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WTO Panel Finds Against China's Taxation of U.S. Auto Parts

WASHINGTON – U.S. Trade Representative Susan C. Schwab announced today that the first World Trade Organization (WTO) dispute settlement panel to address a dispute against China has issued a report finding that China's treatment of U.S. and other imported auto parts is inconsistent with China's WTO obligations.

"I am extremely pleased with the issuance of a very strong report by the WTO panel," Ambassador Schwab said. "Enforcing trade agreements so that problems are solved – whether through dialogue or, if need be, litigation – is a critical part of the U.S. trade agenda. The panel report leaves no doubt that China's discriminatory treatment of U.S. auto parts has no place in the WTO system.

"The auto industry is an important part of the U.S. economy, and we will continue our efforts to ensure that U.S. manufacturers and workers in this and other industries enjoy the benefits of open markets and a level playing field," Schwab said. "Our pursuit of this case makes clear that we will not stand idly by when China or any other country adopts regulations or industrial policies that tilt the playing field against American goods or services."

The United States was joined by the European Union and Canada, which also pursued dispute settlement proceedings with China on the same matter.

Background

Increasing access to China's auto market was a key issue in China's accession to the WTO. China imposes 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. The WTO panel agreed with the United States that these higher 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. They also put pressure on foreign auto parts producers to relocate manufacturing facilities to China.

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.

The United States argued, and the WTO panel agreed, that these regulations impose an internal charge on U.S. auto parts resulting in discrimination against U.S. auto parts, in violation of WTO rules. The panel found that China is acting inconsistently with several WTO provisions, including Articles III:2 and III:4 of the General Agreement on Tariffs and Trade 1994 and specific commitments made by China in its WTO accession agreement.

The United States requested formal WTO consultations with China on March 30, 2006. The WTO established the dispute settlement panel on October 26, 2006, the first such panel against China. China has the opportunity to appeal today's report.

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