March 4, 2016

MEMORANDUM TO: Paul Piquado
               Assistant Secretary
               for Enforcement and Compliance

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


SUMMARY

We have analyzed the responses of interested parties in the expedited sunset review of the CVD Order on coated paper suitable for high-quality print graphics (Coated Paper) from the People’s Republic of China (PRC). 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 address in this expedited sunset review:

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

Background

On November 17, 2010, the Department of Commerce (the Department) published the CVD Order on Coated Paper from the PRC. On October 1, 2015, the Department initiated the first sunset review of the CVD Order pursuant to section 751(c) of the Tariff Act of 1930, as

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2 See CVD Order. On December 6, 2010, the Department published a notice correcting certain aspects of the scope of the order which did not affect the Department’s findings in the underlying investigation leading to the CVD Order. Certain Coated Paper Suitable for High-Quality Print Graphics Using Sheet-Fed Presses From the People's Republic of China: Notice of Correction for Amended Final Affirmative Countervailing Duty Determination and Countervailing Duty Order, 75 FR 75663 (December 6, 2010) (Correction Notice).
amended (the Act) and 19 CFR 351.218(c).³ Verso Corporation (Verso), S.D. Warren Company d/b/a Sappi North America (Sappi), Appleton Coated LLC (Appleton), and the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, AFL-CIO, CLC (USW) (collectively, the petitioners) filed a timely notice of intent to participate in this review on October 15, 2015, in accordance with 19 CFR 351.218(d)(1).⁴ Verso, Sappi, and Appleton claimed interested party status under section 771(9)(C) of the Act, as domestic producers of the domestic like product. The USW claimed interested party status under section 771(9)(D) of the Act as a certified union or recognized union or group of workers which is representative of an industry engaged in the manufacture, production, or wholesale in the United States of a domestic like product. On October 30, 2015, the Department received a substantive response from the petitioners, in accordance with 19 CFR 351.218(d)(3)(i).⁵ The Department did not receive a substantive response from the Government of the PRC (GOC) or from any PRC producers or exporters of coated paper.

In accordance with 19 CFR 351.218(e)(1)(ii)(B)(2) and (C)(2), when there are inadequate responses from respondent interested parties, we “{n}ormally will conduct an expedited sunset review and, not later than 120 days after the date of publication in the Federal Register of the notice of initiation, issue final results of review based on the facts available in accordance with 19 CFR 351.308(f) (see section 751(c)(3)(B) of the Act and 19 CFR 351.221(c)(5)(ii)).” Consistent with the Department’s regulations and practice, we determine that in the absence of substantive responses from the GOC and other respondent interested parties (i.e., producers and exporters), the Department is conducting an expedited (120-day) sunset review of the CVD Order.

History of the Order

On November 17, 2010, the Department published in the Federal Register the CVD Order on Certain Coated Paper from the PRC.⁶ In the Final Determination of the subject CVD investigation, and as revised in the CVD Order,⁷ for the period of investigation covering calendar year 2008, the Department determined a net countervailable subsidy rate of 19.46 percent ad valorem for Gold East Paper (Jiangsu) Co., Ltd, Gold Huasheng Paper Co., Ltd., Gold East Trading (Hong Kong) Company Ltd., Ningbo Zhonghua Paper Co., Ltd., and Ningbo Asia Pulp & Paper Co., Ltd.; a rate of 202.84 percent ad valorem for Shandong Sun Paper Industry Joint

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³ See Initiation of Five-Year “Sunset” Review, 80 FR 59133 (October 1, 2015).
⁶ See CVD Order.
Stock Co., Ltd. and Yanzhou Tianzhang Paper Industry Co., Ltd.; and a rate of 19.46 ad valorem for “All-Others,” for the programs described in the “Nature of the Subsidy” section of this memorandum.

We found the following programs countervailable in the original investigation:

1. Policy Loans to Coated Paper and Related Pulp Producers from State-Owned Commercial Banks and Government Policy Banks
2. Income Tax Exemption/Reduction under the Two Free/Three Half Program
3. Local Income Tax Exemption and Reductions for “Productive” Foreign Invested Enterprises (FIEs)
4. Income Tax Subsidies for FIEs Based on Geographic Location
5. Preferential Tax Policies for Research and Development (R&D) at FIEs
6. VAT and Tariff Exemptions on Imported Equipment
7. VAT Rebates on Domestically Produced Equipment
8. Domestic VAT Refunds for Companies Located in the Hainan Economic Development Zone (EDZ)
9. Exemption from City Maintenance and Construction Taxes and Education Surcharges for FIEs
10. Provision of Electricity for Less Than Adequate Renumeration (LTAR)
11. Provision of Papermaking Chemicals for LTAR
12. Provision of Land for LTAR in the Yangpu Economic Development Zone (YEDZ)

Since the issuance of the CVD Order, no administrative reviews, new shipper reviews or changed circumstance reviews of this CVD Order have been conducted. A final scope ruling was made on September 13, 2012. This is the first sunset review of the CVD Order.

