

**CHINA'S TRANSITIONAL REVIEW MECHANISM<sup>1</sup>**

**Questions and Comments from the EUROPEAN COMMUNITIES to CHINA<sup>2</sup>**

The following communication, dated 7 September 2005, is being circulated at the request of the Permanent Delegation of the European Communities.

The European Communities is transmitting comments and questions well in advance of the meeting of the Import Licensing Committee of 28 September 2005, in order for the Chinese authorities to reply and to complete any information that may be incomplete.

Once the information to be provided by China in accordance with paragraph 8, and paragraph IV.3(a) of Annex 1A of its accession protocol has been received, the EC might come back with additional questions.

The EC's comments and questions relate to the following priority items, the New Automobile Policy, textiles products subject to import licensing, and the Steel Industry Policy:

**New Automobile Policy**

The EC refers to the China's New Automobile Policy and the concerns voiced by the EC in this regard, especially with a view to the wide scope of state intervention and the uncertainty about the implementing regulations that supplement the new policy. Given the experience of how the NAP was developed, the EC wishes to stress the transparency obligations under WTO rules with regard to the outstanding implementation regulations of the NAP. Publishing drafts of these implementing regulations well in advance would allow other WTO Members to comment on them.

In this context, the administrative measures for the import of automobile components fulfilling the characteristics of a whole vehicle, in particular, have the potential to invalidate some of China's WTO accession commitments (abolition of local content requirements and TRIMs, national treatment obligation). The measures will have a major negative economic and technical impact on the EC manufacturers and on the development of the Chinese automotive industry itself. The envisaged procedures risk to have restrictive effects on trade.

<sup>1</sup> Pursuant to Paragraph 18 of the Protocol on the Accession of the People's Republic of China (WT/L/432).

<sup>2</sup> See Understanding on Procedures for the Review of Notifications (G/LIC/4).

The EC therefore urges China to review its new legislation regarding WTO aspects and to be open for a constructive in-depth discussion on this matter in order to develop solutions that are both promoting China's goals of further localization of parts production and facilitating business for EC automobile manufacturers.

#### Textile products subject to import licensing procedures

The EC notes that a number of textile products are subject to import licensing procedures in China. Would China please:

- Indicate the exact coverage of textile products subject to import licensing procedures.
- Confirm whether updates to the list of products covered (including textile products) are available on the MOFCOM website in English.
- Confirm whether the current import licensing procedures and any changes to these procedures are equally available on the MOFCOM website in English.

#### Steel Industry Development Policy

China recently released the "Steel Industry Development Policy" to provide guidance to the healthy development of the steel industry in China.

Article 17 of that policy envisages a ban on outdated techniques and equipments. For this purpose, a list of outdated production capacity, techniques and products has been or will be established. Article 18 of the policy promotes import substitution and bans imports of outdated and second-hand steel production equipment. Imported equipment must be advanced and practical.

- Will these and other elements of the "Steel Industry Development Policy" have mandatory character, and by when will China proceed to formal enactment?
  - Please explain on what basis the list of outdated production capacity, techniques and products (Article 17 of the Steel Industry Development Policy) has been or will be established.
  - What will be the conditions for granting or prohibiting imports, and in particular:
    - a) How does China define "outdated equipments"?
    - b) How does China define "advanced and practical" equipment?
    - c) By what procedures does China intend to implement these criteria and any other conditions established in the "Steel Industry Development Policy" for granting or prohibiting imports?
  - When will China notify the products concerned and the import procedures applied?
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