This grant confers a direct benefit to the recipient and the benefit is equal to the amount of the grant provided.

### Specificity

Due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether this program is specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, these programs do not appear to be generally available to all enterprises in China and thus appear to be specific.

### **Program 7: Export Performance Grants**

#### General Information

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.<sup>41</sup> 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.

During the course of the investigation the following information was provided by Zibo Weatherford.

At the local level, this program was established in the *Notice of Organizing and Declaring the Special Fund Project of Foreign Trade and Economic Development of Zibo City, Zibo Business [2017] No.114*, which was issued by Zibo Bureau of Commerce and Zibo Bureau of Finance on September 20, 2017. The purpose of this program is to promote stable growth of foreign trade and structural adjustment, to encourage investment in attracting funds, to actively implement the "Going Global" strategy, and to support the innovation and development of service trade and service outsourcing. Exporters benefit from this program by receiving grants if their annual sales revenue of exports exceeds certain level.

---

<sup>41</sup> CBSA Final Determination *SOR* – OCTG (2010).



### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution, pursuant to paragraph 2(1.6)(a) of SIMA, as it involves the direct transfer of funds from the government. This grant confers a direct benefit to the recipient and the benefit is equal to the amount of the grant provided.

### Specificity

Due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether this program is specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, these programs do not appear to be generally available to all enterprises in China and thus appear to be specific.

## **Program 11: Corporate Income Tax Reduction for New High-Tech Enterprises**

### General Information

This program was established in the *Law of the People's Republic of China on Enterprise Income Tax*<sup>42</sup>, 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 promote enterprise technology upgrades. Under this program, new high-technology enterprises may apply for and receive an income tax reduction to a reduced rate of 15%. The GOC listed this program in its notification of subsidy programs to the WTO.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted that confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

Due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether this program is specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, this program does not appear to be generally available to all enterprises in China and thus appears to be specific.

---

<sup>42</sup> Exhibit 49 (PRO) - Exporter Subsidy RFI Response - Nine-Ring Petroleum Machinery Co., Ltd. – Exhibit Part E.6, *The Law of the People's Republic of China on Enterprise Income Tax*, page 7.

## **Program 13: Municipal/Local Income or Property Tax Reductions**

### General Information

This program covers municipal/local income tax reduction and property tax reductions programs such as “*Reduction, Exemption or Refund of Land Use Fees, Land Rental Rates, and Land Purchase/Transfer Prices.*”

During the course of the investigation the following information was provided by Shandong Kunlong.

#### **(a) Export Deductible Tax Refund Policy**

The particulars of this program are laid out in the following: *State Administration of Taxation on the Issuance of “Production Enterprises Export Goods” Exemption, Arrival and Retreat Tax Management Regulations, National Tax [2002] No. 11*. This program is administered by the local government of Shouguang and, more specifically, the local tax bureau of the city of Shouguang.

Under this program, companies are eligible to receive a tax rebate equal to 15% of the value of the goods that they export.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

With respect to programs falling under the broad category of Municipal/Local Income or Property Tax Reductions, due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether all programs under this category are specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, the programs under the broad category of Municipal/Local Income or Property Tax Reductions do not appear to be generally available to all enterprises in China and thus appears to be specific.

However, information on the CBSA’s administrative record shows that Shandong Kunlong received benefits during the subsidy POI from the specific program entitled Export Deductible Tax Refund Policy offered by the local government of Shouguang. Available information with respect to the Export Deductible Tax Refund Policy indicates that this program constitutes a prohibited subsidy as defined in subsection 2(1) of SIMA as it is contingent upon export performance. According to paragraph 2(7.2)(b) of SIMA, a subsidy is specific where it is a prohibited subsidy.

## **Program 15: Preferential Tax Policies related to Research and Investment**

### General Information

This program was established in *The Law of the People's Republic of China on Enterprise Income Tax*, which was issued by The State Administration of Taxation and its local branches.

As stated in Item (1) of Article 30 of the *Corporate Income Tax Law*, expenses incurred by an enterprise for the development of new technology, new products and new craftsmanship, not forming an intangible asset, but being charged to profit and loss for the current period, can be claimed on top of the actual deduction, for an additional deduction of 50% of the research and development expenses.<sup>43</sup>

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

Due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether this program is specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, these programs do not appear to be generally available to all enterprises in China and thus appear to be specific.

