

WORLD TRADE ORGANIZATION

G/SCM/Q2/CHN/24
20 October 2006

(06-5094)

**Committee on Subsidies
and Countervailing Measures**

Original: English

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

Questions from the EUROPEAN COMMUNITIES to CHINA with regard to China's Transitional Review Mechanism on Subsidy Practices

The following communication, dated 20 October 2006, is being circulated at the request of the Delegation of the European Commission.

The EC are transmitting comments and questions in advance of the meeting of the Committee on Subsidies and Countervailing Measures in order for the Chinese authorities to reply to and complete any outstanding information.

General:

The EC appreciate the efforts that China made in order to fulfil its obligations resulting from its accession to the WTO and welcomes China's first subsidies notification. The EC have submitted a number of specific questions related to China's subsidy notification (document G/SCM/Q2/CHN/16 dated 25 July 2006) and looks forward to receiving replies at the meeting of the Committee on Subsidies and Countervailing Measures of 26 October 2006.

While China's first subsidy notification was made long after due time, the notification still appears to be incomplete as it focuses only on subsidies provided at a federal government level and omits substantial subsidies that China maintains. However, subsidies provided at the regional and local government level also fall under the ASCM Agreement. Moreover, some subsidies appear to be inconsistent with the obligation under Art 3 of the ASCM Agreement. Nevertheless no indications have been made to either withdraw them or have been given an explanation how this is in line with the ASCM Agreement. The EC request China to complete its initial notification as soon as possible and look forward to receiving it.

Questions:

Q1. Earlier this year it has been reported that China offers a special VAT refund scheme for silk to be exported the functioning and the purpose of which is rather unclear.

Could the Chinese government please confirm that such programme exists? If it exists can China please indicate which products and how many enterprises are subject to this VAT refund scheme? We also seek information on the purpose of the scheme, the normal VAT rate on silk products and the VAT refund rate?

Q2. China appears to have, on 14 September 2006, reduced or otherwise modified the VAT refunds that are paid upon exportation of a range of products including certain chemicals, copper, nickel, aluminium, lead, zinc and tin products and other base metal products.

Can China confirm that this is the case? If so, what are the applicable reduced rates of VAT refund upon exportation and what is the normal rate of refund? What is the purpose of the reduced or otherwise modified VAT refunds on these products?

Q3. According to recent press releases, China envisages to modify the "Automotive Industry Development Policy" reinforcing the conditions for EU manufacturers to invest in China. According to this Chinese government may also decide to grant financial support to Chinese manufacturers in order to promote export of vehicles.

Can China please provide information on the latest development on the "Automotive Industry Development Policy" in order to dispel legitimate concerns raised by the proposed policy?

Q4. Till now the EC have not received any satisfying replies to its questions 4 to 7 of the TRM questionnaire G/SCM/Q2/CHN/7 in regard to certain subsidy schemes nor is this covered by the notification. The EC reiterate its questions and asks China to provide a response to these questions, and in particular, whether or not such subsidy programmes exist, and if they exist to describe them in more detail. These questions are listed below:

Q4.1. According to: www.tdctrade.com, (as of 16.02.2004) and 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 per cent 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?

Q4.2. According to 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?

Q4.3. According to www.tdctrade.com, (as of 01.05.2004) the Export Interest Subsidy for Shenzhen Enterprises has been raised from 20 per cent to 40 per cent. 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?

Q4.4. 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?
