CHINA'S SUPPORT PROGRAMS FOR SELECTED INDUSTRIES: TEXTILES AND APPAREL

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EXECUTIVE SUMMARY

Since 1995, China has been the world's largest textile and apparel exporter. In 2005, China's share of global trade in textiles and apparel products reached 24 percent. Its large market share demonstrates the present competitiveness of China's textiles and apparel industry, 95 percent of which is now privately owned. This competitiveness is all the more remarkable in that it arose out of a period when the entire industry was on the edge of bankruptcy and underwent a painful restructuring program in the late 1990s that was funded by the Chinese government.

Between 1997 and 2000, under the direction and support of the central government, the industry scrapped 110 million outmoded cotton spindles, 280,000 wool spindles and one million silk spindles. As many as 1.4 million workers were laid off as a result. The government provided RMB 3.1 billion in public funds to the industry in the form of grants or tax forgiveness to facilitate its restructuring. Large quantities of foreign advanced textile and apparel equipment were imported to upgrade the technological level of the industry. A total of USD $18.9 billion was spent for this purpose in the five years following 2000. These measures, together with the improvement of the general economic situation in China, turned the industry into the world's largest exporter of textiles and apparel products.

2006 was a year for strategic planning in China. Besides the catchall 11th 5-Year Guideline, several industry-specific development strategies were drafted. Early in April 2006, the State Development and Reform Commission (SDRC) released the *Notice on Several Opinions on Accelerating Restructuring to Facilitate the Upgrading of the Textile Industry*, which calls for further restructuring and technological upgrading of the industry. Again in July 2006, several State Council Ministers jointly issued the *Circular on Relevant Policies to Promote Chinese Textile Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global*. This notice expressly promises to provide funds to assist Chinese textile enterprises to conduct technological innovation; to develop overseas textile industrial parks; and to assist the textile companies to establish overseas production bases.

The *11th 5-Year Plan for the Textile Industry,* issued by the State Development and Reform Commission in June 2006, lays out a comprehensive development strategy for the industry. Three policy objectives listed in the *Plan* are regarded as key to maintaining the competitiveness of the industry. These are (1) enhancing the industry's independent innovation capacity, and developing brand names on the world market; (2) optimizing the industrial structure and upgrading the technologies and equipment of the industry; and (3) restricting inefficient, polluting, and energy-wasteful manufacturing facilities. The *Plan* also calls for industry revenues to increase from RMB 3.3 trillion in 2005 to RMB 6 trillion in 2010.

In all these plans, technology and innovation capacity development were given the highest priority. The *Circular on Relevant Policies to Promote Chinese Textile Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global* expressly authorized the allocation of government funds to support technology innovation. Reportedly, a special fund was established in 2006 in accordance with this notice, with RMB 560 million dedicated to projects related to technology innovation purposes. It has also been reported that local governments are providing loan interest subsidies to support technological innovation projects. Zhongshan City, for example, has provided loan interest subsidies that cover 30-40 percent of the actual interest payments on loans.

The building of brand names is another priority for government support to the textiles and apparel industry. The government has launched a campaign titled "Ten Thousand Miles March for Brand Building," under which companies whose brand names are certified as "famous" will be given free media publicity. Public funds are awarded to cover part of the brand-building expenditures. Local government assistance for brand name building is also available to textiles and apparel companies. For instance, Ningbo City, home to several leading textile manufacturers, has been providing awards to companies that export textiles and apparel products under their own foreign-registered brand names.

WTO agreements generally prohibit export subsidies and import substitution subsidies and allow Members to seek recourse in the WTO (or through countervailing duty cases) regarding specific subsidies that cause adverse effects (material injury to a domestic industry for a countervailing duty case). The WTO Agreement on Subsidies and Countervailing Measures also obliges Members to notify the SCM Committee of existing government support programs. China submitted its first SCM Notification in April 2006, listing 78 government subsidy programs. Many of the notified programs are potentially usable by the textiles and apparel industry.

A number of China's trading partners (including both the United States and Mexico) have filed requests for consultations with China concerning some of its notified subsidy programs that are relevant to the textiles and apparel industry. Such programs include tax policies that favor purchasing domestic equipment, tax and social welfare payment benefits conditioned on export performance, export awards, and export loan interest subsidies.

CHINA'S SUPPORT PROGRAMS FOR SELECTED INDUSTRIES: TEXTILES AND APPAREL

I. CHINA'S TEXTILES AND APPAREL INDUSTRY: AN OVERVIEW

China's textiles and apparel industry is a traditional pillar industry in the Chinese economy. Employment in the industry was 19.6 million in 2005, accounting for 14.2 percent of the total manufacturing workforce. Seventy percent of the employees in the industry come from rural areas and earn a total income of RMB 100 billion every year.[1] The industry consumed 7.3 million tons of domestic natural fibers in 2005, bearing significantly on the livelihood of 100 million farmers.[2] Since 1995, China has been the world's largest textile and apparel exporter. China's total textile and apparel exports in 2005 amounted to USD $117.5 billion, up 121.6 percent from 2000. Over the same period, China's trade surplus in textiles and apparel expanded from USD $39.2 billion in 2000 to $100.4 billion in 2005. At the same time, China's share of global trade in textiles and apparel increased from 15 percent to 24 percent.[3]

In the late 1990s, the central government launched a massive campaign to restructure the industry and reform unprofitable and debt-ridden state-owned enterprises (SOEs).[4]

> Major modernization and restructuring of the industry took place between 1997 and 2000, presumably in anticipation of China's accession to the WTO and the expiry of ATC quotas. During this period, 10 million outmoded cotton spindles, 280,000 wool spindles, and one million silk spindles were scrapped. Many state-

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1 *See NDRC Circular on Distributing The 11th Five-Year Plan for the Textile Industry,* Fa Gai Gong Yi [2006] No. 1072. *See* Exhibit T-22.

2 *Id.*

3 *Id.*

4 *The Textile Industry Development Plan for the 10th 5-Year Period*, State Economic and Trade Commission (2002). *See* Exhibit T-18. *See also State Council Circular on Certain Issues Regarding Deepening Structural Adjustment, Overcoming Difficulties and Stemming Loss of the Textile Industry*, Guo Fa [1998] No. 2. *See* Exhibit T-19.

> owned textiles enterprises went bankrupt or were forced to merge, leading to the unemployment or redeployment of 1.4 million workers. Over US$30 billion of state-of-the-art textiles machinery was imported during this period. Based on the number of spindles scrapped, the Central Government provided assistance to certain SOEs that were running at a loss. In 1997 and 1998, Y 1.6 billion and Y 1.5 billion were provided in the form of grants or tax forgiveness.[5]

The following five years, known as the 10th five-year period (2001-2005), witnessed considerable efforts in technology upgrading in the industry. During this period, China imported USD $18.9 billion of advanced equipment, accounting for 50 percent of the industry's total equipment investment.[6] Meanwhile, domestic textile machinery manufacturing capacity also expanded significantly. From 2000 to 2005, the industry's sales revenue rose by 137.4 percent.[7]

Despite the advancements during the 10th five-year period, the Chinese government views the textile industry as facing many constraints going forward. Domestic enterprises on average are weak in innovation, with limited R&D activities. Today, the industry still relies heavily upon imports of high-end equipment and technologies. In terms of exports, most enterprises engage in OEM manufacturing for foreign brand names and are faced with a steep learning curve to develop brands of their own that will garner global recognition and acceptance. The industry is also fragmented; most enterprises are small in scale, competing against each other in labor-intensive and low-technology product processing. These are the major issues the Chinese government seeks to address in the 11th five-year period (2006-2010).

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5 *See Trade Policy Review – People's Republic of China; Report by the Secretariat*, WT/TPR/S/161/Rev.1 (26 June 2006) at 195, para. 102.

6 *See NDRC Circular on Distributing The 11th Five-Year Plan for the Textile Industry*, Fa Gai Gong Yi [2006] No. 1072. *See* Exhibit T-22.

7 *Id.*

II. GOVERNMENT SUPPORT TO THE TEXTILES AND APPAREL INDUSTRY

A. MAJOR DEVELOPMENT PLANS AND POLICIES

1. Development Goals

In *The 11th Five-Year (2006-2010) Guideline for National Economic and Social Development* (*see* Exhibit A-I-2), "optimizing and upgrading industrial structure" is laid out as a development focus. Under this overriding principle for industrial development, one of the priorities of the Guideline is to increase the value-added in the textile industry, specifically:

> To strengthen the technological capability of the textile industry and increase the number of Chinese-owned brand names; to develop high-tech, high-performance, differential, and environmental-friendly fibers and renewable fibers, and to enhance the development and utilization of textiles for industry-use, silk and non-cotton natural fibers; to advance the gradient shift of the textile industry.

In the spirit of the Guideline, the central government mapped out a detailed development plan for the textile industry in *The 11th Five-Year Plan for the Textile Industry* (*see* Exhibit T-22). The Plan sets forth the following goals:

(1) To significantly enhance the independent innovation capacity of the textiles industry, develop influential technologies with intellectual property rights ownership and foster well-known global brand names;

(2) To optimize the industrial structure and upgrade technologies and equipment; and

(3) To effectively control inefficient low-level manufacturing which consumes excessive amounts of energy and is not environmentally-friendly.

These goals echo the Guideline and are designed to address existing problems in the development of the textiles industry. The Plan also spells out specific targets to be met by 2010 in production, consumption and exports.

2010 Targets Set Out in the 11th 5-Year Plan for the Textile Industry

	2005	2010	Annual Growth
Total amount of fiber processing	26.9 million tons	36 million tons	6%
Per capita fiber consumption	13 kilograms	18 kilograms	6.7%
Productivity	RMB 51099 per capita per year	RMB 85000 per capita per year	10.7%
Sales revenue	RMB 3300 billion	RMB 6000 billion	12.7%
Exports of textiles and apparel	USD $117.5 billion	USD $180 billion	9%
Employment	19.6 million	23 million	3.3%

With a view to better tackling challenges facing the textile industry, in 2006, the central government also issued a *Notice on Several Opinions on Accelerating Restructuring to Facilitate the Upgrading of the Textile Industry* (*see* Exhibit T-1). The Notice identified priorities of the restructuring efforts, which include manufacturing equipment and technologies, supply of raw materials, industry applications, utilization of natural resources, brand development, corporate organization, and geographic distribution of the industry.

