MEMORANDUM TO:  David M. Spooner  
Assistant Secretary  
for Import Administration

FROM:  Stephen J. Claeys  
Deputy Assistant Secretary  
for Import Administration

SUBJECT:  Issues and Decision Memorandum for Final Results of Expedited Sunset Review of the Countervailing Duty Order on Polyethylene Terephthalate Film, Sheet, and Strip from India

Summary

We have analyzed the response of domestic interested parties in the expedited sunset review of the countervailing duty (CVD) order on polyethylene terephthalate film, sheet, and strip (PET film) from India. We recommend that you approve the positions described in the “Discussion of the Issues” section of this memorandum. Below is the complete list of the issues that we are addressing in this expedited sunset review:

1. Likelihood of Continuation or Recurrence of a Countervailable Subsidy;
2. Net Countervailable Subsidy Likely to Prevail; and
3. Nature of the Subsidy.

History of the Order

On July 1, 2002, the Department of Commerce (the Department) published, in the Federal Register, the CVD order on PET film from India. See Notice of Countervailing Duty Order: Polyethylene Terephthalate Film, Sheet, and Strip from India, 67 FR 44179 (July 1, 2002) (PET Film Order). In the final determination of the investigation, covering the period April 1, 2000 through March 31, 2001, the Department found an estimated net countervailable subsidy rate of 19.42 percent for Ester Industries Ltd. (Ester), 25.47 percent for Garware Polyester Ltd. (Garware), 20.12 percent for Polypixel Corporation Ltd. (Polypixel), and 21.59 percent for “all others” based on the following countervailable programs:

1. Pre-Shipment and Post-Shipment Export Financing Government of India (GOI);
2. Duty Entitlement Passbook Scheme (DEPS) (GOI);
3. Special Import Licenses (SILs) (GOI);
4. Export Promotion Capital Goods Scheme (EPCGS) (GOI);
5. State Sales Tax Incentive Scheme (State of Maharashtra (SOM) and State of Uttar Pradesh (SUP));
6. Electricity Duty Exemption Scheme (SOM);
7. Capital Incentive Scheme (SOM); and
8. Waiving of Interest on Loan by SICOM Limited (SOM).

See Notice of Final Affirmative Countervailing Duty Determination: Polyethylene Terephthalate Film, Sheet, and Strip (PET Film) From India, 67 FR 34905 (May 16, 2002) (PET Film Final Determination). These rates were adjusted for cash deposit purposes to reflect the Department’s determination that one program, the SILs, was terminated. The adjusted rates were 18.43 percent for Ester, 24.48 percent for Garware, 18.66 percent for Polyplex, and 20.40 percent for “all others.” See PET Film Final Determination, 67 FR at 34906.

The following programs were determined to be not used: Exemption of Export Credit from Interest Taxes, Income Tax Exemption Scheme (Sections 10A, 10B, and 80HHC), Loan Guarantees from the GOI, and Benefits for Export Processing Zones/Export Oriented Units (EOUs). The Advance License Program (ALP) was determined not to confer subsidies in the investigation.

The first administrative review of the CVD order covered the period October 22, 2001 through December 31, 2002, and involved one company, Polyplex. In the final results of the review, the Department calculated a net subsidy rate of 20.62 percent for the period October 22, 2001 through December 31, 2001, and a net countervailable subsidy of 19.63 percent for the period January 1, 2002 through December 31, 2002. See Final Results of Countervailing Duty Administrative Review: Polyethylene Terephthalate Film, Sheet, and Strip from India, 69 FR 51063, 51064 (August 17, 2004) (PET Film 1st Admin. Review). These rates were based on the following countervailable programs: Pre- and Post-Shipment Export Financing, DEPS, EPCGS, Income Tax Exemption Scheme 80 HHC, Capital Subsidy, and Sales Tax Incentives. See id.

The second administrative review covered the period January 1, 2003 through December 31, 2003, and involved Polyplex and Jindal Poly Films Limited (Jindal). In the final results of the review, the Department calculated a net countervailable subsidy rate of 9.24 percent for Polyplex and 15.07 percent for Jindal. This rate was based on the following countervailable programs: Pre- and Post-Shipment Export Financing, ALP, EPCGS, Income Tax Exemption Scheme 80 HHC, Capital Subsidy, and Sales Tax Incentives.