## **Program 17: Exemption or Refund of Tariff and Import Value-Added Tax (VAT) for Imported Technologies and Equipment**

### General Information

This program was established in the *Circular of the State Council on Adjusting Tax Policies on Imported Equipment [1997]*, which was issued by the National Development and Reform Commission; General Administration of Customs.

For the purposes of expanding foreign capital utilization, inducting advanced technologies and equipment from abroad, promoting adjustments in industry structures and technological advancement, and maintaining the sustained development of the national economy, the state council has authorized the exemption of tariffs and import linked value-added tax with respect to import equipment pertaining to domestic and foreign investment projects.<sup>44</sup>

---

<sup>43</sup> Exhibit 49 (PRO) - Exporter Subsidy RFI Response - Nine-Ring Petroleum Machinery Co., Ltd. – Exhibit Part E.6, *The Law of the People's Republic of China on Enterprise Income Tax*, page 26.

<sup>44</sup> Exhibit 49 (PRO) - Exporter Subsidy RFI Response - Nine-Ring Petroleum Machinery Co., Ltd. – Exhibit Part E.8, *The Circular of the State Council on Adjusting Tax Policies on Imported Equipment*, page 1.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

Due to the lack of a response by the GOC, there is not sufficient information on the record to determine whether this program is specific pursuant to subsection 2(7.2) or subsection 2(7.3) of SIMA; nor is there sufficient information to indicate that the subsidy is not specific pursuant to the criteria set out in subsection 2(7.1). On the basis of the available information, these programs do not appear to be generally available to all enterprises in China and thus appear to be specific.

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

#### General Information

This program relates to the provision, by the government, of goods or services at prices lower than the fair market value of the goods or services in the territory of the government providing the subsidy. Specifically, the CBSA investigated the acquisition of raw materials (i.e. steel bar or merchant bar) from SOEs or state-controlled enterprises used in the production of subject goods.

State-owned or state-controlled suppliers 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 order to determine whether the exporter acquired its raw material from “government”, the CBSA requested detailed information from the exporters regarding their acquisition of raw materials. The Subsidy RFI also contained a small questionnaire with instructions for the exporters to forward the questionnaire to their domestic suppliers. This questionnaire requested information regarding the ownership status of the supplier and other relevant information with respect to assessing whether the supplier is considered “government”.

Information was requested from exporters with respect to the ownership status of their raw material suppliers. Responding exporters indicated that a significant amount of their purchases of input materials were from SOEs. Further, information was also requested from the GOC with respect to the ownership status of the steel producers and with respect to governmental measures affecting the steel industry as a whole. As indicated previously, the GOC has not responded to the Subsidy and Section 20 RFIs.

Due to the lack of cooperation from the GOC and the limited information available regarding state-owned raw material suppliers, the CBSA has not been able to perform the in-depth level of analysis necessary to determine whether all suppliers that provided steel bars or other steel input materials to the exporters of subject goods are SOEs, and whether the SOEs are considered to be possessing, exercising, or vested with governmental authority.

The CBSA has determined that section 20 conditions exist in the long steel products sector (which includes steel bar) in China in the re-investigation of Certain Concrete Reinforcing Bar (concluded on May 4, 2018). As a result, the domestic selling prices for steel bar in China are not appropriate for the purposes of determining the fair market value of these goods. The CBSA further reviewed information regarding steel bar purchases by the responding exporters and found that none of the responding exporters imported steel bars from suppliers located outside of China during the POI.

In the absence of appropriate domestic benchmark prices of steel bar in China and of import prices, the CBSA determined, based on the information on the record, that average material costs of steel bars reported by the participating surrogate producers are appropriate for purposes of establishing the fair market value of steel bars in China.

The CBSA compared the price at which the goods were provided by SOE suppliers with the fair market value of the goods. When the purchase price from SOE suppliers was less than the benchmark purchase, the exporter was found to have benefited from this program. The total benefit for the POI for each exporter was determined and an average benefit per piece was established.

#### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(c) of SIMA. That is, the government provides goods other than general infrastructure.

#### Specificity

On the basis of available information, this program is 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.

## **Other Potentially Actionable Subsidy Programs Identified by the CBSA that were Not Used by the Responding Exporters**

Based on the information available, for purposes of the final determination, the CBSA has found that these programs were not used by the participating exporters in China. As the GOC did not respond to the Subsidy RFI, the CBSA's ability to conduct its analysis of additional programs for the final determination was limited. However, based on the information available from the complaint, responses from participating exporters and CBSA's own research, these programs may constitute financial contributions provided by the GOC, confer benefit to producers and appear to be specific.