In the 2006 *Opinions of the State Council on Revitalization of the Industrial Machinery Manufacturing Industries* (*see* Exhibit T-2), which calls for the enhancement of independent innovation capacity and expansion of market shares of domestic companies in the industrial machinery manufacturing, textile machinery is listed as one of the 16 key fields. The specific plan targets the development of advanced textile machinery and upgrading of the textile industry, with priorities being given to the development and industrialization of core equipment and technologies, including the polyester short-fiber manufacturing equipment with daily output of over 200 tons, high-speed viscose filament spinning machines, high-efficiency cotton-spinning equipment, rapier looms and air-jet spinning machines featuring mechatronics.

2. Policy Support Guidelines

To accomplish the various development goals, the above plans or opinions advocate a variety of preferential policies to support the textiles industry. Chief among them are:

- To allocate special funds from the state fiscal budget to support the development of key equipment and technologies.
- To use tax incentives to encourage R&D spending and technological innovation of textile companies.
- To introduce the policy of increasing the magnitude of tax deductions for advertising expenses.
- To aid the brand development and overseas investment of domestic textile companies, rendering support in the establishment of overseas manufacturing facilities, R&D centers, logistics and distribution centers, and the application for international certificates and registration of trademarks.
- To implement preferential tax policies for the import of key spare parts and raw materials required for the manufacturing of textile machinery.
- To encourage the procurement of major domestically-produced equipment.

B. SUPPORT PROGRAMS OF THE CENTRAL GOVERNMENT

In accordance with government development goals and policy support guidelines, the central government has implemented many concrete programs and policies to subsidize textile companies and the textiles industry. The subsidies take the form of government grants and tax incentives, and include those available nationwide and those provided to selected regions.

1. Grants Provided by the Central Government

a. The Special Fund to Support the Restructuring of the Textiles Industry and the Efforts of Chinese Textile Companies to "Go Global"

The 2006 *Circular on Relevant Policies to Promote Chinese Textile Industry to Shift to New Ways of Growth in Foreign Trade and Support Chinese Textile Enterprises to Go Global* (*see* Exhibit T-3), issued by the Ministry of Finance, the State Development and Reform Commission, and the Ministry of Commerce, authorized the allocation of a special government fund to support technology innovation and restructuring in the textiles industry and overseas investment by textile companies. More specifically, the fund is utilized as follows:

- To support technology innovation and restructuring in the textile industry and facilitate the shift to the new growth mode in foreign trade.
  - To provide lump sum direct grants to projects of technology innovation, development and industrialization of core technologies and equipment, establishment of innovation services platforms, and brand development and promotion.
- To support the establishment of overseas textile industrial parks, providing a favorable environment for textile companies in the course of "going global."
  - To provide loan interest subsidies for the construction of overseas textile industrial parks.
  - To subsidize the provision of land, manufacturing facilities, infrastructure and services in overseas textile industrial parks.
- To support textile companies in "going global" through overseas investment and diversifying their products origin through overseas manufacturing.
  - To subsidize the expenses of Chinese textile companies incurred in early stages of "going global" that may involve R&D, consulting services, feasibility study and project evaluation, and intellectual property rights protection.
  - To subsidize the expenses of Chinese textile companies in the establishment of distribution channels in overseas markets.
  - To support service companies and dragonhead textile companies in the organization of "going global" activities.

The initial scale of the fund is about RMB 1.35 billion, with RMB 560 million dedicated to projects related to technology innovation and restructuring and RMB 800 million for the "going global" operation.[8] The portion for restructuring is administered at the central level by

[8] *See A Special Fund of RMB 1.36 Billion to Support the Restructuring of the Textile Industry*; available at http://www.texnet.com.cn/news/2007/01/30/152680.html. *See* Exhibit T-31.

the Ministry of Finance and the State Development and Reform Commission, while the portion for "going global" is appropriated to provincial governments who are required to formulate their own measures on the administration of the fund in accordance with guidelines given by the central government. The amount of the fund for "going global" received by each province is in proportion to the exports and overseas investment of that province.

Jiangsu Province, for example, received a total of RMB 110 million in 2006 as a major textiles and apparel exporter in China.[9] Pursuant to the Jiangsu Province's *Measures on the Administration of the Fund to Support Textile Companies to "Go Global"* (October 26, 2006) (*see* Exhibit T-4), the fund is to support the establishment of overseas textile industrial parks, overseas investment by textile companies, set-up of overseas marketing and sales networks, and activities of service companies in facilitating overseas investment of textile companies. The following table presents the detailed standards for the provision of subsidies under this program. The amount of subsidies is specified on a single project basis.

9 *See Jiangsu Province Obtained RMB 110 Million of the Special Fund for Textile Companies from the Central Government*; available at http://www.sinotex.net/news/shownews.asp?id=64108. *See* Exhibit T-32.

End-uses	Amount of subsidies	Recipients
Construction of overseas textiles processing zones or textile industrial parks	A grant of up to RMB 2 million	Project contractors
Insurance for overseas project construction	Subsidization of 50% of the premium	Project contractors
Land leasing or purchasing, and construction of manufacturing facilities in overseas investment	A grant of up to RMB 1 million	Textile companies
Insurance for overseas investment projects	Subsidization of 50% of the premium	Textile companies
Leasing office space for R&D activities, hiring designers, and purchasing relevant materials in overseas operations	A grant of up to RMB 500,000	Textile companies
Overseas trademarks registration and product certification	Subsidization of 50% of the expenses	Textile companies
Litigation and arbitration related to intellectual property rights protection in overseas operations	50% subsidization of expenses (not exceeding RMB 500,000)	Textile companies
Decoration and space leasing for boutique stores opened overseas	A grant of up to RMB 200,000	Textile companies
Office and storage space leasing for after-sales service networks and logistics centers established overseas	A grant of up to RMB 100,000	Textile companies
Development or purchase of information management system software for after-sales service networks established overseas	Subsidization of 50% of the expenses	Textile companies
Insurance for the overseas marketing and sales branches	Subsidization of 50% of the premium	Textile companies
Development of information service websites on overseas investment	Subsidization of 50% of the expenses	Service companies or "dragonhead" textile companies
Space leasing, advertising and translation services for investment fairs and briefings	A grant of up to RMB 200,000	Service companies or "dragonhead" textile companies

b. The Trade Promotion Fund for Agriculture, Light Industry and Textile Products

With a view to enhancing the export quality and competitiveness of the agriculture, light manufacturing and textiles industries, the central government operates a fund to promote trade in agriculture, light industry and textile products. Under *the Provisional Measures on the Administration of the Trade Promotion Fund for Agriculture, Light Industry and Textile Products* (*see* Exhibit T-5), issued by the Ministry of Commerce and the Ministry of Finance in 2005, textile companies that have conducted R&D projects for new products or have been contracted for state or provincial research projects in the past three years, as well as textile industry associations with a membership of not less than 500 that have hosted national or international exhibitions, seminars and trainings in the past three years, are both eligible to receive grants from the fund.

In 2006, the priority of the fund for textile products was the technology service platforms of the textiles industry, as stipulated in *the Notice on the Application for the Trade Promotion Fund for Agriculture, Light Industry and Textile Products in 2006* (*see* Exhibit T-6). The platforms, individually or jointly run by industry associations or companies, serve export-oriented textile companies, providing technologies and equipment required in R&D, product design, quality control, and product testing. Each project related to the technology service platforms can be subsidized with a grant up to RMB 2 million.

c. The Special Fund for Brand Development

In its endeavors to build Chinese-owned global brand names, the Chinese government has launched a series of brand appraisal and brand promotion activities such as the "Ten

Thousand Miles March for Brand Building." Fifty-five textile and apparel brands are listed as the 2005-2006 "Export Brand Names with Priority Support from the Ministry of Commerce".[10] Twenty-four textile and apparel products were awarded with the title of "The Most Competitive Brand Names" in 2006.[11] Companies owning these brand names can benefit from the *Special Fund for Brand Development* that the central government has earmarked from the *Central Foreign Trade Development Fund*.

Pursuant to *the Circular on the Administration of the Special Fund for Brand Development* (*see* Exhibit T-7), issued by the Ministry of Commerce and the Ministry of Finance in 2006, the fund should serve the following purposes:

- To support companies in implementation of brand development programs.
- To support companies in participation of national and international exhibitions.
- To support brand promotion activities.
- To support international exchanges, trainings and seminars related to brand building.
- To support other public services that facilitate brand building.

The Ministry of Commerce and the Ministry of Finance appropriate the fund to provincial governments who are required to formulate their own measures on the administration of the fund. The following is an example of how the fund is used in Fujian Province:[12]

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10 MOFCOM, *The 2005-2006 List of Export Brand Names with Priority Support from the Ministry of Commerce*, Gong Gao [2005] No. 3; available at http://news.xinhuanet.com/zhengfu/2005-03/18/content_2714035_1.htm. *See* Exhibit T-33.

11 MOFCOM, *The 2006 List of the Most Competitive Brand Names*, Gong Gao [2007] No. 6; available at http://www.mofcom.gov.cn/aarticle/b/g/200702/20070204386506.html. *See* Exhibit T-34.

12 *See Provisional Measures on the Administration of the Special Fund for Export Brand Development of Fujian Province. See* Exhibit T-20.

Grants for corporate development projects provided to textile and apparel companies with brand names that are awarded with the titles of "Export Brand Names with Priority Support from the Ministry of Commerce" and "The Most Competitive Brand Names":

- To subsidize the exhibition and shipping expenses for major trade fairs organized by the Ministry of Commerce and the provincial government.
- To subsidize the expenses for the establishment of R&D centers of export brand names recognized by the provincial government or agencies of a higher level.
- To subsidize the certification fees for quality and environmental management systems and the testing fees for product certification.
- To subsidize the expenses for the opening of boutique stores and after-sales branches in overseas markets.
- To subsidize the expenses for trademark registration and patent application in overseas markets, and the legal expenses for dealing with intellectual property rights infringement cases.
- To subsidize the expenses for acquiring foreign well-known brand names.
- To subsidize the expenses for advertising via major media in domestic and overseas markets.

Grants for public services projects provided to intermediaries and service companies:

- To subsidize the expenses for promoting and advertising brand names in domestic and international trade fairs and exhibitions.
- To subsidize the expenses for coordinating the participation of companies in domestic and international trade fairs.
- To subsidize the expenses for preparing and distributing advertising materials.
- To subsidize the expenses for brand development planning, exchange programs, seminars, research, and training.
- To subsidize the expenses for the development and maintenance of export brand names network that provides information services to companies.
- To subsidize the expenses for brand appraisal.
- To subsidize the expenses for other public services that facilitate brand development.

