

**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

The following communication, dated 13 October 2009, is being circulated at the request of the Delegation of the European Communities.

Notification requirements

Article 25 of the Agreement on Subsidies and Countervailing Measures ("SCM-Agreement") sets out the requirements for subsidy notifications according to which Members agreed that subsidies shall be notified not later than 30 June of every second year. This area of requirement was specifically addressed in the Protocol of Accession of the People's Republic of China under paragraph "10 subsidies" in which China committed to notify the WTO of any subsidy within the meaning of Article 1 of the SCM-Agreement and to eliminate all subsidy programmes falling within the scope of Article 3 of the SCM Agreement upon Accession.

However, it was only in April 2006 that China submitted its first new and full subsidy notification for the period 2001 to 2004 since its accession to the WTO in 2001. While China's submission of the notification was generally welcomed, it did call into question the usefulness of a notification covering subsidy programs dating back to the period of 2001-2004. It would appear that China now attempts to follow the same approach by not having submitted a subsidy notification for the period of 2005-2006 and for the period of 2007-2008, due by end of June 2007 and 2009 respectively.

- a) Could China please indicate what progress it has made so far on the subsidy notification it is currently working on and which should cover the period of 2005-2008 according to the statement made by the delegate of China in the last TRM?
- b) In light of the statement made by the delegate of China in the last TRM that he had no answer whether sub-federal governmental subsidies would be covered by the next subsidy notification, could China confirm that these sub-federal programs will be covered?
- c) When does China expect to submit its next subsidy notification?

Subsidies

Irrespective of China's continued failure to submit a complete and timely subsidy notification the EC Trade defence services continue to uncover, in particular in the context of the MET (Market Economy Treatment) analysis for Chinese exporters, significant subsidies/distortions in the form of tax rebates, tax exemptions, the provision of land and land rights, subsidized prices of raw materials and industrial inputs and subsidized loans. Many of these subsidies and subsidy programmes are provided to specific industries and sectors, which makes them susceptible to anti-subsidy actions.

The existence of these subsidies has been confirmed by a number of independent studies and by trade defence investigations carried out by several WTO Members. It is undeniable that the distortive effect of these subsidies has contributed to China's rapid export growth in recent years. For example, China has transformed itself from a net importing country to the – by far – largest steel exporter in the world. In 2007, China already commanded a share of 20.7 per cent of global steel exports. Chinese steel exports to Europe have increased at an even greater speed than China's total steel exports. This expansion of Chinese export activities is not primarily based on a genuine competitive advantage of China in steel making but rather on the variety of subsidy programmes addressed to the steel making industry on a highly selective basis.

In spite of China's professed efforts to submit a subsidy notification in due course, it has so far not managed to submit a subsidy notification for the above mentioned period. We therefore request China to provide Members in this committee with the information on its subsidy programs it provides to the steel sector in the appropriate format as set out in Article 25.3 ASCM.

Other distortions

China restricts the export of certain raw materials, a practice which may depress the price of these raw materials when used in the domestic downstream manufacturing industry. This practice, could effectively amount to a policy of subsidization of input for certain downstream products. This has often been coupled with various incentives for exports of the downstream product which have benefited from the cheaper input raw material.

Could China comment on this practice?
