

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 9 September 2009, has been received from the Delegation of the United States, with the request that it be circulated to Members, for the purposes of the Eighth Transitional Review to take place at the forthcoming meeting of the Committee.

Government's Role in Agriculture Sector

1. China has stated its interest in developing a modern and competitive agriculture sector, but does not utilize international standards and practices that would help achieve this goal. In addition, steps have been taken in recent years to increase the government's role in China's agriculture sector, rather than reduce it.

- (a) China has indicated that it plans to increase direct subsidies for planting grain and oilseed crops and to increase stockpile buying. Please provide an update on the status of this effort.
- (b) The United States understands that China plans to nationalize wholesale agricultural markets. Please describe the rationale behind these plans.
- (c) The United States understands that the Chinese government is encouraging consolidation in the agriculture sector in China. Please describe the extent of the consolidation that has taken place to date.

Investment Restrictions in Agriculture Sector

2. Foreign investment can greatly improve the productivity of China's agriculture sector, yet China has limited the areas in which foreign investors can participate in its market. What plans does China have to open its investment environment and eliminate equity caps for foreign investors?

Seeds

3. China appears to have a variety of regulations and rules in place that restrict foreign companies' participation in its seed market.

- (a) Please describe the current state of the seed business, including biotechnology, in China, and explain whether China will allow foreign companies to participate in this sector in the future.

- (b) Currently, China does not allow majority ownership in seed joint ventures. Does China have any plans to change this restriction? Please explain.
- (c) What is the status of China's ban on corn seed exports from China? What is China's justification for this ban? Does China have any plans to lift it?
- (d) Please describe China's seed review and registration process.

Domestic Support for China's Pork Industry

4. In connection with last year's transitional review before this Committee, the United States sought information from China about a program in which pork producers in China can receive a payment for every sow. China confirmed that prior to 2008 pork producers received RMB 50 per sow and total nationwide support (apparently in 2007) was US\$353 million. China further confirmed that pork producers received RMB 100 per sow in 2008. Please provide total nationwide support under this program for 2008.

5. In connection with last year's transitional review before this Committee, the United States sought information from China about the China Insurance Regulatory Commission oversight of a sow insurance program. At that meeting, the United States explained its understanding that total annual premiums for this program are US\$2.9 billion, with the Chinese government paying for 76 percent of the total annual premiums. The United States asked China if it was correct to conclude that the Chinese government is paying US\$2.2 billion in premiums annually under this insurance program, while pork producers pay the remaining US\$700 million and, if not, to identify the correct amounts. China responded that the amounts identified by the United States were incorrect, but did not provide the correct amounts. Please provide the correct amounts for the most recent year that data is available.

6. In connection with last year's transitional review before this Committee, the United States sought information from China about payments made to large-scale pork breeding farms, based on farm size. China explained that farms with 500-999 heads receive RMB 200,000, farms with 1,000-1,999 heads receive RMB 400,000, farms with 2,000-2,999 heads receive RMB 600,000 and farms with 3,000 or more heads receive RMB 800,000.

- (a) Are the RMB payment amounts previously identified by China annual payments?
- (b) What was the total annual value of payments made under this program in 2008?

7. Please identify the total value of China's pork production in 2008.

Discriminatory VAT Exemptions

8. In connection with last year's transitional review before this Committee, the United States explained its understanding that many domestic agricultural products are exempted from China's 13 per cent value-added tax (VAT) normally applicable to imported agricultural products and that these VAT exemptions raised concerns under Article III of the General Agreement on Tariffs and Trade 1994. In its response, China stated that the proliferation of highly scattered, small-scale farms made the costs for assessing taxes much higher and not cost-effective. As a result, China stated, it exempted agricultural products produced and sold directly by farmers in order to lower the costs of taxation and increase efficiency. The United States does not see how lowering the costs of taxation and increasing efficiency can justify an exemption from taxes on domestic products but not imported products. Can China provide any additional explanation that would address this concern?

Tariff-rate quotas

9. US companies continue to be concerned about the transparency in the administration of China's tariff-rate quota (TRQ) regime for bulk agricultural commodities. It appears that licenses both for the initial quota and for any above-quota quantities continue to be issued without public announcement of specific information about the quota allocations, such as the type and volume of quota being allocated to particular entities and the applicable duty rates. When the United States has raised this concern in connection with prior transitional reviews before this Committee, China has explained that it limits the public disclosure of this information because it is commercially sensitive. Please explain why the information in question could be commercially sensitive. Isn't it in the interests of the entities holding quota licenses to publicize information about their licenses so that they can fill their quota allocations?
