October 27, 2014

MEMORANDUM TO: Paul Piquado
Assistant Secretary
for Enforcement and Compliance

FROM: Christian Marsh
Deputy Assistant Secretary
for Antidumping and Countervailing Duty Operations

SUBJECT: Decision Memorandum for the Preliminary Negative Determination in the Countervailing Duty Investigation of Certain Steel Nails from the Republic of Korea

I. SUMMARY

The Department of Commerce (Department) preliminarily determines that de minimis countervailable subsidies are being provided to producers and exporters of certain steel nails (nails) in the Republic of Korea (Korea), as provided in section 703 of the Tariff Act of 1930, as amended (the Act).

II. BACKGROUND

A. Initiation and Case History

On May 29, 2014, Mid-Continent Steel & Wire, Inc. (Petitioner) filed a petition with the Department seeking the imposition of countervailing duties (CVDs) on nails from, inter alia, Korea.\(^1\) Supplements to the petition and our consultations with the Government of Korea (GOK) are described in the Initiation Checklist.\(^2\) On June 18, 2014, the Department initiated a CVD investigation on nails from Korea.\(^3\)

We stated in the Initiation Notice that we intended to base our selection of mandatory respondents on United States Customs and Border Protection (CBP) entry data for the Harmonized Tariff Schedule of the United States (HTSUS) subheadings listed in the scope of the

\(^1\) See Letter from Petitioner, “Petitions for the Imposition of Countervailing Duties on Certain Steel Nails from India, the Republic of Korea, Malaysia, the Sultanate of Oman, Taiwan, the Republic of Turkey, and the Socialist Republic of Vietnam,” (May 29, 2014).


\(^3\) See Certain Steel Nails from India, the Republic of Korea, Malaysia, the Sultanate of Oman, Taiwan, the Republic of Turkey, and the Socialist Republic of Vietnam, 79FR 36014 (June 25, 2014) (Initiation Notice).
investigation. On June 19, 2014, the Department released the CBP entry data under administrative protective order. 4

We received respondent selection comments from Petitioner, Jinheung Steel Corporation (Jinheung), and Korea Wire, Inc. (KoWire), including requests from Jinheung and KoWire to be treated as voluntary respondents if the Department did not select them as mandatory respondents. 5 On July 15, 2014, we selected Daejin Steel Company (Daejin) and Jinheung as mandatory respondents. 6 We sent our countervailing duty questionnaire to the GOK seeking information regarding the alleged subsidies on July 15, 2014. 7

On July 28, 2014, Jinheung identified its affiliation with four other companies, including Duo-Fast Korea, Co., Ltd. (Duo-Fast) and Jinsco International Corporation (Jinsco). 8 Jinheung also identified four unaffiliated exporters and three unaffiliated producers. 9 On August 7, 2014, we informed Jinheung that, based on the information it provided in its July 28, 2014 response, it need only respond to the Department's questionnaires on behalf of Jinheung, its affiliated producer of nails, Duo-Fast, and its affiliated exporter of nails, Jinsco. 10 On July 31, 2014, Daejin identified one unaffiliated exporter and one unaffiliated producer. 11 On August 8, 2014, we informed Daejin that, based on the information it provided in its July 31, 2014 response, it did not need to provide responses for these unaffiliated companies. 12 On August 13, 2014, Daejin stated that it was not affiliated with any other companies. 13 We received responses to our questionnaires on September 2, 2014, 14 with additional questionnaire response information

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4 See Department Memorandum, "Release of Customs and Border Protection Data," (June 19, 2014).
6 See Department Memorandum, "Countervailing Duty Investigation of Certain Steel Nails from Republic of Korea (Korea): Respondent Selection," (July 15, 2014) (Respondent Selection Memorandum). As explained in that memorandum, when faced with a large number of producers/exporters, the Department may determine that it is not practicable to examine all companies. In these circumstances, section 777A(e)(2)(A)(ii) of the Act and 19 CFR 351.204(c) give the Department discretion to limit its examination to a reasonable number of the producers/exporters accounting for the largest volume of the subject merchandise.
9 Id.
12 See Letter to Daejin, "CVD Investigation of Steel Nails from Korea: Daejin Steel Company’s request to limit questionnaire responses," (August 8, 2014).
14 See Letter from the GOK, "Certain Steel Nails from the Republic of Korea: Response to the Questionnaire for the Government of Korea issued on July 15, 2014" (September 2, 2014) (IQR-GOK); Letter from Daejin, "Certain Steel Nails from Korea; Response to Section III of the Countervailing Duty Questionnaire," (September 3, 2014) (IQR-Daejin); Letter from Jinheung, Jinsco, and Duo-Fast, "Countervailing Duty Investigation of Certain Steel Nails from..."
submitted by Daejin on September 8, 2014 and September 12, 2014. On September 12, 2014, KoWire withdrew its request to be treated as a voluntary respondent.

While reviewing the initial questionnaire responses, we discovered certain additional programs. We included those programs in our investigation by sending supplemental questionnaires to the GOK, Daejin, and Jinheung concerning the discovered programs. We sent supplemental questionnaires to the GOK, Daejin, and Jinheung on September 15, 2014 and September 17, 2014. We sent a second supplemental questionnaire to Jinheung and to the GOK on October 10, 2014. Responses to the supplemental questionnaires were received from Daejin on September 29, 2014; from Jinheung on September 29, 2014 and October 17, 2014; and from the GOK on October 1, 2014 and October 21, 2014.

On September 16, 2014, Petitioner filed new subsidy allegations, which pertained only to the additional programs that the Department discovered during its analysis of Daejin’s and Jinheung’s initial questionnaire responses. Because these allegations pertained to subsidies that the Department previously identified and included in supplemental questionnaires to the GOK,
Daejin, and Jinheung, there was no need to separately address the merits of Petitioner’s new subsidy allegations. On September 29, 2014, Petitioner timely submitted factual information.

