The Bottom Line

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EU TARIFF TARGETS CHINESE FIRMS OUTSIDE CHINA

Summary

For the first time, the European Union took aim at alleged market-distorting aid granted by a country to exporters located in another state by imposing a countervailing duty upon exports of a Chinese firm located in Egypt.

Background

Countervailing duties (CVDs), also known as anti-subsidy duties, are trade import duties imposed under the World Trade Organization (WTO) rules to neutralize the negative effects of subsidies. The WTO outlines detailed rules for deciding whether a product is being subsidized, criteria for determining whether imports of subsidized products are hurting ("causing injury to") domestic industry, procedures for initiating and conducting investigations, and rules on the implementation and duration (normally five years) of countervailing measures.

China's Belt and Road Initiative (BRI), sometimes referred to as the New Silk Road, is one of the most ambitious projects ever conceived. Launched in 2013 by President Xi Jinping, the vast collection of development and investment initiatives would stretch from East Asia to Europe, significantly expanding China's economic and political influence.

Current Status

Jushi Egypt for Fiberglass Industry SAE and Hengshi Egypt Fiberglass Fabrics SAE are based in the China-Egypt Suez Economic and Trade Cooperation Zone, which is part of China's "Belt and Road" global infrastructure-development plan. The European Commission, which oversees trade policy in the 27 EU countries, said in a report that the companies had received preferential lending, artificially cheap land and electricity, as well as various grants and tax breaks.

The Commission found the market share of the producers rose to 31% in 2018 from 23% in 2015, while their average sales price fell by 14%. The EU determined that these financial benefits received from the Chinese and Egyptian governments unfairly undercut the bloc's own producers, marking the EU's first look into whether Chinese aid is unfairly helping Chinese companies based abroad. Normally, it only considers subsidies from the host government.

Impact

"It's a landmark case that could lead to many more similar ones," said Agatha Kratz, an associate director at Rhodium Group who leads research on EU-China relations and Chinese commercial diplomacy. "Chinese state support is in fact found widely beyond China's borders, with distortive effects on EU and other foreign stakeholders." This move could indicate a paradigm shift in duty determinations. In the U.S., punitive duties are based on the country of origin—here the manufacturing process takes place. This decision has shifted the determination to the ownership of the manufacturing facility, a move that more specifically targets countries found to be providing subsidies to territorial assets, no matter where they are physically located. Should the U.S. follow this path, the burden on importers would increase significantly. Beyond a facility inspection, duty determinations would also involve discerning the true ownership of a manufacturing facility, a difficult task in current conditions.

RESOURCES:

Europe Challenges China's Trade Expansion (Bloomberg)
China's Massive Belt and Road Initiative (CFR)
Anti-Dumping, Subsidies, Safeguards (WTO)