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CHINA UPDATE

QUOTE OF THE WEEK

"The Obama Administration is committed to protecting the rights of nearly 800,000 American workers in our \$350 billion auto and auto parts manufacturing sector. We insist upon having a level playing field on which our world-class manufacturers can compete....Export subsidies are prohibited under WTO rules because they are unfair and severely distort international trade. China expressly agreed to eliminate all export subsidies when it joined the WTO in 2001. China benefits from international trade rules and must in turn live up to its international obligations....We are in a position to address this trade problem because the Administration's newly created Interagency Trade Enforcement Center (ITEC) has provided crucial investigative and analytical resources to this effort. This is one example of how ITEC, relying on a whole-of-government approach, is expanding and accelerating the United States' trade-enforcement capabilities and activities." – USTR Ron Kirk on September 18 announcing that the United States has filed a complaint with the WTO regarding Chinese subsidies for the automotive and automotive parts industries

TRADE

U.S. Challenges Chinese Export Subsidies to Automotive Industry

The Office of the United States Trade Representative (USTR), on September 17, requested dispute settlement consultations with China at the World Trade Organization (WTO) related to China's automotive and automotive parts "export base" subsidy program. The consultation request letter and USTR press release can be found [here](#), and a USTR Fact Sheet on the case can be found [here](#).

According to USTR, China appears to be providing WTO-prohibited export subsidies, via government-

designated regions known as “export bases.” These regions provide export subsidies such as cash grants for exporting, grants for research and development, subsidies to pay interest on loans, and preferential tax treatment.

By providing the subsidies to auto and auto-parts producers directly linked to the firms’ exports, the U.S. is charging that China is not only violating WTO prohibitions on export-contingent subsidies, but also its own agreement to eliminate export subsidies when it joined the WTO in 2001. The U.S. also announced that it is taking the next step in a WTO enforcement action launched in July over China’s unfair imposition of anti-dumping and countervailing duties on about \$3.3 billion in U.S. automobile exports to China.

Also on September 17, in anticipation of the U.S. move on autos, China filed its own complaint with the WTO in response to tariffs imposed by the U.S. on Chinese products including steel, tires, and kitchen appliances. The Chinese challenge is related to legislation passed by Congress earlier this year empowering the Department of Commerce to retroactively impose anti-dumping duties on Chinese goods.

In response to the U.S. filing, Senator Max Baucus, Chairman of the Senate Finance Committee, which has jurisdiction over international trade policy, said: “The U.S. cannot stand by and let China skirt international trade rules, especially when American jobs are at stake. China made a commitment to end these subsidies when it joined the WTO more than a decade ago, so it’s indefensible for it to use this unfair practice. By lodging this WTO complaint, we’re standing up for workers and manufacturing jobs here in the U.S. In today’s competitive global economy, it’s critical that we remain aggressive both fighting for American workers and opening new markets to trade. That is exactly what this complaint against China does.”

ENERGY

E.U. Chamber of Commerce in China Issues Position Paper

The European Union Chamber of Commerce in China – a 1,700 member organization – on September 12 issued its Position Paper 2012/2013, detailing key concerns and recommendations related to World Trade Organization implementation issues, trade issues, and broader policy-related issues. The report is submitted annually to the Chinese government and policy-makers in the European Union, and calls upon the Chinese government to move away from an economic model led by the state and to provide equal access to private domestic and foreign firms.

The Executive Summary of the position paper can be found [here](#), and the full report can be found [here](#).

The report was compiled by 42 Working Groups, focused on issues including, but not limited to: Aerospace, Agriculture, Automotive, Auto Components, Carbon Market, Banking and Securities, Consumer Finance, Corporate Social Responsibility, Cosmetics, Energy, Environment, Finance and Taxation, Financial Services, Healthcare Equipment, Heating, Information and Communication Technology, Information Security, Insurance, Intellectual Property Rights, Legal Competition, Lighting, Maritime and Maritime Transport, Petrochemicals/Chemicals/Refining, Pharmaceuticals, Private Equity, Public Procurement, Quality Safety Services, Rail, Renewable Energy, Research and Development, Smart Grid, Trade in Goods, Trade in Services, and Travel. Individual Working Group papers can be found [here](#).

