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WTO Appellate Body Confirms Finding Against China's Taxation of U.S. Auto Parts

WASHINGTON – U.S. Trade Representative Susan C. Schwab announced today that, in the first World Trade Organization (WTO) dispute to be litigated against China, the WTO Appellate Body confirmed that China's treatment of U.S. and other imported auto parts is inconsistent with China's WTO obligations.

"Today the WTO Appellate Body confirmed that China's discriminatory taxation of U.S. auto parts is fundamentally at odds with core WTO principles," Ambassador Schwab said.

"Especially in light of the current problems faced by the U.S. auto industry, I expect China to comply promptly with its WTO obligations by removing an unlawful and unfair trade barrier that is harming U.S. workers and manufacturers."

"International trade must be a two-way street. Both the United States and China benefit from our trade relationship, but as this dispute makes clear, when China adopts measures that unfairly restrict U.S. exports, we will not hesitate to use all available tools to ensure that China complies with the rules of the international trading system. Formal dispute resolution ultimately proved necessary in this case because of China's failure to respond to earlier efforts to resolve this problem through dialogue."

The Appellate Body also confirmed similar findings in favor of Canada and the European Union, which had brought companion disputes against the Chinese measures.

Background

Increasing access to China's auto market was a key issue in China's accession to the WTO, and China agreed to lower its trade barriers affecting the importation of autos and auto parts. After accession, however, China adopted regulations that impose an additional charge on imported auto parts whenever the imported parts are incorporated into a final assembled vehicle that fails to meet certain local content requirements. In particular, all vehicle manufacturers in China that use imported parts must register with China's Customs Administration and provide specific information about each vehicle they assemble, including a list of the imported and domestic parts

to be used, and the value and supplier of each part. If the number or value of imported parts in the assembled vehicle exceeds specified thresholds, the Chinese authorities assess a 25 percent tax on each of the imported parts. These charges unfairly discriminate against the use of imported parts in the assembly process and discourage automobile manufacturers in China from using imported auto parts in the assembly of vehicles. The charges also put significant pressure on foreign auto parts producers to relocate manufacturing facilities to China.

On March 30, 2006, the United States requested formal WTO consultations with China regarding these measures. The consultations failed to resolve the dispute, and, at the request of the United States, on October 26, 2006, the WTO established a dispute settlement panel. This was the first time that the WTO had established a panel to review the WTO-consistency of a Chinese measure.

On July 18, 2008, the WTO dispute settlement panel found that China's regulations impose an internal charge on U.S. auto parts resulting in unlawful discrimination under WTO rules. In particular, the panel found that the charge is inconsistent with Articles III:2 and III:4 of the General Agreement on Tariffs and Trade 1994. In the report issued today, the Appellate Body confirmed the July 2008 findings of the WTO Panel.

The WTO Dispute Settlement Body will adopt the Appellate Body Report within the next 30 days. Within 30 days following adoption, China must announce its intentions with respect to bringing its measures into compliance with its WTO obligations.

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