With respect to the amount of the grants, for corporate development projects, each project can receive a grant up to RMB 200,000 or 50 percent of the actual expenses required by the project; public services projects, if covered under the public services project plan jointly determined by the provincial foreign trade bureau and finance bureau, can be fully subsidized.

2. Tax Incentives Provided by the Central Government

The Central Government provides various tax incentives to textiles and apparel companies that are designed to support brand promotion efforts, stimulate technology innovation and encourage both domestic and foreign investment. Major types of benefits include income tax deductions and reductions, and refunds of import tariff and value-added taxes (VAT).

According to the 2006 *Circular of the State Administration of Taxation on the Adjustment of the Income Tax Deductibility of Advertising Expenses of Apparel Manufacturing Companies* (*see* Exhibit T-8), since January 1, 2006, advertising expenses of apparel companies, within the limit of 8 percent of the sales revenue, can be fully deducted from the income tax; if the advertising expenses exceed 8 percent of the sales revenue, the amount in excess can be deducted from the income tax of the next year, and the postponement of such deductibility is infinite. This new regulation represents a significant increase in the deductible amount of advertising expenses, compared to the original 2 percent of the sales revenue stipulated in the *2000 Circular of State Administration of Taxation Measures on Corporate Income Tax Deduction* (*see* Exhibit T-9).

Pursuant to the 2003 *Circular of the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) on Expanding the Application of Tax Deduction for Technology Development Expenditure by Enterprises* (*see* Exhibit T-10), industrial enterprises, including textile and apparel manufacturing enterprises, regardless of ownership, are not only able to fully deduct the expenses incurred for research and development of new products, new technologies and new crafts from their income taxes, but are also allowed an additional 50 percent deduction of R&D expenses, if such expenses increase 10 percent or more from the previous year. The 2006 *Circular of MOF and SAT on Preferential Corporate Income Tax Policies for Technological Innovation* (*see* Exhibit T-21) reaffirms the above practice. In addition, the 2006 Circular provided for an income tax deduction for employee educational expenses and the acceleration of R&D equipment depreciation.

Pursuant to the 2007 *Notice of the Ministry of Finance, the State Development and Reform Commission, the General Customs Administration, and the State Administration of Taxation on Relevant Import Tax Policies to Implement the Opinions of the State Council on Revitalization of the Industrial Machinery Manufacturing Industries* (*see* Exhibit T-11), companies engaged in the manufacturing of advanced textile machinery are eligible to receive refund of customs duties and import VAT for the imports of key spare parts and raw materials that cannot be produced domestically.

Under China's newly-enacted *Enterprise Income Tax Law* (*see* Exhibit F-15), which equalizes the income tax rate for domestic and foreign enterprises at 25 percent, state-encouraged new- and high-technology enterprises can enjoy a favorable 15 percent income tax rate. This benefit would encourage domestic and foreign companies to invest in the manufacturing of advanced textile machinery.

3. Priority Support Rendered by the Central Government to Selected Local Textile Industries

In January 2006, the Chinese National Textile and Apparel Industry Council (CNTAC) and the Hangzhou Municipal Government signed a cooperation agreement under which CNTAC will give priority support to the upgrading of the textile industry in Hangzhou, a textile powerhouse in China. As part of the cooperation, the two sides will join hands to establish a textile circulation and innovation service platform with a total investment of RMB 320 million in the Xiaoshan district of Hangzhou City, the largest polyester manufacturing base in the world. The platform will consist of six service centers, *i.e.*, an exhibition center, an information release center, a product testing center, a product development center, an e-commerce and modern logistics center, and a personnel training and communication center. According to the Vice Chairman of CNTAC, this support program is expected to generate additional annual revenue of RMB 4 billion for the polyester industry alone in Hangzhou.[13]

C. SUPPORT PROGRAMS OF PROVINCIAL AND LOCAL GOVERNMENTS

At the sub-central governments, there is an array of benefits available to textiles and apparel companies, including monetary awards, loan interest subsidies, preferential treatment in land use and energy use, and tax incentives.

[13] *See CNTAC Giving Support to the Upgrading of the Textile Industry in Hangzhou: One Meter of Cloth to Generate An Additional Revenue of RMB One Yuan,* HANGZHOU DAILY (January 15, 2006)*;* available at http://www.gd51.com/info/viewfile/2006/01/15/1520_1658226.html. *See* Exhibit T-35.

1. Monetary Awards to Textiles and Apparel Companies Contingent Upon Export Performance and Brand Development

Many local governments provide monetary incentives to boost textiles and apparel exports and encourage brand building. The following reviews such incentives adopted in three municipalities that are at the forefront of the textiles and apparel industry in China.

Ningbo City of Zhejiang Province has been subsidizing certain textiles and apparel exporters since 1999. Under the *Measures on Awarding Brand Name Textile and Apparel Exports* (*see* Exhibit T-12), issued in 1999, exporters of textile and apparel products with trademarks registered overseas and annual exports of over USD $200,000 can receive monetary awards for the increment in exports over the previous year; to be more specific, an award of RMB 0.03 for every U.S. dollar of textile exports and an award of RMB 0.05 for every U.S. dollar of apparel exports.

Hangzhou City of Zhejiang Province has a slightly different subsidy mechanism. Pursuant to the *Notice on Applying for the Awards for Brand Name Textile and Apparel Exports in 2004* (*see* Exhibit T-13), benefits are extended to exporters on the basis of the total amount of exports. The standards are as follows:

Exports in 2004 **(in USD)**	**Amount of the Award** **(in RMB)**
1-5 million	10,000
5-10 million	30,000
10-50 million	60,000
Over 50 million	100,000

Instead of giving export-contingent awards, Shishi City of Fujian Province offers monetary incentives based on achievements in brand building. Under the city's most recent award measures (*see* Exhibit T-14), textiles and apparel companies with well-known brand names recognized by the State Administration of Industry and Commerce or the Administration of Quality Supervision, Inspection and Quarantine can receive a lump-sum award of RMB 500,000; for companies with well-known export brand names, the award is RMB 400,000. In addition, companies that have received quality inspection waivers from the national government are eligible for awards of RMB 100,000 from the Shishi City government.

2. Loan Interest Subsidies for Technology Renovation

Another major type of incentive offered to the textiles and apparel industry at the provincial and local level is loan interest subsidies for technology renovation. Provincial and municipal governments administer a fund used to subsidize loan interest for upgrading technologies and equipment across a range of key industries. As spelled out in the *Measures of Liaoning Province on the Administration of the Fund for Loan Interest Subsidies for Technology Upgrading* (*see* Exhibit T-15), the fund serves to encourage banks and other financial institutions to increase the magnitude of support to enterprises in technology upgrading. As a common practice, the textiles and apparel industry is identified as one of the key industries that enjoy priority support from this type of program. With regard to the amount of the subsidies, in the example of Zhongshan City of Fujian Province, as stipulated in the *Provisional Measures of Zhongshan City on the Administration of the Fund for Loan Interest Subsidies for Technology*

Upgrading of Industrial Enterprises (*see* Exhibit T-16), each project can receive subsidies up to RMB 3 million or 30-40 percent of the total amount of interest in a year.

3. Incentives Provided by Local Textile Industrial Parks

To boost local competitiveness, many provincial and local governments have established textile industrial parks where various preferential policies are adopted to attract both domestic and foreign investment. Zhejiang Province, for example, started the operation of textile industrial parks in the late 1990s and provided investors with reduced energy costs, preferential land prices, and tax incentives.[14] A more recent example is the Northeast Footwear Industrial Park located in Liaoyuan City of Jilin Province. Incentives provided to investors include:[15]

- *Tax benefits*: local income taxes can be refunded to the enterprises in full within 5 years; enterprises with annual VAT payments above RMB 1 million and sales taxes of RMB 500,000 may receive a 20 percent refund of the portion of the tax allocated to the industrial park.
- *Preferential treatment in land use*: enterprises with a fixed asset investment of above RMB 10 million and annual tax payments of RMB 1 million can receive a waiver of the land leasing fee for 20 years.
- *Preferential treatment in administrative fees*: enterprises with a fixed asset investment of above RMB 5 million can receive a waiver of administrative fees during the construction period and within 5 years of operation.

D. THE MAGNITUDE OF GOVERNMENT SUBSIDIES RECEIVED AT THE ENTERPRISE LEVEL

The annual reports of some textiles and apparel companies listed on China's stock exchanges shed some light on some of the amounts identified by Chinese companies as potentially subsidies. The subsidies listed in the annual reports are not necessarily complete, nor

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[14] *See Report on the Textile Industry Development in Zhejiang Province;* available at http://www.gdet.gov.cn/jmzc/hyjj/fzfz/fwngw/detail.jsp?recid=28182.

[15] *See* http://www.dbwy.cn/main/zhengce_index1.html.

are the amounts listed as subsidies in the reports necessarily indicative of whether they are either actionable or prohibited subsidies. Nonetheless, the information does provide some insight into the types of programs being used by selected Chinese textiles and apparel companies. The following is a review of the subsidy amounts received by six major Chinese textiles and apparel companies between 1999 and 2006 based on information disclosed in their annual reports. For these companies, the average ratio of subsidies, including VAT export rebates in some cases, calculated by comparing the total amount of subsidies actually received with the total sales revenue, ranges from 2.01 percent to 0.12 percent. The weighted-average ratio of subsidies for these six companies is 0.8753 percent.[16]

1. Youngor Group Company, Ltd.

Youngor Group Company, Ltd. is the leading company in China's textiles and apparel industry. It ranks first in the industry with regard to both sales revenue and net profits in the most recent 6 years. Its men's suits, marketed under the Youngor brand, have had the largest market share since 1994. The company's principal business includes garment manufacturing, textiles production, and real estate development, accounting for 41 percent, 32 percent and 20 percent, respectively, of the company's revenue. The company is also a large textiles and apparel exporter. In 2006, 27 percent of its revenue stemmed from sales in foreign markets.[17] Its stock is listed on the Shanghai Stock Exchange.

16 The weighted-average subsidies ratio is calculated by dividing the aggregate subsidies received by the six companies during the entire period under review by the aggregate sales revenue for the same period.

17 Google Finance Public Company Profile: Youngor Group Company, Ltd.; available at http://finance.google.com/finance?q=Youngor+Group+Co.%2C+Ltd. (accessed May 16, 2007).

