Dated: October 14, 1997.

Alejandro J. Perera,

DCM & Charge D'Affairs of Venezuelan Embassy.

For U.S. Department of Commerce.

Dated: October 14, 1997.

Robert S. LaRussa,

Assistant Secretary for Import Administration.

Appendix

In accordance with the established format, the Government of Venezuela shall collect and provide to the Department all information necessary to ensure compliance with this Agreement. This information will be provided to the Department on a semi-annual basis, or upon request.

The Government of Venezuela will collect and maintain sales data to the United States, in the home market, and to countries other than the United States, on a continuous basis and provide the prescribed information to the Department.

The Government of Venezuela will provide a narrative explanation to substantiate all data collected in accordance with the following formats.

Report of Inventories

Report, by location, the inventories held by Venezuela producers/exporters in the United States and imported into the United States between the period beginning May 6, 1997, through the effective date of the Agreement.

1. Quantity: Indicate original units of measure and in pounds.
2. Location: Identify where the inventory is currently being held. Provide the name and address for the location.
3. Titled Party: Name and address of party who legally has title to the merchandise.
4. Export License Number: Indicate the number(s) relating to each entry now being held in inventory.
5. Certificate of Origin Number(s): Indicate the number(s) relating to each sale or entry.
6. Date of Original Export: Date the Export License/certificate of origin is issued.
7. Date of Entry: Date the merchandise entered the United States or the date book transfer took place.
8. Original Importer: Name and address.
9. Original Exporter: Name and address.
10. Complete Description of Merchandise: Include heat numbers, HTS number, physical description, ASTM specification, and other available information.

United States Sales

The Government of Venezuela will provide all Export Licenses, which shall contain the following information with the exception of item #9, date of entry, and item #16, final destination.

1. Export License/Certificate of Origin Number(s): Indicate the number(s) relating to each sale and/or entry.
2. Complete Description of Merchandise: Include heat numbers, HTS number, physical description, ASTM specification, and other available information.
3. Quantity: Indicate in original units of measure and in pounds.
4. F.O.B. Sales Value: Indicate currency used.
5. Unit Price: Indicate currency used/per original unit of measure.
6. Date of Sale: The date all terms of order are confirmed.
7. Sales Order Number(s): Indicate the specification number/order number relating to each sale and/or shipment.
8. Date of Export: Date the Export License is issued.
9. Date of Entry: Date the merchandise entered the United States or the date book transfer took place.
10. Importer of Record: Name and address.
11. Trading Company/Broker: Name and address of any trading company involved in the sale.
12. Customer: Name and address of the first unaffiliated party purchasing from the Venezuela producer/exporter.
13. Customer Affiliation: Indicate whether the customer is affiliated or unaffiliated to the Venezuela exporter.
14. Quota Allocated to Exporter: Indicate the total amount of quota allocated to the individual exporter during the Relevant Period.
15. Quota Remaining: Indicate the remaining quota available to the individual exporter during the Relevant Period.
16. Final Destination: Name and address of the end-user for consumption in the United States.
17. Other: The identity of any party(ies) in the transaction chain between the customer and the final destination/end-user.

Mill Certification

The Government of Venezuela shall ensure that all shipments of subject merchandise exported to the United States pursuant to this Agreement shall be accompanied by a copy of the original mill certification.

Sales Other Than United States

Pursuant to Section VIII, paragraph C, the Government of Venezuela will provide country-specific sales volume and value information for all sales of steel wire rod products, as described in Section II, in the home market and to third countries.

1. Quantity: Indicate in original units of measure sold and/or entered and in metric tons.
2. F.O.B. Sales Value: Indicate currency used.
3. Date of Sale: The date all terms of order are confirmed.
4. Complete Description of Merchandise: Include heat numbers, HTS number, physical description, specification/grade under which sold, and other available information.
5. Sales Order Number(s): Indicate the specification number/order number relating to each sale and/or shipment.
6. Date of Export (if third country): Date of shipment from Venezuela.
7. Date of Entry (if third country): Date the merchandise entered the third country or the date a book transfer took place.
8. Importer of Record (if third country): Name and address.
9. Customer: Name and address of the first party purchasing from the Venezuela producer/exporter.
10. Customer Affiliation: Indicate whether the customer is affiliated or unaffiliated.
11. Final Destination: Name and address of the end-user for consumption.
12. Other: The identity of any party(ies) in the transaction chain between the customer and the final destination/end-user.

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DEPARTMENT OF COMMERCE

International Trade Administration

[C–122–827]

Final Affirmative Countervailing Duty Determination: Steel Wire Rod From Canada

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

EFFECTIVE DATE: October 22, 1997.

FOR FURTHER INFORMATION CONTACT: Robert Bolling or Rick Johnson, Office of Antidumping/Countervailing Duty Enforcement, Group III, Office IX, Import Administration, U.S. Department of Commerce, Room 1874, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230; telephone (202) 482–3434, or 482–0165, respectively.

Final Determination

The Department of Commerce (the ''Department'') determines that countervailable subsidies were provided to Sidbec-Dosco (Ispat) Inc., a producer and exporter of steel wire rod from Canada. For information on the estimated countervailing duty rates, please see the *Suspension of Liquidation* section of this notice.

Case History

Since our preliminary determination on July 28, 1997 (62 FR 41933–39, August 4, 1997) (''*Preliminary Determination*''), the following events have occurred:

Verification: In accordance with section 782(i) of the Act, we verified the information used in making our final determination. We followed standard verification procedures, including meeting with government and company officials, and examination of relevant accounting records and original source documents. Our verification results are outlined in detail in the public versions of the verification reports, which are on file in the Central Records Unit (Room B–099 of the Main Commerce Building).

We conducted verification in Canada of the questionnaire responses of the Government of Canada (''GOC''), the Government of Quebec (''GOQ''), the

Government of Ontario (''GOO''), Sidbec-Dosco (Ispat) Inc. (''SDI''), Sidbec (Sidbec was incorrectly referred to as ''Sidbec, Inc.'' in the preliminary determination), Ivaco, Inc. (Ivaco), Stelco, Inc. (Stelco), Bank of Canada, The Bank of Nova Scotia, and the Canadian Steel Trades and Employment Congress (CSTEC) from September 2 through September 11, 1997.

Argument: Petitioners and respondents filed case and rebuttal briefs on September 22 and September 25, 1997, respectively. A public hearing was held on September 29, 1997.

Scope of Investigation

The products covered by this investigation are certain hot-rolled carbon steel and alloy steel products, in coils, of approximately round cross section, between 5.00 mm (0.20 inch) and 19.0 mm (0.75 inch), inclusive, in solid cross-sectional diameter. Specifically excluded are steel products possessing the above-noted physical characteristics and meeting the Harmonized Tariff Schedule of the United States (HTSUS) definitions for (a) stainless steel; (b) tool steel; (c) high nickel steel; (d) ball bearing steel; (e) free machining steel that contains by weight 0.03 percent or more of lead, 0.05 percent or more of bismuth, 0.08 percent or more of sulfur, more than 0.4 percent of phosphorus, more than 0.05 percent of selenium, and/or more than 0.01 percent of tellurium; or (f) concrete reinforcing bars and rods.

The following products are also excluded from the scope of this investigation:

Coiled products 5.50 mm or less in true diameter with an average partial decarburization per coil of no more than 70 microns in depth, no inclusions greater than 20 microns, containing by weight the following: carbon greater than or equal to 0.68 percent; aluminum less than or equal to 0.005 percent; phosphorous plus sulfur less than or equal to 0.040 percent; maximum combined copper, nickel and chromium content of 0.13 percent; and nitrogen less than or equal to 0.006 percent. These products are commonly referred to as ''Tire Cord Wire Rod.''

Coiled products 7.9 to 18 mm in diameter, with a partial decarburization of 75 microns or less in depth and seams no more than 75 microns in depth; containing 0.48 to 0.73 percent carbon by weight. These products are commonly referred to as ''Valve Spring Quality Wire Rod.''

The products under investigation are currently classifiable under subheadings 7213.91.3000, 7213.91.4500, 7213.91.6000, 7213.99.0030, 7213.99.0090, 7227.20.0000, and 7227.90.6050 of the HTSUS. Although the HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this investigation is dispositive.

The Applicable Statute and Regulations

Unless otherwise indicated, all citations to the statute are references to the provisions of the Tariff Act of 1930, as amended by the Uruguay Round Agreements Act effective January 1, 1995 (the ''Act'').

Injury Test

Because Canada is a ''Subsidies Agreement Country'' within the meaning of section 701(b) of the Act, the International Trade Commission (ITC) is required to determine whether imports of wire rod from Canada materially injure, or threaten material injury to, a U.S. industry. On April 30, 1997, the ITC published its preliminary determination finding that there is a reasonable indication that an industry in the United States is being materially injured or threatened with material injury by reason of imports from Canada of the subject merchandise (62 FR 23485).

Petitioners

The petition in this investigation was filed by Connecticut Steel Corp., Co-Steel Raritan, GS Industries, Inc., Keystone Steel & Wire Co., North Star Steel Texas, Inc. and Northwestern Steel and Wire (the ''petitioners''), six U.S. producers of wire rod.

Corporate History

Sidbec was established by the GOQ in 1964. In 1968, Sidbec acquired Dominion Steel and Coal Corporation Limited, a steel producer, and later changed the name to Sidbec-Dosco, Inc. The GOQ owned 100 percent of Sidbec's stock, and Sidbec owned 100 percent of Sidbec-Dosco, Inc.'s stock, until privatization in 1994.

In 1976, Sidbec, British Steel Corporation (International), and Quebec Cartier Mining Company entered into a joint venture to mine and produce iron ore concentrates and iron oxide pellets. The company they formed was Sidbec-Normines Inc. (Sidbec-Normines), of which Sidbec owned 50.1%. These mining activities were shut down in 1984.

Before its privatization, Sidbec-Dosco, Inc. operated steel making facilities in Contrecoeur, Montreal and Longueuil, Quebec. Until 1987, all of the facilities at Longueuil and a good portion of the facilities in Contrecoeur were owned by Sidbec and leased to Sidbec-Dosco, Inc. In 1987, Sidbec reorganized in order to consolidate all steel-related assets under its wholly-owned subsidiary, Sidbec-Dosco, Inc. Sidbec itself became a holding company.

On August 17, 1994, Sidbec-Dosco, Inc. was sold to Beheer-en Beleggingsmaatschappij Brohenco B.V. (Brohenco), which is wholly-owned by Ispat-Mexicana, S.A. de C.V. (Ispat Mexicana). It became known as Sidbec-Dosco (Ispat) Inc.

Sidbec, the holding company, continues to be 100% owned by the GOQ.

Subsidies Valuation Information

Period of Investigation: The period for which we are measuring subsidies (the ''POI'') is calendar year 1996.

Allocation Period: In the past, the Department has relied upon information from the U.S. Internal Revenue Service on the industry-specific average useful life of assets, in determining the allocation period for nonrecurring subsidies. *See* General Issues Appendix (''GIA'') appended to *Final Countervailing Duty Determination; Certain Steel Products from Austria* (58 FR 37217, 37226; July 9, 1993). However, in *British Steel plc.* v. *United States,* 879 F. Supp. 1254 (CIT 1995) (*British Steel*), the U.S. Court of International Trade (the ''Court'') ruled against the allocation methodology. In accordance with the Court's remand order, the Department calculated a company-specific allocation period for nonrecurring subsidies based on the average useful life (''AUL'') of non-renewable physical assets. This remand determination was affirmed by the Court on June 4, 1996. *See British Steel plc.* v. *United States,* 929 F. Supp. 426, 439 (CIT 1996).

In this investigation, the Department has followed the Court's decision in *British Steel.* Therefore, for the purposes of this final determination, the Department has calculated a company-specific AUL.

Based on information provided by Sidbec and SDI regarding depreciable assets, the Department has determined the appropriate company-specific allocation period. Due to the proprietary nature of data from SDI, we are unable to provide the specific AUL for Sidbec/SDI for the public file. The calculation of this AUL is on the official file in the Central Records Unit, Room B–099 of the Department of Commerce (*see Memorandum to the File: Calculation of AUL Period,* dated October 14, 1997).

Because we have determined that Ivaco and Stelco did not receive any non-recurring subsidies during the POI, we have not calculated an AUL for either company.

Equityworthiness: In analyzing whether a company is equityworthy, the Department considers whether that company could have attracted investment capital from a reasonable, private investor in the year of the government equity infusion based on information available at that time. In this regard, the Department has consistently stated that a key factor for a company in attracting investment capital is its ability to generate a reasonable return on investment within a reasonable period of time.

In making an equityworthiness determination, the Department examines the following factors, among others:

1. Current and past indicators of a firm's financial condition calculated from that firm's financial statements and accounts;
2. Future financial prospects of the firm including market studies, economic forecasts, and project or loan appraisals;
3. Rates of return on equity in the three years prior to the government equity infusion;
4. Equity investment in the firm by private investors; and
5. Prospects in the world for the product under consideration.

For a more detailed discussion of the Department's equityworthiness methodology, *see* GIA (58 FR at 37239 and 37244).

Petitioners alleged that Sidbec and Sidbec-Dosco, Inc. (SDI's predecessor) were unequityworthy for the period 1982 through 1992. Petitioners alleged that any equity infusions received during those years would have been inconsistent with the usual investment practices of private investors and therefore conferred a countervailable benefit within the meaning of section 771(5)(E)(i) of the Act. In the preliminary determination, we determined Sidbec to be unequityworthy from 1982 to 1992 (*see Preliminary Determination* at 62 FR 41933).

In this investigation, both the GOQ and SDI have submitted arguments regarding Sidbec's equityworthyness at the time of the 1988 debt-to-equity conversion, and whether the Department considered the appropriate company (Sidbec versus Sidbec-Dosco, Inc.) when it made its preliminary equityworthiness determination.

Throughout the period 1982 to 1985, Sidbec reported substantial losses. Although Sidbec reported a profit in 1986 and 1987, the profits were not of such a magnitude to offset the substantial losses suffered from 1982 through 1985. Additionally, return on equity was either negative or not meaningful (due to a negative equity balance) in every year from 1984 through 1987. Moreover, for the years 1984 through 1987 Sidbec had a negative debt-to-equity ratio, which indicated that the company's liabilities exceeded the company's assets. Therefore, based on an analysis of Sidbec's data, we have determined that Sidbec was unequityworthy at the time of the 1988 debt-to-equity conversion (*see* Comments 8–10 below). The Department has not rendered a final determination on other years in the AUL period, because for this final determination we find only one potentially countervailable equity event, the 1988 debt-to-equity conversion.

