that we would seek additional information concerning: (1) The nature and extent of the processing operation, and (2) the extent to which the refurbished pipe fittings are being subsidized.

For purposes of this final determination, we are treating the 'sales' of Singaporean pipe as outside of the scope of our investigation and, hence, not subject to any potential countervailing duty order on butt-weld pipe fittings from India. Karmen essentially performs a tolling service for its Singaporean customer. Moreover, Karmen does not "substantially transform" these pipe fittings. Substantial transformation generally refers to a degree of processing or manufacturing resulting in a new and different article. Through that transformation, the new article becomes a product of the country in which it was processed or manufactured. See Cold-Rolled Steel from Argentina, 58 FR 37062, 37065 (1993) (Appendix I). The Department makes these determinations on a case-by-case-basis. See, e.g., Certain Fresh Cut Flowers from Colombia, 55 FR 20491, 20299 (1990); Limousines from Canada, 55 FR 11036, 11040 (1990).

In determining whether Karmen substantially transformed these pipe fittings, we examined whether the degree of processing or manufacturing resulted in a new and different article. Karmen receives rusty pipe fittings from Singapore, it removes the rust, paints the fitting, and forwards it to the Singaporean company's customer. We do not consider this refurbishing process as substantially transforming the subject merchandise because it remains a pipe fitting after refurbishment. Therefore, because Karmen does not substantially transform the merchandise, we do not consider it as falling within the scope of this investigation.

However, we have also determined that the benefits received by Karmen under two of the countervailable export subsidy programs discussed below (preshipment financing and income tax deductions under 80HHC) cannot be limited exclusively to Karmen's export sales of new pipe fittings (i.e., all Karmen's export sales excluding the Singaporean transactions). In neither instance is there any indication that Karmen is precluded from receiving these benefits on its refurbishing operations. Therefore, we have included the fee Karmen receives for refurbishing the Singaporean pipe fittings as part of the denominator for calculating the ad valorem subsidy rate. This is consistent with past practice. When we cannot

specifically tie the receipt of an export subsidy to a subset of export sales, such as exports of the subject merchandise, we divide the total value of the export subsidy received by the total value of exports. (See, e.g., Final Results of Countervailing Duty Administrative Review: Certain Iron-Metal Castings from India, 56 FR 52521, (October 21, 1991), Final Affirmative Countervailing Duty Determination; Certain Electrical Conductor Aluminum Redraw Rod from Venezuela, 53 FR 24763, 24767 (June 30, 1988) (Redraw Rod)). (For a further discussion of this issue, please refer to the Interested Party Comments section of this notice).

### Analysis of Programs

Based upon our analysis of the petition, the responses to our questionnaires, verification and comments made by interested parties, we determine the following:

## A. Programs Determined To Be Countervailable

#### 1. Preferential Pre-Shipment Financing

Pre-shipment financing is extended to exporters prior to shipment as working capital for purchasing raw materials, processing, packing, warehousing, transporting and shipping. Any exporter showing a confirmed export order or a letter of credit is eligible for this program. Generally, the loans are extended for 180 days. We verified that both Karmen and Sivanandha had loans on which interest was paid during the POI under this program.

Because only exporters are eligible for loans under this program, we determine that they are countervailable to the extent they are provided at a preferential interest rate. See, e.g., Redraw Rod. As our commercial benchmark interest rate, we used 16.50 percent, which is the rate reported by the GOI as the annual average commercial interest rate on short-term financing during the POI. We compared this benchmark rate to the interest rate charged on pre-shipment loans and found that the interest rate charged was lower than the benchmark rate. Therefore, we determine that loans provided under this program are countervailable.

To calculate the benefit, we followed the short-term loan methodology which has been applied consistently in our past determinations and is described in more detail in the Subsidies Appendix accompanying Cold-Rolled Carbon Steel Flat-Rolled Products from Argentina: Final Affirmative Countervailing Duty Determination and Countervailing Duty Order, 49 FR 18006 (April 26, 1984); see

also, *Alhambra Foundry v. United States*, 626 F. Supp. 402 (CIT 1985).

We compared the amount of interest paid during the POI to the amount of interest that would have been paid at the benchmark rate. The difference between these two amounts is the benefit. We then divided the benefit by total exports. On this basis, we determine the estimated net subsidy from this program to be 0.47 percent ad valorem for Karmen, 0.44 percent ad valorem for Sivanandha and 5.27 percent ad valorem for Tata.

#### 2. Income Tax Deductions Under Section 80HHC

Income tax benefits are available to exporters in India under Section 80HHC of the Income Tax Act of 1961. This program allows exporters to reduce their taxable income by the profits or export subsidies earned on exports. Both Karmen and Sivanandha claimed deductions under this program on their income tax returns filed in the POI.

Since tax deductions under Section 80HHC are available only to exporters, we determine that this program is countervailable. To calculate the benefit, we multiplied the amount of the deduction claimed by each company by the corporate income tax rate and divided the result by total exports. On this basis, we determine the estimated net subsidy from this program to be 2.10 percent ad valorem for Karmen, 2.73 percent ad valorem Sivanandha and 15.82 percent ad valorem for Tata.

# 3. International Price Reimbursement Scheme

The International Price
Reimbursement Scheme ("IPRS") was
established to compensate Indian
exporters for the difference between the
domestic price of inputs and their world
market price. We verified that, as of
April 1, 1993, the input product used in
the production of pipe fittings (seamless
carbon steel pipe), was no longer
eligible for IPRS benefits. However,
residual benefits could be received after
that date and, in fact, Karmen received
residual benefits under this program
during the POI for exports of pipe
fittings shipped prior to the POI.

Respondents maintain that the IPRS program is permissible within the framework of Item (d) of the Illustrative List of Export Subsidies annexed to the Agreement on the Interpretation and Application of Article VI, XVI and XXIII of the General Agreement on Tariffs and Trade (Subsidies Code), (1979). Pursuant to the remand determination in Final Results of Redetermination Pursuant to Court Remand, Creswell Trading Company, Inc., et al. v. United