

**CHINA'S TRANSITIONAL REVIEW MECHANISM**

Questions from CANADA

The following communication, dated 11 September 2002, has been received from the Permanent Mission of Canada.

Canada welcomes the opportunity to review China's implementation of its accession commitments under the Transitional Review Mechanism (TRM). We believe that China's participation in the TRM will be an important demonstration of its commitment to the principle of transparency in trade policy, a principle that is central to the World Trade Organization.

We appreciate the great efforts that China has undertaken to reform its trade policies since its accession to the WTO. However, we have a number of concerns about China's trade policies that we have raised before, both bilaterally and multilaterally, that have not yet been satisfactorily resolved.

Tariff and Value-Added Tax Preference for Frontier Traffic

We understand that China extends tariff and VAT preferences to goods that are imported across land borders. It has been suggested that this policy is meant to promote economic development of relatively poorer border regions. Canada submits the following questions with regard to the scope and application of this policy.

1. What does China consider to constitute the frontier area? What are its geographical limitations?
2. Which goods are covered by the tariff and VAT preferences?
3. Are there particular rules of origin in place to identify goods being imported as originating the frontier area of that adjacent country?
4. Can such imported goods leave the "border area" without full duties and VAT being collected? If not, what measures are in place to collect the tariff and VAT if goods leave the frontier area?
5. The policy has been described as applying to "small" companies. What is the definition of a "small" company, in the context of this policy?

Variable Duty Rate for Newsprint

China had previously agreed to the replacement of a variable tariff for HS96 4801.00 with an ad valorem one. Paragraph 2 of the headnote to China's WTO non-agricultural tariff schedule (Schedule CLII, Part I, Section II) states "For 4801.00, the variable duty shall be removed upon accession." The ad valorem is to be established originally at a rate of 11% in 2002, falling to 5% by 2006. Notwithstanding China's commitment to replace the variable duty, it remains in China's 2002 Customs schedule. When will China replace the variable duty for the ad valorem one?

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