

indication as to which methodology will be employed for each company in these types of cases. The Tembec Group maintains that if the Department uses the simplified methodology for the Group 1 company and the cost methodology for the Group 2 company, the Department would be in conflict with its own policy to treat cross-owned companies as one entity.

With respect to the treatment of cross-owned companies when one company is in Group 1 and one company is in Group 2, petitioners assert that all cross-owned companies in this situation should be examined using the Group 2 methodology. Petitioners argue that the Group 2 methodology is the most accurate of the two methods and should apply in such cases.

*Department's position:* We disagree with both respondents and petitioners. The Group 1 and Group 2 benefit calculation methodologies are, more or less, the same, the only difference being that the Group 2 methodology involves the calculation of a benefit attributable to timber harvested from Crown lands based on the company's actual experience. Thus, for Group 1 companies cross-owned with Group 2 companies, the Department will apply the Group 1 benefit calculation methodology to the Group 1 company and apply the Group 2 benefit calculation methodology to the cross-owned company in Group 2. To derive the net subsidy rate applicable to both the Group 1 and Group 2 company that are cross-owned, the Department will sum the two benefit amounts and divide the total by the two companies' consolidated sales denominator (scope and non-scope softwood lumber products and softwood lumber by-products, net of resales). Therefore, with respect to the methodology to be applied to companies whose cross-owned companies may be assigned to a different group, the Department, when calculating the benefit, will apply to each Group 1 or Group 2 company the methodology, regardless of cross-ownership, of the group to which the company is assigned. The rate for the cross-owned companies will be calculated taking into account the results of the two separate calculations. Given this approach, we are unable in these preliminary results to calculate a consolidated net subsidy rate for Group 1 companies that are cross-owned with Group 2 companies because we are still processing and receiving data from Group 2 companies.

*Comment 2: Whether Subsidy Amounts Attributed to Logs on the Basis of Volume Should be Equal to Subsidies Amounts Attributed to Lumber and*

*Sawdust.* Petitioners argue that the Department was in error in the Issues and Decision Memorandum issued in conjunction with the *November Final Results* in saying "the Department made no distinction between the amount of subsidy attributed to one cubic meter of lumber and the amount of subsidy attributed to one cubic meter of sawdust." See page 15 of the *Issues and Decision Memorandum: Final Results of Expedited Reviews of 13 Companies Covered by the August 14, 2002 Notice of Preliminary Results Under the Countervailing Duty Order on Certain Softwood Lumber from Canada (November Issues and Decision Memorandum)*. Petitioners contend that this is not supported by the facts and is inconsistent with the countervailing duty methodology and economics. Petitioners contend that the allocation of subsidies is based upon the value of products of the subsidized mills. High-value products are recognized as being more highly subsidized and the majority of the subsidy is allocated to these products. In contrast, the allocation of the subsidy to low-value products is much less.

Petitioners contend that in the lumber investigation, the subsidy was attributed to the value of the lumber products produced from preferentially provided inputs. Moreover, they state that the subsidy calculation is always performed on a value, not a volume basis. They cite to 19 CFR 351.525(a) which states "the Secretary will calculate the *ad valorem* subsidy rate by dividing the amount of the benefit allocated to the period of investigation or review by the sales value \* \* \*". Therefore, they argue that the subsidy calculation should be based on the value of the entire input and the value of the entire output since the whole log is required to produce softwood lumber. Petitioners maintain that the Department should allocate the subsidy between lumber and by-products, consistent with the underlying investigation, is based on value and not volume.

Moreover, petitioners assert that in the expedited reviews the Department correctly calculated the subsidy by multiplying the per cubic meter benefit on sawtimber by the volume of sawlogs used by the sawmills. However, petitioners contend that the Department also multiplied the province-wide per-cubic-meter benefit on sawtimber by the volume of lumber used as an input by the reviewed lumber company. Petitioners argue that the per-unit benefit on logs is not the same as the per-unit benefit on lumber because it may take as much as two cubic meters

of sawtimber to make a cubic meter of lumber.

Petitioners contend that this methodology is inconsistent with the *Notice of Final Affirmative Countervailing Duty Determination and Final Negative Critical Circumstances Determination: Certain Softwood Lumber Products From Canada*, 67 FR 15545 (April 2, 2002) (*Final Determination*). They claim that the Department's methodology understates the subsidy amount on lumber. Petitioners argue that the application of a per-unit benefit based on logs to lumber inputs acquired by, for example, a Canadian lumber remanufacturer, would not reflect the full value of the subsidy received when the lumber in question was resold. Petitioners maintain that this methodology is not supported mathematically. Moreover, the fact that this calculation methodology was used in the exclusion process in the underlying investigation provides no basis to continue this error. Although, assert petitioners, they did not have time to address this erroneous methodology in calculating the company-specific exclusions in their briefs, they claim this methodology should be subject to correction in these expedited reviews.

*Department's position:* We have carefully considered petitioners' comments on the amount of subsidies attributable to lumber acquired as an input. We remain, however, of the view that the methodology that has been followed by the Department is reasonable and in accordance with our practice.

In these expedited reviews, just as in the exclusion process in the investigation, one of the tasks before the Department is to estimate the amount of subsidy attributable to lumber as an input into the manufacturing process. No such value was derived in determining the country-wide rate in the investigation. In that context, we simply calculated the amount of subsidy attributed to timber; we did not—because we did not need to—derive a value for the subsidy attributable to lumber produced from subsidized timber.

In the exclusion process, we estimated the amount of benefit on lumber as an input into the manufacturing process based on the only value available from the investigation, *i.e.* the benefit on timber expressed as a specific dollar amount per cubic meter. Because the amount of the benefit calculated in the investigation was based on volume, we attributed the benefit to lumber on a volume (not value) basis. We applied