Jindal was not a respondent in the original investigation. The Department determined in the second administrative review that the company changed its name change from Jindal Polyester Limited to Jindal Poly Films Limited. See Final Results of Countervailing Duty Administrative Review: Polyethylene Terephthalate Film, Sheet, and Strip from India, 71 FR 7534, 7535 (February 13, 2006) (PET Film 2nd Admin. Review).
The Department conducted a third administrative review covering the period January 1, 2004 through December 31, 2004, and involving two companies, Polyplex and Jindal. In the final results of review, the Department calculated a net countervailable subsidy rate of 9.20 percent for Polyplex and 14.28 percent for Jindal. See Polyethylene Terephthalate Film, Sheet, and Strip from India: Final Results of Countervailing Duty Administrative Review, 72 FR 6530 (February 12, 2007) (PET Film 3rd Admin. Review). This rate was based on the following countervailable programs: Pre-Shipment and Post-Shipment Export Financing, ALP, EPCGS, 80 HHC, Capital Subsidy, EOUs, Duty Free Replenishment Scheme (DFRC), and State Sales Tax Incentives (SOM, SUP, SOU, West Bengal, Gujarat, Himachal Pradesh, Daman, Union Territory of Dadra & Nagarhaveli, Karnataka, Delhi, Chattisgarh, Tamilnadu, Rajasthan, and Punjab). See id. With respect to the 80HHC program, the Department determined that the program was terminated effective March 31, 2004.

Further, the Department is currently conducting the fourth administrative review covering the period January 1, 2005 through December 31, 2005. The preliminary results were issued on August 6, 2007. See Polyethylene Terephthalate Film, Sheet, and Strip From India: Preliminary Results and Rescission, in Part, of Countervailing Duty Administrative Review, 72 FR 43607 (August 6, 2007). The final results of that review are currently scheduled for December 4, 2007.

Background

On June 1, 2007, the Department published in the Federal Register the notice of initiation of the first five-year sunset review of the CVD order on PET film from India, pursuant to section 751(c) of the Tariff Act of 1930, as amended (the Act). See Initiation of Five-Year (“Sunset”) Reviews, 72 FR 30544 (June 1, 2007) (Initiation Notice). With respect to this order, the Department received notices of intent to participate from DuPont Teijin Films (DuPont), Mitsubishi Polyester Film of America (MFA), SKC, Inc. (SKC), and Toray Plastics (America), Inc. (TPA) (collectively, domestic interested parties), within the deadline specified in 19 CFR 351.218(d)(1)(i). Domestic interested parties claimed interested party status as U.S. producers engaged in the manufacture, production, or wholesale of PET film in the United States, pursuant to section 771(9)(C) of the Act. On June 15, 2007, respondent Garware Polyester Ltd. (Garware) notified the Department of its interest in participating in this sunset review.

On July 2, 2007, the Department received a complete substantive response from the domestic interested parties within the deadline specified in 19 CFR 351.218(d)(3)(i). Despite notifying the

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2 Jindal reported participating in the SOM State Sales Tax Incentive program, and Polyplex reported participating in the SOU and SUP State Sales Tax Incentive program.

3 This program was introduced in 2001 and was not examined in the investigation.
Department of its interest in participating in the review, Garware did not file a substantive response. The Department did not receive a substantive response from any respondent interested party to this proceeding, pursuant to 19 CFR 351.218(d)(3). In accordance with 19 CFR 351.218(e)(1)(ii)(C)(1), the Department notified the International Trade Commission (ITC) that respondent interested parties provided inadequate responses to the Initiation Notice. See Letter from Susan Kuhbach, Senior Director, AD/CVD Operations, Office 1, Import Administration, to Robert Carpenter, Director, Office of Investigations, ITC, dated July 23, 2007. The Department, therefore, has conducted an expedited sunset review of the CVD order on PET film from India, pursuant to 19 CFR 351.218(e)(1)(ii)(B) and (C)(2).