On July 28, 2014, Petitioner requested that the deadline for the preliminary determination be postponed until no later than 130 days after the initiation of the investigation. The Department granted Petitioner’s request and on August 7, 2014, postponed the preliminary determination until October 27, 2014, in accordance with section 703(c)(1)(A) of the Act and 19 CFR 351.205(b)(2).

B. Period of Investigation

The period of investigation (POI) is January 1, 2013, through December 31, 2013.

III. ALIGNMENT

In accordance with section 705(a)(1) of the Act and 19 CFR 351.210(b)(4), and based on Petitioner’s request, we are aligning the final CVD determination in this investigation with the final determination in the companion AD investigation of nails from Korea. Consequently, the final CVD determination will be issued on the same date as the final AD determination, which is currently scheduled to be issued no later March 2, 2015, unless postponed.

IV. SCOPE COMMENTS

In accordance with the preamble to the Department’s regulations, we set aside a period of time in our Initiation Notice for parties to raise issues regarding product coverage, and encouraged all parties to submit comments within 20 calendar days of publication of that notice. On July 8, 2014, the Department received comments on the scope from The Home Depot and Target, asking the Department to modify the scope language to include the mixed-media factors for evaluating whether subject nails packaged in combination with one or more non-subject articles remain included in the scope of the investigations. IKEA asked the Department to exclude from the class or kind of merchandise subject to the investigations nails packaged in combination with unassembled finished articles such as furniture or storage items. On July 18, 2014, Petitioner filed rebuttal comments to the scope comments raised by The Home Depot, Target, and IKEA.

29 See Antidumping Duties: Countervailing Duties, 62 FR 27296, 27323 (May 19, 1997); see also Initiation Notice, 79 FR at 36015.
30 See Letters from The Home Depot and Target, “Certain Steel Nails from India, Korea, Malaysia, Oman, Turkey, and Vietnam: Comments on the Scope of the Investigation” (July 8, 2014).
31 See Letter from IKEA, “Comments on Scope of the Investigation: Certain Steel Nails From India, the Republic of Korea, Malaysia, the Sultanate of Oman, Taiwan, the Republic of Turkey, and the Socialist Republic of Vietnam” (July 8, 2014).
Petitioner argues that the scope language provides a bright line threshold to address mixed media issues and allows importers and CBP to easily ascertain whether mixed media products are covered by the scope: if the merchandise contains 25 nails or more, those imports must be entered as subject to the AD/CVD order with the value of those nails identified as dutiable on the entry documentation. Therefore, Petitioner contends that no revision of the scope is needed to address mixed media issues and asks the Department to reject the proposals submitted by The Home Depot, Target, and IKEA.

On October 17, 2014, Target and The Home Depot filed amended scope comments in which they propose the following change to the scope of this investigation:

... Certain steel nails may be sold in bulk, or they may be collated in any manner using any material.

Excluded from the scope of this investigation are certain steel nails packaged in combination with one or more non-subject articles, if

(1) the total number of nails of all types that are under 2 inches in length, in the aggregate, is 0 to 199, and
(2) the total number of nails of all types that are 2 inches or more in length, in the aggregate, is 0 to 24.

Due to the limited time available for considering these submissions and given that petitioner has not had sufficient time to consider and comment on the newly proposed scope language, the Department will consider additional comments and address the specific scope comments and exclusion request in the preliminary determination of the companion AD investigation. Any modifications to the scope or scope exclusions that may be made in the AD preliminary determination will be placed on the record of this CVD investigation and parties will be afforded an opportunity to comment.

V. SCOPE OF THE INVESTIGATION

The merchandise covered by this investigation is certain steel nails having a nominal shaft length not exceeding 12 inches. Certain steel nails include, but are not limited to, nails made from round wire and nails that are cut from flat-rolled steel. Certain steel nails may be of one piece construction or constructed of two or more pieces. Certain steel nails may be produced from any type of steel, and may have any type of surface finish, head type, shank, point type and shaft diameter. Finishes include, but are not limited to, coating in vinyl, zinc (galvanized, including but not limited to electroplating or hot dipping one or more times), phosphate, cement, and paint. Certain steel nails may have one or more surface finishes. Head styles include, but are not

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32 See Letters from The Home Depot and Target, “Certain Steel Nails from Korea, Malaysia, Oman, Taiwan and Vietnam: Amendment to Comments on the Scope of the Investigation” (October 17, 2014).

33 The shaft length of certain steel nails with flat heads or parallel shoulders under the head shall be measured from under the head or shoulder to the tip of the point. The shaft length of all other certain steel nails shall be measured overall.
limited to, flat, projection, cupped, oval, brad, headless, double, countersunk, and sinker. Shank styles include, but are not limited to, smooth, barbed, screw threaded, ring shank and fluted. Screw-threaded nails subject to this proceeding are driven using direct force and not by turning the nail using a tool that engages with the head. Point styles include, but are not limited to, diamond, needle, chisel and blunt or no point. Certain steel nails may be sold in bulk, or they may be collated in any manner using any material. If packaged in combination with one or more non-subject articles, certain steel nails remain subject merchandise if the total number of nails of all types, in aggregate regardless of size, is equal to or greater than 25.

Excluded from the scope of this investigation are certain steel nails packaged in combination with one or more non-subject articles, if the total number of nails of all types, in aggregate regardless of size, is less than 25.

Also excluded from the scope of this investigation are steel nails that meet the specifications of Type I, Style 20 nails as identified in Tables 29 through 33 of ASTM Standard F1667 (2013 revision).

Also excluded from the scope of this investigation are nails suitable for use in powder-actuated hand tools, whether or not threaded, which are currently classified under Harmonized Tariff Schedule of the United States (“HTSUS”) subheadings 7317.00.20.00 and 7317.00.30.00.

Also excluded from the scope of this investigation are nails having a case hardness greater than or equal to 50 on the Rockwell Hardness C scale (“HRC”), a carbon content greater than or equal to 0.5 percent, a round head, a secondary reduced-diameter raised head section, a centered shank, and a smooth symmetrical point, suitable for use in gas-actuated hand tools.

Also excluded from the scope of this investigation are corrugated nails. A corrugated nail is made up of a small strip of corrugated steel with sharp points on one side.