Equity Methodology: In measuring the benefit from a government equity infusion to an unequityworthy company, the Department compares the price paid by the government for the equity to a market benchmark, if such a benchmark exists, *i.e.*, the price of publicly traded shares of the company's stock or an infusion by a private investor at the time of the government's infusion (the latter may not always constitute a proper benchmark based on the specific circumstances in a particular case).

Where a market benchmark does not exist, the Department has determined in this investigation to continue to follow the methodology described in the GIA 58 FR 37239–44. Following this methodology, equity infusions made into an unequityworthy firm are treated as grants. Using the grant methodology for equity infusions into an unequityworthy company is based on the premise that an unequityworthiness finding by the Department is tantamount to saying that the company could not have attracted investment capital from a reasonable investor in the infusion year based on the available information.

Creditworthiness: When the Department examines whether a company is creditworthy, it is essentially attempting to determine if the company in question could obtain commercial financing at commonly available interest rates. If a company receives comparable long-term financing from commercial sources, that company will normally be considered creditworthy. In the absence of comparable commercial borrowings, the Department normally evaluates financial data for three years prior to each year at issue to determine whether or not a firm is creditworthy. The Department considers the following factors, among others:

1. Current and past indicators of a firm's financial health calculated from that firm's financial statements and accounts;
2. The firm's recent past and present ability to meet its costs and fixed financial obligations with its cash flow; and
3. Future financial prospects of the firm including market studies, economic forecasts, and project or loan appraisals.

For a more detailed discussion of the Department's creditworhiness criteria, *see, e.g., Final Affirmative Countervailing Duty Determinations: Certain Steel Products from France,* 58 FR 37304 (July 9, 1993) (''*Certain Steel Products from France*''), and Final Affirmative Countervailing Duty Determination: Certain Steel Products from the United Kingdom, 58 FR 37393 (July 9, 1993).

Petitioners alleged that Sidbec and Sidbec-Dosco, Inc. were uncreditworthy from 1977 through 1993. We first initiated an investigation of Sidbec-Dosco, Inc.'s creditworthiness for the years 1982 and 1984 through 1988. Then, on July 1, 1997, we initiated an investigation of Sidbec's creditworthiness for the period 1984 through 1993. In the preliminary determination, we determined Sidbec to be uncreditworthy from 1982 to 1992 (*see Preliminary Determination,* 62 FR at 41935).

In its case brief, SDI submitted arguments regarding Sidbec's creditworthiness from 1982 to 1992, and whether the Department considered the appropriate company (Sidbec versus Sidbec-Dosco, Inc.) when it made its preliminary creditworthiness determination (*see* Comment 14 below).

To determine the creditworthiness of Sidbec during the years 1983 (the year of the first countervailable subsidy in the AUL period) through 1992 (the year of the last alleged subsidy in the AUL period), we have evaluated certain liquidity and debt ratios, *i.e.*, quick, current, times interest earned, and debt-to-equity, on a consolidated basis. For the period 1980 through 1985, the company consistently incurred substantial losses. Despite the fact that Sidbec reported a profit from 1986 through 1990, the company was still thinly capitalized and had a high debt-to-equity ratio during this time. Additionally, the interest coverage ratio was negative for the years 1991 and 1992 and the liquidity ratios (*i.e.*, quick and current ratio) indicated that the company may have had difficulty in meeting its short-term obligations. Consequently, based on our analysis of Sidbec's data, we have determined that

Sidbec was uncreditworthy for the years 1983 through 1992.

Discount Rates: Respondents did not provide company-specific information relevant to the appropriate discount rates to be used in calculating the countervailable benefit for non-recurring grants and equity infusions in this investigation. For the preliminary determination, we used the long-term government bond rate in Canada published in the *International Monetary Fund (IMF) International Financial Statistics Yearbook* as the discount rate, plus a risk premium (because we had determined Sidbec to be uncreditworthy), for each year in which there was a non-recurring countervailable subsidy. For the final determination, because we now have verified long-term corporate rates for the AUL period (*i.e.*, loans or bonds) from the Bank of Canada, we have used these rates as the discount rate, plus a risk premium (because we have continued to determine Sidbec to be uncreditworthy), for each year in which there was a non-recurring countervailable subsidy, *i.e.*, 1983 through 1992.

Privatization/Restructuring Methodology: In the GIA, we applied a new methodology with respect to the treatment of subsidies received prior to the sale of a government-owned company. Under this methodology, we calculate the amount of prior subsidies that passed through to the purchaser.

In the specific context of a restructuring, as here, where Sidbec sold Sidbec-Dosco, Inc. to Ispat Mexicana's subsidiary Brohenco, we performed the calculation for restructuring as set forth in the GIA, 58 FR at 37269, to derive the amount of prior subsidies that passed through to SDI.

In the current investigation, we have analyzed the privatization of Sidbec-Dosco, Inc. in the year 1994. We have followed the methodology in the GIA, described above, to calculate the amount of prior subsidies that passed through to SDI.

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

I. Programs Determined To Be Countervailable

A. 1988 Debt-to-Equity Conversion

Petitioners alleged that Sidbec-Dosco, Inc. received a debt-to-equity conversion from either the GOC or the GOQ in 1988 based on Sidbec-Dosco, Inc.''s 1988 Annual Report. SDI reported that a portion of Sidbec's debt (owed to the GOQ) was converted into Sidbec capital stock in 1988. According to SDI, the debt consisted of four loans provided to Sidbec by the GOQ during the period 1982–1985, plus accrued interest. SDI explained that, every two years, the GOQ extended the maturity date for these loans for another two years. According to the GOQ, it converted four of Sidbec's debt instruments into equity in Sidbec in 1988 in order to improve Sidbec-Dosco, Inc.''s economic profile, for the purpose of making it more attractive for privatization, partnership, or investment. In the GOQ Act which authorized this debt conversion, Sidbec was authorized to acquire, as it later did, an equivalent amount in shares of Sidbec-Dosco, Inc.

We have concluded that, consistent with our equity methodology, benefits to Sidbec occurred at the point when the debt instruments (*i.e.*, loans) were converted to capital stock given that, as discussed above, we have determined that Sidbec was unequityworthy in 1988. *See, e.g., Certain Steel Products from France,* 58 FR at 37306–7, 37312. We consider the conversion of debt to capital stock in 1988 to constitute an equity infusion inconsistent with the usual investment practice of private investors within the meaning of section 771(5)(E)(i) of the Act.

When receipt of benefits under a program is not contingent upon exportation, the Department must determine whether the program is specific to an enterprise or industry, or group of enterprises or industries. Under the specificity analysis, the Department examines both whether a government program is limited by law to a specific enterprise or industry, or group thereof (*i.e., de jure* specificity), and whether the government program is in fact limited to a specific enterprise or industry, or group thereof (*i.e., de facto* specificity) (*see* Section 771(5A)(D) of the Act). We determine the 1988 debt-to-equity conversion to be specific, because it was provided only to one enterprise, Sidbec, and was not part of a broader program.

For these reasons, we determine that the 1988 debt-to-equity conversion constitutes a countervailable subsidy within the meaning of section 771(5) of the Act.

Consistent with the equity methodology, we followed our standard declining balance grant methodology for allocating the benefits from the equity infusion represented by the debt-to-equity conversion. We then reduced the benefit stream by applying the privatization calculation described in the Restructuring section of the GIA (58 FR at 37269). We divided the benefit by SDI total sales. On this basis, we calculated an estimated net subsidy for this program of 0.92 percent *ad valorem* for SDI.

B. 1983–1992 Grants

Sidbec received grants from the GOQ from 1983 to 1992 to compensate for expenses it incurred to finance Sidbec-Normines and its discontinued operations. Certain of these grants were provided by the GOQ to Sidbec with regard to the payment of interest on six different loans, the first of which was taken out in 1983. The GOQ was the guarantor of these loans. These grants were made in each year from 1983 to 1992. In addition, other grants were provided by the GOQ to Sidbec with regard to the payment of the principal on the same six loans during each year from 1984 to 1992. In the preliminary determination, the Department noted that these payments appeared in Sidbec's Consolidated Contributed Surplus and treated them as equity infusions from the GOQ. However, at verification the Department discovered that these payments were not equity but grants. The receipt of these grants occurred as follows: (1) Sidbec paid the interest and principal, as it came due, on loans that were taken out to finance Sidbec-Normines and its discontinued mining operations; (2) Sidbec then issued statements to the GOQ for these amounts; and (3) the GOQ, after obtaining the necessary budgetary authority, issued checks to Sidbec to cover these expenses. According to the GOQ, to process a request for these funds, approval was needed from four agencies (*i.e.*, the Quebec Ministry of Industry and Commerce, the Treasury Board, the National Assembly and the Executive Counsel). Once the approval process was completed, the GOQ issued a decree providing funding to Sidbec. *See* July 3, 1997 GOQ response, Exhibit H. In some years, the GOQ-approved grants did not cover all of the principal and interest due and paid by Sidbec (because of differing fiscal years for Sidbec and the GOQ), and Sidbec's financial statements recorded ''grants receivable'', based on management's ''estimate'' that the GOQ would reimburse Sidbec; the financial statements also explained how it would be handled ''[i]f the Government was to decide to pay a smaller amount'' than recorded in the ''grants receivable'' account. Nevertheless, over time, the GOQ did provide grants to Sidbec covering, in full, all principal and interest payments due on the six loans.

We have determined that the GOQ funds provided to Sidbec to finance Sidbec-Normines and its discontinued mining operations were in the form of grants (see Comment 6). Based on our analysis of the record and the comments received from interested parties (in Comments 3, 4, 5, and 7), we determine that these grants constitute countervailable subsidies within the meaning of section 771(5) of the Act and are non-recurring in nature. We also have determined that they are specific within the meaning of section 771(5A)(D) of the Act because they were provided only to one enterprise, Sidbec, and were not part of a broader program.

To calculate the countervailable subsidy, we followed our standard declining balance grant methodology, as discussed above. We reduced the benefit stream by applying the privatization calculation described in the Restructuring section of the GIA (58 FR at 37269).

We divided the benefit attributable to the POI by SDI total sales during the same period. On this basis, we determine the countervailable subsidy for this program to be 8.03 percent *ad valorem* for SDI.

II. Programs Determined To Be Not Countervailable

A. Canadian Steel Trade Employment Congress Skill Training Program

The GOC, through the Human Resources Development Canada (HRDC), and provincial regional governments provide financial support to private sector-led human resource projects through the Sectoral Partnerships Initiative (SPI). The GOC stated that SPI has been active in over eighty Canadian industrial sectors, including steel through the Canada Steel Trades and Employment Congress (CSTEC). CSTEC's activities are divided into two types of assistance: 1) worker adjustment assistance, for unemployed steel workers; and 2) skills training assistance, for currently employed workers.

With regard to the worker adjustment assistance, funds flowing from HRDC do not go to the companies, but rather to unemployed workers in the form of assistance for retraining costs or income support. We have determined that these funds are not countervailable because the companies are not relieved of any obligations.

As discussed below (*see* Comment 16), based on the record, we have determined that funds received by SDI, Stelco and Ivaco from CSTEC for training purposes did not provide countervailable benefits during the POI, because these SPI benefits, which constitute a domestic subsidy, were not specific to the Canadian steel industry.

B. 1987 Grant to Sidbec-Dosco, Inc.

Petitioners alleged that in 1987, Sidbec-Dosco, Inc. received a grant from the GOQ. SDI stated that the GOQ did not provide a contribution to Sidbec-Dosco, Inc. in 1987. At verification, we found no evidence that the GOQ provided a grant to Sidbec-Dosco, Inc. in 1987. In 1987, Sidbec underwent a reorganization in order to consolidate all steel-related assets under Sidbec-Dosco, Inc. The Department discovered that this transaction involved an intracompany reorganization, and that this arrangement was exclusively between Sidbec and Sidbec-Dosco, Inc. Therefore, we have determined that no countervailable benefits were conferred.

C. 1987 Debt-to-Equity Conversion

Petitioners alleged that, in 1987, Sidbec-Dosco, Inc. received an equity infusion from either the GOC or GOQ. Specifically, petitioners stated that Sidbec (which was wholly-owned by the GOQ) converted loans to Sidbec-Dosco, Inc. into Sidbec-Dosco, Inc. shares. Both the GOC and the GOQ stated that they did not participate in a debt-to-equity conversion involving either Sidbec or Sidbec-Dosco, Inc. in 1987. We found no evidence at verification that the GOQ provided an infusion of equity, either through a debt-to-equity conversion or otherwise, to Sidbec-Dosco, Inc. in 1987. Furthermore, as with the alleged 1987 grant, we found that the basis for petitioners' allegation in fact involved a transfer of assets associated with the intracompany reorganization. Therefore, we have determined that no countervailable benefits were conferred.

D. Contributed Surplus

On July 1, 1997, we initiated an investigation on petitioners' allegation that C$51.7 million in contributed surplus constituted a countervailable subsidy. SDI reported that this contributed surplus was related to a capital expenditure program for fixed assets, and all of the assistance was received prior to 1980, which is outside the AUL period being used for Sidbec in this investigation. Additionally, the GOQ stated that Sidbec received these funds (which originated from both from the GOQ and the GOC) prior to the AUL period. At verification, we reviewed documentation which indicated that Sidbec received this C$51.7 million contributed surplus prior to the AUL period. Therefore, based on record information, we have determined that these funds did not provide countervailable benefits during the POI.

E. Payments Against Accumulated Grants Receivable

On July 1, 1997, we initiated an investigation on petitioners' allegation that C$43.8 million in payments against accumulated grants receivable in 1988 constituted a countervailable subsidy. SDI reported that these grants receivable are included in the amounts of the 1983–1992 grants discussed above that went to the discontinued mining operations of Sidbec-Normines. At verification of the GOQ, we confirmed that all GOQ payments made to Sidbec between 1983 and 1993 are accounted for by the 1983–1992 grants discussed above (*see* Comment 11 below). Therefore, based on record information, we have determined that no additional countervailable benefits were provided.

F. 1982 Assistance to Sidbec-Dosco, Inc.

Petitioners alleged that in 1982, Sidbec-Dosco, Inc. received an infusion of emergency funds, either in the form of a grant or an equity infusion, from the GOQ. At verification, we gathered additional information on the alleged 1982 assistance to Sidbec-Dosco, Inc. Record evidence indicates that the GOQ did not provide any governmental assistance to either Sidbec or Sidbec-Dosco, Inc. in 1982 (*see, e.g.*, Government of Quebec Verification report).

