

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

Questions from CANADA, MEXICO and the UNITED STATES
to CHINA Concerning Subsidies

The following communication, dated 13 October 2005, is being circulated at the request of the Delegations of Canada, Mexico and the United States.

Steel Policy

1. The China Iron and Steel Industry Development Policy (Steel Policy), drafted by the National Development and Reform Commission and released at the 20 July 2005 executive meeting of the State Council, outlines China's comprehensive policy for rationalization of its steel industry. In particular, the Steel Policy presents a series of objectives and policy initiatives for managing the development of China's state-owned steel enterprises, including a broad range of adjustments for resource and equipment utilization, regional concentration and layout, improvements in quality, technological innovation, investment management, and consolidation. For example, Article 20 of the Steel Policy calls for the strategic reorganization of China's largest steel producers in a manner that creates an industrial structure with two 30 million-ton and several 10 million-ton level "internationally competitive" business groups by 2010.

2. While the North American governments agree with the goal of an efficient, rationalized steel industry envisioned by China's new Steel Policy, we have concerns regarding the implementation of this initiative to the extent that it dictates industry outcomes and involves the government making decisions that should be made by the marketplace. For example, the Steel Policy prescribes the number and size of steel producers in China, where they will be located, the types of products that will and will not be produced, and the technology that will be used. We are also concerned about the degree of government direction and decision-making regarding the allocation of resources into and out of China's steel industry in light of paragraphs 46 and 172 of the Working Party Report accompanying China's Protocol of Accession (WT/ACC/CHN/49), where China agreed that the government would not influence, directly or indirectly, commercial decisions on the part of state-owned or state-invested enterprises, and acknowledged that state-owned enterprises, including banks, should be run on a commercial basis.

- (a) Please explain how the directives outlined in China's Steel Policy are consistent with paragraphs 46 and 172 of the Working Party Report.

- (b) Please explain the role of China's state-owned banks in the restructuring of China's steel industry. What steps has China taken in the past and is it currently taking to ensure that the state-owned banks which lend to state-owned steel enterprises in China are operating in a manner consistent with China's WTO obligations?
- (c) Which central, provincial, and local agencies will be responsible for implementation of the Steel Policy? How will conflicts between central, provincial, and/or local governments under the Steel Policy be resolved?
- (d) Please describe the administrative measures that will be used to implement the Steel Policy.
- (e) Has China issued any directives or established any plans for the privatization of its state-owned steel enterprises. If so, please describe them.
- (f) Does China foresee limits on the financial support that it will provide to steel enterprises under the Steel Policy? If so, please describe them.

2. Article 16 of China's Steel Policy specifically provides for state support in the form of "tax refunds, discounted interest rates, funds for research and other policy support for major iron and steel projects utilizing newly developed domestic equipment." Meanwhile, Article 18 of the Steel Policy states in part: "Policy on Import of Technology and Equipment: Encourage industry to use domestic equipment and technology; reduce imports. For equipment and technology that must be imported due to the lack of domestic ability to produce such or due to insufficient domestic supply, such equipment and technology must be modern and practical. For current and future large scale equipment, localization of production must be organized."

- (a) Please describe all government support provided to implement Article 16 of the Steel Policy.
 - (b) Please describe all government support provided to encourage China's steel industry to use domestic equipment and technology in furtherance of Article 18.
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