Also excluded from the scope of this investigation are thumb tacks, which are currently classified under HTSUS 7317.00.10.00.

Certain steel nails subject to this investigation are currently classified under HTSUS subheadings 7317.00.55.02, 7317.00.55.03, 7317.00.55.05, 7317.00.55.07, 7317.00.55.08, 7317.00.55.11, 7317.00.55.18, 7317.00.55.19, 7317.00.55.20, 7317.00.55.30, 7317.00.55.40, 7317.00.55.50, 7317.00.55.60, 7317.00.55.70, 7317.00.55.80, 7317.00.55.90, 7317.00.65.30, 7317.00.65.60 and 7317.00.75.00. Certain steel nails subject to this investigation also may be classified under HTSUS subheading 8206.00.00.00.

While the HTSUS subheadings are provided for convenience and customs purposes, the written description of the scope of this investigation is dispositive.

VI. INJURY TEST

Because Korea is a “Subsidies Agreement Country” within the meaning of section 701(b) of the Act, the U.S. International Trade Commission (ITC) is required to determine whether imports of
the subject merchandise from Korea materially injure, or threaten material injury to, a U.S.
industry. On July 18, 2014, the ITC determined that there is a reasonable indication that an
industry in the United States is materially injured by reason of imports of steel nails from, inter
alia, Korea.\textsuperscript{34}

\section*{VII. SUBSIDIES VALUATION}

\subsection*{A. Allocation Period}

The Department normally allocates the benefits from non-recurring subsidies over the average
useful life (AUL) of renewable physical assets used in the production of subject merchandise.
The Department finds the AUL in this proceeding to be 15 years, pursuant to 19 CFR
351.524(d)(2) and the U.S. Internal Revenue Service’s 1977 Class Life Asset Depreciation
Range System.\textsuperscript{35} The Department notified the respondents of the 15-year AUL in the initial
questionnaire and requested data accordingly. No party in this proceeding has disputed this
allocation period. For this preliminary determination, we are not examining any non-recurring
subsidies.

\subsection*{B. Attribution of Subsidies}

\textit{Cross Ownership:} In accordance with 19 CFR 351.525(b)(6)(i), the Department normally
attributes a subsidy to the products produced by the company that received the subsidy.
However, 19 CFR 351.525(b)(6)(ii)-(v) provides additional rules for the attribution of subsidies
received by respondents with cross-owned affiliates. Subsidies to the following types of cross-
owned affiliates are covered in these additional attribution rules: (ii) producers of the subject
merchandise; (iii) holding companies or parent companies; (iv) producers of an input that is
primarily dedicated to the production of the downstream product; or (v) an affiliate producing
non-subject merchandise that otherwise transfers a subsidy to a respondent.

According to 19 CFR 351.525(b)(6)(vi), cross-ownership exists between two or more
corporations where one corporation can use or direct the individual assets of the other
corporation(s) in essentially the same ways it can use its own assets. This section of the
Department’s regulations states that this standard will normally be met where there is a majority
voting ownership interest between two corporations or through common ownership of two (or
more) corporations. The preamble to the Department’s regulations further clarifies the
Department’s cross-ownership standard. According to the preamble, relationships captured by
the cross-ownership definition include those where:

\begin{itemize}
  \item the interests of two corporations have merged to such a degree that one
  corporation can use or direct the individual assets (or subsidy benefits) of the
  other corporation in essentially the same way it can use its own assets (or subsidy
\end{itemize}

\textsuperscript{34} See Certain Steel Nails From India, Korea, Malaysia, Oman, Taiwan, Turkey, and Vietnam: Inv. Nos. 701-TA-
515-521 and 731-TA-1251-1257 (Preliminary) (July 2014); Certain Steel Nails From India, Korea, Malaysia,
Oman, Taiwan, Turkey, and Vietnam, 79 FR 42049 (July 18, 2014).

\textsuperscript{35} See U.S. Internal Revenue Service Publication 946 (2008), “How to Depreciate Property,” at Table B-2: Table of
Class Lives and Recovery Periods.
benefits) ... Cross-ownership does not require one corporation to own 100 percent of the other corporation. Normally, cross-ownership will exist where there is a majority voting ownership interest between two corporations or through common ownership of two (or more) corporations. In certain circumstances, a large minority voting interest (for example, 40 percent) or a “golden share” may also result in cross-ownership.36

Thus, the Department’s regulations make clear that the agency must look at the facts presented in each case in determining whether cross-ownership exists. The U.S. Court of International Trade (CIT) has upheld the Department’s authority to attribute subsidies based on whether a company could use or direct the subsidy benefits of another company in essentially the same way it could use its own subsidy benefits.37

**Daejin**

Daejin did not report any cross-owned companies. Therefore, for purposes of this preliminary determination, we are only examining subsidies provided to Daejin.

**Jinheung**

In response to the Department’s questionnaire, Jinheung provided questionnaire responses for the following cross-owned affiliates: (1) Duo-Fast, a producer of subject steel nails, and (2) Jinsco, an exporter of subject steel nails produced by Jinheung and Duo-Fast.38 Jinheung reported that Gu-Ya Park owns the majority of shares of both Jinheung and Duo-Fast, and that Gu-Ya Park’s son, Tae-Ho Park, owns the majority of shares of Jinsco.39 Additionally, Jinheung reported that Tae-Ho Park owns a non-majority share of Jinheung.40 On the basis of the information provided by Jinheung, we preliminarily determine that Jinheung, Duo-Fast, and Jinsco are cross-owned within the meaning of 19 CFR 351.525(b)(6)(vi) through common ownership. The record evidence concerning the ownership structure of the three companies indicates that Jinheung could use or direct the subsidy benefits of Jinsco or Duo-Fast in essentially the same way it could use its own subsidy benefits.41