G. 1980 and 1981 Grants

On July 25, 1997, petitioners' alleged that through a review of Sidbec's 1980 through 1982 financial statements indicated that the GOQ provided grants to Sidbec in 1980 and 1981. At verification, we gathered information on the alleged grants to Sidbec. Record evidence indicates that the GOQ did not provide any grants to Sidbec in 1980 or 1981 (*see, e.g.*, Government of Quebec Verification report).

III. Programs Determined To Be Not Used

A. Industrial Development of Quebec

The Industrial Development of Quebec (IDQ) is a law administered by the Societe de Developpement Industriel du Quebec (SDIQ), a GOQ agency that funds a wide range of industrial development projects in many industrial sectors. Under Article 2(a) of the IDQ, SDIQ provided funding to help companies utilize modern technologies in order to ''increase efficiency and exploit the natural resources of Quebec'' (*see* GOQ July 3, 1997 response at page 12). In 1982, the GOQ rescinded the applicable law authorizing SDIQ to provide these grants.

The Department verified that Ivaco received grants in 1984 and 1985 which had been authorized prior to the program's rescission in 1982. With respect to these grants, we analyzed the total amount of funding Ivaco received in each year, and we have determined that the benefits Ivaco received under this program for each year constituted a *de minimis* portion (*i.e.*, less than 0.5 percent) of total sales value, and therefore should be expensed in each year they were received. Therefore, because the grants provided under this program were expensed in the year of receipt, we have determined that no countervailable benefits were bestowed on Ivaco during the POI.

Interested Party Comments

Comment 1: Respondent SDI maintains that the Department's determination to treat Sidbec, Sidbec-Dosco, Inc., and Sidbec-Normines as one entity in the preliminary determination in part because they prepared consolidated financial statements is legally insufficient. First, SDI claims that, after cessation of Sidbec-Normines' operations in 1984, in accordance with GAAP, Sidbec-Normines' financial results were not consolidated with those of Sidbec or Sidbec-Dosco, Inc. Thus, concludes SDI, the Department's decision to treat Sidbec-Normines as being the same as Sidbec was based on an incorrect premise: for only two of the years in which the Department found subsidies were Sidbec-Normines' financial results consolidated with the other two companies.

SDI contends that the facts in *Certain Steel Products from France,* cited by the Department in the preliminary determination, ''are clearly and sharply distinguishable from those here.'' Specifically, SDI asserts that, in *Certain Steel Products from France,* the collapsed parties, Usinor and Sacilor, each produced the subject merchandise, each received subsidies whose benefits were still countervailable in the period of investigation, and merged together before the investigation was initiated. SDI also cites *Ferrosilicon from Venezuela,* 58 FR 27539, 27542 (May 10, 1993), in which the Department treated a parent corporation and its subsidiary as two distinct entities, as supporting the principle of ''choos(ing) substance over form'' in terms of addressing the treatment of distinct corporate entities. By relying only on GAAP, SDI maintains that the Department failed to examine whether Sidbec-Dosco, Inc. in fact benefitted from the subsidies at issue. SDI also argues that this approach conflicts with Department practice. Citing *Prestressed Concrete Wire from France,* 47 FR 47031, 47036 (Oct. 22, 1982), SDI states that the Department noted that: ''(i)t cannot be concluded solely from the consolidation of financial statements that the subsidiaries or the parent are not operating independently.''

Petitioners argue that respondents misread the preliminary determination by describing the Department's decision to treat Sidbec, Sidbec-Dosco, Inc., and Sidbec-Normines as a single entity as based on the fact that their financial statements are consolidated. According to petitioners, the Department collapsed the analysis of these three entities, not merely because of their financial statements, but also because of the close relationship of these entities as well as their common goal of creating a fully integrated steel company in Quebec.

Petitioners believe that the close relationship between Sidbec and Sidbec-Dosco, Inc. renders them indistinguishable for the purposes of weighing subsidy benefits. Petitioners argue that Sidbec was a crown corporation established to create an integrated steel facility in Quebec. Petitioners assert that, pursuant to that mission, it acquired Sidbec-Dosco, Inc. Petitioners also state that Sidbec founded Sidbec-Normines, in which it held a majority interest for the express purpose of supplying pelletized iron to Sidbec-Dosco, Inc. Petitioners claim that throughout the period of subsidies, Sidbec, Sidbec-Dosco, Inc. and Sidbec-Normines shared the same identity of interest: the production of steel from iron ore mined in Quebec. Petitioners conclude that the Department should not permit a result allowing Sidbec-Dosco to circumvent the countervailing duty law because the subsidies were formally bestowed on Sidbec.

Petitioners also have noted that in *Certain Steel from Germany,* the Department found that subsidies from the parent, DHS, passed through to its newly acquired subsidiary, Dillinger, even though the forgiven debt was incurred with respect to sales of another DHS subsidiary, Saarstahl. Thus, according to petitioners, attribution of subsidies from a parent to its subsidiaries may be entirely appropriate even in situations involving no production of subject merchandise.

Finally, petitioners have argued that, even if the Department chooses not to treat Sidbec, Sidbec-Dosco, Inc. and Sidbec-Normines as a single entity, it must allocate benefits to Sidbec, and through Sidbec to Sidbec-Dosco, Inc. Petitioners agree with SDI that, ''in determining whether a benefit is found for the subject merchandise, the Department normally must examine the recipient of the subsidy.'' Petitioners point to the 1997 Proposed Rules, which state as a general rule that the Department will normally attribute a subsidy received by a corporation to the products produced by that corporation and that if the corporation is a holding company, subsidies will normally be attributed to the consolidated sales of the holding company.

Department's Position: In the preliminary determination, the Department stated: ''Because Sidbec, Inc.'s financial statements were consolidated including both its mining and steel manufacturing activities, and because the alleged subsidies under investigation were granted through Sidbec, Inc., we are treating Sidbec, Inc., Sidbec-Dosco, Inc. and Sidbec-Normines as one entity for the purposes of determining benefits to the subject merchandise from alleged subsidies.'' *Preliminary Determination,* 62 FR at 41934. This statement needs clarification.

There are two ways in which the Department, in applying the countervailing duty law, treats the parent entity and its subsidiaries as one when determining who ultimately benefits from a subsidy. First, the Department ''generally allocate[s] subsidies received by parents over sales of their entire group of companies.'' *GIA,* 58 FR at 37262. One example of this practice is *Final Affirmative Countervailing Duty Determination; Certain Hot-rolled Lead and Bismuth Carbon Steel Products from France,* 58 FR 6221 (Jan. 27, 1993) (''*France Bismuth*''), where the ''Department allocated subsidies to all French subsidiaries of the parent company, a French holding company, which was the recipient of the subsidies.'' *GIA,* 58 FR at 37262. Second, the Department has found that a subsidy provided to one company can bestow a countervailable benefit on another company in the same corporate family. As we explained in *Final Affirmative Countervailing Duty Determination; Certain Pasta from Italy,* 61 FR 30288, 30290, 30308 (June 14, 1996) (''*Pasta from Italy*''), in certain situations, the Department will treat two (or more) affiliated companies as a single entity, so that a subsidy to either company is deemed a subsidy to the other company and allocated over the combined sales of the two companies. Thus, in *Pasta from Italy,* the Department treated two affiliated companies as a single entity because they were sufficiently related to each other, *i.e.*, one company owned 20 percent or more of the other company, and both companies produced the subject merchandise. The Department also treated two affiliated companies related by 20 percent or more ownership as a single entity where one company, a service company, did not produce the subject merchandise but nevertheless was ''deeply involved in the operations of'' the other company, which did produce the subject merchandise. *Id.* at 30290. *See also GIA*, 58 FR at 37262 (discussing *Armco, Inc.* v. *United States*, 733 F. Supp. 1514 (CIT, 1990), where the court ''endorsed countervailing the parent company for subsidies received by the subsidiary because both were part of the same business enterprise, and the parent exercised control over its subsidiary'').

In this investigation, from the beginning of the AUL period until 1984, when Sidbec-Normines' mining operations were shut down, Sidbec was the parent of both Sidbec-Dosco, Inc. and Sidbec-Normines, owning 100 percent of Sidbec-Dosco, Inc. and 50.1 percent of Sidbec-Normines, as well as 100 percent ownership of two other relatively less significant companies—Sidbec-Feruni, Inc. (steel scrap) and Sidbec International Inc. (sales of iron ore). In addition, Sidbec's financial statements included both Sidbec-Dosco, Inc. and Sidbec-Normines among the consolidated companies. Consistent with our past practice, therefore, we have treated any untied subsidy received by the parent, Sidbec, during this period as benefitting all of the companies in the Sidbec group, including Sidbec-Dosco, Inc. and Sidbec-Normines. We note that we also would treat Sidbec and Sidbec-Dosco, Inc. as a single entity during this period (and, in fact, continuing until 1987, at which time the Sidbec group was reorganized and Sidbec became a holding company and Sidbec-Dosco, Inc. assumed responsibility for all steel wire rod production), with the result that any untied subsidies received by either Sidbec or Sidbec-Dosco, Inc. during this period would be allocated to the sales of both companies. In this regard, both Sidbec and Sidbec-Dosco, Inc. were producers of the subject merchandise, Sidbec owned 100 percent of Sidbec-Dosco, Inc. and their steel wire rod operations were intertwined. Nevertheless, we need not reach that issue, given that Sidbec was the only entity that received subsidies during the entire AUL period, and these subsidies already are attributable to all of the members of the Sidbec group, including Sidbec-Dosco, Inc., under our normal practice when dealing with subsidies to the head of a consolidated group, as exemplified by *France Bismuth*.

From 1984, when Sidbec-Normines' mining operations were shut down, until 1987, the relationship between Sidbec and Sidbec-Dosco, Inc. did not materially change. Consequently, our practice dictates that we attribute any untied subsidies received by Sidbec during this period to the Sidbec group, which continues to include Sidbec and Sidbec-Dosco, Inc., but no longer Sidbec-Normines, whose production had ceased.

In 1987, the Sidbec group was reorganized, Sidbec became a holding company, and Sidbec-Dosco, Inc. took over all steel wire rod production for the Sidbec group. From 1987 until the privatization of Sidbec-Dosco, Inc. in 1994, we still must attribute any untied subsidies received by Sidbec—now a holding company, like Usinor Sacilor in *France Bismuth*—to the Sidbec group, which included Sidbec-Dosco, Inc.

Finally, from the privatization of Sidbec-Dosco, Inc. in 1994 through the POI, our practice dictates that we treat all of the subsidies previously received by Sidbec during the AUL period and attributable to Sidbec-Dosco, Inc. as passing to SDI, subject to and in accordance with the Department's privatization and, if relevant, tying methodologies (*see* Comment 13). In this regard, at the time of privatization and, indeed, since 1987, when Sidbec transferred all of its steel wire rod assets to Sidbec-Dosco, Inc., all of the subsidies previously provided to Sidbec resided with Sidbec-Dosco, Inc., with the exception of the small portion of those subsidies allocable to Sidbec's steel scrap subsidiary.

With respect to respondents' comments, first we note that it is not material whether Sidbec-Normines' financial results were included in Sidbec's consolidated financial statements after the closing of Sidbec-Normines' mining operations in 1984. It is only material that Sidbec-Normines was part of the Sidbec group until its mining operations were shut down in 1984. The post-1984 grants provided to Sidbec related to the closure of Sidbec-Normines' mining operations and are attributable to the remaining production of the Sidbec group, which is the steel wire rod production of Sidbec (until 1987) and Sidbec-Dosco, Inc. Meanwhile, the pre-1984 grants provided to Sidbec, even if considered tied to Sidbec-Normines' iron ore production, similarly are attributable to the remaining production of the Sidbec group (*see* Comment 3).

We do not agree with respondents that *Ferrosilicon from Venezuela* is relevant to the Department's determination. There, the Department was addressing the issue of whether two companies, FESILVEN and CVG, should be treated as a single entity, so that a subsidy to either company would be deemed a subsidy to the other and allocated over the combined sales of the two companies, as in *Pasta from Italy*. The Department explained why it refused to treat the two companies as a single entity as follows: ''While CVG does have extensive control over FESILVEN, FESILVEN has other shareholders. Moreover, CVG is merely a holding company with ownership interest in other companies producing other products. Therefore, we do not see an identity of interests sufficient to warrant treating CVG and FESILVEN as a single company.'' 58 FR at 27542. In this case, the issue is what production benefits from the subsidy to Sidbec once Sidbec-Normines ceased production. As explained above, the Department is following the precedent, exemplified by *France Bismuth*, pursuant to which it is the Department's practice to allocate subsidies received by a parent over sales of its entire group of companies.

Respondent SDI's reliance on *Prestressed Concrete Wire from France* also is misplaced. There, the Department was addressing whether subsidies provided to an input supplier, Usinor, had been passed on to the producer of the finished product, CCG, which was a wholly owned subsidiary of Usinor. The Department held that the mere fact that CCG was consolidated on Usinor's financial statement was not enough to serve as a basis for concluding that the price charged by Usinor to CCG for the input was not at arm's length. Indeed, the Department ultimately held that the price was at arm's length after reviewing both Usinor's and CCG's dealings with unrelated companies. In contrast, the issue in this case is not whether the government has provided a subsidized input. Rather, the issue is whether subsidies provided to Sidbec should be atttributed to all of the Sidbec group's sales. Consequently, *Prestressed Concrete Wire from France* is not relevant here.

We also do not agree with respondent SDI's construction of the Department's final determination in *Certain Steel Products from France*. SDI misunderstands both the facts of that case and the Department's determination. There, contrary to respondent SDI's statements, Usinor and Sacilor were not producers of the subject merchandise; rather, each of them was a parent of a large group of consolidated companies, among which were producers of the subject merchandise and producers of other products. During the middle of the AUL period, in 1986, Usinor and Sacilor were merged and Usinor Sacilor emerged as a parent, holding company for the companies that previously had been part of the Usinor group and the Sacilor group. In addressing the subsidies provided by the French government to Usinor and Sacilor and, after 1986, to Usinor Sacilor, the Department followed its precedent in *France Bismuth*, where the Department six months earlier had faced the same consolidated groups of companies, the same subsidies and the same POI. Thus, the Department attributed subsidies provided to Usinor and Sacilor prior to the creation of Usinor Sacilor in 1986 to their respective groups of companies, and these subsidies together with all subsidies bestowed after 1986 were attributed to the Usinor Sacilor group (exclusive of Usinor Sacilor's foreign producing subsidiaries because, as in *France Bismuth*, the Department had found the subsidies at issue to be tied to French production). Consequently, the Department's approach in the final determination here—to allocate untied subsidies received by Sidbec, the parent, over sales of its entire group of companies—is entirely consistent with *Certain Steel Products from France*.