Youngor Group Company, Ltd.
Subsidies Received: 1999 to 2006

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	50,367,519.40	5,975,663,895.34	0.84288
2005	81,007,176.20	4,628,151,622.29	1.75031
2004	85,282,253.91	4,155,210,902.92	2.05242
2003	82,469,252.68	2,703,068,207.91	3.05095
2002	82,594,331.83	4,155,210,902.92	1.98773
2001	64,900,933.29	2,703,068,207.91	2.40101
2000	55,491,875.50	1,437,739,642.57	3.85966
1999	35,593,090.73	1,040,912,020.47	3.41941
TOTAL	**537,706,433.54**	**26,799,025,402.33**	**2.00644**

Source: Youngor Group annual reports 1999-2006 (*see* Exhibit T-25).

Youngor Group
Breakdown of Subsidies Received[18]

Subsidy	Year	Amount (RMB)
VAT rebate	2006	41,034,568.40
	2005	54,379,613.19
	2004	44,907,853.80
	2003	37,801,867.42
	2002	35,841,751.43
	2001	37,017,845.29
	2000	55,491,875.50
Export loan interest subsidy	2004	2,259,963.51
	2003	2,330,997.26
	2002	748,580.40
	2001	3,089,088.00
Local subsidy for efforts to attract investment	2006	250,000.00
Technological renovation grants	2006	1,072,000.00
	2005	3,000,000.00
	2004	8,593,000.00
	2003	5,242,000.00
	2002	11,420,000.00
	2001	12,240,000.00
High-Tech project support grants	2006	620,000.00
	2005	9,910,000.00
	2004	11,000,000.00

18 No information was found on the specifics of the subsidies received by Youngor Group in 1999.

Subsidy	Year	Amount (RMB)
	2003	24,000,000.00
	2002	21,000,000.00
	2001	9,000,000.00
Technological renovation loan interest subsidy	2006	196,000.00
	2005	5,603,760.00
	2004	1,640,800.00
	2003	6,077,000.00
	2002	584,000.00
	2001	3,554,000.00
Local grants	2006	3,123,911.00
	2005	1,978,000.00
	2004	6,702,400.00
	2003	6,200,000.00
Digital technology demonstration program assistance	2006	100,000.00
	2004	1,452,000.00
	2003	622,000.00
Export development fund distribution	2006	587,400.00
	2005	22,190.00
	2004	5,760,000.00
Award on export performance	2003	190,388.00
Award for engaging in processing trade	2006	432,400.00
Electricity & energy price adjustment allowance and electric power generation award	2005	3,479,000.00
Model enterprises allowance	2005	740,000.00
Brand name enterprise award	2006	1,010,000.00
Technological activity allowance	2005	440,000.00
	2006	600,000.00
Compensation for expenditures related to acquisition of land use right	2004	2,500,236.60
Investment assistance	2002	13,000,000.00
Miscellaneous	2006	1,340,500.00
	2005	1,454,613.01
	2004	466,000.00
	2003	5,000.00

Source: Youngor Group annual reports 1999-2006 (*see* Exhibit T-25).

2. Ningbo Shanshan Company, Ltd.

Ningbo Shanshan Company, Ltd. ranks fifth in China's apparel industry in terms of sales revenue. The company is principally engaged in the manufacture and sale of garments and chemical materials used in batteries. The company's brand name "Shanshan" has been certified by various authorities as a "famous brand." Its suit products, marketed under the Shanshan brand, have the second largest market share. Its stock is listed on Shanghai Stock Exchange.

Ningbo Shanshan Company, Ltd.
Subsidies Received: 1999 to 2006

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	13,777,485.95	1,543,823,311.15	0.89243
2005	12,234,422.33	1,241,371,633.48	0.98556
2004	13,136,004.64	1,000,739,388.05	1.31263
2003	18,039,512.91	860,404,079.46	2.09663
2002	9,454,147.89	894,813,987.06	1.05655
2001	18,501,312.76	730,459,982.81	2.53283
2000	16,138,231.22	807,048,429.71	1.99966
1999	11,609,262.16	782,382,081.00	1.48384
TOTAL	**112,890,379.86**	**7,861,042,892.72**	**1.43607**

Source: Ningbo Shanshan Co., Ltd., annual reports for 1999-2006 (*see* Exhibit T-26).

Ningbo Shanshan Company, Ltd.
Breakdown of Subsidies Received[19]

Subsidy	Year	Amount (RMB)
Various VAT rebates	2006	9,496,585.98
	2005	10,198,426.33
	2004	11,763,488.64
	2003	13,544,501.81
	2002	7,592,822.89
	2001	14,235,312.76
	2000	16,138,231.22
Local authority special purpose subsidy	2006	1,311,000.00
	2005	1,925,000.00
	2004	1,206,000.00
	2003	4,453,611.10
Technological project subsidy	2006	2,969,900.00
	2005	111,000.00
Export subsidy	2004	166,516.00
	2003	41,400.00
Local fiscal aid	2002	1,636,600.00
	2001	4,266,000.00

Source: Ningbo Shanshan Co., Ltd., annual reports for 1999-2006 (*see* Exhibit T-26).

3. Inner Mongolia Eerduosi Cashmere Products Company, Ltd.

Inner Mongolia Eerduosi Cashmere Products Company, Ltd. is China's largest producer of cashmere textile products. It claims to have 40 percent of the Chinese cashmere market share. Its products include de-haired cashmere, cashmere yarn, sweaters, coats, and silk/cashmere blended products. Its stock is listed on the Shanghai Stock Exchange.

19 No information was found on the specifics of the subsidies received by Ningbo Shanshan Co., Ltd. in 1999.

Inner Mongolia Eerduosi Cashmere Products Company, Ltd.
Subsidies Received: 1999 to 2006[20]

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	18,611,428.00	4,002,706,259.00	0.46497
2005	6,883,030.00	2,939,924,055.00	0.23412
2004	4,185,549.00	3,097,504,326.00	0.13513
2003	317,057.00	2,917,197,868.00	0.01087
2002	10,093.00	2,215,020,454.00	0.00046
2001	50,620.00	2,427,947,819.00	0.00208
2000	0.00	1,821,818,156.00	0.00000
1999	608,337.00	1,479,731,279.00	0.04111
TOTAL	**30,666,114.00**	**20,901,850,216.00**	**0.14671**

Source: Inner Mongolia Eerduosi Cashmere Products Co., Ltd., annual reports for 1999-2006 (*see* Exhibit T-27).

4. Shanghai Haixin Group Company, Ltd.

Shanghai Haixin Group Company, Ltd. is principally engaged in textiles, toy, and pharmaceutical manufacturing. The company is a major producer of chemical yarns/fabrics, blended yarns/fabrics, carpets, garments and other textile products. Main products include high grade jacquard and transfer printing plush, high-pile, warp-knitting fabrics and high-density plush fabrics. Its stock is listed on the Shanghai Stock Exchange.

[20] The company did not specify in its annual reports the type of subsidies it received for the years 2004, 2002, and 1999. For the other years, all of the subsidies received were VAT export rebates.

Shanghai Haixin Group Company, Ltd.
Subsidies Received: 1999 to 2006

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	2,016,132.66	1,863,681,123.03	0.10818
2005	290,671.00	1,902,968,116.88	0.01527
2004	2,688,782.11	1,933,561,092.40	0.13906
2003	2,538,504.00	1,828,578,540.30	0.13882
2002	657,704.57	1,629,164,338.45	0.04037
2001	4,176,810.98	1,090,956,908.34	0.38286
2000	448,295.50	964,915,421.59	0.04646
1999	234,136.67	758,344,591.42	0.03087
TOTAL	**13,051,037.49**	**10,108,489,009.38**	**0.12911**

Source: Shanghai Haixin Group Co., Ltd., annual reports for 1999-2006 (*see* Exhibit T-28).

Shanghai Haixin Group Company, Ltd.
Breakdown of Subsidies Received

Subsidy	Year	Amount (RMB)
VAT rebate	2006	316,760.66
	2002	21,992.89
	2000	203,200.00
Income tax rebate	2006	1,400,000.00
	2000	117,620.32
Export loan interest subsidy	2006	2,420.00
	2002	553,651.68
	2001	699,560.98
	2000	11,970.00
	1999	234,136.67
Local fiscal grants	2005	282,671.00
	2004	2,297,126.00
	2003	2,348,496.00
	2001	3,477,250.00
	2000	115,505.18
Miscellaneous	2002	82,060.00

Source: Shanghai Haixin Group Co., Ltd., annual reports 1999-2006 (*see* Exhibit T-28).

5. Shanghai Kaikai Industry Company, Ltd.

Shanghai Kaikai Industry Company, Ltd. is a major producer and retailer of shirts, woolen sweaters, cotton knitted goods, apparels, shoes, hats and other textile goods. Its stock is listed on the Shanghai Stock Exchange.

Shanghai Kaikai Industry Company, Ltd.
Subsidies Received: 1999 to 2006

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	2,673,900.00	693,945,460.08	0.38532
2005	2,150,355.00	833,679,230.08	0.25794
2004	2,113,813.12	1,886,944,340.34	0.11202
2003	3,440,818.47	2,179,799,385.38	0.15785
2002	3,198,132.00	1,688,875,980.55	0.18936
2001	1,962,623.54	1,114,928,182.95	0.17603
2000	2,447,973.78	575,200,781.00	0.42559
1999	677,077.90	390,526,500.00	0.17338
TOTAL	**18,664,693.81**	**9,363,899,860.38**	**0.19933**

Source: Shanghai Kaikai Industry Co., Ltd., annual reports 1999-2006 (*see* Exhibit T-29).

Shanghai Kaikai Industry Company, Ltd.
Breakdown of Subsidies Received

Subsidy	Year	Amount (RMB)
VAT export rebate	2006	2,390,000.00
	2005	1,760,000.00
	2002	3,070,000.00
	2001	1,400,000.00
Local tax rebate	2006	226,700.00
	2005	329,180.00
	2004	1,219,812.69
	2003	2,740,702.45
	2002	93,940.88
	2001	456,107.69
VAT local allowance	2001	106,515.85
SARS allowance	2006	39,200.00

Subsidy	Year	Amount (RMB)
Export award	2006	18,000
Equipment purchase subsidy	2004	50,000.00
Reemployment support	2004	100,994.43
Local government grants	2004	743,000.00
Export loan interest subsidy	2003	700,116.02
	2002	34,191.00

Source: Shanghai Kaikai Industry Co., Ltd., annual reports 1999-2006 (*see* Exhibit T-29).

6. Zhejiang Golden Eagle Company, Ltd.

Zhejiang Golden Eagle Company, Ltd. is a major manufacturer for textiles and apparel products as well as for textile equipment. Its main products include silk, flax, wool silk, reeling machines, flax wet-spinning frames, and apparel. Its stock is listed on the Shanghai Stock Exchange.

