

**Committee on Subsidies
and Countervailing Measures**

**CHAIRPERSON'S REPORT TO THE COUNCIL FOR TRADE IN GOODS
ON TRANSITIONAL REVIEW OF CHINA**

1. The Committee on Subsidies and Countervailing Measures undertook the sixth transitional review of China pursuant to paragraph 18 of the Protocol on the Accession of the People's Republic of China (WT/L/432) at its regular meeting held on 25 October 2007.
2. Annex 1A to the Protocol requires China to submit information on the following to this Committee: "Pricing Policies": (a) "application of existing or any other price controls and the reason for their use"; and (b) "pricing mechanisms of China's state trading enterprises for exported products". China submitted the information in this respect on 15 October 2007, which has been circulated in document G/SCM/N/167.
3. Questions submitted in the context of the 2007 transitional review have been circulated in documents G/SCM/Q2/CHN/32 (European Communities) and G/SCM/Q2/CHN/33 (United States). The statements made in the context of this transitional review at the meeting of 25 October 2007 are reflected in the minutes of the meeting, the relevant paragraphs of which are annexed.

Excerpt from the minutes of the regular meeting of the Committee on Subsidies and Countervailing Measures held on 25 October 2007, to be circulated as document G/SCM/M/64.

D. TRANSITION REVIEW UNDER PARAGRAPH 18 OF THE PROTOCOL OF ACCESSION OF THE PEOPLE'S REPUBLIC OF CHINA TO THE WORLD TRADE ORGANIZATION

1. The Chairman recalled that paragraph 18 of China's Protocol of Accession to the WTO provided that all subsidiary bodies, including this Committee, "which have a mandate covering China's commitments under the WTO Agreement or [the] Protocol shall, within one year after accession, review, as appropriate to their mandate, the implementation by China of the WTO Agreement and of the related provisions of [the] Protocol". China was to provide relevant information in advance of the review, including information specified in Annex 1A to the Protocol. China could also raise issues relating to any reservations under Section 17 or to any other specific commitments made by other Members in the Protocol, in subsidiary bodies which had a relevant mandate. The Committee was required to report the results of the review promptly to the Council for Trade in Goods. The Review was to take place after accession in each year for eight years, with a final review in year 10 or at an earlier date decided by the General Council.

2. The Chairman noted that China's Protocol of Accession to the WTO did not set out any procedures for the conduct of the transitional review, except that China was to provide relevant information in advance of the review. In this regard, Annex 1A specified that China was requested to provide information on the following to this Committee in accordance with Article 18.1 of its Accession Protocol: "Pricing Policies": (a) "application of existing or any other price controls and the reason for their use"; and (b) "pricing mechanisms of China's state trading enterprises for exported products". The notification of China provided for in Annex 1A had been circulated in document G/SCM/N/167, dated 17 October 2007. The European Communities and the United States had submitted questions in the context of this transitional review (documents G/SCM/Q2/CHN/32 and 33). Before proceeding to these questions, the Chairman opened the floor for general comments.

3. The delegate of the United States said that this was the sixth annual transitional review of China. The review was designed to help Members to understand and to assess the progress that China had made in adopting and complying with WTO disciplines and the specific commitments in China's Protocol of Accession. From that perspective, the United States believed that the transitional review continued to be a useful mechanism. It helped to provide needed additional transparency for China's trade regime, as it allowed Members to seek and obtain clarifications regarding China's various trade policies and practices. The review also provided Members with a multilateral forum for conveying their expectations of China and their concerns with China's implementation and compliance efforts. In that regard, the transitional review was a useful supplement to bilateral discussions with China. By now, after nearly six years of WTO membership, China should have implemented almost all of the commitments that it had made in its Protocol of Accession. As a result, it might be expected that the transitional review mechanism would focus more on China's ongoing adherence to WTO rules than on China's implementation of specific commitments it had made in its Protocol of Accession.