On April 27, 2015, the Department commenced compliance proceedings pursuant to section 129 of the Uruguay Round Agreements Act to bring certain CVD determinations, including the order against Coated Paper from the PRC, into compliance with the rulings of the World Trade Organization (WTO) Dispute Settlement Body (DSB) in *United States - Countervailing Duty Measures on Certain Products from China* (DS437). Those proceedings remain pending.

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8 The Department calculated the overall countervailable subsidy rate for Shandong Sun Paper Industry Joint Stock Co., Ltd. and Yanzhou Tianzhang Paper Industry Co., Ltd. as 186.07 percent ad valorem based on total adverse facts available pursuant to section 776(b) of the Act. See Final Determination and accompanying IDM at 3-8. This rate was amended to 202.84 percent in the CVD Order. See CVD Order, 75 FR at 70202-03.
9 See CVD Order, 75 FR at 70203.
Scope of the Order

The scope of this order consists of certain coated paper and paperboard\textsuperscript{13} in sheets suitable for high quality print graphics using sheet-fed presses; coated on one or both sides with kaolin (China or other clay), calcium carbonate, titanium dioxide, and/or other inorganic substances; with or without a binder; having a GE brightness level of 80 or higher;\textsuperscript{14} weighing not more than 340 grams per square meter; whether gloss grade, satin grade, matte grade, dull grade, or any other grade of finish; whether or not surface-colored, surface-decorated, printed (except as described below), embossed, or perforated; and irrespective of dimensions (“Certain Coated Paper”).

Certain Coated Paper includes: (a) Coated free sheet paper and paperboard that meets this scope definition; (b) coated groundwood paper and paperboard produced from bleached chem-thermo-mechanical pulp (“BCTMP”) that meets this scope definition; and (c) any other coated paper and paperboard that meets this scope definition.

Certain Coated Paper is typically (but not exclusively) used for printing multicolored graphics for catalogues, books, magazines, envelopes, labels and wraps, greeting cards, and other commercial printing applications requiring high quality print graphics.

Specifically excluded from the scope are imports of paper and paperboard printed with final content printed text or graphics.


On February 8, 2012, the Customs Module for the \textit{CVD Order} was updated to include an additional five HTSUS numbers: 4810.29.1035, 4810.29.7035, 4810.92.1235, 4810.92.1435, and 4810.92.6535.\textsuperscript{15}

DISCUSSION OF THE ISSUES

In accordance with section 751(c)(1) of the Act, the Department is conducting this sunset review to determine whether revocation of the \textit{CVD Order} would be likely to lead to continuation or

\textsuperscript{13}“Paperboard” refers to Certain Coated Paper that is heavier, thicker and more rigid than coated paper which otherwise meets the product description. In the context of coated paper, paperboard typically is referred to as ‘cover,’ to distinguish it from ‘text.’

\textsuperscript{14}One of the key measurements of any grade of paper is brightness. Generally speaking, the brighter the paper the better the contrast between the paper and the ink. Brightness is measured using a GE Reflectance Scale, which measures the reflection of light off of a grade of paper. One is the lowest reflection, or what would be given to a totally black grade, and 100 is the brightest measured grade.

recurrence of a countervailable subsidy. Section 752(b) of the Act provides that in making this determination the Department shall consider: 1) the net countervailable subsidy determined in the investigation and any subsequent reviews; and 2) whether any changes in the programs which gave rise to the net countervailable subsidy have occurred that are likely to affect the net countervailable subsidy.

Pursuant to section 752(b)(3) of the Act, the Department shall provide to the International Trade Commission (ITC) the net countervailable subsidy likely to prevail if the CVD 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 Agreement on Subsidies and Countervailing Measures (SCM Agreement).

