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China-Tariff Discord Escalates

By JOHN W. MILLER
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BRUSSELS -- The U.S., the European Union and Canada are set to file a joint complaint with the World Trade Organization against China's import tariffs on auto parts, said people familiar with the matter.

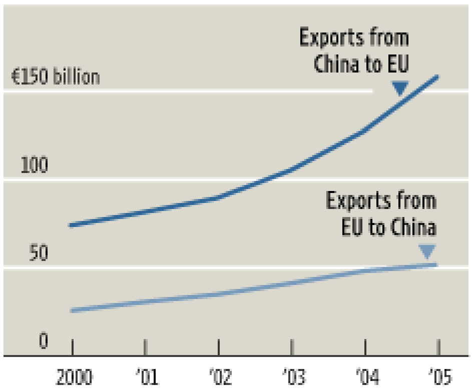
The complaint, which could be filed as soon as this week, marks the first time the Western allies have teamed up to seek a formal investigation by the global trade body in a dispute with the Asian giant.

In March the three governments filed a preliminary complaint against Chinese protection of its auto-parts manufacturers. In negotiations with the governments, China has refused to change its protectionist policy, which charges an average 25% levy on imported auto parts. That leaves formal complaint as a last recourse at the WTO for Washington, Brussels and Ottawa.

"We have long voiced our concern and disquiet with the Chinese on this issue," said European Commission spokesman Peter Power. The U.S. exported only about $540 million of auto parts to China last year, a market estimated at $19 billion. The EU says its auto-parts exports to China are valued at about €3 billion, or roughly $4 billion.

Seeking Balance

Like the U.S. and Canada, the EU believes it hasn't had fair access to Chinese markets. As its trade deficit widens, one strategy is to pressure Beijing to cut tariffs on imported goods.



Note: €1=$1.2691 Source: Eurostat

The complaint could result in punitive special tariffs being imposed on Beijing.

The Chinese delegation to the WTO in Geneva didn't immediately return calls seeking comment.

The issue will likely be discussed at a regular WTO meeting on trade disputes scheduled for Sept. 28, the people familiar with the matter said. Complaints from WTO members need to be filed two weeks before the monthly gatherings.

China exempts companies with factories in China -- such as **General Motors** Corp., **Volkswagen** AG and **DaimlerChrysler** AG -- from paying the tariff only if they buy at least 40% of their parts from local producers.

In trade terms, such "local content" requirements violate free-trade rules China pledged to meet when it joined the WTO in 2001. The rule handicaps foreign auto-parts suppliers competing for a share of the four million autos made every year in China.

Auto makers say they have difficulty finding enough local providers who can meet their standards.

DaimlerChrysler, for instance, began making the Mercedes E-Class in Beijing in December. The auto maker says it would like to avoid the tariffs by using local suppliers. "We're still looking for local providers who meet our standards so we can get to 40%," said Trevor Hale, a spokesman for DaimlerChrysler in China.

General Motors said recently that it would stop production of its Buick Royaum model in China partly because importing parts had become too expensive.

Others worry that setting up in China to meet local-content requirements ultimately invites piracy. Finland's prime minister said at a EU-China business summit in Helsinki yesterday that European companies were afraid of investing in China for fear their "expensive and hard-won technology" would be copied.

The joint move follows the EU's adoption of a tougher line on Chinese imports. Last month, the European Commission asked EU members to approve tariffs of 16.5% on imports of certain types of leather shoes from China.

EU members are divided on that issue. Shoe-producing countries like Italy want the tariffs. They are opposed by governments like the U.K. and Ireland that are standing up for European retailers who book healthy profits on selling inexpensive Chinese goods.

Chinese exports to the EU had risen to €158 billion in 2005 from €74 billion in 2000, according to statistics agency Eurostat. Imports into China from the EU increased to €52 billion from €26 billion over the same period.

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