

**Remarks of Ambassador Rob Portman  
United States Trade Representative  
Media Availability Following Announcement  
of a WTO Case Against China Over Auto Parts  
Washington, DC  
March 30, 2006**

**Ambassador Portman:** -- have talked to you. I appreciated their input. They're a very constructive group. They agree with me that we needed an equitable and durable trade relationship with China.

We talked about the Top-to-Bottom Review which I have here and I'm sure you all have seen. If not, we've got plenty of copies for you.

We also talked about the fact that we are now entering into a new phase in our bilateral trade relationship with China where we are engaging China as a mature trading partner. As we discussed this morning in this new phase of our US-China relationship, the United States will vigorously enforce our rights when we find that a bilateral dialogue is not effective at resolving trade disputes.

One such issue where we have tried but to date failed to resolve our differences is China's unfair treatment of US auto parts. That dialogue you should know has been going on ever since I took this job which is almost a year now, about 11 months. The WTO rules and China's specific WTO accession commitments prohibit local content requirements in the auto sector. China also agreed when it entered the WTO to lower and to bind its tariffs on auto parts.

We do not believe China has honored these commitments. China maintains regulatory policies that impose discriminatory tariffs and encourages its automakers to use Chinese parts at the expense of auto parts from the United States and other countries.

These regulations discourage US exports and create an incentive for auto parts makers to relocate to China.

While again we have raised this issue repeatedly over the past year and sought repeal of these measures, the problem has not been resolved. Accordingly, today we are bringing a WTO action regarding the Chinese auto parts.

I would note that the European Union with whom we've been coordinating very closely on this matter, will be joining us today. They are filing the same WTO action on the same matter today in Geneva.

It is our hope that today's action results in a prompt resolution of the issue. It's a request for consultations which, as you know, is the first phase in the WTO dispute settlement process. We hope China will use this as an opportunity to remove their unfair policies.

Again, we have spent the last year in dialogue with them. We've been very explicit as to why we believe it's illegal and very explicit as to what we believe they need to do to come into compliance with the WTO, their obligations.

As noted again in this top to bottom review of US-China trade policy we will not hesitate to use dispute settlement mechanisms when negotiations are not productive. Again, I think doing so is a sign of a mature trading relationship.

Also as indicated in our top to bottom review, we will seek to enhance our cooperation with our other trading partners in relation to Chinese accountability and reform.

You may have noticed on the intellectual property rights matter we worked with Switzerland and Japan. That was in the 63-3 invocation of the WTO.

In recent matters, including this one, we have also worked with other trading partners. Today of course we're working closely with the European Union and we'll continue to work with our trading partners regarding China policy.

As I made clear in the top to bottom review and elsewhere, the United States will continue to stand up for US industries when we feel their rights are being denied. Today's challenge is the second dispute against China in the WTO. The first one was also brought by the United States. That case which involved semiconductors was settled to the advantage of US exporters without having to proceed with a formal dispute panel. Again, I would hope that would be the case here as well.

Earlier this year, as you know, China dropped antidumping duties on exports of a packing material known as kraft liner board just as the United States notified China of our intention to bring a case in the WTO. This was just a couple of months ago. To me that was a good example of how dispute settlement can be used effectively to remove unfair trade barriers without proceeding to litigation.

For us to have the mature trading relationship I've talked about today which is equitable and which is durable, we do need to be sure that China lives up to its WTO commitments and that's what this case is about today.

Questions?

**Question:** You could have brought other cases, the IPR case or other things like that. Why did you make this issue only the second case the US has ever brought against China?

**Ambassador Portman:** We will bring issues as they are ready. In this case we believed that the facts and circumstances were such that we had a strong case and the timing was right to bring it. As other issues cannot be resolved through dialogue we will do the same thing. We didn't want to rush the process. We wanted to be sure we had all the facts.

We wanted to be sure we gave the Chinese government adequate time to respond to our concerns.