Because Jinheung and Duo-Fast are both manufacturers producing subject merchandise, in accordance with 19 CFR 351.525(b)(6)(ii), we preliminarily attributed the subsidies received by either manufacturer to the combined sales of both Jinheung and Duo-Fast (excluding inter-company sales). For Jinsco, pursuant to 19 CFR 351.525(c), the Department cumulates subsidies to an exporter of subject merchandise with subsidies provided to the firm which produced the subject merchandise that is sold through the exporter. Therefore, pursuant to 19 CFR

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36 See Countervailing Duties; Final Rule, 63 FR 65348, 65401 (November 25, 1998).
38 See Submission from Jinheung, “Countervailing Duty Investigation of Certain Steel Nails from Korea — Identification of Affiliated Companies and Request to Limit Companies Required to Respond to the Department’s July 15 Questionnaire,” (July 28, 2014) (Jinheung Affiliates Response); see also IQR-Jinheung.
39 See IQR-Jinheung at 3-4.
40 Id.
41 See Department Memorandum, “Cross-Ownership of Jinheung Steel Corporation, Jinsco International Corporation, and Duo-Fast Korea Co., Ltd.,” (October 27, 2014).
351.525(c), we preliminarily attributed the benefit from subsidies to Jinsco to Jinsco’s sales or exports, as appropriate.

Jinheung also reported its affiliation with other companies: Jinheung Iron & Steel Co., Ltd., Mirae Tour Co., Ltd., and Mirae F&E Co., Ltd. Jinheung stated that Jinheung Iron & Steel Co., Ltd. produces and sells non-subject steel wire products, Mirae Tour Co., Ltd. operates as a travel agency, and Mirae F&E Co., Ltd. operates a coffee shop. Jinheung also reported affiliation with Beijing Jinheung Hwanwoo Trading Ltd., Wellbuy Korea Co., Ltd., and Neptune T&C Co., Ltd., which it stated were either in the process of being liquidated or non-operational during the POI. Jinheung reported that none of these affiliated companies was involved in the sale or production of subject merchandise during the POI, or provided inputs or services primarily dedicated to Jinheung or Duo-Fast; therefore, we preliminarily determine that the standard for attribution for cross-owned companies under 19 CFR 351.525(b)(6) has not been met with respect to these affiliated companies.

C. Denominators

In accordance with 19 CFR 351.525(b)(1)-(5), the Department considers the basis for the respondents’ receipt of benefits under each program when attributing subsidies, e.g., to the respondents’ export or total sales. The denominators we used to calculate the countervailable subsidy rates for the various subsidy programs described below are explained in the “Preliminary Calculation Memoranda” prepared for this investigation.

D. Benchmarks

The Department is examining export credit guarantees on loans received by Jinheung and Jinsco. The benchmarks used to identify the existence and extent of any benefit from these loan guarantees are summarized below, with further detail provided in the Jinheung Preliminary Calculation Memorandum.

Short-Term Korean Won-Denominated Loans

Jinheung and Jinsco reported receiving Korea Trade Insurance Corporation (K-SURE) export credit guarantees for two loans that were outstanding during the POI. Jinheung and Jinsco also provided information about short-term loans from commercial banks for consideration as

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42 See IQR-Jinheung at 4.
43 Id.
44 Id. at 4-5.
45 Id. at Appendix I.
47 See Department Memorandum, “Countervailing Duty Investigation of Certain Steel Nails from Korea: Jinheung Preliminary Calculation Memorandum,” dated concurrently with this memorandum (Jinheung Preliminary Calculation Memorandum).
48 See IQR-Jinheung at 24 and Appendix 9.
comparable commercial loans for purposes of identifying an interest rate benchmark.\textsuperscript{49} We preliminarily determine that some of the loans Jinheung identified constitute comparable commercial loans and it is appropriate to use these loans to calculate a weighted-average benchmark interest rate.\textsuperscript{50} Because Jinsco is cross-owned by Jinheung, we are also using the relevant Jinheung loans to determine the benchmark interest rate for Jinsco.

VIII. ANALYSIS OF PROGRAMS

Based upon our analysis of the record and the responses to our questionnaires, we preliminarily determine the following.

A. Programs Preliminarily Determined To Be Countervailable

1. Korea Trade Insurance Corporation (K-SURE) Export Credit Guarantees

The GOK stated that K-SURE provides both pre-shipment and post-shipment export credit guarantee programs.\textsuperscript{51} The GOK reported that the pre-shipment export credit guarantee program provides guarantees to the financial institutions which have provided loans to the exporters in connection with their export transactions, and that the post-shipment export credit guarantee program provides guarantees to the financial institutions which have negotiated the export receivables based on bills of exchange and shipping documents.\textsuperscript{52} Jinheung reported that it and its cross-owned affiliate, Jinsco, received loan guarantees under this program during the POI.\textsuperscript{53}

We preliminarily determine that this program constitutes a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(i) of the Act, in the form of a potential direct transfer of funds or liabilities, such as loan guarantees. We preliminarily find that a benefit has been conferred by this program, under section 771(5)(E)(iii) of the Act, because a difference exists between the amount Jinheung and Jinsco paid on their guaranteed loans and the amount they would have paid for a comparable commercial loan with no guarantee.\textsuperscript{54} We preliminarily find that the program is specific under section 771(5A)(A) and (B) of the Act because it is available only in connection with export transactions.\textsuperscript{55}

To calculate the benefit received by Jinheung and Jinsco in connection with this program, we first calculated the amount of guarantee fees and interest paid by Jinheung and Jinsco during the POI on the loans guaranteed by the K-SURE export credit guarantee program. We then used the benchmark interest rate described in section VII.D., above, to calculate the amount of interest Jinheung and Jinsco would have paid for a comparable commercial loan with no guarantee. We calculated the difference between the two amounts as the benefit received by Jinheung and Jinsco under this program. We divided the benefit from Jinheung's loan guarantee by the sum of Jinheung and Duo-Fast's POI export sales (net of inter-company transactions). We divided the