Discussion of the Issues

In accordance with section 751(c)(1) of the Act, the Department has conducted this sunset review to determine whether revocation of the CVD order would be likely to lead to continuation or recurrence of a countervailable subsidy. Section 752(b) of the Act provides that, in making this determination, the Department shall consider the net countervailable subsidy determined in the investigation and subsequent reviews, and whether any change in the programs which gave rise to the net countervailable subsidy has occurred and is likely to affect the net countervailable subsidy. Pursuant to section 752(b)(3) of the Act, the Department shall provide to the ITC the net countervailable subsidy likely to prevail if the order were revoked. In addition, consistent with section 752(a)(6) of the Act, the Department shall provide to the ITC information concerning the nature of the subsidy and whether it is a subsidy described in Article 3 or Article 6.1 of the 1994 World Trade Organization (WTO) Agreement on Subsidies and Countervailing Measures (SCM Agreement). Below we address the comments of the interested parties.

1. **Likelihood of Continuation or Recurrence of a Countervailable Subsidy**

Domestic interested parties argue that revocation of the CVD order on PET film from India would likely lead to the continuation or recurrence of countervailable subsidies. Domestic interested parties argue that during the investigation and the three subsequently completed administrative reviews of the order, the Department found countervailable subsidy rates at levels significantly above de minimis for all respondents. Further, domestic interested parties state that respondents received countervailable subsidies from seven government subsidy programs, and that three other programs were not used. Domestic interested parties state that in the ongoing 2005 review, the Department is reviewing these same programs, as well as a new subsidy program, the Target Plus Scheme, which was first mentioned in a respondent company’s annual report covering the third administrative review, and which was identified too late to be examined in the

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4 See Domestic Interested Parties’ Substantive Response, at Exhibit 1 (July 2, 2007) (listing the conferred countervailable subsidies: Pre-and Post-Shipment Financing, DEPS, SILs, EPCGS, SOM State Sales Tax Incentive Program, SUP State Sales Tax Incentive Program, State Sales Tax Incentives Programs, and SOM Electricity Duty Exemption).
third administrative review. All of these subsidies, domestic interested parties claim, are still in effect and available to Indian PET film producers.

Further, domestic interested parties argue that the evidence of persistent significant subsidy rates based on an expanding set of subsidy programs for all companies investigated or reviewed meets the statutory criteria for the Department to determine that revocation of the CVD order would be likely to lead to continuation or recurrence of a countervailable subsidy.

**Department's Position**

The Department makes its likelihood determination (i.e., whether revocation of the order is likely to lead to continuation or recurrence of countervailable subsidies) on an order-wide (country-wide) basis, although company-specific rates are reported to the ITC. In their substantive response, domestic interested parties provide a list of the programs found countervailable over the duration of the order, and identify in which determination the Department made the countervailability finding.

The record in this proceeding indicates that the subsidy programs found countervailable during the investigation continue to exist, with the exception of the SILs program, which the Department found to be terminated in the PET Film Final Determination, 67 FR 34095. Furthermore, all of these programs provide recurring benefits. The 80HHC program was not used until the first review, but was later found to have been terminated. In addition, in subsequent administrative reviews, the Department determined that four more programs conferred countervailable subsidies. In the first administrative review of the CVD order, Polyplex received a Capital Subsidy, and the benefit stream from this non-recurring countervailable subsidy continues past the period of this sunset review. See PET Film 1st Admin. Review and accompanying Issues and Decision Memorandum at “Capital Subsidy.” In the second administrative review, the Department determined that the ALP program is countervailable, and both respondents to that segment of the proceeding, Polyplex and Jindal, received benefits under that program. See PET Film 2nd Admin. Review, and accompanying Issues and Decision Memorandum, at “Advance License Program.” In the same review, Jindal received benefits under the EOU program which the Department determined to be countervailable. In the third administrative review, Polyplex obtained licenses under the DFRC but did not use them; rather, Polyplex sold part of its rights under the DFRC, the benefit from which the Department found to be countervailable. See PET Film 3rd Admin Review and accompanying Issues and Decision Memorandum at “Duty Free Replenishment Certificate.” Consequently, the Department finds that countervailable subsidies would be likely to continue or

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5(1) Pre- and Post-Shipment Export Financing; (2) DEPS; (3) EPCGS; (4) State Sales Tax Incentive Programs (SOM, SUP, and SOU); (5) SOM Electricity Duty Exemption Scheme; (6) SOM Capital Incentive Scheme; and (7) Waiving of Interest on Loan by SICOM Ltd. (SOM).