Comment 2: Respondents GOQ and SDI contend that the Department's treatment of Sidbec-Normines as being at one with Sidbec and Sidbec-Dosco, Inc. is in error because Sidbec-Normines was a joint venture, distinct from both Sidbec and Sidbec-Dosco, Inc. According to respondent SDI, even though Sidbec-Normines was included in Sidbec's consolidated financial statements up until 1984 the results of Sidbec-Normines were treated separately from those of Sidbec-Dosco, Inc. or other Sidbec-related companies. Additionally, the GOQ notes (citing *Ferrosilicon From Venezuela*, 58 FR 27539, 27541 (May 10, 1993), which was sustained in *Aimcor v. United States*, 871 F. Supp. 447, 450 (CIT 1994)) that, where the Department has found the presence of other shareholders (as in the case of Sidbec-Normines), it has declined to treat related companies as a single entity.

Respondent SDI adds that the Department's determination to treat Sidbec, Sidbec-Dosco, Inc. and Sidbec-Normines as one entity in the preliminary determination in part because subsidies were granted to a parent corporation provides insufficient grounds for countervailing the product of a subsidiary. Citing *Aimcor v. United States*, 871 F. Supp. 447, 452 (CIT 1994), construing *Armco Inc. v. United States*, 733 F. Supp. 1514, 1516 (CIT 1990), SDI notes that the Court stated that the Department must ''examine simply more than the corporate structure in deciding whether a countervailable benefit has been bestowed.''

Petitioners argue that the existence of Sidbec-Normines as a joint venture does not alter the Department's approach, in applying the countervailing duty law, of treating the parent entity and its subsidiaries as one when determining who ultimately benefits from a subsidy. Petitioners cite to *Certain Hot-Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom*, 58 FR 6237, 6240 (Jan. 27, 1993), as a case in which the Department noted that ''the subsidies provided to a company presumably are utilized to finance operations and investments in the entire company, including productive units that are subsequently sold or spun off into joint ventures.''

While petitioners acknowledge that there are decisions where the Department has treated parent and subsidiary corporations as distinct entities for purposes of subsidy analysis (*e.g., Ferrosilicon from Venezuela* and *Brass Sheet and Strip from France*), petitioners believe that there are more important precedents for this case. For example, petitioners assert that *Certain Steel Products from Belgium* holds that corporate formalities or maneuvering will not be permitted to subvert the purposes of the statute. Additionally, petitioners maintain that this approach was specifically endorsed by the court in *Armco, Inc.* v. *United States*, 733 F. Supp. 1514, 1524 (CIT 1990), which held that the Department ''must beware of permitting statutorily proscribed bounties that are avowedly of a countervailable nature to escape countervailing duties merely because of intra-corporate machinations.''

Department's Position: The parties' arguments address the propriety of the Department treating Sidbec, Sidbec-Dosco, Inc., and Sidbec-Normines as a single entity, as in the *Pasta from Italy* line of precedent. Moreover, the Department is following its past practice of attributing untied subsidies received by a parent company to all of the companies in the parent's consolidated group. *See* also response to Comment 5.

Comment 3: Addressing the 1983–1992 grants, respondent SDI argues that, in order for the Department to find a countervailable benefit within the meaning of the statute (section 701(a)(1) of the Act), two conditions must be met: (1) a countervailable subsidy has been bestowed, directly or indirectly; and (2) the countervailable subsidy has been bestowed upon the manufacture, production or export of subject merchandise. SDI claims that, in the instant case, the Department failed to make this examination, and instead assumed without inquiry that the manufacturer of the subject merchandise received a benefit from subsidies given to its parent. Further, SDI claims that the Department has made this examination in other cases, such as *Carbon Steel Structural Shapes from Luxembourg*, 47 FR 39364, 39365 (Sept. 7, 1982) and *Brass Sheet and Strip from France*, 52 FR 1218 (Jan. 12, 1987).

Petitioners argue that Sidbec and Sidbec-Dosco, Inc. were closely intertwined, and thus the Department was correct to consider subsidies provided to the parent as benefitting the subsidiary. Petitioners argue that Sidbec was not just a holding company, noting that, until 1987, Sidbec itself owned all of the steel making facilities at Longueuil, Quebec, and a significant portion of the facilities in Contrecoeur. Sidbec, in turn, leased these facilities to Sidbec-Dosco Inc., which operated them together with its own plants as a single unit. Petitioners claim that this is evidence that there was a closely aligned identity of interests which existed between Sidbec and its subsidiary. Therefore, according to petitioners, any payments to Sidbec must have benefitted those productive facilities, the only ones Sidbec owned.

Moreover, petitioners assert that, because Sidbec-Normines was formed to supply pelletized iron ore for Sidbec-Dosco's steelmaking facilities, and because the only use of pelletized iron ore is to make steel, the establishment of Sidbec-Normines was part of the overall mission to give Sidbec ''integrated production from mining through semi-fabricated product stages.''

Department's Position: We disagree with respondent SDI. We concluded in the preliminary determination that (1) a countervailable subsidy has been bestowed, directly or indirectly, and (2) the countervailable subsidy had been bestowed upon the manufacture, production or export of subject merchandise. We make the same conclusions here in the final determination, with the clarification made above in Comment 1 regarding the attribution of subsidies within the Sidbec group.

With respect to whether a countervailable subsidy had been bestowed, directly or indirectly, we have concluded that the 1983–92 grants were provided directly to Sidbec and that they were specific and non-recurring in nature.

With respect to whether the countervailable subsidy had been bestowed upon the manufacture, production, or export of subject merchandise, we have followed our past practice, as described in the GIA, and treated the 1983–92 grants, which were designed to offset Sidbec's losses relating to Sidbec-Normines and its discontinued mining operations, as benefitting the steel wire rod production of Sidbec and Sidbec-Dosco, Inc. and, ultimately, SDI.

Specifically, while the grants provided in 1983 and 1984 before Sidbec-Normines' mining operations were tied to Sidbec-Normines' iron ore production (*see* response to Comment 5), these subsidies became attributable to the remaining production of the Sidbec group once the shutdown of Sidbec-Normines' mining operations occurred. The Department explained this approach in the GIA as follows:

> The Department maintains its position that subsidies are not extinguished either in whole or in part when a company closes facilities. Rather, the subsidies continue to benefit the merchandise being produced by the company. The rationale underlying this position is that once inefficient facilities are closed, the company can dedicate its resources to production at its remaining facilities. Thus, subsidies do not diminish or disappear upon the closure of certain facilities but rather are spread throughout, and benefit, the remainder of the company's operations.

GIA, 58 FR at 37269. Thus, for example, in *Final Affirmative Countervailing Duty Determinations; Certain Steel Products from Spain,* 58 FR 37374 (July 9, 1993) (''*Certain Steel Products from Spain*''), the Department faced a situation where AHM had received subsidies benefitting both its hot-rolled steel and cold-rolled steel operations and subsequently closed down its hot-rolled steel operations. The Department allocated the portion of the subsidies previously attributed to the hot-rolled steel operations to AHM's cold-rolled steel subsidiary, SIDMED. *See GIA,* 58 FR at 37269; *Certain Steel Products from Spain,* 58 FR at 37374–5, 37379.

Meanwhile, the grants provided in the years subsequent to the shutdown of Sidbec-Normines' mining operations in 1984 plainly reflect payments to effect that shutdown and, therefore, benefit the remaining production of the Sidbec group. According to the GIA, which describes the Department's practice in this area:

> The closing of plants result[s] in the increased efficiency of the company as a whole. In turn, the increased efficiency makes the company more competitive. It necessarily follows that closure subsidies benefit a company's remaining production beyond the year of receipt. The basis for finding funds for government-directed plant closure countervailable is that these funds relieve the company of the costs it would have incurred in closing down the plant. Therefore, because the company has been relieved of a cost, the funds benefit the company as a whole, and the appropriate denominator for calculating the benefit of such funds would be total sales of all products.

GIA, 58 FR at 37270 (citing *British Steel Corp.* v. *United States,* 605 F. Supp. 286 (CIT 1985)). The Department applied this approach in *Final Affirmative Countervailing Duty Determinations; Certain Steel Products from Italy,* 58 FR 37327 (July 9, 1993) (''*Certain Steel Products from Italy*''), where the head of the Falck group received subsidies to close down certain steel facilities. *See GIA,* 58 FR at 37270.

Thus, consistent with its past practice, the Department finds that grants provided both before and after the closure of Sidbec-Normines' mining operations in 1984 benefit the Sidbec group's remaining production as of 1985 onward, including the production of the subject merchandise, steel wire rod.

Comment 4: SDI contends that the Department's reliance on certain language from the GIA, 58 FR at 37269, pertaining to spreading benefits throughout the remainder of the company's operations, is misplaced. Specifically, SDI argues that the GIA language applies to closed facilities within the same corporation. The GOQ adds that, in *British Steel Corp.* v. *United States,* 605 F. Supp. 286 (CIT 1985) (which the Department incorporated into its remarks involving plant closure in the GIA in order to indicate judicial support for the Department's position), unlike the situation with Sidbec, the discontinued facilities had produced the subject merchandise, not some other merchandise, and were part of the respondent company, not a distinct corporation.

SDI also asserts that the rationale expressed in the language quoted by the Department from the GIA also applies to subsidies ''previously received.'' With regard to funds received following closure of Sidbec-Normines, SDI concludes that the language is inapposite. Instead, SDI believes that the relevant language from the GIA would be that language dealing with payments for the actual closure of a facility within a company. And, in this respect, because the entire operation of Sidbec-Normines was shut down, there was no remaining enterprise to benefit from the restructuring. Moreover, there is nothing on the record to support a conclusion that the closure increased the competitiveness or efficiency of Sidbec-Dosco.

Department's Position: We disagree with respondent SDI that the GIA's rationale for countervailing subsidies received prior to a plant closure and the GIA's rationale for countervailing subsidies to effect the closing down of a plant apply only to situations where the closed plant was part of the same individual company as the remaining production which is deemed to be benefitted. Although the language to which respondent SDI cites in the GIA only references ''a company,'' the GIA's statements are equally applicable under the circumstances here, where the Department is dealing with a consolidated group of companies (the Sidbec group). Specifically, it is appropriate to allocate the subsidies at issue to the remaining production of the consolidated group in this case given that the closed plant (the Sidbec-Normines mining operations) had been operated by a subsidiary (Sidbec-Normines) whose only production of any type came from the closed plant, and the parent of the consolidated group (Sidbec) is the group's shareholder in the subsidiary and has financed and is obligated to pay the debts of the subsidiary. Plainly, the subsidies at issue allow Sidbec ''to dedicate its resources to production at its remaining facilities.'' *GIA,* 58 FR at 37269. As the Department explained in the GIA, ''subsidies do not diminish or disappear upon the closure of certain facilities.'' *Id*. Moreover, in the scenario here, it is plain that Sidbec, the parent, is being relieved of ''the costs it would have incurred in closing down the plant,'' *id*., so that its remaining production (including steel wire rod) undeniably benefitted from the subsidies which it received.

We note, as well, that in one of the *Certain Steel Products* cases, the Department dealt with subsidy funds provided to a parent company for the closing of one of its subsidiaries' facilities. In that case, *Certain Steel Products from the United Kingdom*, the Department, on remand from the Court of International Trade, had to determine how to treat, *inter alia*, 1984/85 equity infusions provided to British Steel Corporation (''BSC'') for the purpose of paying for the closure of facilities which, as here, were dedicated to the production of non-subject merchandise. Indeed, the facilities were the very same facilities at issue in this case, the Sidbec-Normines mining operations, as BSC's subsidiary, British Steel Corporation (International) (''BSCI''), held an ownership interest in Sidbec-Normines. The Department treated the equity infusions as benefitting the worldwide consolidated sales of the BSC (actually, its successor, British Steel plc) group, *see* Final Results of Redetermination Pursuant to Court Remand on General Issue of Sales Denominator, in *British Steel plc* v. *United States,* Consol. Ct. No. 93–09–00550–CVD (CIT), dated June 23, 1995, and the court upheld this treatment, *see British Steel plc* v. *United States,* 929 F. Supp. 426, 457–58 (CIT 1996).

Similarly, we disagree with respondent GOQ's argument that the rationales in the GIA are limited to the situation where the closed plant produced the subject merchandise. Indeed, the GIA addresses situations where the closed plant produced non-subject merchandise, both in the context of subsidies received prior to a plant closure (*Certain Steel Products from Spain*) and in the context of subsidies to effect the closing down of a plant (*Certain Steel Products from Italy*). *See GIA,* 58 FR at 37269, 37270.

Comment 5: Respondents GOQ and SDI assert that evidence on the record shows that the countervailed funds were all (with the exception of the 1988 debt-to-equity conversion) specifically tied to Sidbec's mining operations. SDI argues that the Department fully verified that Sidbec repaid loans provided to refinance part of the debt of Sidbec's mining operations using funds provided by the GOQ.

Respondents SDI, the GOQ, and the GOC contend that the Department has departed from past practice, precedent, its Proposed Rules, and the Agreement on Subsidies and Countervailing Measures of the World Trade Organization (SCM Agreement) by countervailing subsidies tied to the mining operations. First, SDI and the GOQ argue that it is the Department's longstanding practice (as reflected in both the 1989 Proposed Rules and the 1997 Proposed Rules) that, if the Department determines that a countervailable benefit is tied to a product other than the merchandise, it will not find a countervailable subsidy on the merchandise. SDI and the GOQ cite, *inter alia, Certain Iron-Metal Castings From India,* 62 FR 32297, 32302 (June 13, 1997), *Certain Laminated Hardwood Trailer Flooring from Canada,* 62 FR 5201, 5211 (Feb. 4, 1997), and *Pasta From Italy,* 61 FR 30288, 30303 (June 14, 1996), as examples of the Department's ''tied benefits'' practice. Thus, argues SDI and the GOQ, to find a countervailable subsidy to Sidbec-Dosco (through which Quebec's obligations to Sidbec-Normines, as a separately incorporated joint venture, could not possibly flow) from subsidies given by the GOQ for purposes related to Sidbec-Normines would be in contravention of the Department's past practice relating to tied subsidies. The GOQ and the GOC add that the SCM Agreement does not permit the attribution to output by one company of countervailable benefits directed to, and received by, a separate corporate entity engaged in the production of a completely different product. SDI further argues that this is true where the subsidy is channeled through a parent company acting ''merely as a conduit'' for subsidies to a subsidiary corporation.

