

CHINA'S TRANSITIONAL REVIEW MECHANISM

Questions to China from the United States in the context of the Transitional Review Mechanism under Paragraph 18 of the Protocol of Accession of the People's Republic of China

The following communication, dated 17 August 2007, has been received from the Delegation of the United States, with the request that it be circulated to Members, for the purposes of the Sixth Transitional Review to take place at the forthcoming meeting of the Committee.

Discriminatory VAT exemptions

1. The United States understands that many agricultural products are exempted from China's 13 per cent value-added tax (VAT) normally applicable to agricultural products. For example, it appears that sales of agricultural commodities produced and sold by farmers in China, such as wheat, cotton and corn, are exempted from the VAT. In addition, it appears that sales of agricultural inputs produced and sold in China, such as seed, pesticide, herbicide, agricultural machinery and certain fertilizers, are exempted from the VAT. However, when these same products are imported, it appears that they are assessed the VAT at the rate of 13 per cent.

- (a) Can China confirm that sales of agricultural commodities produced and sold by farmers in China, such as wheat, cotton and corn, are exempted from the VAT, while imports of these same products are assessed the VAT at 13 per cent? If so, please identify the applicable measures. Please also explain how China justifies these VAT exemptions under its WTO obligations, including Article III of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and Article 3 of the Agreement on Subsidies and Countervailing Measures (SCM Agreement).
- (b) Can China confirm that sales of agricultural inputs produced and sold in China, such as seed, pesticide, herbicide, agricultural machinery and certain fertilizers, are exempted from the VAT, while imports of these same products are assessed the VAT at 13 per cent? If so, please identify the applicable measures. Please also explain how China justifies these VAT exemptions under its WTO obligations, including Article III of the GATT 1994 and Article 3 of the SCM Agreement.

Export VAT rebates

2. The United States understands that a VAT rebate is available upon the export of some agricultural products, including ones for which payment of the VAT was imputed rather than actually paid at a prior stage because of an exemption (as described in question 1 above).

- (a) Please identify the measures that govern how China calculates the export rebate in this situation.
- (b) Please explain how China ensures that the export rebate is not excessive, i.e., that it does not exceed the VAT actually paid.

Tariff rate quotas

3. US companies continue to complain about inadequate transparency in the administration of China's tariff rate quota regime for bulk agricultural commodities. With regard to cotton, for example, it appears that the initial quota and any above-quota licences continue to be issued to Chinese domestic entities without public announcement of the volume, timing or applicable tariff rate. Would China be willing to publicize this information in the future? If not, please explain China's reasons for keeping this information confidential.