6See PET Film 3rd Admin. Review, 72 FR 6530, and accompanying Issues and Decision Memorandum at “Income Tax Exemption Scheme 80 HHC.”
recur in the event that this CVD order were revoked for seven of the eight programs determined to be countervailable in the investigation, and for four programs determined to be countervailable in subsequent reviews.

2. Net Countervailable Subsidy Likely to Prevail

The domestic interested parties argue that the magnitude of the net countervailable subsidy rates likely to prevail should be equal to the rates in the investigation, adjusted to reflect the terminated SIL program and the three additional subsidy programs found countervailable by the Department in subsequent administrative reviews. Therefore, domestic parties argue that the Department should use the rates from the investigation, subtract the amount for the SIL program that the Department verified was terminated, and add the net countervailable subsidy rates for new programs from the most recently completed administrative review. Domestic parties argue that the rates provided to the ITC as the net countervailable subsidies likely to prevail if the CVD orders were revoked should be equal to those established in the final determination for all companies, and adjusted to remove the terminated programs and to include the new programs.

Department’s Position:

The Department normally will provide the ITC with the net countervailable subsidy rate that was determined in the investigation, as the subsidy rate likely to prevail if the order were revoked, because that is the only calculated rate reflecting the behavior of exporters and foreign governments without the discipline of an order in place. However, this rate may not be the most appropriate rate if, for example, the rate was derived from subsidy programs that were found in subsequent reviews to be terminated, there has been a program-wide change, or the rate ignores a program found to be countervailable in a subsequent administrative review. For companies not specifically investigated or for companies that did not begin shipping until after the order was issued, the Department normally will provide the “all others” rate determined in the investigation as the rate likely to prevail. See e.g., Certain Welded Large Diameter Line Pipe from Japan and Mexico; Notice of Final Results of Five-Year (“Sunset”) Reviews of Antidumping Duty Orders, 72 FR 10498 (March 8, 2007) and accompanying Issues and Decision Memorandum, at “Magnitude of the Margin Likely to Prevail.”

Consistent with this, in determining company-specific, net countervailable subsidy rates likely to prevail, the Department has started with the rates found in the original investigation. We have added to the investigation rates the countervailable subsidy rates from the new subsidy programs found during the first through third reviews: DFRC, ALP, EOU, and Capital Subsidy. The rates for the new programs were added to each company’s rate and to the all others rate, consistent with the Department’s practice. See e.g., Hot-Rolled Carbon Steel Flat Products from Argentina.

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7(1) Pre- and Post-Shipment Export Financing; (2) DEPS; (3) EPCGS; (4) State Sales Tax Incentive Programs (SOM, SUP, and SOU); (5) SOM Electricity Duty Exemption Scheme; (6) SOM Capital Incentive Scheme; and (7) Waiving of Interest on Loan by SICOM Ltd. (SOM).

8(1) ALP; (2) EOU; (3) Capital Subsidy; and (4) DFRC.
India, Indonesia, South Africa, and Thailand: Final Results of Expedited Five-Year (Sunset) Reviews of the Countervailing Duty Orders, 71 FR 70960 (December 7, 2006), and accompanying Issues and Decision Memorandum at “Net Countervailable Subsidy Likely to Prevail”; see also Memorandum to the File, Calculation of Sunset Review Subsidy Rates, dated concurrently with this memorandum (Calculation Memo).

Where the Department has conducted an administrative review of the order and found that a program was terminated with no residual benefits and no likelihood of reinstatement or replacement, the Department normally will adjust the net countervailable subsidy rate determined in the original investigation to reflect the change. In determining whether a program has been terminated, the Department will consider the legal method by which the government eliminated the program and whether the government is likely to reinstate the program. Programs eliminated through administrative action, for example, may be more likely to be reinstated than those eliminated through legislative action. This is fully consistent with other areas of our countervailing duty practice (e.g., program-wide changes) where we normally expect a program to be terminated by means of the same legal mechanism in which it was instituted. See, e.g., Final Results of Full Sunset Review of the Countervailing Duty Order on Certain Corrosion-Resistant Carbon Steel Flat Products from France, 71 FR 58584 (October 4, 2006), and accompanying Issues and Decision Memorandum, at “Likelihood of Continuation or Recurrence of Countervailable Subsidy.”