4. The delegate of the United States considered that the submission in 2006 of China's first subsidy notification since China had become a WTO Member in December 2001 represented an important step for China, as the notification obligation under the *SCM Agreement* was one of the more important transparency obligations required of WTO Members. The United States appreciated the efforts that China had made in compiling its notification and the written answers China had provided to the questions posed by the United States with respect to the notification. However, the notification listed several programmes that in the view of the United States were prohibited subsidies under Article 3 of the *SCM Agreement*. China's answers to questions of the United States implicitly recognized that some of these programmes were indeed prohibited and would be eliminated. More

generally, the United States remained concerned that neither provincial subsidy programmes nor any bank lending programmes had been notified. China's continued failure to notify any sub-national subsidies left a very significant gap in China's accounting for the full range of its subsidy programmes, especially given the importance of sub-national governments in setting economic policy in China. The difficulties China had identified in notifying subsidies administered by sub-national authorities were not unique to China. "[S]ubsidies provided by sub-national governments" was an area specifically highlighted by Members in paragraph 173 of the Working Party Report on China's accession to the WTO (WT/ACC/CHN/49). China had now been a WTO Member since 2001 and, therefore, had had a very significant period of time to educate sub-national authorities. Moreover, numerous WTO Members, including the United States, had identified a wide range of subsidy programmes administered by local or provincial authorities in China. At a minimum, it would have been helpful if China had addressed all of these specific programmes. The problem of the lack of transparency was compounded by the fact that sub-national authorities in China appeared to be providing prohibited subsidies that China had specifically committed to eliminate upon accession to the WTO almost six years ago. In document G/SCM/Q2/CHN/33, the United States described two specific sub-national programmes that very clearly appeared to be contingent upon export performance. Even more disturbingly, one of these programmes was linked to exports of key products, as defined in China's national five-year plans. This indicated a parallel between national and local economic policies that promoted the subsidization of exports. In light of the above, he asked China to commit to a specific timeline for the submission of information on its provincial programmes and of its next new and full notification.

5. With respect to China's banking and financial sector, the delegate of the United States noted that at paragraph 172 of the Working Party Report on China's accession to the WTO China's representative had stated "that China's objective was that state-owned enterprises, including banks, should be run on a commercial basis and be responsible for their own profits and losses". Despite China's ongoing banking reforms, which were critical given China's export-dependent, investment-driven economy and its large and growing role in world production and trade, the United States remained concerned that China would not meet its stated objective of ensuring that China's state-owned banks would be run on a commercial basis in the absence of a decision to privatize China's "Big Four" state-owned commercial banks. The concerns of the United States about non-commercial banking practices in China were heightened by publicly-available evidence and studies indicating that state-owned bank lending practices continued to be heavily influenced by state industrial policies and that state-owned enterprises continued to receive a disproportionate amount of lending from state-owned banks relative to the amount of loans received by more productive private sector companies. Article 34 of the Commercial Bank Law of China stated that commercial banks shall conduct their lending business in accordance with national and social-development needs and under the guidance of the industrial policies of the State. This provision would seem to be inconsistent with China's commitment to the objective of China's state-owned banks operating on a commercial basis. Lending pursuant to the Chinese Government's industrial policies was commonly accepted as one source of China's problem with non-performing loans. China had attempted to address this problem by transferring non-performing loans of state-owned commercial banks – initially at face value, and later at arbitrarily fixed values – to state-owned asset management companies. While the use of asset management companies was a commonly accepted practice, it appeared that China had also implemented a debt-to-equity swap mechanism for its state-owned asset management companies for the purpose of keeping several hundred state-owned enterprises out of bankruptcy. In this respect, the delegate of the United States reiterated the request made by his delegation during the 2006 transitional review for an explanation as to the basis upon which state-owned enterprises were eligible for debt-to-equity conversions and the terms and conditions under which such conversions were made. The United States also understood that the state-owned enterprises that participated in debt-to-equity swaps would be required to repurchase their asset management company-held equity stakes within ten years and would be interested in a description of the terms and conditions under which these repurchases would occur. Finally, he noted that China's asset management companies were originally

intended to be in existence for a fixed period of ten years and asked if it was still China's intention to liquidate or otherwise terminate the operations of the currently-established asset management companies after ten years. He also asked more generally whether the asset management companies were continuing to purchase non-performing loans from China's "Big Four" state-owned commercial banks.

