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U.S. protests China's innovation rule, steel duties

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By Doug Palmer

WASHINGTON (Reuters) - The U.S. government joined 33 business groups on Thursday in protesting a new Chinese regulation they said promotes development of Chinese products by keeping foreign competitors out of the market.

"This is a serious concern. It is in the interests of both the U.S. and Chinese governments to promote innovation, but innovation is no excuse for discrimination," said Carol Guthrie, a spokeswoman for U.S. Trade Representative Ron Kirk.

"We are expressing our serious concerns with all appropriate counterparts in the Chinese government."

U.S. trade officials also criticized China's decision on Thursday to slap preliminary duties on imports of a U.S. specialty steel product. The move was seen by analysts as a response to U.S. duties on Chinese-made steel goods.

The U.S. Chamber of Commerce and business groups from Canada, Europe and Japan laid out their concerns over China's new "Indigenous Innovation Product Accreditation" system in a letter on Thursday to top Chinese officials.

The program, outlined in a government circular on Nov 15 just before President Barack Obama visited Beijing for talks with Chinese leaders, will "impose onerous and discriminatory requirements on companies seeking to sell into the Chinese government procurement market," the groups said.

"We strongly believe that implementation of this program will undermine the more positive relationship that our countries have been working so hard to achieve with China."

'19TH CENTURY CONCEPT'

The increased friction came as new government data showed the U.S. trade gap with China in October was the widest in nearly a year, at \$22.7 billion.

China's currency policies and market barriers continue to frustrate many U.S. producers eight years after it joined the World Trade Organization.

As China modernizes, it wants its producers to grab a bigger share of the global technology trade.

The new rule thwarts foreign companies by requiring Chinese government procurement agencies to only purchase computers, software, energy equipment and energy efficient products for which intellectual property was developed and owned in China.

"It is a 19th century concept of research and development that does not reflect the international way in which intellectual property is developed today," said Cal Cohen, executive director of the Emergency Committee for American Trade, a business group.

"We all support and respect that China needs to grow and innovate on its

own. But what we don't support is when it implements policies under the guise of innovation that discriminate against foreign firms," added John Neuffer, vice president for global policy at the Information Technology Industry Council.

Meanwhile, China's decision on Thursday to slap preliminary anti-dumping and anti-subsidy duties on a type of electrical steel used in transformers put another strain on trade ties.

STEEL TARIFFS 'UNFORTUNATE'

"It is unfortunate that China decided to impose provisional countervailing duties on imports of grain-oriented electrical steel (GOES) from the United States," Guthrie said.

"We do not believe that the imports in question are subsidized, nor do we believe that those imports have harmed the Chinese GOES industry," she said.

The action follows a number of U.S. steel industry trade cases against China that have prompted Beijing to accuse the United States of protectionism.

"While the tonnage involved in this trade suit -- 75,000 tons, or less than a tenth of a percentage point of the Chinese market -- is truly trivial, this decision is anything but," said Michelle Applebaum of Steel Market Intelligence in Chicago.

"This trade case reflects an effort by Beijing to stem a surging tide of Western complaints about China's high cost and subsidized steel industry's exports," she said.

Dan Ikenson, a trade policy expert at the Cato Institute, said he also believed the new Chinese duties were "a case of what goes around comes around."

"Given falling global demand for steel products, it's quite possible that Chinese steel producers can demonstrate that they are legitimately injured," Ikenson said.

What's less clear is whether U.S. producers are selling the specialty steel in China at unfairly low prices, he said.

(Reporting by Doug Palmer; editing by Todd Eastham)

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