\textsuperscript{49} See SQR1-Jinheung at Appendix S-3.
\textsuperscript{50} See Jinheung Preliminary Calculation Memorandum.
\textsuperscript{51} See IQR-GOK at 1-31.
\textsuperscript{52} Id.
\textsuperscript{53} See IQR-Jinheung at 24 and Appendix 9; see also SQR1-Jinheung at 8-11 and Appendix S-3.
\textsuperscript{54} See Section 771(5)(E)(ii) of the Act.
\textsuperscript{55} See IQR-Jinheung at Appendix 9-A.
benefit from Jinsco’s loan guarantee by Jinsco’s POI export sales. We added together the resulting rates, and on this basis, we preliminarily determine a countervailable subsidy rate of 0.05 percent for Jinheung and Jinsco under this program.56

2. Simplified Fixed Amount Refund of Import Duties

The GOK stated that the Simplified Fixed Amount Refund program is a customs duty refund program pursuant to the Act on Special Cases concerning the Refund of Customs Duties, etc. Levied on Raw Materials for Export (ARCD).57 The GOK explained that this customs duty refund program is a program under which customs duties paid at the time of import of materials consumed to manufacture goods for exportation are refunded to the exporters or the manufacturers when goods are exported.58 For exported goods produced by a small or medium enterprise (SME), the Commissioner of the Korea Customs Service may determine a fixed amount refund rate on the basis of the average refund of customs duties or the average paid tax amount on the raw materials for export.59 The fixed amount refund rate will be refunded as if it were the actual customs duties paid upon the import of the raw materials needed for producing the goods for export.60 The simplified fixed amount refund is received as a duty drawback, but SMEs are eligible for a fixed refund of 0.10 percent of the declared export price value of subject merchandise.61 Daejin, Jinheung, and Jinheung’s cross-owned affiliate, Duo-Fast, reported that they received benefits under this program during the POI.62

Under 19 CFR 351.519(a)(1)(i), in the case of duty drawback of import charges, a benefit exists to the extent that the amount of the remission or drawback exceeds the amount of import charges on imported inputs that are consumed in the production of the exported product, making normal allowance for waste. According to 19 CFR 351.519(a)(4)(i), the entire amount of such remission or drawback will confer a benefit, unless the Department determines that the government in question has in place and applies a system or procedure to confirm which inputs are consumed in the production of the exported products and in what amounts, and the system or procedure is reasonable, effective for the purposes intended, and is based on generally accepted commercial practices in the country of export.

Information provided by the GOK indicates that the GOK provides this rebate to SMEs at a fixed rate of the value of exports in order that SMEs do not have to bear the administrative burden of tracking actual import duties incident to imports of inputs consumed in the production of goods for export.63 As such, under this program, the GOK does not have in place and apply a system to confirm which inputs are consumed in the production of the exported product and in what amounts. Therefore, we consider that the entire amount of the rebate confers a benefit, consistent with 19 CFR 351.519(a)(4). This finding is consistent with our final determination of

56 See Jinheung Preliminary Calculation Memorandum.
57 See SQRI-GOK at 45.
58 Id.
59 See IQR-Daejin at 35.
60 Id.
61 Id.
62 Id.; see also SQRI-Jinheung at Appendix S-6.
63 See SQRI-GOK at Appendices Volume, page 45.
Coated Free Sheet Paper from Korea. We also preliminarily determine that a financial contribution has been provided pursuant to section 771(5)(D)(ii) of the Act in the form of revenue foregone and that a benefit had been conferred under section 771(5)(E) of the Act. We further preliminarily determine that this program is specific under section 771(5A)(A) and (B) of the Act, as it is contingent upon export performance. During the POI, the simplified fixed refund amount was 0.10 percent of the FOB value of exports. Therefore, we preliminarily determine that Daejin and Jinheung (including its cross-owned company, Duo-Fast) received a countervailable subsidy rate of 0.10 percent under this program.

3. Short-Term Export Credit Insurance Premium Subsidy Program for Small and Medium Enterprise

Under this program, the Gyeongsangnam provincial government provides assistance to all small and medium enterprises located in the province by paying a certain portion of their insurance premiums payable to K-SURE. This program was established and is administered pursuant to the 2013 Small and Medium Enterprise Policy, which was established pursuant to Article 3 of the Framework Act on Small and Medium Enterprises. The GOK stated that the purpose of this program is to protect enterprises from trade risks such as the failure to receive payments for their exports and to provide financing to small and medium exporters without sufficient assets for collateral. The GOK stated that 80 small and medium enterprises located in Gyeongsangnam Province used this program and that only SMEs with a head office in Gyeongsangnam Province which are also eligible for K-SURE export insurance are eligible for assistance under this program. Daejin reported that it received benefits under this program during the POI.

We preliminarily determine that this program constitutes a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(i) of the Act, because it is direct transfer of funds paid on behalf of Daejin for Daejin's insurance premiums. We preliminarily find that a benefit has been conferred by this program, under section 771(5)(E) of the Act, in the amount of the assistance provided. Under 19 CFR 351.503(b), the Department will consider a benefit to be conferred where a firm pays less than it otherwise would pay in the absence of the government program. We preliminarily find that the program is specific under section 771(5A)(A) and (B) of the Act because use of the program is contingent upon export performance.

To calculate the benefit, we divided the amount of the K-SURE export insurance premium paid

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64 See October 17, 2007 Issues and Decision Memorandum for Final Determination Countervailing Duty Investigation: Coated Free Sheet Paper from the Republic of Korea for the program “Duty Drawback on Non-Physically Incorporated Items and Excess Loss Rate.”
65 See Preliminary Calculation Memoranda.
66 See SQRI-GOK at Appendices Volume, pages 2-4.
67 Id.
68 Id.
69 Id.
70 See IQR-Daejin at 19-26.
71 See Section 771(5)(E) of the Act.
72 See SQRI-GOK at Appendices Volume, page 4.
on behalf of Daejin by the Province of Gyeongsangnam under this program by the FOB value of Daejin’s total export sales for the POI. On this basis, we preliminarily determine that Daejin received a countervailable subsidy of 0.04 percent ad valorem under this program.73

4. Small and Medium Size Enterprises Funding: Facility Equipment Funding and Business Stabilization Funding from Yangsan City