Zhejiang Golden Eagle Company, Ltd.
Subsidies Received: 1999 to 2006

Year	Subsidy (RMB)	Revenue (RMB)	Subsidies as % of Revenue
2006	2,821,653.47	1,508,145,310.90	0.18709
2005	2,006,364.00	1,306,889,446.77	0.15352
2004	2,165,323.00	1,292,180,620.49	0.16757
2003	1,273,000.00	1,055,554,282.90	0.12060
2002	5,564,853.00	714,050,800.00	0.77934
2001	10,676,284.29	629,816,900.00	1.69514
2000	1,333,090.00	571,462,400.00	0.23328
1999	295,000.00	461,359,222.12	0.06394
TOTAL	**26,135,567.76**	**7,539,458,983.18**	**0.34665**

Source: Zhejiang Golden Eagle Co., Ltd., annual reports 1999-2006 (*see* Exhibit T-30).

Zhejiang Golden Eagle Company, Ltd.
Breakdown of Subsidies Received

Subsidy	Year	Amount (RMB)
Government grants	2006	2,821,653.47
	2005	2,006,364.00
	2004	1,722,700.00
	2003	1,273,000.00
	2002	5,200,000.00
	2001	6,139,000.00
Export loan interest subsidy	2004	442,623.00
	2002	364,853.00
	2001	837,810.00
Export VAT rebate	2004	2,685,251.67
Subsidy for laid-off workers settlement	2003	3,659,474.21
Environmental projects loan interest subsidy	2003	40,000.00
Technological renovation grants	2000	633,500.00
Loan interest subsidy	2000	669,590.00
Awards for contributions to waterworks Projects	2000	30,000.00
	1999	295,000.00

Source: Zhejiang Golden Eagle Co., Ltd., annual reports 1999-2006 (see Exhibit T-30).

III. SUBSIDY PROGRAMS APPLICABLE TO THE TEXTILES AND APPAREL INDUSTRY NOTIFIED BY CHINA TO THE WTO

On April 13, 2006, China filed its long-awaited subsidies notification to the WTO as required under Article 25.1 of the WTO Subsidies and Countervailing Measures Agreement.[21] The notification is considered to be incomplete, as it contained information only on programs granted at the central government level, not on programs provided by state-owned banks or by provincial and local government authorities.

Many of the notified programs, though not intended for the textiles and apparel industry specifically, are applicable to the textiles and apparel industry, including those designed to encourage foreign investment,[22] domestic investment,[23] high- and new-technology development,[24] regional development,[25] research and development,[26] transfer of technology,[27] purchase of domestically-produced equipment,[28] technological innovation,[29] and technological upgrading.[30] Benefits provided under these programs take the form of preferential tax treatment, direct grants, and loan interest discounts. The following table reviews the 16 programs applicable to the textiles and apparel industry.

21 *People's Republic of China – New and Full Notification Pursuant to Article XVI:1 of the GATT 1994 and Article 25 of the SCM Agreement*, G/SCM/N/123/CHN (13 April 2006).

22 *See* G/SCM/N/123/CHN at programs I, II, VI, X, XI, XIII, LVIII, and LX.

23 *See* G/SCM/N/123/CHN at programs LIX and LX.

24 *See* G/SCM/N/123/CHN at programs VI, VIII, and IX.

25 *See* G/SCM/N/123/CHN at programs X, XI, XIII, and XIV.

26 *See* G/SCM/N/123/CHN at programs XXVI and XXVII.

27 *See* G/SCM/N/123/CHN at program XXVIII.

28 *See* G/SCM/N/123/CHN at programs LVIII and LIX.

29 *See* G/SCM/N/123/CHN at program XXXI.

30 *See* G/SCM/N/123/CHN at program LIX.

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

I. Preferential tax policies for foreign-invested enterprises (FIEs).

Legislation:

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (*see* Exhibit F-4); *Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5).

Benefits:

(1) Two years of income tax exemption and three years of 50% reduction for production-oriented FIEs scheduled to operate for not less than ten years from the first profit-making year.

(2) Refund of 40% of income tax paid on reinvestment for increasing the registered capital of the existing enterprise or establishing other enterprises, to operate for not less than five years.

(3) Full refund of the income tax paid on the reinvestment in China for the organization and expansion of export-oriented enterprises or advanced-technology enterprises.

(4) Reduced income tax rate of 10% for the royalty received for the supply of technical know-how in scientific research and the development of important technologies.

II. Preferential tax policies for foreign-invested export enterprises.

Legislation:

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (*see* Exhibit F-4); *Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5).

Benefits:

After the expiration of the normal income tax exemption and reduction, foreign-invested export-oriented companies can pay income tax at a rate reduced by one half, if 70% of their products are exported. Such companies located in special economic zones and economic and technological development zones and other such companies subject to a 15% income tax rate that comply with the foregoing conditions shall pay income tax at 10%.

VI. Preferential tax policies for enterprises with foreign investment which are technology intensive and knowledge intensive.

Legislation:

Circular on the Preferential Tax Treatment to Foreign Invested Companies That Are Technology- and Knowledge-Intensive, Guo Shui Fa [1995] No. 139 (*see* Exhibit F-79); *Circular on the Preferential Tax Treatment to Foreign-Invested Companies That Are Technology- and Knowledge-Intensive,* Guo Shui Fa [2003] No. 135 (*see* Exhibit F-48).

Benefits:

A reduced income tax rate of 15% for FIEs that are technology-intensive and knowledge-intensive and whose major products are listed in the "Catalogue of High and New Technology Products of China" promulgated by MOST, provided that the sales revenue of these products accounts for over 15% of total annual sales revenue.

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

VIII. Preferential tax policies for (1) enterprises with foreign investment recognized as high or new technology enterprises established in the State high or new technology industrial development zones, and for (2) advanced technology enterprises invested in and operated by foreign businesses.

Legislation:

Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (*see* Exhibit F-5).

Benefits:

(1) Reduced income tax rate of 15%, and income tax exemption for the first two years since profit-making.

(2) Extension of an income tax rate reduced by half for an additional three years after the expiration of tax exemption and reduction.

IX. Preferential tax policies for enterprises recognized as high or new technology enterprises established in the State high or new technology industrial development zones.

Legislation:

Circular on Several Preferential Corporate Income Tax Policies, Cai Shui Zi [1994] No. 1 (*see* Exhibit F-50).

Benefits:

Reduced income tax rate of 15%, and income tax exemption for the first two years of production.

X. Preferential tax policies for enterprises with foreign investment established in special economic zones (excluding Shanghai Pudong area).

Legislation:

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (*see* Exhibit F-4); *Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5).

Benefits:

(1) Reduced income tax rate of 15% for FIEs established in Shenzhen, Zhuhai, Shantou, Xiamen and Hainan special economic zones.

(2) Reduced income tax rate of 24% for FIEs established in the old urban districts of cities where the above special economic zones are located.

(3) Reduced income tax rate of 15% for FIEs defined under (2) that are engaged in (a) technology-intensive or knowledge-intensive projects, (b) projects with foreign investments of over USD $30 million which have long periods for return on investment, and (c) energy resource, transportation and port construction projects.

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

XI. Preferential tax policies for enterprises with foreign investment established in the coastal economic open areas and in the economic and technological development zones.

Legislation:

Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises (*see* Exhibit F-4)*; Rules for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5).

Benefits:

(1) Reduced income tax rate of 15% for production-oriented FIEs established in the economic and technological development zones.

(2) Reduced income tax rate of 24% for production-oriented FIEs established in the coastal economic open areas and in the old urban districts of cities where the economic and technological development zones are located.

(3) Reduced income tax rate of 15% for FIEs defined under (2) that are engaged in (a) technology-intensive or knowledge-intensive projects, (b) projects with foreign investments of over USD $30 million which have long periods for return on investment, and (c) energy resource, transportation and port construction projects.

XIII. Preferential tax policies for enterprises with foreign investment established in the Three Gorges of Yangtze River Economic Zone.

Legislation:

Circular on the Tax Policy for Relocation of Residents in the Three Gorges Area and Regional Development, Cai Shui Zi [1995] No. 034 (*see* Exhibit F-51).

Benefits:

(1) Reduced income tax rate of 24% for production-oriented FIEs established in the Three Gorges Economic Zone.

(2) Reduced income tax rate of 15% for the above FIEs engaged in energy resources, transportation, harbor and wharf projects or other projects encouraged by the State.

(3) Reduced income tax rate of 24% for FIEs established in the old urban districts of the open cities along the Yangtze River.

(4) Reduced income tax rate of 15% for FIEs defined under (3) that are engaged in (a) technology-intensive or knowledge-intensive projects, (b) projects with foreign investments of over USD $30 million which have long periods for return on investment, and (c) energy resource, transportation and port construction projects.

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

XIV. Preferential tax policies in the western regions.

Legislation:

Circular on Several Policies on the Development of Western Region, Guo Fa [2000] No. 33 (*see* Exhibit F-52)*; Circular on the Implementation of New Policies for the Development of Western Region,* Guo Ban Fa [2001] No. 73 (*see* Exhibit F-53); *Circular on Preferential Tax Treatment for Western Regions Development Program,* Cai Shui [2001] No. 202 (*see* Exhibit F-54); *Circular on Extending 15% Preferential Income Tax Rate for Three Years to Foreign Invested Companies in Central and Western Regions,* Guo Shui Fa [1999] No. 172 (*see* Exhibit F-55).

Benefits:

(1) Reduced income tax rate of 15% for domestic and foreign-invested enterprises established in the western regions which are engaged in industries encouraged by the State from 2001 to 2010. For domestic enterprises, industries encouraged by the State refer to those listed in the "Catalogue of the Industries, Products and Technologies Particularly Encouraged by the States." For these enterprises, the items included in the Catalogue must be its major business and must account for over 70% of total revenue. For FIEs, industries encouraged by the State refer to those listed as encouraged in the "Catalogue for the Guidance of the Foreign Investment Industries" and listed in the "Catalogue for the Guidance of the Advantageous Industries in Central and Western Regions for Foreign Investment." For these enterprises, the items listed in the two Catalogues must be its major business and must account for over 70% of total revenue.

(2) Tariff and import VAT exemption for equipment imported by domestic and foreign-invested enterprises, as defined in (1), for self use that is within the total amount of the investment, excluding such equipment listed in the "Catalogue for the Imported Products Not Subject to Tax Exemption in Foreign Investment Projects" and the "Catalogue for the Imported Products Not Subject to Tax Exemption in Domestic Investment Projects."