1. Likelihood of Continuation or Recurrence of a Countervailable Subsidy

The Petitioners’ Comments

The petitioners argue that revocation of the CVD Order would likely lead to the recurrence of countervailable subsidies that benefit imports of coated paper. The petitioners note that the Department’s practice is to reach an affirmative determination in a sunset review where no administrative reviews have been conducted and where no party provides evidence that the countervailable programs have been terminated. The petitioners argue that subsidization has continued and that there is no indication that any of the programs providing countervailable subsidies were terminated or that benefits ceased following the imposition of countervailing duties on subject imports from the PRC in 2010.

Department’s Position

Section 752(b)(1) of the Act directs the Department in determining the likelihood of continuation or recurrence of a countervailable subsidy to consider the net countervailable subsidy determined in the investigation and subsequent reviews, and whether there has been any change in a program found to be countervailable that is likely to affect that net countervailable subsidy. According to the Statement of Administrative Action Accompanying the Uruguay Round Agreements Act (SAA), the Department will consider the net countervailable subsidies in effect after the issuance of the order and whether the relevant subsidy programs have been continued, modified, or eliminated. The SAA adds that continuation of a program will be highly probative of the likelihood of continuation or recurrence of countervailable subsidies. Additionally, the presence of programs that have not been used, but also have not been terminated without residual benefits or replacement programs, is also probative of the likelihood of continuation or recurrence of a

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16 See The Petitioners Substantive Response at 7-8 (citing, e.g., Certain Hot-Rolled Carbon Steel Flat Products From India, Indonesia, and Thailand: Final Results of Expedited Sunset Reviews, 78 FR 16252 (March 14, 2013) and accompanying Issues and Decision Memorandum at Comment 1).

17 See The Petitioners Substantive Response at 7 and 8.


19 Id.
countervailable subsidy. Where a subsidy program is found to exist, the Department will normally determine that revocation of the CVD Order is likely to lead to continuation or recurrence of a countervailable subsidy regardless of the level of subsidization.

As the Department has stated in other sunset determinations, two conditions must be met in order for a subsidy program not to be included in determining the likelihood of continued or recurring subsidization: 1) the program must be terminated; and 2) any benefit stream must be fully allocated. The Department has further stated that, in order to determine 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. The Department normally expects a program to be terminated by means of the same legal mechanism used to institute it. Where a subsidy is not bestowed pursuant to a statute, regulation or decree, the Department may find no likelihood of continued or recurring subsidization if the subsidy in question was a one-time, company-specific occurrence that was not part of a broader government program.

As indicated above, there have been no administrative reviews nor other intervening segments of this proceeding since issuance of the CVD Order. Moreover, neither the GOC nor other respondent interested parties participated in this sunset review. There is no information indicating any changes in the programs found countervailable during the investigation. Based on the facts on the record, the Department determines that there is a likelihood of continuation or recurrence of countervailable subsidies.

2. Net Countervailable Subsidy Likely to Prevail

The Petitioners’ Comments

The petitioners argue that because the Department has not conducted an administrative review of the CVD Order, and no evidence has been provided that warrants making a change to the subsidy rates, the Department should select the rates published in the CVD Order.

20 See, e.g., Certain Hot-Rolled Flat-Rolled Carbon-Quality Steel Products From Brazil: Final Results of Full Sunset Review of Countervailing Duty Order, 75 FR 75455 (December 3, 2010) and accompanying Issues and Decision Memorandum at Comment 1.
21 Id.
22 See, e.g., Corrosion-Resistant Carbon Steel Flat Products From France; Final Results of Full Sunset Review, 71 FR 58584 (October 4, 2006) and accompanying Issues and Decision Memorandum at “1. Likelihood of Continuation or Recurrence of Countervailable Subsidy.”
23 See, e.g., Fresh and Chilled Atlantic Salmon From Norway: Final Results of Full Third Sunset Review of Countervailing Duty Order, 76 FR 70411 (November 14, 2011) and accompanying Issues and Decision Memorandum at “1. Likelihood of Continuation or Recurrence of a Countervailable Subsidy.”
24 See, e.g., Final Affirmative Countervailing Duty Determination: Certain Hot-Rolled Carbon Steel Flat Products from India, 66 FR 49635 (September 28, 2001) and accompanying Issues and Decision Memorandum at Comment 7.
25 See, e.g., Stainless Steel Plate in Coils from Belgium: Final Results of Full Sunset Review and Revocation of the Countervailing Duty Order, 76 FR 25666 (May 5, 2011) and accompanying Issues and Decision Memorandum at Comment 1.
26 See The Petitioners Substantive Response at 8 and 9.
Department’s Position