The GOK stated that under this program, Yangsan provides assistance to SMEs located in the city by paying a portion of the SMEs’ interest payments on loans that a financial institution has extended.74 The GOK stated that after a bank evaluates an applicant’s credit, approves a loan extension, and determines the applicable interest rate, the Yangsan City Government provides a certain portion of the interest payment on the loan payable to the bank.75 Thus, a commercial bank would approve a loan for an SME and Yangsan City would pay a portion of the interest on behalf of the SME. For example, if the commercial bank approved a loan with an interest rate of six percent, the Government of Yangsan City would pay 2.5 percent of the interest on the loan to the bank and the SME program recipient would pay the remaining 3.5 percent of the interest to the bank.76 Daejin reported that it received benefits from Yangsan City Government under this program.77

Under this program, Yangsan City sets one rate that is available to all SMEs, and a higher rate of assistance that is available to only “preferential” SMEs.78 For example, during the POI, SMEs approved for Business Stabilization Funding under this program were provided with interest rate assistance of 2.5 percent, while SMEs deemed to be “preferential enterprises” under Article 10 of the Yangsan City Ordinance for Preferential Enterprises are provided with interest rate assistance of 3.5 percent. Daejin received assistance as a “preferential enterprise” at the premium level.

We preliminarily determine that this program constitutes a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(i) of the Act because it represents a direct transfer of funds on behalf of Daejin for Daejin’s interest payment. We preliminarily determine that the program is de jure specific under section 771(5A)(D)(i) of the Act because of the higher levels of assistance provided to SMEs classified as “preferential” by the Government of Yangsan City under this program. We also examined whether the provision of the interest rate subsidy provided to “non-preferential” SMEs is de facto specific under section 771(5A)(D)(iii) of the Act. We preliminarily determine that this portion of the program is not limited in number of recipients and that Daejin was neither a predominant or disproportionate user of the subsidy; therefore, we preliminarily determine that the interest rate subsidy provided to non-preferential SMEs is not de facto specific under section 771(5A)(D)(iii) of the Act. We preliminarily find that a benefit has been conferred by this program, under section 771(5)(E) of the Act.

73 See Daejin Preliminary Calculation Memorandum.
74 See IQR-GOK at 16 and 30.
75 Id. at 19 and 33.
76 See SQRI-GOK at Exhibit GISR-5.
77 See IQR-Daejin at 26-31.
78 See SQRI-GOK at 16-25.
Under 19 CFR 351.503(d), where a government program provides varying levels of financial contributions based on different eligibility criteria, and one or more of such levels is not specific, a benefit is conferred to the extent that a firm receives a greater financial contribution than the financial contributions provided at the non-specific level under the program. Therefore, we preliminarily determine that Daejin has received a benefit under this program to the extent that the interest rate subsidy that it received under this program is greater than the non-specific level of assistance provided by the interest rate subsidy available to non-preferential SMEs.

To calculate the benefit received by Daejin in connection with this program, we first took the difference in the amount of interest paid by the Government of Yangsan City under this program at the preferential SME rate received by Daejin and the amount of interest that would have been paid at the non-specific SME rate. We then divided that difference by the FOB value of Daejin's total sales for the POI. On this basis, we preliminarily determine that Daejin received a countervailable subsidy of 0.01 percent ad valorem under this program.\(^79\)

5. Small and Medium Size Enterprises Funding: Facility Equipment Funding and Business Stabilization Funding from Gyeongsangnam Province

This program operates like the program above administered by Yangsan City. The GOK stated that under this program, Gyeongsangnam provides assistance to SMEs located in the province by paying for portions of their interest payments on loans that a financial institution has extended.\(^80\) The GOK stated that after a bank evaluates an applicant's credit, approves a loan extension, and determines the applicable interest rate, the Gyeongsangnam Provincial Government provides a certain portion of the interest payment on the loan payable to the bank.\(^81\) Thus, a commercial bank would approve a loan for an SME and Gyeongsangnam Province would pay a portion of the interest rate on behalf of the SME. For example, if the commercial bank approved a loan with an interest rate of 6 percent, the Government of Gyeongsangnam Province would pay 2.5 percent of the interest on the loan to the bank and the SME program recipient would pay 3.5 percent of the interest to the bank.\(^82\) Daejin reported that it received benefits under this program from the Province of Gyeongsangnam.\(^83\) Daejin reported that one level of benefit is available to all SMEs, and an additional benefit is available to "preferential" SMEs.\(^84\) Daejin also reported that it received assistance at the non-preferential level of assistance.

We preliminarily determine that these programs constitute a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(i) of the Act because it represents a direct transfer of funds on behalf of Daejin for Daejin's interest payment.\(^7\) We preliminarily determine that the program is de jure specific under section 771(5A)(D)(i) of the Act because of the higher levels of assistance provided to SMEs classified as "preferential" by the Government of Gyeongsangnam Province under this program. We also examined whether the provision of the interest rate subsidy provided to "non-preferential" SMEs is de facto

\(^{79}\) See Daejin Preliminary Calculation Memorandum.
\(^{80}\) See IQR-GOK at 16 and 30.
\(^{81}\) Id. at 19 and 33.
\(^{82}\) See FSQR-GOK at Exhibit G1SR-5.
\(^{83}\) See IQR-Daejin at 26-31.
\(^{84}\) See SQRI-Daejin at Attachment SQI-8.
specific under section 771(5A)(D)(iii) of the Act. We preliminary determine that portion of the program is not limited in number of recipients and that Daejin was neither a predominant or disproportionate user of the subsidy; therefore, we preliminarily determine that the interest rate subsidy provided to non-preferential SMEs is not de facto specific under section 771(5A)(D)(iii) of the Act. Because Daejin only used this program with respect to the non-specific interest rate subsidy for non-preferential SMEs, we preliminarily determine that Daejin did not receive a countervailable benefit under this program.