Based on findings in the investigation and administrative reviews, we have determined that the Sil program has been terminated with no residual benefits past 2006. Nor is there any evidence that this program has been replaced with any new program that is not also reflected in our likelihood findings. Accordingly, we have subtracted the rate calculated for this terminated program from the rates likely to prevail. For each company that used the program, we subtracted the company-specific rate calculated for that company. Likewise, in calculating the all others rate, we have also subtracted the terminated rate. See Calculation Memo. Because the 80HHC was first used in the first administrative review and terminated during the third administrative review, its calculated subsidy rate was not reflected in the rates from the investigation, and thus, the Department does not need to make any adjustments.

3. Nature of the Subsidy

Consistent with section 752(a)(6) of the Act, the Department is providing the following information to the ITC concerning the nature of the subsidies, and whether the subsidies are subsidies as described in Article 3 or Article 6.1 of the WTO SCM Agreement. We note that Article 6.1 of the SCM Agreement expired effective January 1, 2000.

The following programs fall within the definition of an export subsidy under Article 3.1 of the SCM Agreement, as receipt of benefits under these programs are contingent upon export activity.
1. **Pre-Shipment and Post-Shipment Export Financing**: The Reserve Bank of India (RBI), through commercial banks, provides short-term pre-shipment financing, or "packing credits," to exporters. Upon presentation of a confirmed export order or letter of credit to a bank, companies may receive pre-shipment loans for working capital purposes, i.e., for the purchase of raw materials, warehousing, packing, and transporting of export merchandise.

Post-shipment export financing consists of loans in the form of discounted trade bills or advances by commercial banks. Exporters qualify for this program by presenting their export documents to their lending bank. The credit covers the period from the date of shipment of the goods to the date of realization of export proceeds from the overseas customer. Under the Foreign Exchange Management Act of 1999, exporters are required to realize export proceeds within 180 days from the date of shipment, which is monitored by the RBI. Post-shipment financing is, therefore, a working capital program used to finance export receivables. Therefore, pre- and post-shipment export financing constitute countervailable export subsidies.

2. **Duty Entitlement Passbook Scheme**: India’s DEPS was enacted on April 1, 1997, and enables exporting companies to earn import duty exemptions in the form of passbook credits rather than cash. Exporting companies may obtain DEPS credits on a pre-export basis or on a post-export basis. Eligibility for pre-export DEPS credits is limited to manufacturers/exporters that have exported for a three-year period prior to applying for the program. All exporters are eligible to earn DEPS credits on a post-export basis, provided that the exported product is listed in the GOI's Standard Input and Output Norms (SIONs). Post-export DEPS credits can be used for any subsequent imports, regardless of whether they are consumed in the production of an export product.

3. **Duty Free Replenishment Scheme (DFRC)**: The DFRC scheme was introduced by the GOI in 2001 and is administered by the Director-General for Foreign Trade (DGFT). The DFRC is a duty replenishment scheme that is available to exporters for the subsequent import of inputs used in the manufacture of goods without payment of basic customs duty. Exporters receive a license entitling them to subsequent duty-free imports of certain inputs used in the production of the exported product, as identified in the SION. Within 24 months following the receipt of a license, a company must: (1) export manufactured products listed in the GOI's export policy book, against which there is a SION for inputs required in the manufacture of the export product; and (2) have realized the payment of export proceeds in the form of convertible foreign currency. The application must be filed within six months of the realization of the profits. DFRC licenses are transferrable, yet the transferee is limited to importing only those products and in the quantities specified on the license.

