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A New Trade War Between EU and China Over Subsidies? - a new policy brief by ECIPE warns of tit-for-tat retaliation on anti-subsidy duties

Summary:

- * EU imposed anti-subsidy duties (so called countervailing duties, CVDs) against Chinese on certain paper products based on questionable evidence on illegal subsidies in China
- * It is the first time EU uses the anti-subsidy instrument against China. This may start a new trade war between EU and China, who is not short of subsidised EU products to retaliate against
- * Punitive tariffs in EU will not get rid of unfair subsidies in China.
- * This calls for a restrictive policy on anti-subsidy duties in the EU where such measures are not used for buying time for European sunset industries. There are justified in rare cases where there is an urgent and serious threat against competitive industries.

This week, EU approved duties against coated fine paper from China used for magazines and publications. European producers allege injury from Chinese producers who receive illegal subsidies such as tax breaks, grants and preferential loans. A new policy brief by a director of ECIPE, Hosuk Lee-Makiyama, concludes that the evidence against China is weak – the Chinese producers hold less than 4% of the EU market (including volumes by EU firms who have invested in China) could hardly inflict any injury on European producers, and the case is based defining loans from Chinese commercial banks as state aid because some of the banks are state-owned.

It is the first time EU has imposed such duties (called countervailing duties, CVDs) against China. As the EU subsidises local production in various sectors, China is not short of sectors to retaliate against. It has already imposed a tariff on EU potato starch and more cases are forthcoming. A trade war with China on subsidies seems now unavoidable.

The policy brief calls for a new policy on CVDs in the EU. Due to the risk of retaliation, they are costly means to buy time for sunset industries. Cases will only be filed by uncompetitive firms with no exports have nothing to lose from retaliation. Competitive exporters are unlikely file a complaint as they could lose their market access in the targeted countries. CVDs are only justified to safeguard against measures that may cause rapid and irreversible damages to competitive, high value-added sectors in EU – and such cases are extremely rare.

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