(3) Since 2000, reduced income tax rate of 15% for an additional three years following the expiration of the two years of tax exemption and three years of 50% tax reduction for FIEs established in 19 provinces, autonomous regions and municipalities in central and western regions which are engaged in industries encouraged by the State as listed in the "Catalogue for the Guidance of Foreign Investment Industries" as well as in the advantageous industries and projects approved by the State Council.

XXVI. Preferential tax policies for the research and development of enterprises.

Legislation:

Circular on Expanding the Application of Tax Deduction for Technology Development Expenditure by Enterprises, Cai Shui [2003] No. 244 (*see* Exhibit T-10).

Benefits:

Domestic industrial enterprises, regardless of ownership, may deduct from their taxable income 150% of the actual expenses incurred on research and development of new products, new technologies and new crafts, provided such expenses have increased 10% or more from the previous year.

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

XXVII. Preferential tax policies for the research and development of foreign-invested enterprises.

Legislation:

Circular on Granting Income Tax Deduction to Foreign-invested Enterprises for Technology Development Expenditure, Guo Shui Fa [1999] No. 173 (*see* Exhibit F-63).

Benefits:

Foreign-invested enterprises may deduct from their taxable income 150% of the actual expenses incurred on research and development conducted in China, provided such expenses have increased 10% or more from the previous year.

XXVIII. Preferential tax policies for enterprises transferring technology.

Legislation:

Circular on Several Preferential Corporate Income Tax Policies, Cai Shui Zi [1994] No. 1 (*see* Exhibit F-50).

Benefits:

Income tax exemption for enterprises profiting from technology transfers as well as from technology consultation, technology services and technology training provided as part of the transfer, where the annual net income is less than RMB 300,000; net income above RMB 300,000 is subject to the regular tax rate.

XXXI. Funds for supporting technological innovation for the technological small and medium-sized enterprises.

Legislation:

Circular on the Interim Administrative Rules of the Technological Innovation Fund for the Technological Small- and Medium-Sized Enterprises, Guo Ban Fa [1999] No. 47 (*see* Exhibit F-64).

Benefits:

Science- and technology-oriented SMEs are eligible to receive two types of support – grants and loan interest discounts. Support is provided in two stages. Initially, SMEs receive 70% of the grant and 80% of the interest discount. The remaining portions of the grant and interest discount are paid after the project is completed, checked, and accepted. Each project can receive no more than RMB 1 million and, in particular cases, no more than RMB 2 million.

The total and annual amount budgeted for the subsidy (in million RMB):

2001	2002	2003	2004	Total
800	500	500	500	2300

Support Programs Notified by China That are Applicable to the Textiles and Apparel Industry
G/SCM/N/123/CHN (13 April 2006)

LVIII. Preferential tax policies for foreign-invested enterprises and foreign enterprises which have establishments or place in China and are engaged in production or business operations purchasing domestically-produced equipment.

Legislation:

Circular Concerning the Issue of Tax Credit for Business Income Tax for Homemade Equipment Purchased by Enterprises with Foreign Investment and Foreign Enterprises, Cai Shui [2000] No. 49 (*see* Exhibit F-75); *Circular on Printing and Distributing the Measures Concerning Business Income Tax Credit on the Investment of Enterprises with Foreign Investment and Foreign Enterprises by Way of Purchasing Homemade Equipment,* Guo Shui Fa [2000] No. 90 (*see* Exhibit F-76).

Benefits:

40% of the expenses incurred to purchase domestically-produced equipment that is within the total investment of the project, or beyond the total investment of the project but for the purpose of upgrading existing equipment, may be deducted from the increment in income tax in the year the equipment is purchased compared to the previous year. The deductible amount in a given year should not exceed the increment in income tax. If the deductible amount exceeds the income tax increment, the amount in excess may be deducted from the next year's increment in income tax. Such postponement of deductibility shall not last more than five years.

LIX. Preferential tax policies for domestic enterprises purchasing domestically-produced equipment for technology upgrading purpose.

Legislation:

Circular on Distribution of Interim Measures Concerning Reduction and Exemption of Enterprise Income Tax for Investment in Domestically Made Equipment for Technological Renovation, Cai Shui [1999] No. 290 (*see* Exhibit F-76).

Benefits:

For technology renovation projects consistent with national industrial policies, 40% of the expenses incurred to purchase domestically-produced equipment required in the projects may be deducted from the increment in income tax in the year the equipment is purchased compared to the previous year. The deductible amount in a given year should not exceed the increment in income tax. If the deductible amount exceeds the income tax increment, the amount in excess may be deducted from the next year's increment in income tax. Such postponement of deductibility shall not last more than five years.

LX. Exemption of tariff and import VAT for imported technologies and equipment.

Legislation:

Circular of the State Council Concerning the Adjustment in the Taxation Policy of Imported Equipment, Guo Fa [1997] No. 37 (*see* Exhibit F-78).

Benefits:

Tariff and import VAT exemption for equipment purchased for self-use that is within the total investment of the project, excluding such equipment listed in the "Catalogue for the Imported Products Not Subject to Tax Exemption in Foreign Investment Projects" and the "Catalogue for the Imported Products Not Subject to Tax Exemption in Domestic Investment Projects."

IV. CONCERNS OF WTO MEMBERS OVER CHINA'S SUBSIDIES TO THE TEXTILES AND APPAREL INDUSTRY

China's trading partners have been closely monitoring China's subsidy practice since its accession to the WTO. Subsidies to the textiles and apparel industry are among the high-profile subsidy concerns. WTO Members have availed themselves of many platforms to raise concerns over a wide range of subsidy issues, including the annual Transitional Review Mechanism (TRM) (a review of China's WTO compliance efforts), submissions of requests for information prior to China's subsidies notification, submissions of follow-up questions in response to China's subsidies notification, and the dispute settlement mechanism. Subsidy programs identified by WTO Members include those that are specific or applicable to the textiles and apparel industry. Many of these programs appear to conflict with China's WTO commitments not to provide subsidies contingent upon export performance or the use of domestic over imported goods, and have not been properly notified by China. On February 2, 2007, the United States filed a formal request at the WTO for consultation with China with regard to certain subsidies prohibited under the WTO SCM Agreement.[31] In the request, the United States identified nine measures granting refunds, reductions, or exemptions from taxes or other payments, which are designed to subsidize exports of manufactured goods and encourage the purchase of domestic over imported equipment and manufacturing inputs. In March 2007, China announced that it had repealed a subsidy measure identified in the U.S. request for consultation that grants discounted lending

[31] *China – Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments – Request for Consultations by the United States*, WT/DS358/1 (7 February 2007).

rates to companies contingent upon export performance.[32] Around the same time, China adopted the new *Enterprise Income Tax Law* at the Fifth Session of the Tenth National People's Congress.[33] To reflect these new developments, on April 27, 2007, the United States filed a request for further consultation that modified its earlier identification of the measures at issue.[34]

The following tables identify Chinese subsidies that have been raised by WTO Members and are relevant to the textiles and apparel industry. Table A concerns subsidies that are specific to the textiles and apparel industry. Table B concerns subsidies that are applicable to the textiles and apparel industry.

Table A
Chinese Subsidies Specific to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
1	Reported subsidies in the textile industry in connection with manufacturing of raw materials, the financing of mill establishments, and the purchase and selling of raw materials, *e.g.*, certain tax incentives and preferential rents provided to textile companies located in Changzhou City of Jiangsu Province.	***United States*** 2003 TRM; 2004 U.S. request for information
2	**Ningbo Export Contingent Aid for Textile Exporters - "Export Branding"** - Information available to the U.S. indicates that the Ningbo City International Trade and Economic Cooperation Bureau provides benefits to the city's top eight textiles and apparel brand enterprises which export over USD $20 million, have ISO9000 certification, and have authentication of an internationally-registered trademark. The top eight brand companies which meet these qualifications will receive an award of RMB 50,000 --- ***WTO consistency is questioned.***	***United States*** 2006 U.S. submission in response to China's subsidies notification

32 *See Notice No. 7 [2007] of the People's Bank of China, the State Administration of Foreign Exchange, the Ministry of Commerce and the State Administration of Taxation*. *See* Exhibit T-17. The repealed measure is discussed in Table B at item 8, *infra.*

33 The new law will take effect as of January 1, 2008. The 1991 *Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises,* as referenced in the U.S. request for consultation, and the 1993 *Provisional Regulations on Income Tax Law for Enterprises* are annulled.

34 *China – Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments – Request for Further Consultations by the United States*, WT/DS358/1/Add.1 (2 May 2007).

Table A
Chinese Subsidies Specific to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
3	"Excessive lending to the textile industry" noted by the secretary-general of the China Cotton Association and that "the Chinese Government will loosen up credit lending controls to textile companies" as reported on a 2004 China Daily article.	***United States*** 2006 TRM
4	Benefits under the 2006 program "Ten Thousand Miles March for Brand Building" for 45 types of products including apparel products.	***United States*** 2006 TRM
5	Benefits under the 2006 *Notice of Relevant Policies to Promote Chinese Textile Enterprises to Shift to New Ways of Growth and Support Them to Go Global* --- ***WTO consistency is questioned.***	***United States*** 2006 TRM
6	A special VAT refund scheme for silk to be exported.	***European Communities*** 2006 TRM
7	**Government assistance to increase fabric exports** – Measures under the program of upgrading the textiles industry through accelerating technical reforms and strategic restructuring of textile enterprises, including substituting imported fabrics or expanding fabric exports --- ***WTO consistency is questioned.***	***United States*** 2004 U.S. request for information
8	**Assumption of Interest on Loans for Technology Upgrades** – Government payment of interest on bank loans for the technology upgrades of state-owned enterprises, including textile enterprises.	***United States*** 2004 U.S. request for information
9	**Ningbo City's Jiangdong District Export Contingent Award for Increasing Exports of Textiles and Apparel Goods** - Information available to the U.S. indicates that a program in Ningbo City's Jiangdong District offers benefits to certain textiles and apparel companies. For example, textile and apparel companies that export over USD $1 million per year in this district are eligible for an award for each dollar of textiles and apparel exports which exceeds the previous year's total --- ***WTO consistency is questioned.***	***United States*** 2006 U.S. submission in response to China's subsidies notification

Sources for "Issues Raised By" Column:

