

USTR NEWS

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WTO Case Challenging Chinese Subsidies

What Chinese Policies are at Issue?

- China appears to be providing export subsidies that are prohibited by the World Trade Organization (WTO) to its auto and auto parts industries.
- The subsidies being challenged are provided to auto and auto-parts manufacturers in China that meet certain export performance requirements and that are located in government-designated regions known as “export bases.”
- The “export base” program provides export subsidies such as cash grants for exporting, grants for research and development, subsidies to pay interest on loans, and preferential tax treatment.
- WTO rules consider export subsidies so trade distorting that they are prohibited outright.

How Do These Subsidies Tilt the Playing Field?

China’s subsidies distort trade conditions for auto and auto parts manufacturers in the United States by providing an unfair advantage to China’s auto and auto-parts industries.

Export Subsidies Unfairly Promote Exports of Autos and Auto Parts – The subsidies being challenged go to auto and auto part manufacturers in China that meet certain export performance requirements.

- Based on publicly available documents, the value of subsidies made available to auto and auto parts manufacturers in China between 2009 and 2011 was at least \$1 billion.
- In the years 2002 through 2011, the value of China’s exports of autos and auto parts increased more than nine-fold, from \$7.4 billion to \$69.1 billion. China rose from the

world's 16th largest to the 5th largest auto and auto parts exporter during his period.

- The United States was China's largest export market for auto parts in the years 2002 through 2011.

Chinese Export Subsidies Hurt the Producers of Autos and Auto Parts in the United States – The export subsidies at issue make it harder for autos and auto parts manufactured in the United States to compete with Chinese products in the world market. Eliminating export subsidies produces real, job-supporting results for American firms and working families.

- The production of auto and auto parts in the United States is a key component of the nation's manufacturing base. In 2011, manufacturers in the United States produced over \$350 billion worth of autos and auto parts. In a typical year, production of auto and auto parts in the United States accounts for about five percent of GDP and 16 percent of all durable goods shipments.

- As of July 2012, the auto and auto parts manufacturing sector in the United States employed nearly 800,000 American workers.

- The top five states in auto and auto parts manufacturing employment are: Michigan, Ohio, Indiana, Kentucky, and Alabama.

- In 2011, manufacturers in the United States exported \$123 billion of autos and auto parts. These exports support the jobs of thousands of American workers.

- The export subsidies provided to the Chinese auto and auto-parts industries hurt auto and auto parts manufacturers and workers in the United States through lost sales and lost market share in U.S. and world markets.

Examples of auto parts include engines and engine parts; electrical and electronic equipment; steering and suspension components; brake systems; transmission and power train parts; seating and interior trimmings; metal stampings; and other original equipment and aftermarket motor vehicle parts.

Why Pursue WTO Dispute Settlement?

- The United States is committed to fairness in the international trading system. This includes ensuring that China abides by the same rules that are applicable to other WTO Members.

- The United States has raised concerns with China regarding subsidies that the Chinese government provides to auto and auto-parts manufacturers. These concerns, however, have not been addressed. As a result, the United States today took the first step to bring this case before the WTO.

- Under WTO dispute settlement procedures, the United States and China would normally consult within 30 days. The United States hopes that these consultations will produce a satisfactory result. If they do not, the United States has the right, after 60 days from the request for consultations, to request that the WTO establish a dispute settlement panel to examine the matter.

- WTO dispute settlement rules have facilitated and are assisting us in the resolution of other trade disputes with China:

§ June 2009 – The United States and several other WTO members filed a WTO dispute against China challenging its export restraints on raw materials. Both the Panel and the Appellate Body upheld the majority of the U.S. claims, finding China’s measures to be inconsistent with its WTO commitments.

§ December 2010 – Following a Section 301 investigation based on a petition filed by the United Steelworkers, the United States initiated a WTO case challenging subsidies that China provided to manufacturers in its wind power equipment sector that appeared to require the use of local content, at the expense of foreign manufacturers’ products. In response to our challenge, China terminated the challenged subsidy program.

§ September 2010 – The United States filed a WTO dispute challenging a series of Chinese measures that discriminate against foreign providers of electronic payment services. On July 16, 2012, the WTO circulated the Panel’s final report. The Panel found in favor of the United States regarding most of the challenged measures, whether based on the General Agreement on Trade in Services (GATS) national treatment claims or the GATS market access claims.

§ September 2010 - The United States filed a WTO dispute challenging China’s imposition of antidumping and countervailing duties on grain oriented flat-rolled electrical steel. On June 15, 2012, the WTO circulated the Panel’s final report. The Panel ruled in favor of the United States, finding most of the challenged measures inconsistent with China’s WTO commitments. On 20 July 2012, China notified the WTO of its decision to appeal to the Appellate Body certain issues of law and legal interpretations covered in the panel report.

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