

SUBSIDIES

Questions posed by the UNITED STATES to
the PEOPLE'S REPUBLIC OF CHINA

The following communication, 17 October 2002, has been received from the Permanent Mission of the United States.

1. General

1. Article 25.1 of the Subsidies Agreement states that notifications of subsidies are to be submitted "not later than 30 June of each year." When does China intend to submit its notification for 2002 to the Committee?

2. Subsidies Notified in Connection with WTO Accession

2. In Annex 5B to its Accession Protocol, China notified two subsidy programmes for the automotive sector, one based on "localization" and one based on export performance. These programmes were scheduled to be phased out in 2000. Have these programmes been phased out? If so, could you please provide official documentation demonstrating that they have been terminated? If not, could you please explain why the deadline was not met, describe the status of the phase-out and provide information concerning your plans for completing the phase-out?

3. In Annex 5B to its Accession Protocol, China notified subsidies provided to state-owned enterprises operating at a loss, indicating that these subsidies were also supposed to be eliminated in 2000. Have these subsidies been ended? If so, could you please provide official documentation demonstrating that they have ended? If not, please explain why the deadline was not met and provide information concerning your plans for terminating these subsidies.

3. Regional Subsidies

4. In paragraph 174 of its Accession Working Party Report, China noted other Members' concerns that subsidies provided in connection with special economic zones (SEZs) and other special economic areas may be contingent upon export performance or the use of domestic over imported goods. The Chinese representative indicated that the main purpose of such subsidies was to promote regional development and foreign investment, and that China would eliminate upon accession any such subsidies that were inconsistent with the Subsidies Agreement.

- Could China inform Members whether any such subsidies were eliminated in conformity with this commitment and, if so, what those subsidies were?
- Could China provide information about the subsidies it provides for development of its western regions, illustrating how such subsidies are consistent with its WTO obligations?
- Could China confirm its view that, except where specifically permitted by the terms of the Subsidies Agreement (e.g. exceptions detailed in Annex I), subsidies contingent upon export performance and the use of domestic over imported goods are prohibited under the Agreement even when provided in circumstances intended to promote regional development?
- Could China confirm that its forthcoming notification of subsidies to the WTO will include information concerning subsidies provided by provincial and local authorities throughout China, as required by WTO rules?

4. Export Subsidies

5. This year and last year, the Chinese press reported on the institution of a programme to provide what appears to be subsidized government support for the export of various high technology products in the electronics, bio-medicine, and new materials sectors, among others. Although the specifics of the support were not reported, the articles noted that the programme would be a joint effort among MOFTEC, the Ministry of Science and Technology, the State Economic and Trade Commission and the Ministry of Information Industry and that MOFTEC intended the plan to achieve a goal of 10 per cent growth in exports by the relevant sectors (machinery, electronics) in 2002.

- Can you provide more information about the programme, including on the instruments and levels of support being provided, and indicate whether this programme will be included in China's next notification?
- How does this programme comport with China's commitment not to provide subsidies contingent upon export performance?

6. Recent Chinese press reports state that MOFTEC's Planning and Finance Department has announced that China plans to institute a number of new measures to improve upon its export support policies. While a number of the steps planned (e.g. reducing government interference and disseminating information about export opportunities) do not appear to raise concerns, others suggest there may be implications for WTO subsidy rules. For example, the reports indicated that MOFTEC and the Ministry of Finance are drafting a plan to expand tax exemptions for exporters.

- Could you provide additional information about these measures and their relationship to China's obligations under the Subsidies Agreement?

7. Chinese press reports also indicate that the Ministry of Information Industry is implementing a support programme for the integrated circuit (IC) industry, one component of which is to rebate 40 per cent of value-added tax paid by an enterprise contingent upon that enterprise exporting an established percentage of its production. Other features of the programme appear to include a reduction in the value added tax charged to IC producers, preferential treatment in the purchase of raw materials and other types of financial support from the central government.

- Could China provide confirmation of and additional information about this programme?
- Will it be included in China's forthcoming subsidy notification?
- Please explain how the tax rebate component comports with China's commitment not to provide export subsidies contingent upon export performance.

8. It is our understanding that the State Tax Administration increased value-added-tax (VAT) export rebates several times in 1999, up to 17 per cent for certain kinds of processed exports, and we see frequent reports to suggest that application of the VAT itself is increasingly uneven and potentially discriminatory.

- Could China please provide additional information on the VAT programme and its application, including with respect to the rebate of VAT for exports?

5. Agricultural Subsidies

9. Would China please verify that it no longer maintains any export subsidy programmes on agricultural products as committed to in the Working Party Report (paragraph 234) and Protocol (paragraph 12.1)?

10. Please explain how China's previous export subsidy programmes, particularly those of state trading enterprises and state-affiliated entities, have been modified so that they now operate in accordance with China's WTO obligations?

11. Market reports indicate that China has been selling corn in the world market at prices that are US\$20-30 per ton less than the world price. Please confirm and explain this situation, particularly in light of China's commitment and claims to have discontinued its export subsidization.

12. Has China notified fiscal and other transfers between or among state-owned enterprises in the agricultural sector (whether national or sub-national) and other enterprises that operate as state trading enterprises in the agricultural sector, as agreed to in the Accession Protocol? If not, when does China intend to notify such transfers?

6. Pricing Policies

13. In its Accession Protocol, China agreed to ensure that import purchasing procedures of state trading enterprises are fully transparent and in compliance with WTO Agreements, and that it would refrain from taking any measure to influence or direct the enterprises as to the quantity, value or country of origin of goods purchased or sold, except in accordance with the WTO Agreements. Please describe the transactions of China's state trading enterprises' and indicate whether they are in compliance with the WTO.

14. In the Accession Protocol, China committed to provide information on the pricing mechanisms of its state trading enterprises for exported goods. Has this been provided yet? If not, please indicate when it will be provided.

15. In the Accession Protocol, China committed to provide information on the application of existing or any other price controls and the reason for their use. Has this been provided yet? If not, please indicate when it will be provided.

16. Please confirm that no goods and services other than those listed in Annex 4 of the Accession Protocol are subject to price controls. Please explain how China is making best efforts to reduce and eliminate these controls.

17. Please provide information as to China's progress in ensuring that China's state-owned enterprises, including banks, are operated on a commercial basis, as committed to in the Working Party Report (paragraph 172).