6. With respect to textiles, the delegate of the United States recalled that at last year's meeting, the United States had voiced its view that there seemed to be little need or justification for China to subsidize textile producers, given the clear comparative advantage China had in textiles and the current trends in Chinese production and trade volumes. For example, China's share of world exports had risen from 18 per cent to 27 per cent between 2004 and 2006. In response, China had stated that subsidies were needed for "structural adjustment and technology upgrading". The United States considered, however, that the forces of competition within China and from foreign companies should drive technological innovation and industry structure in China's textile industry. An industry characterized by efficient production and internationally competitive companies would be the outcome of such an adjustment process if companies faced hard budget constraints and were exposed to effective market discipline. Subsidies were not the answer - they fundamentally undermined the adjustment process, precluded efficient outcomes and distorted international trade. Continued subsidies, often provided at the provincial level and therefore, non-transparently, were not needed for China's textile industry to remain competitive and will only increase the trade friction between China and its trading partners. To the extent that such subsidies were contingent upon exportation, they should be terminated without delay.

7. The delegate of the United States said that steel was another area of continuing concern for the United States. China's steel production growth was unprecedented and did not appear to be consistent with market demand. China was by far the world's largest producer of steel and would produce nearly 500 million metric tons of crude steel in 2007. China's share of global steel production had grown from 20 per cent in 2002 to 36 per cent in the first half of 2007. In 2006 and in the first half of 2007, China's production had exceeded that of the European Union (EU 25), Japan, and the United States combined. China had quickly moved from being a large net importer of steel in 2004 to becoming a large net exporter in 2006. China's first half 2007 total steel exports had increased 97 per cent over 2006 levels. Very recently, the International Iron and Steel Institute had estimated that China's net exports would exceed 50 million metric tons in 2007. To put this number in perspective, it was equal to Korea's total consumption of steel. While the Chinese Government had announced policies to close some inefficient or polluting steel mills and to promote consolidation among its more than 1,000 steel producers, its efforts to date had not succeeded in slowing capacity growth. It remained to be seen if recent administrative measures of the Chinese Government would significantly reduce the flow of exports. Here, and in other fora, the United States had stressed its concern that government action, not market mechanisms, was driving much of the capacity expansion in China's largely state-owned industry. There was public information available concerning government grants, debt-for-equity conversions, preferential loans and other support to Chinese steel producers that did not appear in China's subsidy notification. Even Article 16 of China's current five-year plan for steel – which the United States had raised in a joint submission with Canada and Mexico made in 2005 – specifically provided 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". If the burden of state-supported steel oversupply shifted to the international steel market, one could expect to see increased scrutiny of China's subsidies in the steel sector and industry requests for national and multilateral remedies regarding Chinese steel exports.

8. Finally, the delegate of the United States noted that in its written submission his delegation had again raised the issue of government policies to support the restructuring of companies in China's northeast regions. The United States was particularly concerned by recent announcements indicating

that under a new "blue print plan", the Government of China would support state and private firms engaged in "priority areas" with favourable policies, in terms of tax exemptions, loans and land use.

9. The delegate of the United States concluded by saying that during the review of China's subsidy notification at the Special Meeting that had immediately preceded this Regular Meeting China had indicated that it would be prepared for a more fulsome discussion of the issues during the transitional review. The United States looked forward to that more fulsome discussion. The United States was concerned that many of the issues it had identified in the past remained. Moreover, the on-going examination by the United States of China's industrial policies continued to uncover practices that impacted upon sensitive industrial sectors, some of which very clearly appeared to be prohibited under the *SCM Agreement*. The continuation of these practices invited the use of domestic or multilateral trade action remedies – a path that the United States, and presumably China, would prefer to avoid.

