U.S. CHALLENGES CHINA'S TAX EXEMPTIONS FOR AIRCRAFT AT WTO

News / Finance

The United States on Tuesday launched a challenge to Chinese tax exemptions for locally produced aircraft, saying they discriminated against imported planes.

The request for consultations with China at the World Trade Organization over a value-added tax of 17 percent on small to medium-sized planes is the first step in a process that could lead to trade sanctions.

The U.S. Trade Representative said the tax was generally imposed on planes under 25 metric tonnes coming from overseas, while locally made planes such as state planemaker Commercial Aircraft Corp of China's (COMAC) ARJ21 jet were exempt.

"China's discriminatory, unfair tax policy is harmful to American workers and American businesses of all sizes in the critical aviation industry, from parts suppliers to manufacturers of small and medium-sized aircraft," U.S. Trade Representative Michael Froman said in a statement.

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USTR investigators uncovered documentation about the tax break dating back to 2000 and said China had breached WTO transparency commitments by failing to publish the regulations for review by trading partners.

China is keen to develop a successful commercial aircraft to rival those of Boeing and Airbus. The ARJ21, China's first locally built regional jet, is designed to compete against Brazil's Embraer SA and Canada's Bombardier Inc.

U.S. lawmakers and the machinists and steelworkers unions cheered the step, which allows 60 days for consultations. The United States can then request a panel to look into the case.

A U.S. trade official said the United States exported more than US$500 million worth of small to mid-sized planes to China over the last three years. The tax exemption also had an impact on exports of U.S.-made parts and components used by other aircraft manufacturers, such as Embraer and Bombardier, he said.

The move shows the scrutiny by Washington as China enters the broader market for larger passenger jets, for example through its Comac C919 narrow body jet, which is the Chinese answer to Boeing's 737 and Airbus' A320.

China has contributed testimony to the world's largest trade dispute, over mutual allegations by the United States and European Union of illegal aircraft subsidies, as an interested third party but is expected to come under the spotlight in its own right as it challenges for a bigger place in the global aircraft market.

Other countries can join the case against China.

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