United States:
<u>2003 TRM US</u>: G/SCM/Q2/CHN/6 (27 October 2003)
<u>2004 U.S. request for information</u>: G/SCM/Q2/CHN/9 (6 October 2004)
<u>2006 TRM</u>: G/SCM/Q2/CHN/23 (16 October 2006)
<u>2006 U.S. submission in response to China's subsidies notification</u>: G/SCM/Q2/CHN/19 (26 July 2006)

European Communities:
<u>2006 TRM</u>: G/SCM/Q2/CHN/24 (20 October 2006)

Table B Chinese Subsidies Applicable to the Textiles and Apparel Industry		
No.	**Subsidy**	**Issue Raised By**
1	**Full VAT refund available to foreign-invested companies for the purchase of Chinese-produced equipment --- *WTO consistency is questioned.*** <u>Legislation</u>: *Circular of the State Administration of Taxation Concerning Transmitting the Interim Measure for the Administration of Tax Refunds to Enterprises with Foreign Investment for Their Domestic Equipment Purchases* (*see* Exhibit F-35).	***United States*** 2007 U.S. consultation with China; 2004 U.S. request for information ***European Communities; Canada*** 2006 EC and Canada submissions in response to China's subsidies notification
2	**Income tax reduction available to foreign-invested companies for the purchase of Chinese-produced equipment.** Foreign-invested companies may deduct 40% of the cost of purchasing domestically-produced equipment that is within the total investment of the project, or beyond the total investment of the project but for the purpose of upgrading the existing equipment, from the increment in income tax in the year the equipment is purchased compared to the previous year. The deductible amount in a given year should not exceed the increment in income tax. If the deductible amount exceeds the income tax increment, the amount in excess may be deducted from the next year's increment in income tax. Such postponement of deductibility shall not last more than five years. --- ***WTO consistency is questioned.*** <u>Legislation</u>: *Circular of the Ministry of Finance and the State Administration of Taxation Concerning the Issue of Tax Credit for Business Income Tax for Homemade Equipment Purchased by Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-75), read in conjunction with *Circular of the State Administration of Taxation on Printing and Distributing the Measures Concerning Business Income Tax Credit on the Investment of Enterprises with Foreign Investment and Foreign Enterprises by Way of Purchasing Homemade Equipment* (*see* Exhibit F-34).	***United States*** 2007 U.S. consultation with China; 2004 U.S. request for information
3	**Income tax reduction available to Chinese companies for the purchase of Chinese-produced equipment.** For technology renovation projects consistent with the national industrial policies, 40% of the cost to purchase domestically-produced equipment required in the projects can be deducted from the increment in income tax in the year the equipment is purchased compared to the previous year. The deductible amount in a given year should not exceed the increment in income tax. If the deductible amount exceeds the income tax increment, the	***United States*** 2007 U.S. consultation with China

Table B
Chinese Subsidies Applicable to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
	amount in excess may be deducted from the next year's increment in income tax. Such postponement of deductibility shall not last more than five years. --- ***WTO consistency is questioned.*** Legislation: *Circular on Distribution of Interim Measures Concerning Reduction and Exemption of Enterprise Income Tax for Investment in Domestically Made Equipment for Technological Renovation* (*see* Exhibit F-38).	
4	**Income tax reduction available to foreign-invested companies that satisfy certain export performance requirements.** After the expiration of the normal reduction or exemption of income tax (*i.e.*, two-free and three-half) for production-oriented FIEs, foreign-invested exporting companies can pay income tax at one-half of the present rate, provided 70% of their products are exported. Companies located in special economic zones and economic and technological development zones and other companies subject to the 15% income tax rate that comply with the foregoing conditions, shall pay income tax at 10%. After the normal reduction or exemption of income tax (*i.e.*, two-free and three-half) expires, technologically-advanced companies may enjoy for an additional three years the rate reduced by one-half. --- ***WTO consistency is questioned.*** Legislation: Articles 75(7) and 75(8) of the *Rules for Implementation of the Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5), read in conjunction with Articles 8 and 9 of the *Provisions of the State Council on the Encouragement of Foreign Investment* (*see* Exhibit F-39) and Articles 6 and 8 of the *Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-4).	***United States*** 2007 U.S. consultation with China ***Mexico*** 2002 TRM ***European Communities*** 2005 TRM
5	**Income tax reduction available to foreign-invested companies that satisfy certain export performance requirements.** Foreign-invested companies engaged in industries allowed by the State that export all of their products may pay a reduced income tax of 15%. --- ***WTO consistency is questioned.*** Legislation: Article 73(6) of the *Rules for Implementation of the Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5), read in conjunction with Articles 6 and 7 of the *Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5) and Section XIII of the *Catalogue for the Guidance of Foreign Investment*	***United States*** 2007 U.S. consultation with China; 2006 U.S. submission in response to China's subsidies notification

Table B Chinese Subsidies Applicable to the Textiles and Apparel Industry		
No.	**Subsidy**	**Issue Raised By**
	Industries (*see* Exhibit F-26).	
6	**Income tax refund available to foreign-invested companies that reinvest profits in certain qualified projects in China.** Foreign investors who reinvest their profits to establish or expand exporting companies or technologically-advanced companies for a period of operation of not less than five years shall be refunded the total amount of income tax already paid on the reinvested portion. --- ***WTO consistency is questioned.*** Legislation: Article 81 of the *Rules for Implementation of the Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-5), read in conjunction with Articles 6 and 10 of the *Income Tax Law of the People's Republic of China on Enterprises with Foreign Investment and Foreign Enterprises* (*see* Exhibit F-4) and Article 10 of the *Provisions of the State Council on the Encouragement of Foreign Investment* (*see* Exhibit F-39).	***United States*** 2007 U.S. consultation with China; 2004 U.S. request for information
7	**Exemptions from mandatory worker benefit contributions available to foreign-invested companies that satisfy certain export performance requirements.** Foreign-invested "product export enterprises" and technologically-advanced enterprises shall be exempt from payment to the State of all subsidies to staff and workers, except for the payment or allocation of funds for labor insurance, welfare expenses and housing subsidies for Chinese staff and workers in accordance with the provisions of the State. "Product Export Enterprises" are defined as enterprises "whose products are mainly export" that also have a foreign exchange surplus. --- ***WTO consistency is questioned.*** Legislation: Article 3 of the *Provisions of the State Council on the Encouragement of Foreign Investment* (*see* Exhibit F-39).	***United States*** 2007 U.S. consultation with China ***European Communities; Canada*** 2006 EC and Canada submissions in response to China's subsidies notification
8	**Discounted lending rates available to companies that satisfy certain export performance requirements.** "Honorable Enterprises for Collection of Export Receipts of Foreign Exchange" may receive up to a 10% reduction in lending rates of RMB loans extended by commercial banks based on the lending rates fixed by the	***United States*** 2007 U.S. consultation with China; 2004 U.S. request for information

35 China abolished this measure in March 2007. *See* Exhibit 17. The measure was not included in the second U.S. request for consultation. *See China – Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments – Request for Further Consultations by the United States*, WT/DS358/1/Add.1 (2 May 2007).

Table B Chinese Subsidies Applicable to the Textiles and Apparel Industry		
No.	**Subsidy**	**Issue Raised By**
	People's Bank of China. "Honorable Enterprises" are defined as enterprises with annual exports exceeding USD $200 million in value and that meet certain other conditions related to foreign exchange and export receipt verification forms. --- ***WTO consistency is questioned.*** <u>Legislation</u>: Articles 3 and 6 of the *Circular of the People's Bank of China, the State Administration of Foreign Exchange, the Ministry of Foreign Trade and Economic Cooperation and the State Administration of Taxation Concerning Printing and Distribution Detailed Rules on Rewarding and Punishment Concerning Provisional Regulations over Examination of Export Collections of Foreign Exchange* (*see* Exhibit T-23).[35]	***European Communities; Canada*** 2006 EU and Canada submissions in response to China's subsidies notification
9	**VAT and tariff exemption available to foreign-invested companies that satisfy certain export performance requirements.** For foreign-invested companies engaged in industries allowed by the State that export all of their products, equipment purchased for self-use shall be exempt from tariff and import VAT. --- ***WTO consistency is questioned.*** <u>Legislation</u>*:* *Circular of the State Council Concerning the Adjustment in the Taxation Policy of Imported Equipment* (*see* Exhibit F-48), read in conjunction with Section XIII of the *Catalogue for the Guidance of Foreign Investment Industries* (*see* Exhibit F-50).	***United States*** 2007 U.S. consultation with China; 2004 U.S. request for information
10	**Benefits under new Enterprise Income Tax Law.** The government may extend tax benefits to companies engaged in industries the development of which is supported and encouraged by the State. --- ***WTO consistency is questioned***. The existing tax benefits may be granted a grace period of up to 5 years. --- ***WTO consistency is questioned***. <u>Legislation</u>: Articles 25 and 57 of the *Enterprise Income Tax Law of the People's Republic of China* (*see* Exhibit F-15).	***United States*** 2007 U.S. request for further consultation with China
11	**Export Contingent Support for Famous Name Brand Products.** On January 26, 2005, MOFCOM identified 190 Chinese famous brands in six industrial fields eligible for export promotion for years 2005-2006. In order to increase Chinese name brand exports and limit its reliance on foreign name brand exports, the Chinese Government is offering the following incentives: • An Export Brands Development Fund to develop and promote	***United States*** 2006 U.S. submission in response to China's subsidies notification

Table B Chinese Subsidies Applicable to the Textiles and Apparel Industry		
No.	**Subsidy**	**Issue Raised By**
	designated exports. • Preferential funding for research and development products. • Support for technology to strengthen the competitiveness of famous brand exports. • Special assistance for domestic brand name enterprises to establish state-level R&D centers. • Simplified loan application procedures and easy access to export credit insurance. Similar or implementing programs offered at the central or sub-central government levels include: • According to a circular issued on March 24, 2005 by the State Administration for Quality Supervision, Inspection and Quarantine (AQSIQ), AQSIQ requested that local bureaus provide benefits to firms that apply for designation as a Chinese-made world famous brand such as "honorific titles," financial support and export credit guarantees. Designated firms must be the top producer and exporter within their industry, export to multiple foreign markets and have annual exports of over USD $50 million. • Information available to the U.S. indicates that in early December 2005, MOFCOM announced a program called "Six Initiatives to Promote Domestic Name Brand Exports." Some aspects of the initiatives include: choosing specific domestic name brands to support; creating policies to support those firms; helping those firms expand abroad; and working with the Ministry of Finance to appropriate RMB 700 million to support these firms' research and development activities. • A program was announced on February 3, 2005, by the Jiangsu Province Famous Brand Strategy Promotion Committee which selected 515 products as "Jiangsu Province Famous Brand Products." • The Wuxi government allows enterprises obtaining the "Famous Export Brands to be Nurtured and Supported" to receive incentives from Wuxi City. • The government of Shishi County in Fujian Province announced an initiative including a one-time prize to any Shishi company accorded the central government's "famous export brand" designation. --- ***WTO consistency is questioned.***	
12	**Certain local export-related awards.** Information available to the U.S. indicates that various Chinese government entities at the sub-central level provide awards and direct payments for exports by a wide-range of industries. There are regional programs that tie monetary awards solely to the amount exported or to a percentage growth above the previous year's export totals. Examples include: • Awards Tied to Amount Exported or Export Growth. The Xiamen City government awards a one-time monetary award to all companies with	***United States*** 2006 U.S. submission in response to China's subsidies notification