10. The delegate of the European Communities stated that the European Communities appreciated the transitional review mechanism, which enabled all Members to better understand China's laws and the progress China had made since its accession to the WTO. While considerable progress had been made by China in some areas, the fulfilment of the principle of transparency still remained a problem, as set out in the statement and questions submitted by the European Communities for this transitional review (document G/SCM/Q2/CHN/32). In particular, China had not provided an explanation why it had not notified subsidies at all levels of government. Additionally, there were still existing export subsidy schemes, which raised severe concerns to the European Communities. Therefore, he expressed the hope that China would provide meaningful responses to the questions of the European Communities.

11. The delegate of Japan stated that while Japan had not submitted written questions in the context of this year's transitional review, Japan shared some of the concerns expressed by other Members in their written submissions. The fact that some of the questions in these written submissions had also been posed in 2006 showed that the responses of China were not sufficient to address Members' concerns, including those of Japan. In this regard, as a general matter, Japan hoped that China would respond to questions clearly in an adequate and timely manner. He then turned to two specific areas of concern. First, Japan had a strong interest in developments in China's banking and financial sectors, and shared the concerns of the United States in this regard. Japan considered that if Chinese state-owned commercial banks provided loans to uncreditworthy enterprises, or supplied lending on terms and conditions inconsistent with market considerations, such loans and lending constituted subsidies within the meaning of the *SCM Agreement*. China had explained that as a result of the reform of the banking and financial sector, Chinese state-owned commercial banks now provided loans on a commercial basis. However, the details with respect to this reform were not clear. For example, as pointed out by the United States at paragraphs 10-12 of document G/SCM/Q2/CHN/33, it was unclear how Chinese state-owned commercial banks could take lending decisions on a commercial basis given that these banks were also required to act consistently with China's national industrial policy. He urged China to provide a clear explanation on this point.

12. Second, the delegate of Japan noted that in response to questions posed by the United States in the context of the transitional review that had taken place in 2006, China had stated that its export credit programmes were consistent with item (k) in Annex I of the *SCM Agreement*. This meant that China considered that its export credit programmes were consistent with the OECD export credit arrangement. China had also reiterated that these export credit programmes were based on market principles. In this respect, Japan agreed with the United States that without information on the detailed terms and conditions of the export credits provided by the Chinese Exim Bank, it was not possible to know whether the Chinese export credit programmes were consistent with the OECD export credit arrangement, and were thus consistent with the *WTO SCM Agreement*. He asked China to provide a concrete example on this matter.

13. The delegate of Mexico thanked China for the information it had provided in document G/SCM/N/167. Mexico shared some of the concerns that had already been stated by various Members on China's financial sector and state enterprises, and on policies in sectors of major importance for Mexico, such as steel and textiles and the broader impact that these measures could have on other industries. Her delegation was very interested to see the written responses from China to the questions posed by the European Communities and the United States. Referring to the review of China's subsidy notification at the Committee's special meeting, she asked when China would provide statistical information on the programmes contained in its subsidy notification and when it would submit additional information on subsidies granted by authorities at a sub-central level.

14. The delegate of Canada said that Canada had participated actively in the previous transitional reviews of China in this Committee. In particular, Canada had used these reviews to ask specific questions and note specific concerns with respect to China's 2005 steel and iron policy. Canada remained concerned that China had not provided answers to questions asked by Canada in document G/SCM/Q2/CHN/15 of 13 October 2005. Canada had a significant interest in seeing these questions answered. Canada's concerns were centred on the high degree of intervention of the Chinese Government in the direction and decision-making regarding the allocation of resources into and within the steel industry. These concerns were expressed in the context of China's commitment in its Accession Working Party Report, namely that the Government would not influence directly or indirectly commercial decisions on the part of state-owned or state-invested enterprises. Therefore, Canada again asked that China make every effort to provide information on government assistance that might be available to the Chinese iron and steel industry.