SDI also maintains that, because the subsidies benefitted the mining operations (regardless of whether they were provided before or after closure of the mining facility) then they cannot be held to benefit the downstream product except through an upstream subsidy analysis.

Petitioners assert that both the intended use and the likely effect of these subsidies was to benefit Sidbec, not Sidbec-Normines. Petitioners point to *Industrial Nitrocellulose From France* as illustrating that the Department's inquiry attempts to determine the ultimate destination or likely beneficiary of the subsidy, in large part by considering the government's intent in bestowing the subsidy. Petitioners claim that, applying these principles, the GOQ's subsidies are clearly not tied to Sidbec-Normines. Petitioners note that the ultimate destination and likely beneficiary of these subsidies was Sidbec, since the nature of these benefits was to provide loan forgiveness to Sidbec. Furthermore, petitioners argue that if Sidbec did pay the loan principal directly to Sidbec-Normines, the ultimate beneficiary of such forgiveness was not Sidbec-Normines, which had received the loans and was shutting down its operations, but Sidbec, which would remain in existence and was otherwise liable for repayment of the loans.

Petitioners add that an analysis focusing on the intended use of the subsidies yields the same result: namely, that Sidbec was the intended user, since the GOQ's specific intent in bestowing the subsidy was to relieve Sidbec of its loan guarantee obligations.

Finally, petitioners stress that the Department's approach to tied subsidies, like its approach to the relationship of the various Sidbec corporate entities, must be reasonable. Petitioners cite *Industrial Nitrocellulose from France,* noting that the Department analyzed the legislative history of the tied subsidies provision and concluded that ''the single most important principle that both committees stressed here was that the Department should reasonably allocate subsidies to the products that they benefit * * * The main issue * * * is not whether we have considered the intent or the effect, but whether we have appropriately and reasonably allocated the benefits.''

Department's Position: We disagree with respondents. While Sidbec-Normines' mining operations were still in existence, it is true that the 1983 and 1984 grants would affect only iron ore. However, these grants could only be considered to be tied to iron ore up to 1984—the year Sidbec-Normines ceased production. Once the company no longer produced iron ore, the remaining benefits from these grants—we allocate grants over a period of time equal to a company's AUL—could only be attributed to the remaining production of the Sidbec group, which consists of steel products, including wire rod. Grants made to Sidbec after the closure of Sidbec-Normines' mining operations cannot be tied to non-existent production, *i.e.,* iron ore. Rather, the Department's practice, as described in the GIA, is to treat these ''closure subsidies {as} benefit{ting} a company's remaining production.'' *GIA,* 58 FR at 37270.

We also disagree with respondent SDI's argument that the 1983–92 grants cannot be attributed to Sidbec's steel wire rod production without an upstream subsidy analysis under section 701(e) of the Act, 19 U.S.C. § 1671(e). Given that Sidbec-Normines' mining operations were shut down in the 1984 during Sidbec's AUL period, the upstream subsidy provision is no longer germane. As the Department made clear in the GIA, closure payments for plants producing subject and non-subject merchandise alike are countervailable. *GIA,* 58 FR at 37270.

Comment 6: The GOQ argues that the financial assistance referred to by the Department as ''1982–92 Equity Infusions'' in fact were grants representing principal payments made by the GOQ on certain loans taken out by Sidbec in connection with its investment in Sidbec-Normines. According to the GOQ, this financial assistance was no different from the interest payments that the GOQ made on these same loans which the Department correctly treated as grants. Specifically, the GOQ argues that nothing was given in return for the funds, nor was anything expected or intended. The GOQ contends that, according to Departmental practice, all of the monies should be characterized as grants. The GOQ further asserts that the Department verified that all the financial assistance given by the GOQ to Sidbec were grants.

SDI argues that the Department's conclusion that, because certain funds received by Sidbec were included in its financial statements under ''contributed surplus'' they were equity infusions, is not supported by precedent or accounting principles. SDI states that the funds referred to by the Department as ''1982–92 Equity Infusions'' were contributed for the express purpose of paying Sidbec obligations incurred in connection with its investment in Sidbec-Normines, and did not result in the receipt of shares by the investor.

Petitioners argue that the GOQ's payments of contributed surplus are equity infusions because they are additions to shareholder's equity and increase the value of total shareholders' equity in the company. Petitioners contend that the intent to increase the company's equity value is indeed significant. Petitioners argue that by infusing funds into Sidbec's equity account, the GOQ increased the likelihood that equity would reach positive levels, thus allowing the GOQ to recover previously granted funds.

Department's Position: We agree with the GOQ and SDI. The line item ''Contribution by the gouvernement de la province de Quebec for Discontinued Mining Operation'' appearing in Sidbec's Consolidated Contributed Surplus refers not to equity payments, but to grants, and these payments by the GOQ in fact took the form of grants (*see* GOQ Verification Exhibits G–14 through G–16).

The Department distinguishes grants from equity and debt by following its stated methodology as outlined in the GIA (*see* GIA, 58 FR at 37254). The Department defines grants as funds provided without expectation of a: (1) repayment of the grant amount; (2) payment of any kind stemming directly from the receipt of the grant (including interest or claims on profits of the firm (*i.e.,* dividends) with the exception of offsets as defined in the 1989 Proposed Regulations Section 355.46); or (3) claim on any funds in case of company liquidation.

At verification, the Department discovered that the GOQ funds provided to Sidbec related to principal payments due under loans that Sidbec had taken out, and which were guaranteed by Sidbec's shareholder, the GOQ (*see* Verification Exhibit G–8), relating to Sidbec-Normines and its discontinued mining operations. Although the GOQ as a guarantor had the right to seek reimbursement from Sidbec for the funds which it advanced, the Department has found that the GOQ provided these funds to Sidbec without a repayment obligation, and without compensation in the form of shares. In this regard, the Decrees authorizing the GOQ to provide these funds indicate that these funds were provided as direct subsidies to service the debt on loans taken out to finance Sidbec's mining obligations, and that the GOQ did not receive anything from Sidbec in return. Additionally, we confirmed at verification that the GOQ neither received new shares nor had its existing shares in Sidbec revalued as a result of its payments (*see, e.g.,* Decree 374–91, Exhibit 15 of the GOQ Verification Report). Thus, the Department concludes that these funds were provided to Sidbec in the form of grants, and that the investor did not expect a reasonable return on the investment (*i.e.,* the funds were a simple gift).

Comment 7: The GOQ argues that all of the money countervailed in the Department's preliminary determination originated from the GOQ's decision to enter a joint mining venture (*i.e.,* Sidbec-Normines) with Quebec Cartier Mining Company (QCMC) and the British Steel Corporation (International). The GOQ notes that it chose to assume the joint venture's obligations to private investors, and opted to fulfill these obligations by directing funds through Sidbec. The GOQ maintains that it financed these obligations to Sidbec-Normines through a series of loans, which it obligated itself to pay through guarantees, and that the loans (to which the GOQ was a party) were made through private banks. Furthermore, the GOQ and SDI argue that the GOQ assumed responsibility for repayment of these loans (*i.e.,* principal and interest).

On this basis, the GOQ argues that the grants provided to Sidbec for payment of the mining debts, *i.e.,* 1983–1992 grants, were recurring because they were automatically provided (as they were guaranteed) on a yearly (principal) or monthly (interest) basis. As recurring grants, the GOQ and GOC assert that it is the Department's practice to allocate (expense) a recurring grant to the year in which the subsidy is received. According to the GOQ, all funds at issue were provided in the form of recurring grants, and none of those funds was received in the POI. Thus, the GOQ concludes that none of the money provided to Sidbec should be allocated to the POI, and none of the infusions can be considered countervailable.

SDI asserts that the provision of funds pursuant to the mining operations was a commitment made by the GOQ to make full and prompt payment of all Sidbec obligations under the mining venture. Therefore, when the GOQ undertook the obligation, it made a commitment to pay, on a recurring basis, the principal and interest on loans incurred by Sidbec pursuant to its mining venture. SDI argues that these were not ''exceptional'' grants because the recipient (Sidbec) could expect to receive them each year.

SDI states that Sidbec's financial statements show the recurring nature of these payments. Additionally, SDI argues that the loan agreements pertaining to the countervailed monies had fixed and predetermined dates upon which the interest payments were due. Moreover, since the GOQ was a party to the loans, the government could anticipate when the interest was payable. Therefore, the funding Sidbec received to pay the accumulated interest was regular and predictable, establishing the recurring nature of these payments.

Petitioners argue that if the Department decides that the GOQ's coverage of Sidbec's payments of principal are not equity but grants, then the Department should follow its practice and determine these payments as nonrecurring (*see* GIA 58 FR at 37226). Petitioners argue that all government subsidies to Sidbec were non-recurring because they required government approval and authorization on each individual expenditure prior to the distribution of the funds.

Petitioners state that the approval process was extensive and exacting because each year, prior to issuing the grant, the GOQ had to seek budgetary authority. Additionally, the grant had to be approved at several stages of review, approval and regulation. Further, petitioners argue that the grant process was filled with inconsistencies concerning the use of discretion, since the GOQ sometimes failed to pay the full amount of interest incurred by Sidbec which lead to the entry of ''grants receivable'' in Sidbec's financial statements. Therefore, petitioners contend that this variability is inconsistent with the regularity and predictability necessary for a non-recurring grant. Petitioners also maintain that a consideration in deciding whether a program is recurring or non-recurring is ''whether there is reason to believe that the program will not continue into the future.'' In applying this criterion, according to petitioners, the Department in *Final Countervailing Duty Determination Certain Hot Rolled Lead and Bismuth Carbon Steel Products from the United Kingdom,* 58 FR 6237, 6242 (January 27, 1993) (*U.K. Bismuth*), deemed equity infusions to be non-recurring even though the equity capital was received every fiscal year for eight years. The Department stated in *U.K. Bismuth* that the recipient ''had reason to believe that the program would not continue once the company reached viability.'' Petitioners similarly contend that, in this case, Sidbec had reason to believe that the equity infusions would not continue indefinitely.

Lastly, petitioners assert that, although Sidbec made a profit in 1989, the GOQ continued to pay the company principal and interest costs, and did not seek to require Sidbec's repayment of these funds. According to petitioners, this indicates that these payments were discretionary, and therefore were non-recurring.

Department's Position: We disagree with respondents GOC, GOQ and SDI. The 1983–92 grants were non-recurring in nature.

The Department's policy with respect to grants is (1) to expense recurring grants in the year of receipt, and (2) to allocate non-recurring grants over the average useful life of assets in the industry, unless the sum of grants provided under a particular program is less than 0.50 percent of a firm's total or export sales (depending on whether the program is a domestic or export subsidy) in the year in which the grants were received (*see GIA*, 58 FR at 37226). We consider grants to be non-recurring when ''the benefits are exceptional, the recipient cannot expect to receive benefits on an ongoing basis from review period to review period, and/or the provision of funds by the government must be approved every year.'' *Id.* (quoting *France Bismuth,* 58 FR at 6722). If any of these questions are answered in the affirmative, the Departments considers the benefits to be non-recurring.*Id.* Examples of types of grants which the Department normally has considered non-recurring are: equity infusions, research and development grants, grants for loss coverage, grants for the purchase of fixed assets, debt forgiveness, and assumption of debt (including payments of principal and interest). *See id.* The grants at issue fall into this category, although that fact alone is not determinative of the recurring/non-recurring question.

The Department has stated that ''the element of 'government approval' relates to the issue of whether the program provides benefits automatically, essentially as an entitlement, or whether it requires a formal application and/or specific government approval prior to the provision of each yearly benefit. The approval of benefits under the latter type of program cannot be assumed and is not automatic'' (*see id.*) At verification, the Department discovered that for each year of grants issued to cover Sidbec-Normines debt, the GOQ had to engage in a multi-layered process seeking budgetary authority (in the form of Decrees) prior to issuance of the funds in the form of Decrees (*see* verification Exhibits G–13 through G–16). Therefore, the Department concludes that government approval was necessary prior to the receipt of each individual grant.

The Department also concludes that the record evidence does not indicate that Sidbec could expect to receive benefits on an ongoing basis. Although Sidbec may have had expected that payment from the GOQ would continue so long as Sidbec was unprofitable, given that the GOQ was the guarantor on the underlying loans, Sidbec could not expect that payments from the GOQ in the years when Sidbec was unprofitable would be outright grants rather than payments for which the GOQ would later exercise its right as guarantor to seek reimbursement from Sidbec, the guarantee. Moreover, Sidbec could not expect that the GOQ would make payments, whether or not outright grants, in years when Sidbec was profitable (even though the GOQ in fact did do so).

Other facts in the record also support this conclusion. For example, in its financial statements for certain years, Sidbec recorded ''grants receivable,'' based on management's ''estimate'' that the GOQ would reimburse Sidbec; however, the financial statements also explained how reimbursement would be handled ''[i]f the GOQ was to decide to pay a smaller amount'' than recorded in the ''grants receivable'' account (*see, e.g.,* Note 3 of Exhibit 14 of SDI's May 27, 1997 questionnaire response). Again, this indicates the uncertainty associated with the GOQ's payments.

Two similar cases include *U.K. Bismuth,* which petitioners have cited and discussed, and the *Certain Steel Products from Mexico* final determination addressed in the GIA. In *Certain Steel Products from Mexico,* the respondent had argued that the subsidies at issue—equity infusions—were recurring because they ''were regularly and routinely approved by the legislature'' and the ''infusions were provided for nine consecutive years.'' *GIA*, 58 FR at 37228. The petitioners, meanwhile, pointed out the requirement for ''specific government authorization'' and that the ''infusions were made on a case-by-case basis depending on the financial need of the company.'' *Id.* The Department found the subsidies to be non-recurring because the benefits were exceptional, had to be ''separately approved or authorized by'' the Mexican government and the respondent could not expect to receive the benefits on an ongoing basis. *Id.*

Lastly, we note that the Department cannot determine that these payments were unexceptional simply because the payments spanned several years. Such a broad approach, of course, would lead to the illogical conclusion that any multi-year distribution of payments makes a subsidy program ''recurring''.