Consistent with the SAA and legislative history, the Department normally will provide the ITC the net countervailable subsidy that was determined in the investigation as the subsidy rate likely to prevail if the order were revoked, because it is the only calculated rate that reflects the behavior of exporters and foreign governments without the discipline of an order in place. 27

Section 752(b)(l)(B) of the Act provides, however, that the Department will consider whether any change in the program which gave rise to the net countervailable subsidy determination in the investigation or subsequent reviews has occurred that is likely to affect the net countervailable subsidy.

Therefore, although the SAA and House Report provide that the Department normally will select a rate from the investigation, this rate may not be the most appropriate if, for example, the rate was derived (in whole or part) from subsidy programs which 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. 28

In this proceeding, the Department has not conducted any administrative reviews of the CVD Order, and the Department has not adjusted the rates from the investigation to account for additional subsidies, program-wide changes or terminated programs.

Consistent with section 752(b)(3) of the Act, the Department will provide to the ITC the net countervailable subsidy rates shown in the section entitled “Final Results of Review” below.

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 do not fall within the meaning of Article 3.1 of the SCM Agreement, but may be subsidies described in Article 6.1 of the SCM Agreement if the amount of the subsidy exceeds five percent, as measured in accordance with Annex IV of the SCM Agreement. The subsidies may also fall within the meaning of Article 6.1 if they constitute debt forgiveness, a grant to cover debt repayment, or are subsidies to cover operating losses sustained by an industry or enterprise. However, there is insufficient information on the record to make such a determination. We are, in any case, providing the ITC with the following program descriptions:

1. Policy Loans to Coated Paper Producers and Related Pulp Producers from State-Owned Commercial Banks and Government Policy Banks: The GOC has a policy in place to encourage the development of coated paper production through policy lending, specifically, the Tenth Five-Year and 2010 Special Plan for the Construction of National Forestry and Papermaking Integration Project, the Development Policy for Papermaking Industry (2007), the Decision of the State Structure Adjustment GUOFA (2005) No. 40, and the Guiding Catalogue for Industry Restructuring (2005 version). The Department determined the benefits from these loans was de jure specific under section 771(5A)(D)(i) of the Act because of the GOC’s policy, as illustrated in government plans and directives, to encourage and support the growth and development of the pulp and paper industry in the PRC.29

2. Income Tax Exemption/Reduction under the Two Free/Three Half Program: Under the GOC’s Article 8 of the FIE Tax Law, a productive FIE that is scheduled to operate for more than ten years may be exempted from income tax in the first two years of profitability and pay income taxes at half the standard rate for the next three years. The exemption or reduction of the income tax paid by productive FIEs under this program confers a countervailable subsidy. The Department determined the benefits from this program was limited as a matter of law to certain enterprises, i.e., “productive” FIEs and, hence, was specific under section 771(5A)(D)(i) of the Act.30

3. Local Income Tax Exemption and Reductions for "Productive" FIEs: Under Article 9 of the FIE Tax Law, the provincial governments have the authority to exempt FIEs from the local income tax of three percent, which confers a countervailable subsidy. The Department determined the benefits from this program were limited as a matter of law to certain enterprises, i.e., “productive” FIEs and, hence, was specific under section 771(5A)(D)(i) of the Act.31

4. Income Tax Subsidies for FIEs Based on Geographic Location: Under this program, “productive” FIEs located in coastal economic zones, special economic zones or economic and technical development zones in the PRC receive preferential tax rates of 15 percent or 24 percent, depending on the zone, under Article 7 of the FIE Tax Law. The Department determined the benefits from this program were limited enterprises located in designated geographic regions and, hence, is specific under section 771(5A)(D)(iv) of the Act.32

5. Preferential Tax Policies for R&D at FIEs: The GOC permits an FIE to deduct 150 percent of its qualifying R&D expenses from its taxable income when those expenses increase by 10 percent over R&D expenses incurred in the last tax year. The deduction is capped by taxable income and no carry-forward is allowed if the deduction is more than the taxable income of the current period. The Department determined the benefits from this program was limited as a matter of law to certain enterprises, i.e., “productive” FIEs and, hence, was specific under section 771(5A)(D)(i) of the Act.33