Also in this case I wanted to be sure we were working with other trading partners so we reached out in particular, as you know, to the EU. They in the end agreed to join us in this action. I think it makes it a stronger action.

When you look at the issues related to China trade they are not exclusive to the United States. Intellectual property is a good example of that. The reason Japan and Switzerland joined us in what was a request for information about intellectual property right enforcement was because they too suffer from piracy in China.

**Question:** Could you just summarize for us, what is it about the way the Chinese are treating US auto parts that is such a problem for the United States?

**Ambassador Portman:** It's a classic example of discrimination. If you bring auto parts into China they are supposed to be charged a tariff that is roughly half the tariff of a car. So instead of roughly 30 percent, it's roughly 14 or 15 percent. However, what the Chinese have done is they have said once a car is assembled if the value of the car includes more than 60 percent of imported auto parts they will go back retroactively and apply a tariff to the auto parts that is the car tariff, in other words, more than doubling in some cases the tariff. That's simply unfair. It's unfair under two articles of the GATT, it doesn't comply with their WTO obligations in our view, and we've raised this issue again with them repeatedly over the last year and received the response that they believe what they're doing is appropriate. We're certain that it's not. So we have told them our only option here is to take this to the WTO and have this independent, objective body that has rules in place that they've agreed to, that we've agreed to, adjudicate the case. That's where we are now.

The request for consultation, by the way, provides for a 60 day period of consultation before the case proceeds to the next level and it is my hope that during that time period the Chinese will take a careful look at this, they will come to understand that in fact their policy is discriminatory.

When you look at the auto parts issue what we're trying to do is just to allow the US auto parts industry to send auto parts to China for assembly. To me that is only basic fairness. What the Chinese policy will do is it will favor domestic industry or force US companies to leave the United States and relocate in China in order to get out from under these discriminatory tariffs or taxes.

So that's what the case is about. We believe we're on solid legal footing. We believe it's unfair what's going on now and we will continue to press our case.

**Question:** Can you quantify [inaudible] these tariffs? How much is it affecting US auto parts imports to China?

**Ambassador Portman:** Karan, do you have any figures?

**Voice:** The estimated market right now of US imports is \$400 million. We don't know what the size of the market is altogether. Excuse me, \$600 million.

**Ambassador Portman:** Six hundred million is US auto part exports to China?

**Voice:** Yes. But we believe it's substantial in terms of deterring the further imports from the United States. It's difficult to quantify how much this is pushing people, pushing consumers in China towards Chinese production, but we believe it's substantial.

**Question:** Have you heard any concerns from US companies about, in the States, about possible retaliation or retribution, whatever the correct term is in terms of the Chinese government affecting the operations in China?

**Ambassador Portman:** Doug, let me answer that by saying that we will be carefully monitoring what happens to ensure that US companies are not unfairly treated, simply because they have brought a lawful dispute to the WTO process. This is the way trade is supposed to work. The WTO was established for this purpose. And if because we have taken the appropriate steps US companies are discriminated against in any way, that would be a very serious problem.

**Question:** It sounds like you're concerned about that possibility?

**Ambassador Portman:** I'm just saying that we will monitor it closely.

**Question:** I know that in the report, the report you guys put out in December, it was mentioned that Japan was also concerned about this issue. Were they asked to join the US and the EU in this case and they declined?

**Ambassador Portman:** I did have discussions with my Japanese counterpart about this, and they need to speak for themselves, but I think they didn't feel that at this point they had the same situation that we did. I don't know why, honestly.

**Question:** You mentioned \$600 million right now as the market, but Chinese [inaudible] auto industry is gearing up to export. Can you say anything about the future? This is a much bigger market in the future.

**Ambassador Portman:** We believe it is a growing market. As you know, our exports to China overall grew by more than 20 percent again last year which is the third year in a row, by the way, that they grew over 20 percent making it among our large trading partners, our fastest growing market in the auto sector. We see tremendous growth and we want to be sure that, again, there is a level playing field. We're not asking for something special here. All we're asking is that US companies be treated fairly so that they can properly take advantage of some of that market growth, just as Chinese exports to the United States are taking advantage of our growth.