Comment 8: Respondent SDI argues that the Department applied its equityworthiness test to the wrong company. Specifically, SDI contends that the Department should examine the financial status of Sidbec-Dosco, Inc., not Sidbec. Respondent SDI argues that the GOQ's 1988 debt-to-equity conversion in Sidbec was authorized for the purpose of investing in Sidbec-Dosco, Inc. SDI stated that the legislation explains that the object of the law is to ''acquire shares of the capital stock of Sidbec-Dosco, Inc.'' Therefore, SDI maintains that while the conduit of these funds was Sidbec, the actual beneficiary of the equity infusion was Sidbec-Dosco, Inc. and, accordingly, the equityworthiness of Sidbec-Dosco, Inc. alone should be at issue in this determination. SDI asserts that, in *Final Affirmative Countervailing Duty Determination; Brass Sheet and Strip from France,* 52 FR 1218, (Jan. 12, 1987) (''*Brass Sheet and Strip from France*''), the Department properly examined a corporate structure similar to the one in this investigation. SDI states that in *Brass Sheet and Strip from France,* the parent company, Pechiney, was a holding company 85 percent-owned by the Government of France, and Pechiney in turn owned virtually all the stock of the subject manufacturer. SDI points and that the Department examined the equityworthiness of Pechiney's subsidiary, not Pechiney, the parent. According to SDI, as in Pechiney's case, in the instant investigation a reasonable private investor would have examined the financial indicators of the subsidiary, Sidbec-Dosco, Inc., not its parent, Sidbec.

SDI also argues that *Preliminary Affirmative Countervailing Duty Determination Oil Country Tubular Goods from Austria,* 60 FR 4600, 4601 (Jan. 24, 1995) (''*OCTG from Austria*'') stands for the proposition that, only where the Department cannot use or is not provided with the relevant information, will it resort to use of the parent's financial indicators, rather than those of the subsidiary, the equity recipient. SDI concludes that in this case, the Department had the relevant information (*i.e.*, Sidbec-Dosco, Inc's financial statements).

SDI argues, moreover, that the financial statements of Sidbec-Dosco, Inc. demonstrate a reasonably healthy company, and that market studies forecast a healthy steel industry into which a reasonable private investor could have expected a reasonable return.

Petitioners argue that the Department should reject SDI's claim that the Department should evaluate financial indicators for Sidbec-Dosco, Inc. rather than Sidbec because it is inconsistent with both the corporate structure of Sidbec and the normal behavior of a reasonable investor. Petitioners contend that, until the reorganization, Sidbec directly owned steel facilities whose operations functioned as one unit with those of Sidbec-Dosco, Inc. Thus, petitioners conclude that any financial problems of Sidbec would limit its ability to fund Sidbec-Dosco, Inc. Petitioners assert that the case on which SDI principally relies (*Brass Sheet and Strip from France*) is not on point because the parent's consolidated financial data contained information on ''numerous'' other subsidiaries producing non-subject merchandise.

Petitioners also argue that, even if the Department relied on Sidbec-Dosco Inc.'s financial indicators rather than the consolidated financial statements of Sidbec, Sidbec-Dosco, Inc. would still be unequityworthy in 1988. Petitioners contended that Sidbec-Dosco Inc.'s financial indicators do not support a conclusion that a reasonable private investor would have expected a reasonable rate of return from an investment in Sidbec-Dosco, Inc. in the years 1985, 1986, 1987, and 1988 because these financial indicators do not point to a healthy company. Therefore, petitioners state that using Sidbec-Dosco, Inc.'s financial indicators would not change the results of the analysis.

Department's Position: We disagree with SDI's claim that the Department should evaluate financial indicators for Sidbec-Dosco, Inc. rather than Sidbec for the three-year period dictated by our equityworthiness methodology, *i.e.*, 1985–1987. As stated in Comment 1, the Department would have treated Sidbec and Sidbec-Dosco, Inc. as a single entity up through 1987. During that time period, the steel operations of Sidbec and Sidbec-Dosco, Inc. were intertwined and any reasonable investor would have looked to the financial indicators of the parent, Sidbec, as a gauge for how Sidbec (up until at least the end of 1987, when it transferred its steel assets to Sidbec-Dosco, Inc. and became a holding company) and Sidbec-Dosco, Inc. would perform. It was the steel assets of both companies which had just begun to reside in Sidbec-Dosco, Inc. in 1988, when the debt-to-equity conversion at issue took place. A private investor would not have confined its evaluation to Sidbec-Dosco, Inc.'s performance in 1985–1987, as that would only provide a partial picture of the steel operations of Sidbec-Dosco, Inc. in 1988. These circumstances are quite distinct from these addressed in *Brass Sheet and Strip from France* and *OCTG from Austria.* Thus, for the final determination, the Department has evaluated the financial indicators of Sidbec, rather than Sidbec-Dosco, Inc., to make its equityworthiness determination regarding the 1988 debt-to-equity conversion.

Comment 9: With respect to the GOQ's 1988 debt-to-equity conversion, the GOQ asserts that the Department must measure the GOQ's action against the standard of a reasonable private investor faced with the same choices as the GOQ under the same circumstances, in determining whether this transaction constituted a countervailable event. The GOQ argues that its decision to convert this debt-to-equity in 1988 satisfies this standard and therefore cannot constitute a countervailable event.

Moreover, the GOQ notes that the Department's standard equityworthiness methodology was formulated for equity infusions, and is not designed to analyze debt-to-equity conversions. According to the GOQ, no money changed hands.

In any event, respondent GOQ also argues that the record shows that Sidbec was equityworthy at the time of the debt-to-equity conversion. The GOQ suggests that *Final Affirmative Countervailing Duty Determination; Steel Wire Rod From Trinidad and Tobago,* 49 FR 480, 483 (Jan. 4, 1984), supports the argument that it is commercially reasonable to rely on contemporaneous studies. For this case, the GOQ claims that it acted as a private investor, relying on three internal studies that all concluded that a debt-to-equity conversion was the best option for the GOQ in order to maximize its long-term return on its investment in Sidbec. The GOQ asserts that the Department's practice in determining the reasonableness of a government action is to examine the information available to that government at the time of a debt-to-equity conversion. The GOQ maintains that the trends for both Sidbec's financial performance and that of the steel industry had been very positive for more than three years by the end of 1988, when the GOQ made its final decision to convert some of Sidbec's existing debt into equity.

Petitioners argue that the Department does not differentiate between equity infusions and conversions when making an equityworthiness determination.

Petitioners also argue that any improvements registered in Sidbec-Dosco, Inc.'s financial statements or forecasts for the overall Canadian steel market for 1987 to 1988 could not offset the magnitude of Sidbec's previous losses. Petitioners contend that, even if Sidbec's financial performance improved, the Department generally does not consider ''a couple of years'' of improved performance as warranting a finding of equityworthiness when a firm has been found unequityworthy for a number of years. Additionally, petitioners assert that information on future prospects is only one factor to consider, and the Department generally places ''greater reliance on past indicators as they are known with certainty and provide a clear track record of the company's performance, unlike studies of future expected performance which necessarily involve assumptions and speculation.'' (*GIA,* 58 FR at 37244).

Department's Position: We disagree with the GOQ that the Department should employ an analysis different from its standard equityworthiness methodology in determining the countervailability of the debt-to-equity conversion. What the GOQ proposes is essentially an inside investor standard. In past practice, however, the Department has rejected the insider investor arguments which have been forwarded by the GOQ in this case. The Department has stated that ''it is essential to recognize that the Department must render its equityworthiness determination on the basis of objective and verifiable evidence. The argument that an inside investor may have a greater appreciation of the workings of the firm does not provide the Department with a reliable means of distinguishing between those inside investor motivations that may be commercially based and those that are not'' (*see* GIA, 58 FR 37250). Further, the Department has stated that ''a determination of equityworthiness cannot be measured by, nor equated with, the decision of a creditor exchanging its debt for an equity position in a company in order to improve its chances for recouping money already loaned to that enterprise. Nor can it be based on whether an optimal debt to equity ratio can be achieved through the conversion of debt. These may both be important commercial considerations, but they are considerations that relate to interests distinct from the viability of any given investment. The Department is fundamentally concerned with whether it would have been reasonable for a private investor to invest money in the company in question. Such an examination must take place each time an investment occurs, whether it is an investment with 'new' money or a conversion of previous debt to equity. However, the proper focus of the Department's analysis is whether the individual investment, taken alone, made sound commercial sense'' (*see* GIA, 58 FR 37250). Therefore, the Department determines that its equityworthiness analysis is appropriate.

We also disagree with the GOQ's argument that a debt-to-equity conversion should not be treated as an equity infusion because no new money was provided by the GOQ. We reject this argument because of the principle laid down in the GIA, quoted immediately above, and our past practice, as evidenced by cases such as *France Bismuth,* 58 FR at 6227–28, and *Certain Steel Products from France,* 58 FR at 37312, 37313, where we treated debt-to-equity conversions as equity infusions.

Finally, we disagree with the GOQ that Sidbec was equityworthy at the time of the 1988 debt-to-equity conversion. As we have discussed above (*see* Equityworthiness Section of this Notice), the factors which the Department examines when making an equityworthiness determination showed Sidbec to be unequityworthy.

We also note that at verification, GOQ officials stated that in the mid-1980s, Sidbec was not attractive to investors, because even though it showed some ''minor'' profits, the profits were not sufficient to attract a private investor. *See* Government of Quebec Verification Report. Therefore, by the GOQ's own admission, it performed this conversion because no private investor would provide the capital.

Further, the ultimate aim of the studies commissioned by the GOQ was the privatization of Sidbec-Dosco, Inc. The GOQ stated in its July 3, 1997 questionnaire response that a GOQ memorandum noted that ''a debt-to-equity conversion offered the greatest potential return to the GOQ.'' Specifically, the report concluded that, ''as a result of the contemplated debt-to-equity conversion, Sidbec would have a capital structure comparable to other integrated steel companies. Therefore, the report concluded that the debt-to-equity conversion would make the company much more marketable should the government wish to sell it, or shares in it, in the future.'' These statements lead the Department to the conclusion that this debt-to-equity conversion was undertaken for the purpose of relieving Sidbec of debt to make the company attractive to private investors. It also leads us to the conclusion that normal commercial considerations would not have led a private investor to make an equity infusion when the GOQ did.

The Department is not aware of any record information suggesting that the marginally improved health of the Canadian steel market and the worldwide steel industry generally in the mid-1980s could offset the poor financial condition of Sidbec. As we explained in our preliminary determination, ''throughout the period 1982 to 1985, Sidbec reported substantial losses. Although Sidbec reported a profit in 1986 and 1987, this profit trend was not of such a magnitude to offset the substantial losses suffered from 1982 through 1985.'' Similarly, the marginally improved health of the steel market in recent years was not significant enough to change the prior assessment of Sidbec's health.

Comment 10: SDI argues that the Department erred in its preliminary determination of Sidbec's equityworthiness because the Department allegedly analyzed the entire 1982–92 period in determining whether the 1988 debt-to-equity conversion was a countervailable action. Instead, SDI argues, the Department should have limited its equityworthiness analysis to 1988 (the time the equity infusion was made) and the three years preceding the investment, as well as the future prospects of the company and the industry as a whole. Respondent SDI indicated that both the Department's practice and Proposed Rules dictate that equityworthiness can only be established by examining financial performance prior to and at the time of the equity infusion occurs; later performance is irrelevant in determining whether a ''reasonable private investor'' would have invested at the time.

Petitioners argue that the Department properly applied its standard equityworthiness methodology in its preliminary determination. Petitioners point out that the Department analyzed Sidbec's financial performance indicators for the entire period from 1982 through 1992 because the allegations concerning equity infusions and the debt-to-equity conversion covered this entire period.

Department's Position: Petitioners are correct in interpreting the results of the Department's equityworthiness analysis. We did not use later performance in evaluating the 1988 debt-to-equity conversion or any of the equity infusions (which we have decided in this final determination actually are grants) made in the years 1983 through 1992. Rather, for each equity transaction, we followed our standard equityworthiness methodology, as set forth above in our equityworthiness section of this notice, and analyzed current and past financial indicators reaching back three years and future prospects as of the time of the equity transaction.

Comment 11: Petitioners argue that the Department failed to countervail benefits from payments to Sidbec, authorized by the GOQ, against accumulated grants receivable. Specifically, petitioners assert that while some of the grants receivable covered by a 1988 payment were countervailed in previous years, the Department must countervail that portion of the grants receivable which was not covered by the payment. Petitioners speculate that the Department did not countervail these payments in the preliminary determination in order to avoid double counting. However, petitioners argue that, because Sidbec's financial statements ''clearly distinguish'' government grants from grants receivable, countervailing grants receivable would not result in double counting. Petitioners recommend that the Department countervail the total payment against grants receivable in 1988, while subtracting the value of grants receivable in 1987 and 1988 from the 1987 and 1988 grant amounts countervailed in the preliminary determination. Petitioners state that the Department should follow this methodology because the grants receivable can only have conveyed a countervailable benefit in the year when they were received.

Respondents GOQ and SDI claim that the payments against accumulated grants receivable cannot be countervailed because the funds are tied to interest due on an instrument taken by Sidbec to pay for costs of Normines' mining operations and therefore has no relationship to the subject merchandise (*see* Comment 5 for a discussion of funds granted pertaining to mining operations). The respondents also argue that the Department already accounted for this sum in the preliminary determination. According to the respondents the Department verified the source of the money in question, and traced it back to monies already accounted for in the preliminary determination. Additionally, respondent SDI argues that, by definition, ''grants receivable'' have not yet been received, and therefore cannot be countervailed in the years in which they are recorded as ''grants receivable.'' Finally, the GOQ suggests that, in the alternative, the Department could do what petitioners have asked. The GOQ argues that, should the Department decide to accept petitioners' argument, the end result, using petitioners' suggested method to avoid double counting, would be a net reduction in the margin.

Department's Position: We believe that the focus of our effort to calculate the countervailable subsidy should be twofold. First, we need to ensure that grants receivable (which eventually may become grants received) are not improperly included in the countervailing duty margin. A grant receivable is not a subsidy; only a grant is. Second, we need to ensure that all countervailable subsidies have been captured by our methodology. In order to achieve these goals with respect to GOQ grants to Sidbec, the Department reconciled payments to Sidbec as recorded in the GOQ's public accounts to amounts received per Sidbec's accounting records. In doing so, the Department confirmed that all GOQ payments made between 1983 and March 31, 1993 (the end of the GOQ's 1992 fiscal year) were accounted for in the Department's preliminary determination. *See* Sidbec Verification Report, Exhibit 7. Therefore, the Department finds that no adjustments are necessary in the final determination.

