



Highlights of [GAO-06-608T](#), testimony to the U.S.-China Economic and Security Review Commission

U.S.-CHINA TRADE

Challenges and Choices to Apply Countervailing Duties to China

Why GAO Did This Study

Some U.S. companies allege that unfair subsidies are a factor in China's success in U.S. markets. U.S. producers injured by subsidized imports may normally seek countervailing duties (CVD), but the United States does not apply CVDs against countries, including China, that the Department of Commerce classifies as "non-market economies" (NME). In this testimony, which is based on a June 2005 report (GAO-05-474), GAO (1) describes the options for applying CVDs to China, (2) the challenges that would arise, and (3) examines the likely results of applying CVDs on Chinese products.

What GAO Recommends

In its 2005 report, GAO recommended that Commerce report on its ability to measure Chinese subsidies and the methodologies it might use to do so. Also, GAO suggested that Congress may wish to clarify Commerce's authority in several respects if CVDs are to be applied to China.

Agency officials thought GAO's recommendations were unnecessary. GAO maintains they are prudent in light of Commerce's lack of explicit authority in this area and to prepare for potential CVD cases.

What GAO Found

There are two alternative paths for applying CVDs to China. First, Commerce could determine that China is no longer a nonmarket economy and apply CVDs against China as a market economy. Commerce has criteria for such determinations but stated that China is unlikely to satisfy them in the near term. Second, it could reverse its 1984 position, which was confirmed by a federal appeals court, and apply CVDs without changing China's NME status. However, absent a clear congressional grant of authority, such a decision could be challenged in court, with uncertain results. The House of Representatives passed legislation that would grant this authority in July 2005, and companion legislation was introduced in the Senate. World Trade Organization (WTO) rules do not explicitly preclude either alternative.

Commerce would face challenges, regardless of the alternative adopted. Chinese subsidies remain difficult to identify and measure. Employing third-country information or "facts available" may help but would not eliminate these difficulties. Commerce lacks clear authority to fully implement China's WTO commitment on the use of third-country information in CVD cases.

Making CVDs available against China would give U.S. producers an explicit import relief measure that targets unfair government subsidies. However, on a net basis, applying CVDs might not provide greater protection than U.S. producers already obtain from antidumping duties. CVDs alone tend to be lower than antidumping duties. If Commerce grants China market economy status, required methodological changes would reduce antidumping duties for some companies. It is not clear whether CVDs would compensate for these reductions. Regardless of China's status, some duties might need to be reduced to avoid double counting of subsidies. Commerce lacks clear authority to make such corrections when domestic subsidies are involved.

Two Paths to Apply Countervailing Duties to China

Market Economy Path	Both	NME Path
<ul style="list-style-type: none"> China must meet criteria for market economy status Antidumping duties for some Chinese companies would be reduced 	<ul style="list-style-type: none"> Chinese subsidies difficult to identify and measure Countervailing duties tend to be lower than antidumping duties Commerce lacks explicit authority to use third-country information 	<ul style="list-style-type: none"> Commerce's authority could be challenged with uncertain results Potential double counting of domestic subsidies, without clear Commerce authority to make adjustments

Source: GAO

www.gao.gov/cgi-bin/getrpt?GAO-06-608T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.