

**TRANSITIONAL REVIEW MECHANISM PURSUANT TO  
SECTION 18 OF THE PROTOCOL ON THE ACCESSION  
OF THE PEOPLE'S REPUBLIC OF CHINA**

**EUROPEAN COMMUNITIES**

The following communication, dated 21 September 2004, is being circulated at the request of the Delegation of the European Commission.

Questions from the European Communities with regards to China's  
Transitional Review Mechanism on Subsidy Practices

1. With the accession to the WTO China has also subscribed to the obligations of Article XVI:1 of GATT 1994 and Article 25 ASCM to provide a New and Full Subsidy Notification. Since China's accession to the WTO no Subsidy Notification has been made. The last notification covering the financial years 2001 and 2002 was due on 30.06.2003. The EC would like to express its disappointment that China has so far not fulfilled this obligation resulting from its accession to the WTO and thus does not contribute to this important exercise of transparency. Can China please indicate when the notification can be expected?

2. In last years' Subsidy Committee of October the EC have asked China (G/SCM/Q2/CHN/5) to provide information according to the WTO subsidy notification format on a VAT reimbursement scheme for the import of copper raw material (copper scrap and copper concentrate). Considering the distortions which this scheme causes on international raw material markets, the EC have reiterated its request for information several times at various levels. No reply whatsoever has been received to date. Can China please explain this total lack of reaction, indicate when this information can be expected and what are the intentions in regard to this scheme?

3. The EC has received numerous reports and complaints on subsidies to Chinese companies provided by China's central as well as provincial governments and other state bodies. There are many indications that such subsidies are contingent upon export performance or upon the use of domestic over imported goods. China has expressly committed itself in the Accession Protocol to the WTO (WT/L/432) under item 10 to eliminate all subsidies falling under the scope of Article 3 ASCM upon accession. It also appears that subsidies in form of substantial tax advantages are available to companies, local as well as foreign invested, in special economic areas, economic and technical development zones, export processing zones and high technology industrial development zones and are contingent upon export requirements. In certain zones companies are apparently only allowed to locate when they enter obligations to export a certain minimum percentage amount of their production. Some of the most recent information received by the EC are listed below. In absence of a detailed New and Full Subsidy Notification can China please explain how such practices are compatible with the obligations resulting from the accession protocol and provide adequate, updated and detailed information on subsidies in these aforementioned special zones and areas?

4. According to: [www.tdctrade.com](http://www.tdctrade.com), (as of 16.02.2004) and [www.chinadaily.com.cn](http://www.chinadaily.com.cn), (as of 14.02.2004) the Shenzhen World Trade Organization Affairs Office sponsors a fund of more than 10 million Yuan in order to reimburse up to 30% of legal fees to local export companies facing anti-dumping lawsuits. The fund aims to "encourage local export companies to aggressively strive for their legal rights in the anti-dumping cases through legal action". Can China please explain this system in detail, how it is compatible with Article 3 ASCM and provide information if such funds also exist in other cities or regions or at a national level and, if that is the case, provide a detailed description?

5. According to [www.tdctrade.com](http://www.tdctrade.com), (as of 01.03.2004) the Guangdong Provincial Government supports private enterprises to "expand outward". Eligible private enterprises may apply for special funds conceived for developing foreign trade activities. These funds include: market exploration, export credit insurance, offshore processing trade project loan interest subsidy, export research and development fund, anti-dumping proceedings fund, export rebate account loan interest subsidy fund and outward-looking enterprises development fund. Can China please explain in detail how these funds work, which companies are eligible for benefiting from these funds and how they are compatible with the obligations resulting from Article 3 ASCM? Can China please provide information if similar funds exist in other provinces or at national level?

6. According to [www.tdctrade.com](http://www.tdctrade.com), (as of 01.05.2004) the Export Interest Subsidy for Shenzhen Enterprises has been raised from 20% to 40%. The policy of subsidising US\$0.03 for every US\$1 export of general merchandise is only applicable to merchandise procured in Shenzhen. SMEs with export value below US\$15 million are eligible for application. Fund allocation is on a first-come-first-served basis. This year the fund would provide RMB 800 million. Can China please explain in detail how this fund works, which companies are eligible for benefiting from this fund and how it is compatible with the obligations resulting from Article 3 ASCM? Can China please provide information if similar funds exist in other provinces or at national level?

7. Similar information was reported from Zhejiang Province. According to these resources, an Export Subsidy Fund based on a federal programme enables regional authorities to provide all exporting companies exporting for more than US\$3 million with a subsidy of 0,01 RMB per each US\$ exceeding this threshold. Can China please explain in detail how this fund works, which companies are eligible for benefiting from these funds and how it is compatible with the obligations resulting from Article 3 ASCM?

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