**Question:** Is the US taking the lead on this or is Europe also seeing itself in the lead role?

**Ambassador Portman:** It's co-lead. Honestly, we're partners in this. We've spent a lot of time working together at every level including working closely on my behalf with Commissioner Mandelson. I spoke to him again yesterday.

**Question:** Do you think this partnership will ease some of the other tense areas [inaudible], like on [inaudible] airplanes?

**Ambassador Portman:** It's a good question. I think it's reflective of the overall relationship we have with the EU which is on most issues very cooperative. As you know, transatlantic trade is huge. When you add up all the EU member states it's the largest trading relationship in the world. The vast majority of it is dispute free. We have a very good working relationship on most issues. We do have our differences. We resolve those through this kind of a process. The Airbus/Boeing case is an example. It doesn't mean we aren't good trading partners, it means that we're taking advantage of the legally binding commitments that we've made through an international system called the WTO, and so I think it's reflective of a mature trading relationship we have with the European Union. Where we will have our differences, we will work those out through the established systems and through bilateral dialogue. Where we can work together cooperatively we will as well.

**Question:** Can you tell us where things stand in the Boeing/Airbus dispute?

**Ambassador Portman:** The litigation is proceeding.

**Question:** The Europeans have asked for some kind of at least a beginning offer on research and development regulation, some way to strike a new agreement. Have you come up with any proposals or taken a shine to any of theirs?

**Ambassador Portman:** As the litigation proceeds we are open to settlement discussions. We are waiting to hear from them, frankly, as to what the next steps might be in terms of a settlement.

As you know, even in recent weeks there have been additional announcements of launch aid. I think the last one was from the Welsh government which as you maybe saw in my response to that, concerns us because we think we're moving in the wrong direction when there are additional announcements of future launch aid.

So the issues are fairly clear. Direct subsidy through launch aids is in our view WTO illegal. We are perfectly willing to put everything on the table and have a discussion about this but it must include the removal of launch aid. It's been our consistent position from the start. At this point they're not prepared to have that discussion.

**Question:** But Airbus co-CEO Tom Enders said last week or the week before that Airbus is not taking the launch aid and really is [inaudible] hard at asking the governments to come up with some sort of research and development approved mechanism for funneling contracts or whatever it may be. Does the US have a proposal for that? I mean [inaudible] as I understand it has always been these aren't direct, you can't compare them.

**Ambassador Portman:** Again, I think we have been very reasonable in our approach which is to say we're going to put everything on the table, direct and indirect. I don't know how we'd be more reasonable and open to discussion than that. But yes, we see a distinction between direct launch aid and indirect R&D. And I don't think there's any dispute about that.

**Question:** But you don't have any concrete proposals for how to institutionalize the direct aid?

**Ambassador Portman:** I don't know how to answer that question. We have our own ideas and we're willing to engage in that dialogue.

**Question:** Can you share some of those ideas with us?

**Ambassador Portman:** No. [Laughter]. Partly because I'm not sure specifically what we have said even privately; but second because it's part of our ongoing discussion with them. In terms of this getting resolved, it's best left to the internal discussions with the EU.

But just to put it in some perspective, the US position from the start has been that we are willing to even forego the WTO route if there is a good faith negotiation going on that includes the acknowledgement that there will be an elimination of direct subsidies, launch aid. And the reason we refiled on the WTO case or restarted that case was because in the middle of this there were additional announcements of launch aid and that continues to happen, even as recently as I think it was several weeks ago now, and that concerns me.

So you talk about the company asserting certain things, that's interesting to me, it is, and we are in discussions with company representatives from both companies. But this is not a company decision on the part of the EU, it's an EU decision, and the EU has not made the decision that perhaps some of your company discussions or even public announcements have indicated.

So just to be clear, it's a government to government litigation. Does that make sense?