Comment 12: Respondent SDI argues that the purchase price for Sidbec-Dosco, Inc. used by the Department in the preliminary determination did not reflect the true purchase price. SDI states that the purchase price used by the Department represented the cash payment by the buyer; however, it grossly understated the actual purchase price because it failed to take into account the additional consideration paid by the buyer for the shares of Sidbec-Dosco, Inc. The specific nature of the additional consideration is proprietary.

The petitioners did not comment on respondent SDI's argument.

Department's Position: We disagree with SDI. SDI does not cite any past Departmental practice where the Department has included in its purchase price calculation the additional consideration to which SDI refers, nor does any sound financial analysis support SDI's approach (*see Memorandum to the File, Final Analysis Memorandum for the Investigation of Steel Wire Rod from Canada*).

We note that although Article 6.1 of the Stock Purchase Agreement provided for the buyer to assume other obligations in the purchase of Sidbec-Dosco, Inc., Articles 3.1 and 3.2 of the Stock Purchase Agreement specifically outline the actual purchase price that Ispat Mexicana , through its subsidiary, Brohenco, paid for Sidbec-Dosco, Inc. Nowhere in Articles 3.1 and 3.2 is reference made to other obligations being included in the purchase price of Sidbec-Dosco, Inc. Additionally, the record includes clear statements from both SDI and the GOQ in their questionnaire responses indicating the amount of money that Ispat Mexicana paid for outstanding shares of Sidbec-Dosco, Inc. (*see* SDI May 27, 1997 questionnaire response and GOQ July 3, 1997 questionnaire response). This amount does not include the additional consideration to which SDI now refers. Furthermore, at verification, SDI officials specifically stated that the official price at which Ispat Mexicana purchased Sidbec-Dosco, Inc. from Sidbec was the price that agreed with the amount in the questionnaire responses (*see* SDI verification report, Sept. 17, 1997). We also reviewed documents at verification showing the Department this same purchase price. Moreover, at Sidbec, we verified the price that Ispat Mexicana paid for Sidbec-Dosco, Inc. and that this price agreed with the questionnaire responses (*see* Sidbec verification report, Sept. 17, 1997). Furthermore, at Sidbec, we examined sale documentation and found that the purchase price in this documentation agreed with the purchase price in the responses (*see* Exhibit S–1).

Therefore, for the final determination, the Department will continue to use the purchase price from the preliminary determination.

Comment 13: SDI asserts that any possible countervailable subsidies were extinguished by privatization. SDI argues that the privatization methodology used in the preliminary determination is incorrect for the following reasons: (1) The accepted practice in virtually every part of the world for valuing a company for purposes of acquisition is to look at the discounted stream, or present value, of future earnings; (2) the forecasted earnings are calculated by excluding any interest payments, and any income or expenses which do not impact on cash flow, such as depreciation; and (3) the forecasted tax burden is also calculated and subtracted from the pre-tax earnings. SDI contends that after calculating the future earnings, the earnings are discounted using the relevant cost of capital (to the purchaser) and then summed, and that this sum represents the value of the company as if all the financing were share capital. Also, if there are loans or other debts outstanding, these liabilities are subtracted from the sum of discounted future values in order to arrive at the net (unleveraged) value of the company. SDI points out that grants taken by the company effectively decrease the amount of the loans that the company would otherwise have to take to finance the given level of investment, and the value of the company increases by the amount of the grants and this, in turn, increases the amount that the purchaser is willing to pay for the company. Moreover, SDI points out that if the operations are not financed completely by loans, but are financed in part by grants and equity infusions, the value of the company is reduced only by the amount of the loans, not the grants and equity infusions, when calculating the present value of future earnings. SDI argues that Ispat Mexicana's purchase of Sidbec-Dosco, Inc. paid back the grants dollar for dollar. Therefore, SDI argued that the subsidies that Sidbec-Dosco, Inc. received prior to privatization are extinguished at the point of privatization.

The GOC asserts that it has concerns with the Department's privatization methodology. The GOC contends that it was advised that the sale of Sidbec-Dosco, Inc. was an arm's length transaction and fully reflected the market value of the company's assets. Therefore, the Department should conclude that any alleged subsidies were extinguished at privatization.

Department's Position: We disagree with both the GOC and SDI.

In deciding how to treat non-recurring subsidies after a privatization, the Department has followed the methodology which was discussed in the ''Restructuring'' section of the GIA, 58 FR at 37266–69. There we stated that ''subsidies were not extinguished when a productive unit was sold. Instead, some portion of prior subsidies received 'by the seller ''travel (with the productive unit) to its new home'':

> The Department determines that a company's sales of a ''business'' or ''productive unit'' does not alter the effect of previously bestowed subsidies. The Department does not examine the impact of subsidies on particular assets or tie the benefit level of subsidies to changes in the company under investigation. Therefore, it follows that when a company sells a productive unit, the sale does nothing to alter

the subsidies enjoyed by that productive unit.

Id. At 37268 (quoting *U.K. Bismuth*). We then described the calculation that we would use to measure the portion of the subsidies which passed through. This calculation takes into account the sale price for the productive unit and calls for an allocation of previously bestowed subsidies between the buyer and seller. *See id.* at 37269.

Consistent with this approach, we treated a portion of the subsidies received by Sidbec as passing through to SDI. We calculated the allocated amounts pursuant to the formula developed in the Restructuring section of the GIA, 58 FR at 37269.

As to the argument that an arm's length transaction, at fair market value, extinguishes prior subsidies, the decision of the United States Court of Appeals for the Federal Circuit in *Saarstahl AG* v. *United States,* 78 F.3d 1539 (Fed. Cir. 1996) (''*Saarstahl*''), is controlling. There, the Federal Circuit found that an arm's length transaction, at fair market value, does not automatically extinguish subsidies previously bestowed on a government-owned company, given that the countervailing duty statute does not require the Department to find that the buyer—here, Ispat Mexicana—has a competitive benefit resulting from those subsidies. The Federal Circuit indicated that the Department can impose countervailing duties upon the buyer once it finds (1) a subsidy with regard to the production of the subject merchandise, and (2) injury to the domestic industry by reason of imports of that merchandise. *See id.* at 1542–43. These prerequisites have been met in this final determination.

The Department continues to believe that its approach with regard to privatization is reasonable, and this approach has received support from the Federal Circuit, as indicated above. Therefore, for the final determination, the Department has continued to follow that approach in addressing the restructuring at issue.

Comment 14: SDI argues that the Department's finding that Sidbec was uncreditworthy in its preliminary determination is not supported by evidence on the record. SDI contends that the Department did not consider evidence of comparable long-term commercial financing received by Sidbec when making its funding. SDI argues that it provided the Department with evidence of commercial debt obtained contemporaneously with the receipt of government grants. SDI maintains that Sidbec entered into a long-term capital lease obligation and the terms of the lease stated that Sidbec would pay the rent. SDI argues that the lease was not guaranteed by the government; hence, the lease constituted comparable long-term financing obtained through private commercial sources.

SDI further argues that the Department should have considered the creditworthiness of Sidbec-Dosco, Inc., the producer of the subject merchandise, and not Sidbec. SDI stated that in (*LHF from Canada*), the Department examined the creditworthiness of two related companies ''directly engaged in the production of LHF,'' and not the creditworthiness of the entire consolidated group. SDI noted that the Department should have made a similar determination in this case. Additionally, SDI states that Sidbec-Dosco Inc.'s financial ratios indicates that it was creditworthy during in the years prior to the 1988 debt-to-equity conversion, and that the Department erred in using Sidbec's financial ratios when determining creditworthiness. Finally, SDI asserts that the Department failed to consider record evidence showing that Sidbec-Dosco, Inc. received comparable long-term financing from commercial sources during the AUL from 1985–1988.

SDI asserts that the above errors resulted in the Department adding a risk premium to the discount rate. Citing the 1997 Proposed Rules, 62 FR at 8829–30, SDI argues that the risk premium is greater than the benchmark of 4.3 percent that the Department proposes as ''a more accurate measure of risk involved in lending to firms with little or no access to commercial bank loans'' that captures ''more precisely the speculative nature of loans to uncreditworthy companies and the premium they would have to pay the lender to assume that risk.'' Therefore, the Department's use of a risk premium is not legally correct.

Petitioners argue that the Department should reject SDI's argument that the Department should base its creditworthiness analysis on Sidbec-Dosco, Inc., and not Sidbec, financial ratios because of the nature of Sidbec's corporate relationship with Sidbec-Dosco, Inc. Petitioners state that this analysis is accurate because no reasonable creditor would lend to Sidbec-Dosco, Inc. without evaluating the financial condition of Sidbec. However, petitioners assert that if the Department does consider Sidbec-Dosco Inc.'s financial ratios, Sidbec-Dosco, Inc. still had a high debt-to-equity ratio and ultra-low quick ratio and thus would not be attractive to a commercial lender.

Petitioners contend that Sidbec's lease obligation is not proof of creditworthiness. Petitioners note that in the preliminary determination for *Steel Wire Rod From Germany,* the Department found that respondent Ispat Hamburger Stahlwerke was uncreditworthy in 1994 even though it had long-term lease agreements. Therefore, the Department should disregard the evidence of Sidbec's long-term lease.

Petitioners state that they agree with SDI in its suggestion that the Department use the new uncreditworthiness calculation from the proposed countervailing duty regulations in this review. However, petitioners contend that the Department should use the entire methodology, including the formula in Section 351.504(a)(3)(iii). Petitioners note that while it may not be appropriate to apply the new regulations to all of these investigations, it believes it is entirely correct when petitioners and the respondent agree that it would yield to a more accurate measure.

Department's Position: The creditworthiness analysis that the Department performed in its preliminary determination (and subsequently in this final determination) is consistent with our decision (*see* Comment 1) to analyze the subsidies at issue as benefitting the consolidated group of the parent/holding company, Sidbec. Therefore, for the final determination, we have limited our analysis to Sidbec. *See, e.g., Final Affirmative Countervailing Duty Determination: Small Diameter Circular Seamless Carbon and Alloy Steel Standard, Line and Pressure Pipe from Italy,* 60 FR 3199 (June 19, 1995).

Since the Department has limited its analysis of creditworthiness to Sidbec, we feel that it is not appropriate to address the Sidbec-Dosco, Inc.'s long-term commercial loans in this final determination. We also note that, in any event, SDI did not provide complete data regarding these borrowings.

Additionally, we disagree with SDI that Sidbec's long-term capital lease is comparable long-term commercial financing. The lease that SDI points to is a capital lease, which is secured by a first-rank specific charge (*see* Exhibit 13, Note 8 of SDI's May 27, 1997 questionnaire response), which is not unlike a typical mortgage. In this case, the lessor has first lien rights on the capital equipment should the lessee, Sidbec, be in default. On this basis, the Department distinguishes this capital lease from a typical long-term commercial loan, which is not secured in this way. The Department therefore does not consider Sidbec's lease to be comparable long-term commercial financing. Lastly, the Department has determined that the use of a risk premium is appropriate and legally correct in this case because the Department continues to operate under its existing practice rather than the 1997 Proposed Rules.

Comment 15: Respondent SDI contends that the Department erred in calculating the *ad valorem* countervailing duty rate by using an FOB sales value as the denominator in its formula. SDI cites the GIA (58 FR at 37237) as supporting the concept of using respondents' sales value as recorded in their financial statements and accounts as the denominator when calculating the *ad valorem* subsidy rate. SDI notes that, in contrast, Commerce in this case has used an estimated FOB factory sales value for domestic sales, and an estimated FOB port sales value for export sales, even though Sidbec-Dosco (Ispat) maintains its sales records and reports sales figures in its financial statements on a delivered price basis.

Petitioners did not comment on this argument.

Department's Position: The Department acknowledges that, in the GIA, it stated that it would be ''more appropriate to use respondents' sales value as recorded in their financial statement and accounts in the denominator when calculating the ad valorem subsidy rate.'' GIA, 58 FR at 37237. However, an adjustment (a ratio of invoice value of exports to the United States to the FOB value of exports to the United States) was still necessary under the GIA methodology to ensure that Customs would collect the correct amount of subsidy based on an FOB invoice price of the imported merchandise. In the 1997 Proposed Rules, the Department noted that the methodology discussed in the GIA had not proven useful, because so few companies had the data in the form necessary to calculate the ratio. While SDI maintains that it does possess the necessary information, it is also true that, so long as the estimates used to calculate the FOB value are reasonable, there should be no net effect on the calculated margin. The Department verified SDI's estimated freight calculations, and found them to be reasonable. *See* SDI Verification Report. Therefore, for the purposes of calculating a final margin, we have made no adjustments.

Comment 16: The GOQ supports the Department's preliminary determination not to countervail benefits received through the Canadian Steel Trades and Employment Congress (CSTEC), but argues that the Department should acknowledge that benefits under the Sectoral Partnerships Initiative (of which CSTEC is a part) are generally available to Canadian industry, and that only ''additional training'' qualifies for government funding through CSTEC. The GOQ also notes that petitioners made no claim in their subsidy submission that CSTEC programs constituted a subsidy to Canadian employers, nor did they request that CSTEC be included in the calculation of a Canadian countervailing duty margin.

Petitioners did not comment on this argument.

Department's Position: At verification of the response of the Government of Canada and CSTEC, the Department reviewed documentation supporting record evidence that benefits under the Sectoral Partnerships Initiative, of which CSTEC is a part, are not *de jure* specific to the Canadian steel industry, as is discussed above in Part II. *See Government of Canada Verification Report,* page 4; *Canada Steel Trades and Employment Congress Verification Report,* page 1. *See* also GOC July 2, 1997 Supplemental Questionnaire response, exhibit 4 (*Sectoral Activities Update Report; Spring 1996,* which shows that over 50 separately classified industrial sectors were included in SPI). Additionally, there is no record evidence suggesting that the administration of SPI vis-a-vis the steel industry would lead the Department to determine that SPI is *de facto* specific with respect to the steel industry. Therefore, benefits received under this program are not countervailable.