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29 See Final Determination and accompanying IDM at 13.
30 Id. at 14.
31 Id. at 15.
32 Id.
33 Id. at 16.
6. **VAT and Tariff Exemptions on Imported Equipment**: According to the *Circular of the State Council onAdjusting Tax Policies on Imported Equipment* (GUOFA No. 37), both FIEs and certain domestic enterprises are exempted from the VAT and tariffs on imported equipment used in their production so long as the equipment does not fall into prescribed lists of non-eligible items. Qualified enterprises receive a certificate either from the National Development and Reform Commission or its provincial branch. Qualified enterprises must adequately document both the product eligibility and the eligibility of the imported article to the local Customs authority to receive the exemptions. The Department determined the VAT and tariff exemptions under this program were specific under section 771(5A)(D)(i) of the Act because the program is limited to certain enterprises, i.e., FIEs and domestic enterprises with government-approved projects.\(^{34}\)

7. **VAT Rebates on Domestically Produced Equipment**: The GOC refunds the VAT on purchases of certain domestically produced equipment to FIEs if the purchases are within the enterprise’s investment amount and if the equipment falls under a tax-free category. The Department determined that the VAT rebates were contingent upon the use of domestic over imported goods and, hence, specific under section 771(5A)(A) and (C) of the Act.\(^{35}\)

8. **Domestic VAT Refunds for Companies Located in the Hainan EDZ**: According to the *Circular on Publication of the Preferential Policies for Hainan Province Yangpu Economic Development Zone* (QIONGFU (1999) No. 54), enterprises may receive VAT refunds based on level of investment. The Department determined that the program was limited to enterprises located in a designated geographical region and, hence, is specific under section 771(5A)(D)(iv) of the Act.\(^{36}\)

9. **Exemption from City Maintenance and Construction Taxes and Education Surcharges for FIEs**: According to the GOC, FIEs are not subject to city maintenance and construction taxes or to the education surcharge. The Department determined that the exemptions afforded by this program were limited as a matter of law to certain enterprises, FIEs, and hence, specific under section 771(5A)(D)(i) of the Act.\(^{37}\)

10. **Provision of Electricity for LTAR**: The GOC provides the respondents with electricity for LTAR. The Department determined that the GOC's provision of electricity confers a financial contribution under section 771 (5)(D)(iii) of the Act and is specific under section 771(5A) of the Act.\(^{38}\)

11. **Provision of Papermaking Chemicals For LTAR**: The GOC provides the respondents with certain papermaking chemicals (caustic soda, kaolin clay, and titanium dioxide) for LTAR. The Department determined that that the GOC withheld necessary information that was requested of it and, thus, that the Department had to rely on “facts available.” The Department

\(^{34}\) *Id.* at 17.
\(^{35}\) *Id.* at 18.
\(^{36}\) *Id.* at 19.
\(^{37}\) *Id.* at 20.
\(^{38}\) *Id.* at 20-21.
applied adverse inferences in finding that the subsidies bestowed by the GOC through the provision of caustic soda are specific.39

12. Provision of Land for LTAR in the YEDZ: The Gold companies purchased land-use rights parcels of land in the YEDZ and the authority to make the sale rested with Hainan Yangpu Development Co., Ltd. (HYDC), a public authority. The Department determined that that the GOC failed to provide the requested information regarding land prices in the YEDZ and officials from HYDC refused to participate in verification. As adverse facts available, the Department determined that the subsidy conferred through the GOC’s provision of land-use rights in the YEDZ was specific.40

**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>Net countervailable subsidy rate (percent)</th>
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<tbody>
<tr>
<td>Gold East Paper (Jiangsu) Co., Ltd., Gold Huasheng Paper Co., Ltd., Gold East Trading (Hong Kong) Company Ltd., Ningbo Zhonghua Paper Co., Ltd., and Ningbo Asia Pulp &amp; Paper Co., Ltd.</td>
<td>19.46</td>
</tr>
<tr>
<td>All Others</td>
<td>19.46</td>
</tr>
</tbody>
</table>

**RECOMMENDATION:**

Based on our analysis of the substantive responses received, we recommend adopting all of the above positions. If these recommendations are accepted, we will publish the final results of this review in the *Federal Register*, and notify the ITC of our findings.

AGREE ___________ DISAGREE ___________

________________________
Paul Piquado
Assistant Secretary
for Enforcement and Compliance

Date

39 Id. at 23.
40 Id. at 24-25.