15. The delegate of Canada also reiterated some of the concerns that his delegation had raised in the Committee's special meeting. In China's answers to questions posed by Canada with respect to China's subsidy notification, China had provided no details on the means it would take to adjust programmes that appeared to be clear cases of subsidies contingent upon export performance or upon purchase of domestic goods over imported goods. He reiterated in the context of this transitional review, Canada's request for such details. Canada also remained concerned with respect to the provision by China of data in conformity with Article 25.3 of the *SCM Agreement*. China had hinted that something might be done with respect to this in China in order for China to abide by its obligations. He asked the delegation of China to provide more details about such efforts that would be made by the Government of China.

16. The Chairman invited the delegation of China to respond to the questions that had been raised in writing and/or in the oral statements.

17. The delegate of China welcomed the fact that some Members had already recognized the important steps that China had made in implementing the commitments China had undertaken upon its accession to the WTO. China had not only honoured its commitment in the subsidies area, but more generally had honoured all its commitments undertaken upon its accession to the WTO. China was undergoing a profound reform process which, in addition to changes in specific sectors, like the financial sector and state-owned enterprises, involved an overall change in the nature of China's model of economic growth towards a less resource-dependent and polluting and more environment-friendly growth path. Despite the fact that China had only limited resources to address all the serious issues raised by this reform process, China had managed to honour its WTO accession commitments.

18. Specifically with respect to subsidies, the delegate of China noted that while some Members had suggested that China was providing prohibited export subsidies in the form of preferential rates for foreign investment enterprises, this issue had been solved with the adoption by China of a uniform tax rate for domestic and foreign invested enterprises. In this regard, he considered that preferential income tax rates provided to foreign investment enterprises could not be regarded as export subsidies *per se* since most Members used preferential tax rates in order to attract foreign investment. In any

event, the adoption of a uniform income tax rate had resolved this issue. With respect to the allegations of some Members that China was providing value added tax rebates that discriminated in favour of domestic products, the delegate of China stated that China was not providing any such discriminatory value added tax rebates. The value added tax rebate provided to companies purchasing domestic equipment only served to compensate for the tax-free treatment enjoyed by imported products. Thus, the tax rebate was not intended to discriminate against imported products, but rather was intended to eliminate the discrimination against domestic products. The delegate also indicated, in this connection, that China was reforming its value added tax system from a production-based to a consumption-based system.

19. With respect to the issues raised by some Members regarding textiles and steel, the delegate of China emphasized that the trade problems in these sectors could not be attributed to alleged subsidization by China. These sectors had historically been sensitive even when China was still a small exporter. Thus, trade in steel had long been a problem among developed countries, as illustrated by the failed efforts of the OECD member countries to agree on multilateral disciplines in this area. Regarding state-owned enterprises, the delegate of China stated that China's state-owned enterprises had not developed due to subsidies but because China had a comparative advantage in production costs. Globalization had resulted in a reallocation of production activities to China, particularly in the manufacturing sector, due to China's significant advantage in production costs. The delegate of China also observed that for half a century world trade in agriculture had been distorted by domestic and export subsidies provided by developed countries which had seriously harmed developing countries and that China was the only large country that had undertaken not to provide any agricultural export subsidies. He also pointed to the persistent pattern of subsidization used by other Members in areas such as research and development, aircraft, and the import protection to the textiles and clothing industries.