Chinese Carbon Trading Program

On September 11 officials for China’s Guangdong province issued guidelines for a voluntary carbon trading system. The program, part of a national pilot program, will begin with 827 companies across nine industrial sectors: Electricity, Cement, Steel, Ceramics, Petrochemicals, Textiles, Non-ferrous Metals, Plastics, and

Paper. The program will have a testing period from 2012 through 2015, a period of perfecting trading rules from 2016 through 2019, and a fully trading carbon market beginning in 2020. Other Chinese provinces and municipalities participating in the national program, which has a goal to set up pilot emissions trading systems by the end of 2015, include Hubei, Beijing, Chongqing, Shanghai, Shenzhen, and Tianjin.

China and the U.K. to Collaborate on Climate Change and Energy Security

On September 18 to 21, China's Energy Research Institute (ERI) will join with the United Kingdom's Department of Energy and Climate Change (DECC) and Foreign and Commonwealth Office (FCO) for a Beijing conference focused on how best to tackle climate change and energy security, including ERI's efforts to adapt the U.K.'s "2050 Calculator" to the Chinese economy.

According to the DECC, the 2050 Calculator provides a comprehensive analysis of plausible ways to a secure, low carbon energy system in the U.K. to 2050. Further, DECC says that ERI has created a tool that allows the user to select how China will achieve its energy security up to 2050.

DEFENSE

Defense Secretary Panetta in Asia

Secretary of Defense Leon Panetta arrived in China on September 17 for a three day visit that was scheduled to include meetings with Chinese Vice President Xi Jinping, Defense Minister General Liang Guanglie, State Counsel Dai Bingguo, and Vice Chairman of the Central Military Commission Xu Caihou. More on the Secretary's visit to China can be found [here](#).

Today, Secretary Panetta announced that he has informed Defense Minister General Lian Guanglie that the United States Navy will invite China to send a ship to participate in the RIMPAC (Rim of the Pacific) 2014 exercise, which is the world's largest maritime exercise and is hosted by the U.S. Pacific Fleet. This year, the exercise involved the navies of 22 nations.

At a press conference with the Chinese Defense Minister, Secretary Panetta addressed the ongoing maritime tensions in East Asia, saying "The United States continues to be concerned about challenges to maritime security in East Asia. It is in no country's interest for this situation to escalate into a conflict that would undermine peace and stability in this very important region. This has been my consistent message throughout the week." Secretary Panetta was in Japan prior to arriving in China.

While in Japan, Secretary Panetta announced that the U.S. and Japan had reached an agreement to allow the U.S. to deploy a second advanced missile-defense radar on Japanese territory, saying that the system will "enhance our ability to defend Japan" and assuring the Chinese that the goal is to protect the U.S. and the region from North Korea's missile threat. However, the move was quickly criticized by Chinese experts. More on the radar announcement can be found [here](#).

CONGRESS

House Republicans Oppose EPA Grants in China

Renewing their call for ending Environmental Protection Agency grants in China and other countries, Republican in the House of Representatives argued on September 11 that the small savings could be applied to reducing the deficit. Congressman Ed Whitfield (R-KY), Chair of the House energy and Commerce Subcommittee on Energy and Power, said at the hearing that the EPA awarded \$78.8 million in grants to environmental projects outside the U.S. in Fiscal Years 2008 – 2011. The agency has awarded

more than \$50 million in international grants for Fiscal Years 2010 and 2011, and Chairman Whitfield has introduced legislation, the *Accountability in Grants Act of 2012* (H.R. 4255), which would bar EPA from granting financial assistance to projects outside the U.S. and its territories.

Senate Hearing on Asian Maritime Disputes & Sovereignty Issues

On September 20 the Senate Foreign Relations Subcommittee on East Asian and Pacific Affairs will hold a hearing on “Maritime Territorial Disputes and Sovereignty Issues in Asia” with testimony provided by The Honorable Kurt Campbell, Assistant Secretary of State for East Asian and Pacific Affairs at the Department of State.

The hearing comes as tensions have escalated in the region, with Chinese ocean surveillance and fishery patrol ships entering Japanese territorial waters near a group of islands in the East China Sea that are claimed by both China and Japan. There have been widespread protests in China as a result of the dispute, with many Japanese companies there suspending work over safety concerns.

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