### **PREFERENTIAL LOANS AND LOAN GUARANTEES**

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.

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

##### **General Information**

This program relates to government loans at a preferential rate of interest. The benefit provided in this case is a lower rate of interest than would otherwise be available if the enterprises had to obtain a non-guaranteed commercial loan (i.e. the benchmark non-guaranteed commercial loan).

##### **Financial Contribution**

On the basis of the available information, this program is 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 and/or exempted, and confers a benefit to the recipient equal to the amount of the reduction/exemption.

##### **Specificity**

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**

### General Information

Assurance provided by the GOC, an 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.

### Financial Contribution

On the basis of the available information, this program is 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 and/or exempted, and confers a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

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**

### General Information

The GOC forgives certain debts owing by certain companies.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

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**

### General Information

Export loans by the Export-Import Bank of China, GOC policy banks, and state-owned central banks 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.”<sup>45</sup>

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

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**

#### General Information

Local and provincial government reimbursement grants on credit insurance fees.

#### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(a) of SIMA as a direct transfer of funds from the government that confers a benefit to the recipient equal to the amount of the grant.

#### Specificity

The program may be considered specific pursuant to paragraph 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.

---

<sup>45</sup> Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 38, Program 613.



## **Program 8: Performance Award Grants**

### General Information

A grant that provides financial aid for enterprises with excellent performances.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(a) of SIMA as a direct transfer of funds from the government that confers a benefit to the recipient equal to the amount of the grant.

### Specificity

The program may be considered specific pursuant to paragraph 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**

### General Information

This program provides for the reduction of land use fees and rental rates for a certain number of years. Examples of this program include: a document titled '[2003] No.8 Preferential Supply of Land', in order to offset costs for industrial companies in the Ninghai Economic Development Zone; or similar initiatives in the Tianjin Binhai New Area and the Tianjin Economic and Technological Development Area.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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**

#### General Information

This program was established under 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 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 allegedly the State Administration of Taxation and the program is administered by local tax authorities. Under this program, an eligible enterprise may receive a reduced corporate income tax rate of 15%.

#### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

#### Specificity

The program may be considered specific pursuant to paragraph 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**

#### General Information

This program was founded 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*.<sup>46</sup>

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.<sup>47</sup>

---

<sup>46</sup> Final Determination Statement of Reasons, *Oil Country Tubular Goods*, Program 6.

<sup>47</sup> Exhibit 2 (NC) – Sucker Rods Complaint, Appendix 38, Program 200.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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)**

### General Information

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 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%.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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**

#### General Information

According to the European Union (EU) 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.

#### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

#### Specificity

The program may be considered specific pursuant to paragraph 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**

#### General Information

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.

### Financial Contribution

On the basis of the available information, this program is 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 and/or exempted, and confers a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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**

### General Information

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.

According to the EU 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.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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**

### General Information

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.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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**

### General Information

The debt-to-equity swap was a measure used in the financial restructuring of China’s SOEs and state-owned banks. 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 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.

### Financial Contribution

On the basis of the available information, this program constitutes a financial contribution pursuant to paragraph 2(1.6)(b) of SIMA. That is, amounts that would otherwise be owing and due to the government are reduced and/or exempted, and confer a benefit to the recipient equal to the amount of the reduction/exemption.

### Specificity

The program may be considered specific pursuant to paragraph 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.

## **APPENDIX 3 - DUMPING AND SUBSIDY REPRESENTATIONS**

Case arguments were received on behalf of Zibo Hongyang Weatherford Oilfield Equipment Co., Ltd. (Zibo Weatherford),<sup>48</sup> and on behalf of Shandong Nine-Ring Petroleum Machinery Co., Ltd (Nine-Ring).

Nine-Ring's case arguments were received after the investigation schedule deadline and as a result were not considered for the final determinations.

The CBSA received reply submissions on behalf of Apergy Canada ULC – Alberta Oil Tool Division (“the complainant”).<sup>49</sup>

Certain details provided in case arguments and reply submissions were designated as confidential information by the submitting counsel. This has restricted the ability of the CBSA to discuss all issues raised in these submissions.