20. The delegate of China stated that at previous meetings of the Committee, China had addressed in some detail the questions and comments of other Members. China's responses would enable Members to better understand the measures and policy tools of China in the area of subsidies and clarify the issues on which there existed misunderstandings. In September 2007, China had responded fully to all of the 120 questions posed by the United States, the European Communities, Japan, Turkey, Canada, Australia and Mexico. With regard to the notification of subsidies administered by sub-national authorities, the Working Party Report on China's accession to the WTO specifically indicated that the Chinese Government faced difficulties in collecting information on subsidies of sub-national authorities. Other Members had expressed their understanding of this difficulty in the Report. As a consequence of the difficulties facing China in respect of the collection of information regarding subsidies of sub-national authorities, there was no definite timetable for the notification of subsidies administered by sub-national authorities. However, he stressed that China had a uniform national trade policy and that local governments did not have much authority to provide large amounts of export subsidies or other kinds of subsidies. After China's entry into WTO, the central Government had sent clear instructions to local governments to abolish measures inconsistent with WTO rules. During recent years, local governments had begun to review local subsidies to ensure their consistency with WTO rules. The Chinese Government was currently in the process of devoting more resources to the review of local government subsidy programmes.

21. With regard to incentive policies in support of the development of the software industry, the delegate of China stated that the policy objective of these incentives was to upgrade the industry structure which will, in turn, enhance the development of service industries like software. These measures were trade promotion measures that were permitted by WTO rules, even though not covered by the *SCM Agreement*.

22. Regarding the reform of state-owned commercial banks and the development of the financial sector, the delegate of China observed that the major state-owned commercial banks had

been listed successfully in the stock market. All the state-owned commercial banks at present followed the provisions of the law on commercial banks and operated in a market-oriented manner, without any government interference. The debt to equity swap programme referred to by the United States formed part of the policy of reform of the state-owned enterprises and had almost been completed. Information on the historical background of this programme could be obtained from the website of State-Owned Asset Supervision and Administration Commission of the State Council (www.sasac.gov.cn).

23. With regard to price controls, the delegate of China stated that his delegation had provided the relevant information in the document submitted prior to this meeting (G/SCM/N/167) in accordance with Annex I(a) of China's Protocol of Accession to the WTO.

24. With regard to questions concerning corporate governance in state-owned enterprises, dividend pay-outs by state-owned enterprises and the method of sale of ownership in large state-owned enterprises to private entities and enterprise bankruptcy procedures, the delegate of China stated that these matters were addressed in the company law, the security law, the law on enterprise bankruptcy and the general rules governing enterprise financial affairs issued by the Ministry of Finance in 2006. Information on these laws was available at the websites of the State Asset Management Supervision and Administration Commission and the website of the Ministry of Finance can also be provided. Finally, he observed that some questions raised by other Members were not relevant to this transitional review process.

25. The delegate of the United States said that the presentation of the Chinese delegate was in the nature of a general overview and that perhaps only two of the 24 specific question of the United States questions might have been answered through his presentation. He urged the Chinese delegate to provide specific responses to the very specific questions posed by his delegation. He disagreed with the comment of the Chinese delegate that issues raised by some Members regarding certain export subsidies and import substitution subsidies had been solved and noted, in this respect, that the United States had an on-going dispute settlement case with China with regard to these kinds of subsidies. As a general matter, the United States recognized that China was going through a very significant reform process. The important point, however, was the issue of transparency. When China was conducting its various reforms with respect to the issues discussed in this Committee, it was critical that the reform process and the legal instruments that were used with respect to the reform process be made known to all in a very transparent manner. If there was greater transparency with respect to the reforms there would be less questions from Members in Committees such as this. Secondly, China had made a general point with respect to state-owned enterprises and comparative advantage. While the United States recognized that China indeed had comparative advantages in certain areas, the market should determine what companies remain in business and what companies should be liquidated. It was apparent from a review of China's industrial policies that the Chinese Government was intent on maintaining certain state-owned enterprises in certain sectors regardless of cost and regardless of market principles and comparative advantage. Thirdly, with respect to the steel industry, other Members had raised this as a concern as well. In 2005, Canada, Mexico and the United States had submitted a joint paper in the context of the transitional review mechanism and asked very specific questions with respect to state support in the steel sector, focussing largely on the five-year plan for steel. Those questions had never really been answered. There was also a wealth of publicly available information indicating that there was widespread subsidization in China's steel sector. The United States recognized that reforms were taking place in China's banking sector and he commended China for the various reform efforts that it had made to date. However, his delegation still saw problems, as mentioned in his earlier intervention. For example, China's statement that all banks were required to follow the commercial bank law was of little consolation given the fact that Article 34 of the commercial bank law stated that in their lending practices commercial banks were to follow the Government's general industrial policies.