Comment 17: Respondent GOQ states that in the Department's preliminary determination it concluded that funding by the Societe de Developpement Industriel du Quebec (SDIQ) did not confer a countervailable subsidy during the POI. Respondent notes that verification confirmed that no SDIQ benefits were received by steel wire rod producers or sellers during the POI, and that SDIQ monies received by a steel company prior to the POI constituted a *de minimis* portion of total sales value in those years. Moreover, the GOQ argues that the verified record demonstrates that SDIQ monies received by the respondent companies could not possibly be countervailed in that the monies were not specific to the steel wire rod industry because SDIQ provided benefits to over 1,100 companies. The GOQ contends that while there were many users, from a wide variety of industries, no steel producer was a dominant user, and steel did not receive a disproportionate share. Therefore, SDIQ was not specific.

The petitioners did not comment on this argument.

Department's Position: We agree with the GOQ that respondent Ivaco was the only steel wire rod producer to receive any benefits from SDIQ during the AUL period. As we explained above (*see* Part III), Ivaco received *de minimis* benefits in two years prior to the POI, and we therefore expensed them in the years of receipt. As a result, we did not countervail any benefits under this program.

Comment 18: Respondent SDI states the Department did not correctly sum its depreciation expense that it used to calculate its AUL. SDI notes that the Department's AUL calculation only summed nine years of depreciation expense as opposed to ten years, and therefore, the Department should correct the summing of its depreciation expense in its final determination.

The petitioners did not comment on this argument.

Department's Position: We agree with respondent SDI. In the preliminary determination, the Department incorrectly calculated SDI's depreciation expense that it used to calculate SDI's AUL. The Department has recalculated SDI's depreciation expense by summing the appropriate number of years (*i.e.,* ten). This recalculation has changed the length of the AUL period (*see* Memorandum to the File, Final Analysis Memorandum in the Investigation of Steel Wire Rod from Canada).

Comment 19: Respondent GOQ states that petitioner alleged that Sidbec's 1982 financial statements indicated that Sidbec received C$51.7 million contributed surplus from the GOQ and the GOC. The GOQ notes that the Department verified that this contributed surplus represents funds provided to Sidbec before the AUL period. Therefore, the GOQ maintains that these funds are not relevant to the investigation.

Petitioners did not comment on this argument.

Department's Position: We agree with respondent GOQ. Although Sidbec's 1980 consolidated financial statement indicated that Sidbec did receive a C$51.7 million contributed surplus, the Department verified that Sidbec received this C$51.7 million contributed surplus from 1977 to 1979 (*See* Sidbec Verification Exhibit S–4). Consequently, these funds were provided outside of the Department's calculated AUL period for SDI.

Comment 20: Petitioners state that a review of Sidbec's 1980 through 1982 financial statements indicates that the GOQ provided grants to Sidbec in 1980 and 1981. Petitioners state that the 1980 financial statement described these grants as ''an amount that the government has consented to pay to the company to finance specific investment projects'' and Sidbec officials stated at verification that Sidbec had received these amounts (*see* Sidbec's Verification report). Therefore, petitioners argue that Sidbec received grants from the GOQ. Lastly, petitioners state although the regulatory time limit for alleging new subsidies has passed, if the Department does not include these subsidies it will reward Sidbec's refusal to provide the Department with requested information.

The GOQ states that the amounts of funding are not grants, but are payments for equity purchased in 1979. The GOQ argues that the Department verified the funding to be grants provided in 1980 and 1981, and were the last of two installment payments on equity that the GOQ purchased from Sidbec in 1979. The GOQ notes that it passed legislation which allowed it to purchase shares of Sidbec stock in 1979, that legislation permitted the GOQ to pay for those shares in installments over three years, and Sidbec's 1980 balance sheet confirms that the shares were issued prior to 1979. Furthermore, the GOQ argues that the date of issuance of the shares, not the dates on which the purchase price was fully paid, establishes as a matter of law the date on which an equity infusion is made. The GOQ asserts that the shares were issued in 1979.

Additionally, respondent SDI notes that Sidbec's financial statements for 1980 and 1981 do not provide a basis for countervailing these amounts. According to SDI, states that there is no evidence on the record to indicate that Sidbec-Dosco, Inc. received any funding in either 1980 or 1981.

Lastly, both the GOQ and SDI state that these equity infusions were outside of the Department's calculated AUL period.

Department's Position: We disagree with petitioners. At verification of Sidbec, officials informed the Department that Sidbec did receive equity infusions from the GOQ from 1979 through 1981. *See* Sidbec Verification Report, dated September 17, 1997. Therefore, we determine that no countervailable benefits were conferred through this program.

Comment 21: Respondent GOQ notes that petitioners alleged that in 1987 Sidbec-Dosco received a grant from the GOQ. The GOQ states that the Department verified that no such program existed and that Sidbec-Dosco never received any money from the GOQ during 1987 or any other year during the AUL.

The petitioners did not comment on this argument.

Department's Position: We agree with respondent GOQ. At verification, we found no evidence that the GOQ provided a grant to Sidbec-Dosco, Inc. in 1987. Sidbec underwent a reorganization in 1987 in order to consolidate all steel-related assets under Sidbec-Dosco, Inc., and all assets previously belonging to Sidbec had been leased to Sidbec-Dosco, Inc. We discovered that this transaction reflected an intracomapany reorganization, and that this arrangement was exclusively between Sidbec and Sidbec-Dosco, Inc. and was designed to effect the reorganization. *See* GOQ and Sidbec-Dosco (Ispat) Verification Reports, dated Sept. 17, 1997. Therefore, we determine that no countervailable benefits were conferred through this program.

Comment 22: Respondent GOQ states that petitioners alleged that in 1987 Sidbec-Dosco, Inc. received an equity infusion (*i.e.*, a debt-to-equity conversion) from either the GOQ or the GOC. Respondent argues that the Department concluded in its preliminary determination that no countervailable benefits were provided under this program. The GOQ notes that the Department verified that the GOQ made no equity infusions into Sidbec-Dosco, Inc. or Sidbec in 1987.

The petitioners did not comment on this argument.

Department's Position: We agree with respondent GOQ. At verification, we found no evidence that the GOQ provided an equity infusion (*i.e.*, a debt-to-equity conversion) to Sidbec-Dosco, Inc. in 1987. We discovered that this transaction reflected an intracompany reorganization. *See* GOQ and Sidbec-Dosco (Ispat) Verification Reports, dated Sept. 17, 1997. Therefore, we determine that no countervailable benefits were conferred through this program.

Comment 23: Respondent GOQ asserts that the Department concluded in its preliminary determination that neither Sidbec nor Sidbec-Dosco, Inc. received any equity infusions in 1982. However, the Department noted that it was uncertain as to whether any grants were provided to either of these companies in 1982. The GOQ states that the record now shows that neither Sidbec nor Sidbec-Dosco, Inc. received any countervailable assistance in 1982, whether in the form of grants or equity.

The petitioners did not comment on this argument.

Department's Position: We agree with the GOQ. At verification, we found no evidence that the GOQ provided any form of governmental assistance to either Sidbec or Sidbec-Dosco, Inc. in 1982. *See* the GOQ and Sidbec-Dosco (Ispat) Verification Reports, dated Sept. 17, 1997. Therefore, we determine that no countervailable benefits were conferred through this program.

Suspension of Liquidation

In accordance with section 705(c)(1)(B)(i) of the Act, we have calculated individual rates for each of the companies under investigation.

To calculate the all others rate, we weight-average all individual company rates which are positive by each company's exports of the subject merchandise to the United States. In this case, because Stelco and Ivaco's rates are zero, we are using SDI's rate as the All Others rate.

In accordance with section 703(d) of the Act, we are directing the U.S. Customs Service to suspend liquidation of all entries of steel wire rod from Canada, except those of Ivaco and Stelco, which are entered, or withdrawn from warehouse, for consumption on or after the date of the publication of this notice in the **Federal Register**, and to require a cash deposit or bond for such entries of the merchandise in the amounts indicated below. Because there is no estimated net subsidy for Ivaco and Stelco, they are exempt from the suspension of liquidation. This suspension will remain in effect until further notice.

Manufacturers/exporters	Ad valorem rate (percent)
Sidbec-Dosco (Ispat) Inc.	8.95
Ivaco, Inc.	0
Stelco, Inc.	0
All Others	8.95

ITC Notification

In accordance with section 705(d) of the Act, we will notify the ITC of our determination. In addition, we are making available to the ITC all non-privileged and nonproprietary information relating to this investigation. We will allow the ITC access to all privileged and business proprietary information in our files, provided the ITC confirms that it will not disclose such information, either publicly or under an administrative protective order, without the written consent of the Deputy Assistant Secretary for AD/CVD Enforcement, Group III, Import Administration.

If the ITC determines that material injury, or threat of material injury, does not exist, these proceedings will be terminated and all estimated duties deposited or securities posted as a result of the suspension of liquidation will be refunded or canceled. If, however, the ITC determines that such injury does exist, we will issue a countervailing duty order directing Customs officers to assess countervailing duties on steel wire rod from Canada.

Return or Destruction of Proprietary Information

This notice serves as the only reminder to parties subject to Administrative Protective Order (APO) of their responsibility concerning the return or destruction of proprietary information disclosed under APO in accordance with 19 CFR 355.34(d). Failure to comply is a violation of the APO.

This determination is published pursuant to section 705(d) of the Act.

Dated: October 14, 1997.

Robert LaRussa,

Assistant Secretary for Import Administration.

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DEPARTMENT OF COMMERCE

International Trade Administration

[C–428–823]

Final Affirmative Countervailing Duty Determination: Steel Wire Rod From Germany

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

EFFECTIVE DATE: October 22, 1997.

FOR FURTHER INFORMATION CONTACT: Cynthia Thirumalai or Daniel Lessard, Office of Antidumping/Countervailing Duty Enforcement, Group 1, Office 1, Import Administration, U.S. Department of Commerce, Room 1874, 14th Street and Constitution Avenue, N.W., Washington, D.C. 20230; telephone (202) 482–4087 or 482–1778, respectively.

Final Determination

The Department determines that countervailable subsidies are being provided to Saarstahl AG (''Saarstahl'') and Ispat Hamburger Stahlwerke GmbH (''IHSW''), producers and exporters of steel wire rod from Germany. We also determine that Walzdraht Hochfeld GmbH (''WHG'') and Brandenburger Elektrostahlwerke GmbH (''BES'') received *de minimis* subsidies.

Case History

Since the publication of the preliminary affirmative determination (''*Preliminary Determination*'') in the **Federal Register**, 62 FR 41945 (August 4, 1997), the following events have occurred.

Verification of the responses of the Government of the Federal Republic of Germany (''GOG''), the Government of the Free and Hanseatic City of Hamburg (''GOH''), the Government of Saarland (''GOS''), the European Union (''EU''), Saarstahl, IHSW, WHG, and BES was conducted between August 20 and September 5, 1997.

Petitioners and respondents filed case and rebuttal briefs on September 19, 1997, and September 23, 1997, respectively. The hearing was held on September 24, 1997. Per the Department's request, post-hearing submissions were received from parties.

Scope of Investigation

The products covered by this investigation are certain hot-rolled carbon steel and alloy steel products, in coils, of approximately round cross section, between 5.00 mm (0.20 inch) and 19.00 mm (0.75 inch), inclusive, in solid cross-sectional diameter. Specifically excluded are steel products possessing the above noted physical characteristics and meeting the Harmonized Tariff Schedule of the United States (''HTSUS'') definitions for (a) stainless steel; (b) tool steel; (c) high nickel steel; (d) ball bearing steel; (e) free machining steel that contains by weight 0.03 percent or more of lead, 0.05 percent or more of bismuth, 0.08 percent or more of sulfur, more than 0.4 percent of phosphorus, more than 0.05 percent of selenium, and/or more than 0.01 percent of tellurium; or (f) concrete reinforcing bars and rods.

The following products are also excluded from the scope of this investigation:

Coiled products 5.50 mm or less in true diameter with an average partial decarburization per coil of no more than 70 microns in depth, no inclusions greater than 20 microns, containing by weight the following: carbon greater than or equal to 0.68 percent; aluminum less than or equal to 0.005 percent; phosphorous plus sulfur less than or equal to 0.040 percent; maximum combined copper, nickel and chromium content of 0.13 percent; and nitrogen less than or equal to 0.006 percent. This product is commonly referred to as ''Tire Cord Wire Rod.''

Coiled products 7.9 to 18 mm in diameter, with a partial decarburization of 75 microns or less in depth and seams no more than 75 microns in depth; containing 0.48 to 0.73 percent carbon by weight. This product is commonly referred to as ''Valve Spring Quality Wire Rod.''

The products under investigation are currently classifiable under subheadings 7213.91.3000, 7213.91.4500, 7213.91.6000, 7213.99.0030, 7213.99.0090, 7227.20.0000, and 7227.90.6050 of the HTSUS. Although the HTSUS subheadings are provided for convenience and customs purposes, our written description of the scope of this investigation is dispositive.

The Applicable Statute

Unless otherwise indicated, all citations to the statute are references to the provisions of the Tariff Act of 1930, as amended by the Uruguay Round Agreements Act effective January 1, 1995 (the ''Act'').

Petitioners

The petition in this investigation was filed by Connecticut Steel Corp., Co-Steel Raritan, GS Industries, Inc., Keystone Steel & Wire Co., North Star Steel Texas, Inc. and Northwestern Steel and Wire (''petitioners''), six U.S. producers of wire rod.

Subsidies Valuation Information

Period of Investigation: The period for which we are measuring subsidies (the ''POI'') is calendar year 1996.

Allocation Period: Since benefits from nonrecurring subsidies are not confined to a single period of time, the Department must determine a reasonable period over which to allocate such benefits. In the past, the Department has relied upon information from the U.S. Internal Revenue Service on the industry-specific average useful life of assets to determine the allocation period for nonrecurring subsidies (*see* General Issues Appendix appended to *Final Affirmative Countervailing Duty Determination; Certain Steel Products from Austria*, 58 FR 37217, 37226 (July 9, 1993) (''*GIA*'')). However, in *British Steel plc. v. United States*, 879 F. Supp. 1254 (CIT 1995) (''*British Steel*''), the U.S. Court of International Trade (the ''Court'') ruled against this allocation methodology. In accordance with the Court's remand order, the Department calculated a company-specific allocation period for nonrecurring subsidies based on the average useful life (''AUL'') of renewable physical assets. This remand determination was affirmed by the Court on June 4, 1996. *British Steel*, 929 F. Supp. 426, 439 (CIT 1996).

In this investigation, the Department has followed the Court's decision in