Under this program, Busan Metropolitan City assists small and medium enterprises located in the city by paying for portions of their interest payments on loans from financial institutions. Support under this program is available to SMEs located in the Busan metropolitan area that are engaged in multiple specified eligible industries, including manufacturing. According to the conditions of assistance under this program, eligible companies for loans greater than 50 million Korean won (KRW) must have exports that account for one-quarter or more of annual sales. For loans of KRW 50 million or below, the government will confirm the actual exports of the company. Jinheung reported that it had one long-term loan during the POI that it obtained through this program. Jinheung reported that the Busan Economic Promotion Agency paid a certain amount of interest on that loan during the POI, and that Jinheung also paid an additional amount of interest on the loan.

We preliminarily determine that this program constitutes a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(i) of the Act because it represents a direct transfer of funds from the Busan Economic Promotion Agency, on behalf of Jinheung as partial payment of interest expenses. We preliminarily find that a benefit has been conferred by this program, under section 771(5)(E) of the Act. Under 19 CFR 351.503(b), the Department will consider a benefit to be conferred where a firm pays less than it otherwise would pay in the absence of the government program. We preliminarily find that the program is specific under section 771(5A)(A) and (B) of the Act because the eligibility for assistance under this program is contingent upon export performance.

To calculate the benefit received by Jinheung in connection with this program, we divided the amount of interest paid by the Busan Economic Promotion Agency on Jinheung’s loan by the FOB value of Jinheung’s POI export sales. On this basis, we preliminarily determine that Jinheung received a countervailable subsidy rate of 0.02 percent under this program.

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85 See SQR2-GOK at Appendices Volume, page 15.
86 SQR1-Jinheung at Appendix S-5-A.
87 See SQR2-GOK at Appendices Volume, pages 17-18.
88 Id.
89 Id.
90 Id.
91 See Jinheung Preliminary Calculation Memorandum.
7. RSTA Article 7(2): Tax Credit for Improving Enterprise’s Bill System

The GOK reported that the Tax Credit for Improving an Enterprise’s Bill System is available under Article 7(2) of the Restriction of Special Taxation Act (RSTA). Article 7(2) of the RSTA states that a payment amount meeting certain criteria shall be deducted from the amount of income tax owed, up to ten percent of the income tax owed. The GOK stated that under this program, a company receives a tax credit if the applicant makes payments to SMEs through a method that has less chance of default such as bills of exchange. Jinheung reported that it received benefits under this program during the POI.

In response to the Department’s supplemental questionnaire, the GOK provided portions of the Statistical Yearbook of National Tax for 2013 (Statistical Yearbook 2013) published by the National Tax Service (NTS). The Statistical Yearbook 2013 provides information for tax returns filed in 2012. The Statistical Yearbook 2013 provides the total number of corporate tax returns that were filed, as well as the number of tax returns claiming the Article 7(2) tax credit.

We preliminarily determine that this program constitutes a countervailable subsidy. The program represents a financial contribution within the meaning of section 771(5)(D)(ii) of the Act because it is a tax credit that results in foregone revenue. We preliminarily find that a benefit has been conferred by this program, under section 771(5)(E) of the Act and 19 CFR 351.509(a)(1) to the extent that the tax paid as a result of this program is less than the tax that would have been paid in the absence of the program. Based upon the Statistical Yearbook 2013, only 2,665 companies (or 0.55 percent of companies filing corporate tax returns in 2012) received benefits under this program. A corporate tax program that is used by less than one percent of corporate tax filers is not one that is widely used throughout an economy, the legal standard for examining specificity set forth in the SAA. Therefore, we preliminarily find that the program is de facto specific under section 771(5A)(D)(iii)(I) of the Act because the actual recipients are limited in number. This preliminary determination is consistent with the Department’s recent final determination in NOES from Korea in which the RSTA Article 7(2) program was found countervailable.

To calculate the benefit received by Jinheung in connection with this program, we divided the amount of Jinheung’s tax credit in the tax return filed during the POI by the FOB value of Jinheung’s total POI sales. On this basis, we preliminarily determine that Jinheung received a

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92 See SQR1-GOK at 73-75.
93 Id. at 71.
94 See SQR1-Jinheung at Appendix S-4.
95 See SQR2-GOK at Exhibit G2SR-1.
96 Id.
97 Id.
98 See SQR2-GOK at Exhibit G2SR-1. Table 8-1-1 of this exhibit indicates that 482,574 corporate tax returns were filed in 2012, and Table 8-3-2 indicates that 2,665 of those returns received tax credits under RSTA Article 7(2). Accordingly, only 0.55 percent of corporate tax filers in 2012 received tax credits under this program.
100 See Non-Oriented Electrical Steel From the Republic of Korea: Final Negative Countervailing Duty Determination and Final Negative Critical Circumstances Determination 79 FR 61605 (October 14, 2014), and accompanying Issues and Decision Memorandum at section V. A.3.
countervailable subsidy rate of 0.01 percent under this program.\textsuperscript{101}

B. Programs Preliminarily Determined To Be Not Countervailable

1. \textit{Employment of Elderly People Aged 55 Years or Older}

The GOK reported that this program provides a grant to SMEs that employ a certain percentage of employees older than 55, compared to the enterprise’s total number of employees.\textsuperscript{102} SMEs in Korea employ 87.7 percent of the country’s total workforce.\textsuperscript{103} For the manufacturing industry to which Daejin belongs, the GOK and Daejin reported that the specified proportion of employees over age 55 to total employees is four percent.\textsuperscript{104} The GOK and Daejin reported that Daejin received benefits under this program during the POI.\textsuperscript{105}

We preliminarily determine that this program is not specific and is, therefore, not countervailable. Under section 771(5A)(D)(i) of the Act, we will find a program \textit{de jure} specific if the legislation pursuant to which the authority operates, expressly limits access to the subsidy to an enterprise or industry. In accordance with our regulations, we will not regard a subsidy as being specific under this provision solely because the subsidy is limited to SMEs.\textsuperscript{106} Here, because the program is accessible to any SME that employs a specified portion of employees aged 55 years and over, we preliminarily determine that this program is not specific within the meaning of section 771(5A)(D)(i) of the Act. Furthermore, as SMEs account for 88 percent of the employees in Korea (according to the GOK), we also preliminarily determine that this program is not \textit{de facto} specific under section 771(5A)(D)(iii) of the Act because the number of recipients is not limited and Daejin has not received either a predominant or disproportionate share of the subsidies under this program.

