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CHINA UPDATE

Quote of the Week

"We must ensure that U.S. manufacturers and workers can compete on a level playing field in the global marketplace. Unfortunately, unfair trade practices from countries like China make this increasingly difficult....Given the rise in Chinese imports and the increasing complexity of cases the ITA must evaluate, we must ensure that efforts to protect U.S. manufacturers and employees from unfair trade practices receive sufficient dedicated funding." – Congressman Michael Turner (R-OH) on his amendment to increase federal funding to fight Chinese trade practices, May 8, 2012.

House Approves Funding to Fight Chinese Trade Practices

On May 10, the House of Representatives **approved** the Fiscal Year 2013 Commerce, Justice, Science and Related Agencies Appropriations Act, with an **amendment** from Rep. Michael Turner (R-OH) that increases funding for the International Trade Administration by \$5 million to combat unfair Chinese trade practices. His press release can be found **here**. The bill, as passed by the appropriations committee, had funded ITA at \$468 million -- \$49 million below the President's request of \$517 million. Overall, the CJS bill, which funds other trade agencies including the Office of the United States Trade Representative (USTR) provides \$51.1 billion. This is a reduction of \$1.6 billion from last year's funding level and \$731 million below the President's request.

Commerce Readies Antidumping Determination in China Solar Trade Case

The Department of Commerce is scheduled to issue on Thursday, May 17, its preliminary antidumping determination in the case brought by SolarWorld regarding Chinese solar cells and modules. On March 19, the International Trade Commission, in its preliminary countervailing duty determination, set duties of up to 4.73% on solar imports from China. While the duties set by ITC were considered to be fairly low, antidumping duties tend to be higher so there is much anticipation this week on what steps Commerce will take.

Tariff Exemption Sought by Small Steps Solar

Small Steps Solar has asked the Department of Commerce to exempt solar panels lower than 5 watts

from upcoming tariffs on solar products from China, calling the duty a “significant burden.” The company, located in Seattle, WA, imports low-wattage solar powered lamps from China, and fears that the new rule will be particularly burdensome for small companies.

Senators Introduce Plan to Disqualify Chinese Solar Panels from Federal Incentives

Today, Senators Schumer (D-NY) and Brown (D-OH) **unveiled** a plan to modify either the Business Energy Investment Credit or the Residential Energy Efficient Property Credit so that they would disqualify Chinese manufactured solar panels from benefitting from federal incentives. The Senators **propose** adding a domestic content requirement of 70% for qualifying solar panels – or 50% if the final point of manufacture is in the U.S.

The **Business Energy Investment Tax Credit** is equal to 30% of expenditures. The **Residential Energy Efficient Property Credit** is equal to 30% of the costs of qualified solar electric property and solar water heating property. Both credits expire on December 31, 2016.

US. & China Announce Details of Agreement on Cinematic Releases

In 2009, a World Trade Organization (WTO) dispute panel sided with the U.S. in saying that China’s commitments under its WTO accession protocol covered hard-copy cinema films and that China had violated WTO rules when it restricted the importation of films to enterprises designated by a state agency.

On February 17, Vice President Biden **announced** that the U.S. and China had reached an agreement that would allow for greater distribution of American cinematic releases in China. At the time, no details were shared while USTR worked on the language of a memorandum of understanding. On May 11, USTR circulated among WTO members the MOU, which outlines the following commitments from China:

- Enhanced format films, including 3D and IMAX, are not subject to China’s existing twenty film import limit as set out in its commitments under the WTO General Agreement on Trade in Services (GATS), and China will allow the importation of a minimum of fourteen enhanced format revenue sharing films per year starting in 2012.
- The producer of the imported film will receive twenty five percent of gross box office receipts.
- Exempting revenue-sharing films, in a contract for the distribution of an imported film the contract will be based on commercial terms consistent with such terms as are prevailing in countries with markets comparable to the Chinese market.
- Any Chinese enterprise is eligible to apply for and receive a license to distribute imported films, and China will promote the distribution of imported films and encourage enterprises to apply for distribution licenses.
- Distributor licensing will be conducted in non-discretionary and non-discriminatory manner.
- After five years, the U.S. and China will engage in consultations regarding key elements of the MOU and China’s implementation of the WTO ruling regarding its audiovisual/publications restrictions.

Chinese Tax on Heavy Metals

China’s Guangdong Province is considering a tax on industries that emit heavy metals, after being named among fourteen “critical areas” in China’s 12th Five-Year Plan in the area of heavy metal emissions. Half of China’s battery production takes place in Guangdong, which has immense soil remediation problems linked to emissions.

China Sets Deadline for Foreign Accounting Firms

On May 10, China's Ministry of Finance issued a Notice on the Issuance of Sino-Foreign Cooperative Accounting Firms Localization Conversion Program, which sets deadlines for the Big Four accounting firms to transfer control of their China-based practices to Chinese partners. Applicable to KPMG, Deloitte Touche Tohmatsu, Ernst & Young, and PricewaterhouseCoopers, the MOF action is the result of a transition process that started when the firms first established joint ventures in China twenty years ago. Under the transition, the firms are required to form group partnerships with limited liability, and no more than 40% of firm partners will be allowed to hold foreign qualifications, with that number dropping to 20% by 2017. Chief partners and senior management of the firms must be Chinese, and hold Chinese accounting qualifications, within three years.

Senator Questions Fed on State-Owned Chinese Banks

In a [letter](#) sent May 10, Senator Casey (D-PA) questioned Chairman Ben Bernanke on the Federal Reserve's decision to allow three state-owned Chinese banks to offer or expand banking services in the U.S. The three banks are the Industrial & Commercial Bank of China (ICBC), which has been approved to make an 80% investment in a bank operating in New York and California; the Agricultural Bank of China (ABC), which is opening a New York branch; and the Bank of China, which is opening a branch in Chicago. Senator Casey expresses his concern that, as state-owned banks, they will use their state support as a means to underprice U.S. banks.

Upcoming Events

- On May 16, the Center for National Policy will host a discussion titled "Asia and the Future of American Strategy" featuring Dr. T.X. Hammes, of National Defense University, and CDR Bryan McGrath (ret.), of Delex Consulting, Studies and Analysis.

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