**Question:** It does.

**Ambassador Portman:** I just think sometimes there is a confusion about –

**Question:** -- and the European Union is the US hasn't offered any specific proposals for how to institutionalize the direct aid. So I was curious if you had any --

**Ambassador Portman:** Let's have further discussions on that perhaps on background. I can give you some information.

I think I've already said this, but I do believe that it's incumbent on them to give us a response to a proposal for negotiation.

**Question:** This group you talked to is one of the few congressional groups that doesn't have an agenda. In other words, I understand they don't take a position on China. But from your sense of discussion today, is the China issue being seen as a tinderbox in Congress in an election year as it gets closer? Is this something that can blow up legislatively? Your perspective and what you heard from them.

**Ambassador Portman:** It's clearly a sensitive issue. I wouldn't say this group doesn't have a position. They do take positions on US-China trade, certainly. They believe it ought to be a mutually beneficial and constructive dialogue rather than taking a position that the trading relationship is negative or that there is a need to revert to protectionism or isolationism. So it's a group that wants to engage and be constructive.

They also believe that we need to address these problems. You need to talk to them directly, but I think they were in agreement with our filing today. I think they're in agreement with our top to bottom review approach of enhanced enforcement and looking at the trading relationship through a different lens which is one where China is now a mature trading partner and they need to live up to their obligation.

So I appreciate this group, not just the formal dialogue with the group but also with some of the individual members like Rick Larson and Mark Kirk. They also deal with other issues with China that are not within my jurisdiction like human rights and foreign policy on North Korea and other issues. I think on this one their position is very similar to the position that we've taken which is there are benefits to this trade relationship. WE need to be very careful how we manage it, but at this point it is not a balanced relationship.

**Question:** Are you meeting with the China Caucus which is the other group [inaudible]?

**Ambassador Portman:** Have we met with the China Caucus already?

**Voice:** At the staff level.

**Ambassador Portman:** I'm happy to meet with them if they're interested. As you might notice, I spend a lot of time on the Hill these days. I'm meeting with the new Democrats for lunch today. I met with several Members yesterday including two meetings with Democrat groups. I'm meeting with Senator Carper today. So I'm happy to meet with the caucus.

**Question:** In terms of the timing of this, were you tempted to wait until after the visit of the Premier. It is slightly aggressive timing, some might say.

**Ambassador Portman:** Again, in answer to the question earlier posed by your colleagues here, I don't think the timing of these again exercises of our rights under the WTO ought to be dictated by political concerns. I think we ought to compile the facts and then move forward as facts dictate. That's what we've done here. We don't think this is something that is aggressive, we think it's something that is appropriate. That's what the WTO dispute settlement mechanism is in place to resolve, or differences of opinion over in this case what is a discriminatory tariff from our point of view versus their point of view where they think it's somehow an inappropriate policy.

Some could make the point you made. My point would be this is part of the way we ought to be doing business. We ought to be resolving issues to the extent we can to a high level dialogue. That would have been my preference. To the extent that we can't and the issue becomes ripe, as it has now, we had to move it to the next level.

**Question:** Did you have 11th hour talks along the lines of kraft liner board that fell through, as it were?

**Ambassador Portman:** Yes, we've had discussions. As you know, perhaps, I sent our top legal person from USTR, Jim Mendenhal, our General Counsel, as well as Tim Stratford who is our Assistant US Trade Representative for China to China two to three weeks ago for consultations with the government of China on this very issue. I had hoped that those consultations would result in a change in the Chinese policy, again, that we had raised a number of times, including by the way in the last JCCT where we raised this issue explicitly.

So we've done everything we can to try to resolve this outside of the WTO dispute settlement procedures and we've not been successful. We've given the Chinese every opportunity to respond.

I spoke to the Chinese ambassador here in Washington last night. Again, explained to him in very clear terms our disappointment that it had not been resolved through dialogue. I guess that was the 11th and a half hour discussion. So I think we've been quite patient in the way we've proceeded on this matter.

