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CHINA UPDATE

Quote of the Week

“Despite the trend lines over the last decade, there is a frightening reluctance on the part of government officials to speak openly about the challenges we face from the People’s Republic of China. This needs to end. US officials must come to accept that while there are plenty of opportunities for cooperation with the PRC, there are also elements of our relationship that are and will remain competitive. Indeed, we are engaged in an extended peacetime competition with the PRC that at its heart is a clash of visions for the international system. This is not to say that conflict between our countries is inevitable. But if US leaders are expected to marshal the diplomatic and military resources necessary to engage in this long-term competition, they must first be willing to speak more candidly about Beijing’s growing capabilities and strategic intentions.”
– Rep. Randy Forbes (R-VA), founder and co-chair of the Congressional China Caucus, in the June 5 PacNet newsletter of the Pacific Forum CSIS

China Sole Remaining Importer of Iranian Oil Subject to Economic Sanctions

On June 11 the State Department issued exemptions for India, Malaysia, the Republic of Korea, Sri Lanka, Turkey, Taiwan, and South Africa from U.S. economic sanctions on major importers of oil from Iran. China is the sole remaining major importer of oil from Iran that has not obtained a waiver. They have until June 27 to demonstrate that they have taken sufficient actions to reduce their importation of Iranian oil or they will be subject to penalties under U.S. law. A press statement from Secretary of State Clinton can be found [here](#).

International Trade Administration Actions

On June 8 the ITA [published](#) a Notice in the Federal Register that it is conducting the first administrative review of an antidumping order on oil country tubular goods from China, covering the period May 19, 2010 through April 13, 2011. ITA has preliminarily determined that certain Chinese companies have made sale of subject merchandise in the U.S. at below market price.

On June 8, the ITA [published](#) a Notice in the Federal Register that, as a result of affirmative determinations by the Department of Commerce and the U.S. International Trade Commission that revocation of antidumping order on foundry coke products from China would likely lead to a continuance or recurrence of dumping and

material injury to an industry in the U.S., it is continuing the antidumping order.

On June 8, the ITA **published** a Notice in the Federal Register regarding its preliminary determination that antidumping orders on small diameter graphite electrodes are being circumvented by export of product from the United Kingdom to the U.S. The final determination is currently due July 31, 2012.

WTO to Rule on EU-China Dispute over X-ray Security Equipment

On June 4, a WTO dispute panel handling the European Union's complaint that challenges an antidumping order from China on EU x-ray security inspection equipment notified WTO members that the panel would issue a ruling in December. At issue is a complaint from the EU that challenges a January 2011 decision by the Chinese to put into place an antidumping order on equipment from the EU. A German firm received a dumping duty of 33.5% while all other EU exporters of the equipment received a dumping order of 71.8%.

China Wins WTO Shrimp Dispute with U.S.

On June 8, a WTO dispute panel sided with China in its challenge to U.S. antidumping orders on Chinese shrimp. The WTO found that the U.S. had violated its international obligations by miscalculating the penalty, which had been set at 112.8%. At issue was the Department of Commerce's use of the zeroing method, which means excluding export prices where exports are higher than the domestic price for the same product, thereby artificially inflating the level of antidumping penalties. The zeroing method is considered by some to be controversial, and the Obama administration did not contest China's challenge on this case.

China Cuts Interest Rate

For the first time since 2008 and in an effort to stabilize the Chinese economy, China's central bank, the People's Bank of China, cut interest rates on June 7 by 25 basis points, setting the one-year deposit rate at 3.25% and the loan interest rate at 6.31%.

China Support for International Patent Filings

The Chinese Ministry of Finance has outlined policies for financial assistance for Chinese applicants at small and medium-sized companies and research institutions applying for patents in countries other than China. The Chinese government maintains a special fund, through which it helps cover fees associated with patent applications and investigations, provided that the applicant uses Chinese agents to process the international patent application. Parties utilizing the fund are eligible to apply for patents in up to 5 countries, and any financial assistance provided is capped at \$15,700.

EU Carbon Caps and Airlines

At a June 6 hearing of the Senate Commerce Committee, Transportation Secretary Ray LaHood was questioned about whether the Administration would support Senator John Thune's (R-SD) legislation to prohibit American airlines from participating in the European Union's Emissions Trading System. The EU Emissions Scheme Prohibition Act (S. 1956) instructs the Secretary of Transportation to bar American airlines from participating in the system if it is determined that it would be in the public interest to do so, and also instructs government officials to conduct investigations so that aircraft operators that fail to comply with the emissions trading scheme are not subject to retaliation or penalties from the EU. On June 8, the China Air Transport Association said that, should the EU punish Chinese airlines for non-compliance with the trading scheme, it will undertake countermeasures that could include impounding European aircraft. China has refused to comply by providing emissions data that was due by March 31. The EU Climate Commissioner has given China until the end of this week to comply, or face enforcement action. Secretary LaHood told the Commerce Committee that he and Secretary of State Clinton have made clear the Administration's opposition to the EU plan.

Putin in China for Talks

Russian president Vladimir Putin visited China last week for talks with Chinese President Hu Jintao on strengthening the relationship between the two nations. They also discussed the ongoing issues with Syria and Iran. While in China, President Putin attended the Shanghai Cooperation Organization meeting.

Shanghai Cooperation Organization Meets This Week

The Shanghai Cooperation Organization (SCO) – an intergovernmental mutual security organization made up of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan – met last week in Beijing for its 12th annual summit. Afghanistan was welcomed as a new observer, joining India, Iran, Mongolia, and Pakistan. Issues discussed included terrorism, separatism, extremism, narcotics trafficking, and transnational organized crime, as well as the Iranian nuclear issue. A press release on the meeting can be found [here](#).

Upcoming Events

On June 14 the Senate Energy and Commerce Committee will hold a [hearing](#) on competitiveness and collaboration between the U.S. and China on clean energy issues with testimony from Justin Wu, head of wind energy research at Bloomberg New Energy Finance, Hong Kong; Alan Wolff, Senior Counsel at McKenna Long & Aldridge LLP; Clyde Prestowitz, Jr., President of the Economic Strategy Institute; Dan Holladay, Director of Advanced Technologies & PV Programs at SEMATECH; and Derek Scissors, Senior Research Fellow at The Heritage Foundation.

Also on June 14, the U.S.-China Economic and Security Review Commission (USCC) will hold a Capitol Hill [hearing](#) on “The Evolving U.S.-China Trade & Investment Relationship” with testimony from Judith Dean, Professor of International Economics at Brandeis University; Shang Jin Wei, Professor of Chinese Business and Economy at Columbia University; Yingying Xu, Economist and Council Director at the Manufacturers Alliance for Productivity and Innovation; Michael McCarthy, Chief Legal Counsel at Infinera Corporation; James Fellowes, Chairman and CEO of Fellowes, Inc.; Ahmed Siddiqui, Founder of Go Go Mongo!; Nova Daly, Public Policy Consultant at Wiley Rein, LLP; and David Fagan, Partner at Covington and Burling LLP. The Federal Register notice of the hearing can be found [here](#).

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