4. **Export Promotion Of Capital Goods Scheme (EPCGS)**: The EPCGS provides for a reduction or exemption of customs duties and an exemption from excise taxes on imports of capital goods. Under this program, producers may import capital equipment at reduced rates of duty by undertaking to earn convertible foreign exchange equal to four to five times the value of the capital goods within a period of eight years. For failure to meet the export obligation, a company
The Department found Purchase of Materials and Other Inputs Free of Central Excise Duty not counteravailable. See Final Affirmative Countervailing Duty Determination: Carbazole Violet Pigment 23 from India, 69 FR 67321 (November 17, 2004) and accompanying Issues and Decision Memorandum at “Programs found not Counteravailable.” Indian PET film producers/exporters have not received benefits under the Receipt of Duty Drawback on Furnace Oil Procured from Domestic Oil Companies.
1. **Capital Subsidy**: One respondent company received a capital infusion in 1989 from the GOI. This subsidy was discovered at verification during the investigation. See PET Film Final Determination and accompanying Issues and Decision Memorandum, at “Capital Subsidy.” The Department determined at that time that there was insufficient time to establish whether the program was specific under section 771(5A)(D) of the Act. Thus, the Department stated its intention to re-examine the program in a future administrative review pursuant to 19 CFR 351.311(c)(2). *Id.* In all administrative reviews, the Department has sent questionnaires to the GOI, and to the one respondent, seeking information that would allow it to determine whether the capital subsidy program is specific under section 771(5A) of the Act. Neither the GOI nor the respondent company has provided any information regarding the subsidy. As facts available, the Department determined that the subsidy was specific. See, e.g., Notice of Preliminary Results and Rescission in Part of Countervailing Duty Administrative Review: Polyethylene Terephthalate Film, Sheet, and Strip From India, 69 FR 18542, 18547 (April 8, 2004) (unchanged in final results, 69 FR 51063).

2. **State Sales Tax Incentive Programs**: In previous countervailing duty administrative reviews, the Department determined that various state governments in India grant exemptions to, or deferrals from, sales taxes in order to encourage regional development. These incentives allow privately-owned (i.e., not one hundred percent owned by the GOI) manufacturers in selected industries and located in designated regions, to purchases from suppliers located in certain regions of certain states without paying sales taxes. Over the life of this countervailing duty order, respondents have received benefits under the programs administered by the states of Uttaranchal/Uttar Pradesh (SOU/SUP), SOM, West Bengal, Gujurat, Himachal Pradesh, Daman, Union Territory of Dadra & Nagarhaveli, Karnataka, Delhi, Chattisgarh, Tamilnadu, Rajasthan, and Punjab.

3. **SOM Capital Incentive Scheme**: In the investigation, the Department determined that one respondent received grants under this program through the SOM 1988 package scheme of incentives. The benefits of this program, grants of up to 3,000,000 rupees, are available to certain privately-owned (i.e., not one hundred percent owned by the GOI) industries that make capital investments in specific regions of Maharashtra.

4. **Waiving of Interest on Loan by SICOM Ltd. (SOM)**: SICOM, a public entity, had made an intercorporate deposit with a respondent. During the period of investigation SICOM waived the interest owed by respondent on this intercorporate deposit.

5. **SOM Electricity Duty Exemption Scheme**: The SOM Electricity Duty Exemption Scheme provides for an exemption from the payment of tax on electricity charges through this program. The benefits of this program are limited to industries located within designated geographical regions within the SOM.
Final Results of Review

The Department finds that revocation of the CVD order would be likely to lead to continuation or recurrence of countervailable subsidies at the rates listed below:

<table>
<thead>
<tr>
<th>Manufacturers/Exporters</th>
<th>Subsidy rate</th>
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<tbody>
<tr>
<td>Ester Industries Ltd.</td>
<td>27.39% ad valorem</td>
</tr>
<tr>
<td>Garware Polyester Ltd.</td>
<td>33.44% ad valorem</td>
</tr>
<tr>
<td>Polyplex Corporation Ltd.</td>
<td>22.71% ad valorem</td>
</tr>
<tr>
<td>All Others</td>
<td>29.36% ad valorem</td>
</tr>
</tbody>
</table>

Recommendation

Based on our analysis of the substantive response received, we recommend adopting all of the above positions. If these recommendations are accepted, we will publish the final results of review in the Federal Register.

Agree_________  Disagree_________