**Question:** Are there any other WTO cases you're looking at? You guys have talked about the possibility of a case on IPR, but are there other areas that you're looking at?

**Ambassador Portman:** We are. Yes.

**Question:** Could you identify any of those?

**Ambassador Portman:** I'm not prepared to at this point because we're still in dialogue with the Chinese on these issues and we're still looking at the facts and circumstances.

As I said earlier, we don't want to either delay or accelerate these matters. They should be, the timing should be dictated by the facts. So we're not prepared to talk about them yet, Doug, but we are looking, we constantly will be looking at ways to be sure that our trade relationship is more balanced and that the interests of US workers and farmers are protected.

**Question:** Do you think this month will be like a pivot point, though? If you don't see progress in the JCCT meeting and President Hu's visit, could that be a decisive factor in whether you go ahead with more complaints or not?

**Ambassador Portman:** It depends. It depends on what kind of progress we make on the issues that we will be raising at the JCCT and during the presidential visit. In a very real sense, it's up to the Chinese government.

**Question:** Is this the first of some, a few, many possible WTO – People are going to speculate. What do we say?

**Ambassador Portman:** We'll see. Again, my hope is to be able to resolve these issues through a dialogue. The WTO is an imperfect way to resolve these cases because it takes quite a while. Typically a case takes 18 months. An appeal then can take at least six months. At the end of the day your remedy is trade related, in other words typically it's trade sanctions for retaliation. It's better to resolve them. With kraft liner board instead of going through that two year process and then having a trade remedy in place, we resolved the issue. Frankly, that's preferable to the United States and in this case to the exporters from 14 different states in the case of kraft liner board all over this country who were being unfairly discriminated against. Now they have the anti-dumping order revoked. It's what they wanted. And they have the ability to access a growing Chinese market.

That's our objective here. It's not to litigate. The objective is to reach a resolution that is fair.

**Question:** Can you tell me what are your expectations in Rio?

**Ambassador Portman:** My expectation is that we'll be able to make progress on the modalities which is the formula which we are supposed to come up with by the end of April. The end of April is fast approaching and we need to make important decisions on agriculture, market access, and then market access in industrial products or NAMA, non-agricultural market access. The United States has taken a lead in putting on the table a bold proposal on domestic support in agriculture, trade distorting support, but we haven't seen the same level of ambition or detail in the other areas. So that's what our hope is, is to be able to begin to close the gap, to narrow the differences, bridge the differences between WTO members. That's what I'm hoping will come out of this meeting in Rio.

**Question:** [Inaudible]?

**Ambassador Portman:** I'm always optimistic. Sometimes my optimism hasn't been proven to be good judgment, but I have to be optimistic. It's just too important for us to allow this opportunity to slip through our fingers. The opportunity is to reduce tariffs and other barriers globally to be able to grow the economy, create more opportunity in every country, and particularly help developing countries where the highest barriers remain. Every economic analysis shows that if we can successfully conclude this round we'll see tremendous benefits to all of our economies and the opportunity to do that should not be lost, so I have to be optimistic. I think if we keep our eye on the ball and look at the end result that we should be able to resolve these admittedly tough political issues, whether it's agriculture policy at home in the case of the United States and the European Union, or whether it's the tariffs on manufactured products as it might be in some developing countries. It's too important for us not to resolve these issues. So I'm hopeful.

**Question:** Do you have room to go further on domestic subsidies if other countries offer more [inaudible] on market access?

**Ambassador Portman:** Right now the question is whether other countries will do that, Doug. I have said from the start our proposal is not a take it or leave it proposal, but even what we have on the table in terms of domestic support is of course conditioned on increased market access in agriculture. That's only fair and that's required under the Doha mandate in 2001 and in the framework agreement of 2004. So where we are now is we have, again, a bold proposal out there that meets the requirements of the 2004 framework and we are waiting for matching offers on market access. We also have made the point that our offer was conditioned upon meeting the Doha requirement in services and NAMA. Part of the discussion we'll have this weekend will be on those issues.

Thank you all.

###