Table B
Chinese Subsidies Applicable to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
	Chinese brand name exports over USD $100 million as well as year-on-year percentage growth of at least 5%. • Direct Benefits to Processing Trade Exporters. A Changxing County government program in Zhejiang in which the province provides monetary awards to all processing trade export enterprises for trade of over USD $3 million per year. • Award for High Year-on-Year Export Growth. A program in Zibo City's Zhoucun District provides awards based on the percentage of export growth over the previous year. • Awards to Year's Top 10 Exporters. A program in Yueqing City in Zhejiang Province awards the city's top 10 exporters (exports of over USD $10 million) prizes of RMB 100,000. • Reward for Each Dollar Exported. An export program detailed on the website of Lishui City in Zhejiang Province establishes a monetary award for each dollar exported. --- ***WTO consistency is questioned.***	
13	**Free Land Given as Part of Foreign Investment Projects.** The Yinchuan government grants foreign investors, which meet certain investment conditions, land valued at twice the amount of an investor's original investment.	***United States*** 2006 U.S. submission in response to China's subsidies notification
14	**Ningbo City Key Industry Technological Development Fund.** According to the MOFCOM website, Ningbo City has set up an RMB one billion special fund to support four fast-growing key industries, namely, electronic information, new materials, auto/auto parts, and machinery production industries. The purpose of the fund is to assist key industries in their technological upgrading projects, expand their sales and assist companies in applying to be considered a national famous brand. The maximum subsidy for a qualified enterprise or project is RMB five million.	***United States*** 2006 U.S. submission in response to China's subsidies notification
15	**Preferential Loans Provided by the Chinese Government.** According to a document posted by the Jiangsu Province Tax Bureau in September 2004 entitled "Tax Reimbursement Regime on Exported Goods in China," exported goods that are "manufactured by using preferential loans of the Chinese government" will be "given approval to reimburse or exempt VAT or consumption tax due to some special features such as . . . turnover linkages and settlement methods, etc."	***United States*** 2006 US submission in response to China's subsidies notification
16	**Income tax exemption on profits made by certain FIEs.** Profits distributed to foreign investors by foreign-invested enterprises that export more than 50% of their products, or that utilize foreign advanced technology to produce products for export, are exempt from income tax, according to Article 7 of the *Provisions of the State Council on the*	***European Communities; Canada*** 2006 EC and Canada submissions in response to China's subsidies

Table B Chinese Subsidies Applicable to the Textiles and Apparel Industry		
No.	**Subsidy**	**Issue Raised By**
	Encouragement of Foreign Investment (see Exhibit F-39*).* --- ***WTO consistency is questioned.***	notification
17	**Consolidated and commercial tax exemption on products exported by FIEs** Export products of enterprises with foreign investment, except crude oil, oil products, and other products subject to special State provisions, shall be exempt from the consolidated and commercial tax, according to Article 11 of the *Provisions of the State Council on the Encouragement of Foreign Investment.* --- ***WTO consistency is questioned.***	***Canada*** 2006 submission in response to China's subsidies notification
18	**Import licensing exemption on products imported by FIEs to produce goods for export.** This subsidy is provided for in Article 13 of the *Provisions of the State Council on the Encouragement of Foreign Investment.* --- ***WTO consistency is questioned.***	***Canada*** 2006 submission in response to China's subsidies notification
19	**Repayment tax exemption on certain products generated by FIEs.** By-products, substandard products and leftover industrial surplus generated by FIEs while producing goods for export, are exempt from repayment tax when sold domestically. Such products, if generated while producing goods for domestic consumption, are not exempt. This subsidy is provided for in Article 20 of the *Measures of the Customs of China on the Control over and the Levy and Exemption of Tax for Import and Export Goods of Enterprises with Foreign Investment*, Decree of the General Administration of Customs [1992] No. 29 (see Exhibit T-24). --- ***WTO consistency is questioned.***	***European Communities; Canada*** 2006 EC and Canada submissions in response to China's subsidies notification
20	**VAT expenses exemption and deduction.** Based on the EC's experience in anti-dumping cases, it seems that certain levels of production are exempt from paying VAT and that traders were able to deduct VAT expenses even though their suppliers did not charge and pay VAT. --- ***WTO consistency is questioned.***	***European Communities*** 2006 EC submission in response to China's subsidies notification
21	**The Central Foreign Trade Development Fund.** Information available to Canada shows that the Central Foreign Trade Development Fund, established in 1996, is managed by the provinces under the direction of MOFCOM and that a Chinese bank, the ICBC, is responsible for managing the transactions under this Fund. The alleged purpose of the Fund is: to regulate and promote foreign trade; to encourage the development and export of new electronic, deep-processing, high-tech and high value-added products; and to increase Chinese export capacity and competitiveness.	***Canada*** 2006 submission in response to China's subsidies notification

Table B
Chinese Subsidies Applicable to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
22	**Guangdong Grants Provided for Export Performance.** The Guangdong provincial government has introduced a program to provide RMB 25 million in grants over five years to export-oriented companies meeting specific export targets --- ***WTO consistency is questioned.***	***United States*** 2004 U.S. request for information
23	Subsidies to state-owned enterprises operating at a loss. --- ***WTO consistency is questioned.***	***United States*** 2002, 2003, 2004 and 2005 TRM
24	Continued use of state-owned banks to keep non-viable SOEs afloat by writing off non-performing loans of SOEs as part of the Northeast revitalization program; one example is that Heilongjiang Province agreed to write off RMB 36 billion worth of non-performing loans of SOEs. --- ***WTO consistency is questioned.***	***United States*** 2004 TRM
25	As reported by www.tdctrade.com and *China Daily*, the Shenzhen WTO affairs office sponsors a fund of more than 10 million in order to reimburse up to 30% of legal fees incurred by local export companies facing anti-dumping lawsuits. --- ***WTO consistency is questioned.***	***European Communities*** 2004, 2005 and 2006 TRM
26	As reported by www.tdctrade.com, the Guangdong provincial government supports private enterprises to "expand outward," and eligible private enterprises may apply for special funds conceived for developing foreign trade activities. These funds include market exploration, export credit insurance, offshore processing trade project loan interest subsidy, export research and development fund, antidumping proceedings fund, export rebate account loan interest subsidy fund, and outward-looking enterprises development fund. --- ***WTO consistency is questioned.***	***European Communities*** 2004, 2005 and 2006 TRM
27	As reported by www.tdctrade.com, the Export Interest Subsidy for Shenzhen Enterprises has been raised from 20% to 40%. The policy of subsidizing USD $0.03 for every USD $1 export of general merchandise is only applicable to merchandise procured in Shenzhen. SMEs with exports below USD $15 million are eligible to apply. Fund allocation is on a first-come-first-serve basis. The fund would provide RMB 800 million in 2004. --- ***WTO consistency is questioned.***	***European Communities*** 2004, 2005 and 2006 TRM
28	As reported from Zhejiang Province, an Export Subsidy Fund based on a federal program enables regional authorities to provide all exporting companies exporting more than USD $3 million with a subsidy of 0.01 RMB per each USD $ exceeding this threshold. --- ***WTO consistency is questioned.***	***European Communities*** 2004, 2005 and 2006 TRM
29	As reported by MOFCOM, Dalian Branch of the Export-Import Bank would	***United States***

Table B
Chinese Subsidies Applicable to the Textiles and Apparel Industry

No.	Subsidy	Issue Raised By
	provide RMB 5 billion of export credits to companies to enter global markets, and, since November 2003, "low-cost credit provided by the bank has saved the enterprises RMB 150 million interest."	2005 TRM
30	Export credits offered by China Development Bank to support sectors considered to be essential to China's long-term competitiveness and specifically for companies engaging in R&D, Chinese brand name companies, and certain companies in overseas expansion. --- ***WTO consistency is questioned.***	***United States*** 2006 TRM
31	As reported from the website of Shanghai Foreign Investment Center, export-oriented enterprises enjoy various preferential policies in the use of land, water, electricity, transportation, telecommunication, short-term funds and necessary loans, as well as local income tax exemption after expiration of normal income tax exemption if more than 70% of the production is exported. --- ***WTO consistency is questioned.***	***European Communities*** 2003 TRM

Sources for "Issues Raised By" Column:

United States:
2002 TRM: G/SCM/Q2/CHN/2 (18 October 2002)
2003 TRM: G/SCM/Q2/CHN/6 (27 October 2003)
2004 TRM: G/SCM/Q2/CHN/8 (6 October 2004)
2004 U.S. request for information: G/SCM/Q2/CHN/9 (6 October 2004)
2005 TRM: G/SCM/Q2/CHN/14 (29 September 2005)
2006 TRM: G/SCM/Q2/CHN/23 (16 October 2006)
2006 U.S. submission in response to China's subsidies notification: G/SCM/Q2/CHN/19 (26 July 2006)
2007 U.S. consultation with China: WT/DS358/1 (7 February 2007)
2007 U.S. request for further consultation with China: WT/DS358/1/Add.1 (2 May 2007)

European Communities:
2003 TRM: G/SCM/Q2/CHN/1 (26 September 2002)
2004 TRM: G/SCM/Q2/CHN/7 (23 September 2004)
2005 TRM: G/SCM/Q2/CHN/12 (22 September 2005)
2006 TRM: G/SCM/Q2/CHN/24 (20 October 2006)
2006 EC submission in response to China's subsidies notification: G/SCM/Q2/CHN/16 (25 July 2006)

Canada:
2006 Canada submission in response to China's subsidies notification: G/SCM/Q2/CHN/18 (26 July 2006)

Mexico:
2002 TRM: G/SCM/Q2/CHN/4 (4 November 2002)