The material issues raised by the parties are summarized as follows:

### **DUMPING REPRESENTATIONS**

#### **Section 20 Inquiry**

##### **Case Brief**

Counsel for Zibo Weatherford submitted that there was an insufficient evidentiary basis to initiate a section 20 inquiry.<sup>50</sup> Counsel argued that the industry sector under investigation is not part of the steel industry, nor are they part of the steel oil and gas products sector. They argued that sucker rods should be considered part of the industrial machinery and products sector.<sup>51</sup>

Counsel for Zibo Weatherford submitted that there is no government ownership or representation at Zibo Weatherford and the company is not mandated to procure Chinese origin steel products.<sup>52</sup> Counsel argued that if the CBSA determines that low steel prices may have an impact on the sucker rod market, it is inappropriate to apply section 20 in a situation in which the only factor allegedly justifying its application is the simply low priced inputs.<sup>53</sup> Counsel further argued that the impact of the allegedly underpriced inputs can be properly addressed in the subsidy investigation and resorting to section 20 is extreme and unnecessary.<sup>54</sup>

---

<sup>48</sup> Exhibits 151 (PRO) & 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd.

<sup>49</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division

<sup>50</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd., paragraph 8.

<sup>51</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd., paragraph 12.

<sup>52</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd., paragraphs 19 to 22.

<sup>53</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd., paragraph 27.

<sup>54</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd., paragraph 32.



Counsel for Zibo Weatherford also argued that even if the CBSA determines that section 20 conditions exist in the sucker rod industry in China, normal values determined pursuant to subparagraph 20(1)(c)(ii) of SIMA (i.e., the cost-plus methodology) should be based on Zibo Weatherford's own cost, not surrogate values.<sup>55</sup> Counsel submitted that the proper interpretation for paragraph 20(1)(c) is either to choose a surrogate country and use the transaction price of producers in that country, or to use the cost-plus method for the original exporter.<sup>56</sup>

Counsel argued that the surrogate countries chosen by the CBSA (i.e. the US and Romania) for this investigation are inappropriate because the economic forces between the surrogate countries and China are different. Counsel submitted that other economies in South East Asia have largely similar supply of labour, materials and price levels compared to China, and argued that those economies would have been far superior for purposes of a surrogate price analysis.<sup>57</sup>

### **Reply Submission**

Counsel for the complainant submitted that a section 20 inquiry was properly initiated based on evidence gathered by the CBSA and argued that the application as to whether section 20 conditions exist is a discretionary decision by the CBSA.<sup>58</sup> Counsel submitted that the steel oil and gas products sector is the appropriate industry sector subject to this section 20 inquiry because sucker rods are made of steel and are exclusively used in the oil and gas industry. Counsel further submitted that numerous producers that produce oil and gas products also produce sucker rods at the same facility.<sup>59</sup>

Counsel for the complainant noted that Zibo Weatherford made numerous assertions concerning the facts specific to the company itself, not to the sector as a whole; and argued that Zibo Weatherford is just one of dozens of known sucker rod producers in China.<sup>60</sup> Counsel for the complainant also noted that the GOC did not provide a response to the CBSA's section 20 RFI.<sup>61</sup>

Counsel for the complainant argued that a section 20 inquiry should not be confused with a subsidy investigation because they are two distinct sets of analysis. Counsel further argued that GOC's influence over the steel oil and gas products sector extends well beyond the issue of underpriced inputs.<sup>62</sup>

---

<sup>55</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraphs 35 to 38.

<sup>56</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraph 39.

<sup>57</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraphs 44 to 51.

<sup>58</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraphs 2 to 3.

<sup>59</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraph 4.

<sup>60</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraph 8.

<sup>61</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraph 9.

<sup>62</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraph 11.

Counsel for the complainant submitted that Zibo Weatherford incorrectly interprets the cost-plus methodology under subparagraph 20(1)(c)(ii). Counsel argued that using the costs of the subject exporting country to determine normal values would undermine the purpose of a section 20 inquiry; and submitted that the only country referred to under paragraph 20(1)(c) is the surrogate country, therefore, the cost of production of like goods can only refer to the cost of production in the surrogate country.<sup>63</sup>

Counsel for the complainant submitted that the US is likely the most appropriate surrogate country to China because the US and China are two of the largest sucker rods producing and using countries in the world. Counsel argued that there are no identified sucker rods producers in South East Asia on the record and submitted that the CBSA is permitted to rely on the surrogate information from the US and Romania, which is available on the record.<sup>64</sup>

### **CBSA's Response**

The CBSA has considered information provided by the complainant, producers/exporters of sucker rods, obtained through its own research, and previous CBSA's section 20 inquiries respecting steel products from China. Based on the information, the CBSA formed the opinion that the conditions of paragraph 20(1)(a) of SIMA apply in the steel oil and gas products sector in China, which includes sucker rods.