26. Finally, with respect to the asset management companies and the debt to equity conversions, United States officials had indeed visited the website referred to by the delegate of China. However, very significant questions remained that were reflected in the written submission made by the United States for this transitional review. Thus, this was a continuing concern for the United States and the delegate hoped that China would provide additional specific information.

27. The delegate of the European Communities considered that the statement made by the delegate of China was general in nature and did not respond to the specific questions posed by his delegation following China's replies to questions on China's subsidy notification. In particular, China had not provided any indication when it would be able to provide the statistical data requested by the European Communities. Article 10 of China's Protocol of Accession to the WTO contained an unambiguous obligation for China to "[...] notify the WTO of any subsidy within the meaning of Article 1 of the Agreement on Subsidies and Countervailing Measures ("SCM Agreement"), granted or maintained in its territory, organized by specific product, including those subsidies defined in Article 3 of the *SCM Agreement*. The information provided should be as specific as possible, following the requirements of the questionnaire on subsidies as noted in Article 25 of the *SCM Agreement*". Therefore, there was no excuse for China's failure to submit statistical data six years after its accession to the WTO. Moreover, China had not responded to many of the specific questions posed by the European Communities in document G/SCM/Q2/CHN/25 or had provided replies that were partial and that were not consistent with the format according to which subsidies must be notified to this Committee. Moreover, China had given no indication as to when it would submit its next full subsidy notification, which was due by 30 June 2007. He concluded by requesting China to respond in writing to the questions posed by his delegation in document G/SCM/Q2/CHN/32.

28. The delegate of Japan noted that the delegate of China had not addressed in his statement the issue raised by Japan concerning the consistency of China's export credit programmes with item (k) in Annex I of the *SCM Agreement*.

29. The delegate of Canada stated that the answers provided by China lacked specificity and detail. He urged China to improve its transparency and noted, in this regard, that one of the tools customarily utilized in this Organization by Members in order to enhance transparency was to submit written replies in answer to written questions.

30. The delegate of China stated that the question of whether questions posed in the context of the transitional review should be answered in writing had already been discussed and solved on previous occasions and that it was therefore not necessary to repeat China's position on that matter. In response to the comment of Japan, he stated that the terms of export credits provided by China were no different from the terms on which other Members provided export credits. He did not consider that it was practically feasible, or that the Committee even had the mandate, to undertake a detailed examination of China's export credit practices as part of this transitional review exercise. He rejected the allegation that China had failed to provide statistical data concerning its subsidy programmes. China had already made great efforts in honouring all its WTO accession commitments. In light of the tremendous task of economic reform and trade stabilization facing China, there was no basis to the allegations that China was unwilling to abide by its WTO obligations, including the fundamental principles of transparency and accountability. It was not constructive for Members to use the transitional review process to threaten to initiate dispute settlement proceedings against China.

31. The delegate of the United States stated that his delegation remained extremely disappointed in the lack of specific responses from China at this meeting. With respect to the last comment of the delegate of China, he clarified that the United States had mentioned dispute settlement in the comments made earlier at this meeting, but in so doing was simply referring to the existence of an on-going dispute settlement case involving alleged prohibited subsidies. The United States was not threatening to initiate further dispute settlement proceedings.

32. The Chairman stated that China's Protocol of Accession to the WTO did not contain specific guidelines on the report to be submitted by the Committee on the transitional review. Following the transitional review conducted at the meeting in October 2006, the Chairperson, acting on his own responsibility, had prepared a brief, factual report, with references to the documents concerned, and attaching the portion of the minutes of the meeting relating to the transitional review. He proposed that the Committee agree to follow the same procedure. It was so decided.