C. Programs Preliminarily Determined To Be Not Used or Not to Confer a Benefit During the POI

1. Korea Trade Insurance Corporation (K-SURE) Short-Term Export Credit Insurance

During the POI, both Jinheung and Jinsco stated that they purchased export credit insurance from K-SURE; however, both companies stated that they did not make any insurance claims nor did they receive any payments on insurance claims made with respect to exports of the subject merchandise.\textsuperscript{107} Therefore, we preliminarily determine that these companies did not receive a benefit under this program during the POI under 19 CFR 351.520(a)(2).

In addition to the above-listed program, we preliminarily determine that Daejin, Jinheung, Duo­Fast, and Jinsco did not apply for or did not receive any countervailable benefits during the POI.

\begin{footnotes}
\item[101] See Jinheung Preliminary Calculation Memorandum.
\item[102] See SQR2-GOK at Appendices Volume, page 2.
\item[103] See SQR2-GOK at page 2.
\item[104] \textit{Id.} at Appendices Volume, page 4; see also IQR-Daejin at 31.
\item[105] See SQR2-GOK at Appendices Volume, page 3; see also IQR-Daejin at 31-35.
\item[106] See 19 CFR 351.502(d).
\item[107] See IQR-Daejin at 11; see also IQR-Jinheung at 23.
\end{footnotes}
under the following programs:

1. Korea Export Import Bank's (KEXIM) Shared Growth Program
2. Research and Development Grants under the Industrial Technology Innovation Promotion Act (ITIPA)
3. Promotion of Specialized Enterprises for Parts and Materials
4. Modal Shift Program
5. Short-Term Export Credits from KEXIM
6. Export Factoring from KEXIM
7. Export Loan Guarantees from KEXIM
8. KEXIM's Trade Bill Rediscounting Program
9. Korea Development Bank (KDB) and Industrial Bank of Korea (IBK) Short-Term Discounted Loans for Export Receivables
10. GOK Facilities Investment Support: Article 26 of the Restriction of Special Taxation Act (RSTA)
11. Research, Supply, or Workforce Development Expense Tax Deductions for “Core Technologies” under RSTA Article 10(1)(2)
12. Tax Reduction for Research and Human Resources Development under RSTA Article 10(1)(3)
13. Tax Deductions for Investments in Energy-Economizing Facilities under RSTA Article 25(2)
14. Special Tax Reduction or Exemption for Small and Medium Enterprises
15. Tax Reductions and Exemptions for Companies Located in Free Economic Zones (FEZs)
16. Exemptions and Reductions of Lease Fees for Companies Located in FEZs
17. Grants and Financial Support to Companies Located in FEZs

IX. CALCULATION OF THE ALL OTHERS RATE

Consistent with section 703(d) of the Act, the Department did not calculate an all-others rate because it did not reach an affirmative preliminary determination.

X. ITC NOTIFICATION

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

In accordance with section 705(b)(3) of the Act, if our final determination is affirmative, the ITC will make its final determination within 75 days after we make our final determination.
XI. DISCLOSURE AND PUBLIC COMMENT

The Department intends to disclose to interested parties the calculations performed in connection with this preliminary determination within five days of its public announcement.\(^\text{108}\) Case briefs or other written comments for all non-scope issues may be submitted to Enforcement and Compliance’s Antidumping and Countervailing Duty Centralized Electronic Service System (IA ACCESS) no later than seven days after the date on which the final verification report is issued in this proceeding, and rebuttal briefs, limited to issues raised in case briefs, may be submitted no later than five days after the deadline date for case briefs.\(^\text{109}\) Case briefs or other written comments on scope issues may be submitted no later than 30 days after the publication of this preliminary determination in the Federal Register, and rebuttal briefs, limited to issues raised in the case briefs, maybe submitted no later than five days after the deadline for the case briefs. For any briefs filed on scope issues, parties must file separate and identical documents on each of the records for the five concurrent countervailing duty investigations.

Parties who submit case briefs or rebuttal briefs in this proceeding are encouraged to submit with each argument: (1) a statement of the issue; (2) a brief summary of the argument; and (3) a table of authorities.\(^\text{110}\) This summary should be limited to five pages total, including footnotes.

Interested parties who wish to request a hearing, or to participate if one is requested, must do so in writing within 30 days after the publication of this preliminary determination in the Federal Register.\(^\text{111}\) Requests should contain the party’s name, address, and telephone number; the number of participants; and a list of the issues to be discussed. If a request for a hearing is made, the Department intends to hold the hearing at the U.S. Department of Commerce, 14th Street and Constitution Avenue, NW, Washington, DC 20230, at a date, time and location to be determined. Parties will be notified of the date, time and location of any hearing.

Parties must file their case and rebuttal briefs, and any requests for a hearing, electronically using the Department’s electronic records system, IA ACCESS.\(^\text{112}\) Electronically filed documents must be received successfully in their entirety by 5:00 p.m. Eastern Time,\(^\text{113}\) on the due dates established above.

XII. VERIFICATION

As provided in section 782(i)(1) of the Act, we intend to verify the information submitted in response to the Department’s questionnaires.

\(^\text{108}\) See 19 CFR 351.224(b).
\(^\text{109}\) See 19 CFR 351.309.
\(^\text{110}\) See 19 CFR 351.309(c)(2) and (d)(2).
\(^\text{111}\) See 19 CFR 351.310(c).
\(^\text{112}\) See 19 CFR 351.303(b)(2)(i).
\(^\text{113}\) See 19 CFR 351.303(b)(1).
XIII. CONCLUSION

We recommend that you approve the preliminary findings described above.

Agree  Disagree

[Signature]
Paul Piquado
Assistant Secretary
for Enforcement and Compliance

27 October 2014
(Date)