

China alert

Tax and regulatory developments

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China abolishes the *Administrative Measures for the Import of Automobile Components and Parts Featuring Complete Vehicles*

In Brief

- The Measures, published by the GAC, NDRC, MOF and MOFCOM in 2005, were abolished by GAC Order No.185.

Relevant regulation discussed in this issue:

The Decision on Abolishing the Administrative Measures for the Import of Automobile Components and Parts Featuring Complete Vehicles, Customs Decree No. 185, issued by the General Administration of Customs (GAC) on 28 August 2009

The Administrative Measures for the Import of Automobile Components and Parts Featuring Complete Vehicles, Order No. 125, issued by the GAC, the National Development and Reform Committee (NDRC), the Ministry of Finance (MOF) and the Ministry of Commerce (MOFCOM) on 28 February 2005 (Order No. 125).

Order No. 125 in 2005

Order No. 125 prescribed that the import duty rate for automobile parts featuring complete vehicles would be the same as that for the complete vehicle. Imports of automobile parts meeting any one of the following standards would be considered as importing a complete vehicle:

- Importing CKD (Completely Knocked-Down) and SKD (Semi Knocked-Down) items for assembling vehicles.
- Importing both the vehicle body system and engine system for assembling vehicles.
- Importing either the vehicle body system or the engine system, and three or more other systems for assembling vehicles.
- Importing five or more systems other than the vehicle body (including cab) system and engine system for assembling vehicles.
- The total value of the imported parts and components is no less than 60 percent of the total value of the complete vehicle type.

Since 2005, the average duty rate of automobile parts has been 10 percent, while that of a complete car has been as high as 25 percent. Order No. 125 would mean that, if one of the above conditions were met, the duty rate for car parts would be 25 percent.

Complaint by the US, the EU and Canada in 2006, and the WTO's ruling in 2008

The US, the EU and Canada believed that Order No. 125 violated WTO principles. In 2006, China had a consultation procedure with the three

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parties, but no agreement was reached. On 26 October 2006, the WTO Dispute Settlement Body set up an expert group to hear the case. On 18 July 2008, the group ruled that the regulation violated the national treatment principle. Although China submitted an appeal, the WTO Appellate Body's ruling on 15 December 2008 maintained the views of the Group of Experts.

Order No. 185 in 2009

On 28 August 2009, in response to the WTO ruling, the four bodies jointly issued a regulation declaring that from 1 September 2009, Order No. 125 was lifted. Thus, from 1 September 2009, the average import duty rate of auto parts will be 10 percent. However, auto parts imported before 31 August 2009 still need to be checked for whether they constitute a complete vehicle. For those which do, the duty rate will remain 25 percent.

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