Further details respecting the factors upon which the CBSA's section 20 opinion was based, can be found in the "Section 20 Inquiry" portion of this document.

### **Product Grouping for Purposes of Establishing Normal Values**

#### **Case Brief**

Counsel for Zibo Weatherford submitted that the methodology used to estimate normal values at the preliminary determination is inappropriate because it is based on an average of all grades for a sucker rod of a given diameter and length and it does not consider steel grade or grade of sucker rods. Counsel further submitted that the CBSA should compare grade, size and the given steel grade in order to arrive an "apple-to-apple" comparison.<sup>65</sup>

### **CBSA's Response**

The CBSA agreed with Zibo Weatherford and has issued specific normal values for the cooperative exporters at the final determination on the basis of the following six product characteristics: product type (sucker rod or pony rod), steel grade, grade of rods, outside diameter, length and end finishing.

---

<sup>63</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraphs 12 to 13.

<sup>64</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraphs 15 to 16.

<sup>65</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraphs 52 to 53.

## SUBSIDY REPRESENTATIONS

### Subsidy Respecting Purchases of Input Materials from SOEs vs. Upstream Subsidy

#### Case Brief

Counsel for Zibo Weatherford submitted that it appears to be a CBSA's policy to presume that upstream steel subsidies are passed-through to manufacturers of finished goods in China and argued that this presumption is not permissible at domestic or international laws. Counsel further argued that there is no statutory basis on which CBSA can rely on to support this reverse onus approach.<sup>66</sup>

Counsel argued that the CBSA may not assume that a subsidy provided to upstream input producers automatically benefits unrelated producers of downstream products if there is evidence on the record indicating they are arm's-length transactions between the two.<sup>67</sup> Counsel further argued that the CBSA's approach respecting the verification of raw material purchases by Zibo Weatherford demonstrates that there was a presumption of upstream subsidies that had passed-through to Zibo Weatherford.<sup>68</sup>

#### Reply Submission

Counsel for the complainant noted that Zibo Weatherford acknowledges that it purchased raw materials from SOEs and argued that it is a countervailable subsidy when the GOC (acting through an SOE) provides input materials to Zibo Weatherford at less than fair market value.<sup>69</sup>

#### CBSA's Response

During the course of the investigation, the CBSA identified and investigated 22 subsidy programs that could potentially confer benefits to exporters/producers of sucker rods in China. One of the subsidy programs investigated by the CBSA is *Program 20 - Acquisition of Government Assets/Inputs at Less Than Fair Market Value*. This program relates to the provision of goods/services by the government at prices lower than the fair market value of the goods/services in the territory of the government providing the subsidy.

*Program 20 - Acquisition of Government Assets/Inputs at Less Than Fair Market Value* is a direct subsidy received by the exporter of the goods. Consequently, a pass-through analysis is not required or relevant. Further details with respect to this program and how it was treated can be found in the *Appendix 2 – Summary of Findings for Subsidy Programs*.

An upstream subsidy is an indirect subsidy that is initially provided to a recipient who is not the exporter of the goods under investigation and is passed-through in some manner to the exporter of the goods under investigation. An upstream subsidy can involve the supply of goods that are associated with the production of the goods under investigation.

---

<sup>66</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraphs 69 to 71.

<sup>67</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraph 72.

<sup>68</sup> Exhibit 152 (NC), Case brief – Zibo Hongyang Weatherford Oilfield Co., Ltd, paragraph 75.

<sup>69</sup> Exhibit 153 (NC), Reply submission – Apergy Canada ULC – Alberta Oil Tool Division, paragraph 17.

The CBSA presumes that the upstream subsidy has been passed-through to the downstream purchaser in its entirety if the downstream purchaser is associated with the upstream input producer. The CBSA does not presume that the upstream subsidy has been passed-through to the downstream purchaser if they are not associated. In that case, a pass-through analysis is required.

For this investigation, the CBSA has not found that the cooperative exporters received benefits related to upstream subsidies during the POI.