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Committee on Rules of Origin

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CHINA'S STUDY ON UTILIZATION BY LDCS OF CHINA'S PREFERENCE IN 2020

The following submission, dated 10 October 2023, is being circulated at the request of the delegation of China.

1 BACKGROUND

1.1. On 6 June 2023, the LDC Group submitted a report ([G/RO/W/222](#)), which reviewed the utilization of China's preferences based on the 2020 import data, to the WTO Committee on Rules of Origin containing utilization rates of LDC exports to China under China's LDC preferential trade arrangement. In order to verify the issues and conclusion raised by the LDC Group, China has extracted its trade statistics and calculated the utilization rate by Members and by commodities.

1.2. This report, China's Study on Utilization by LDCs of China's Preference in 2020, contains the utilization rates and the major findings of the study, which differ from the LDC Group's report. An in-depth analysis has been provided to explain the causes of the differences.

2 METHOD FOR CALCULATING THE UTILIZATION RATE

2.1. The modalities for the calculation of "preference utilization" recommended by the WTO Secretariat is (please see document [G/RO/W/161](#)):

$$pur_{i,p}^{value} = \frac{\sum_{i,p} PTA_{reported}}{\sum_{i,p} PTA_{eligible}}$$

$pur_{i,p}^{value}$: PREFERENCE UTILIZATION RATE (per cent) based on import value
where:
 i = import value
 p = products
 $PTA_{reported}$ = imports reported to have taken place under the PTA preferential duty scheme
 $PTA_{eligible}$ = imports under any eligible tariff line, i.e. preferential duty < MFN duty rate.

2.2. When extracting the data, China considered the following three factors as taking its trade structure into consideration:

1. Actual Preferential Import Value (numerator): China provides duty-free and quota free treatment for LDC's exports covering at maximum 98% tariff lines (LDC-PTA scheme, with LDCs that exchanged agreement with China). In addition, Bangladesh; Cambodia; Myanmar; and Laos People's Democratic Republic also enjoy preferential tariff rate in the Asia-Pacific Free Trade Agreement or the China-ASEAN Free Trade Area Agreement. According to the Secretariat's recommendation, the value of goods that enjoyed other FTA preferences should be included in the Actual Preferential Import Value. Therefore, for these four Members, the Actual Preferential Import Value includes the value of goods that enjoyed both LDC PTA and other FTAs.
2. Adjusted Dutiable Imports (denominator): When calculating the value of goods that eligible for preferential treatment, it should use the import value of goods that went into domestic market and paid the customs duty. The value of re-exported goods and goods that do not subject to customs duty should not be included, such as Bonded goods entering special customs zone areas, etc.

3. The scope of exclusions: Goods whose Interim Duty Rate is equal to or lower than the LDC PTA tariff rate should not be included in the calculation.

2.3. Comparing to the above method of data extraction, the LDC's report used China's MFN import value and LDC-PTA import value directly from IDB database to calculate the utilization rate. As such data has its limitation, it led to a result that not reflecting the real situation in China.

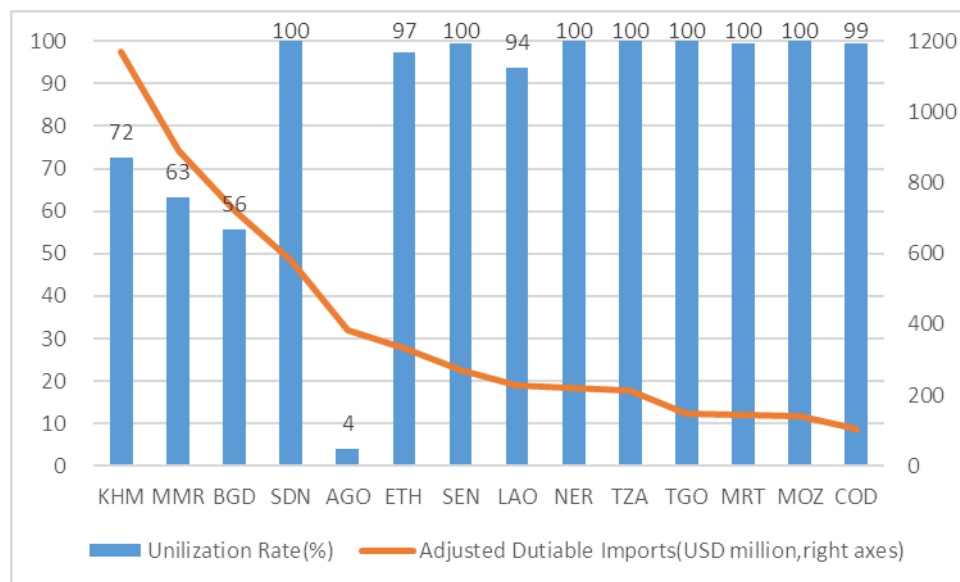
3 ANALYSIS OF CHINA'S UTILIZATION RATE

3.1 The Utilization Rates of Major Import Members

3.1. There are 41 LDCs in total that China has import (see Annex. The order is based on import value and utilization rates).

3.2. Fourteen Members have eligible import value over US\$100 million, with an average utilization rate of 84.6% (Figure 1). There are ten Members have eligible import value between US\$5 million to US\$100 million, with an average utilization rate of 84.6% (Figure 2). There are 17 Members have eligible import value less than US\$5 million, and the average utilization rate is 37.64% (Figure 3).

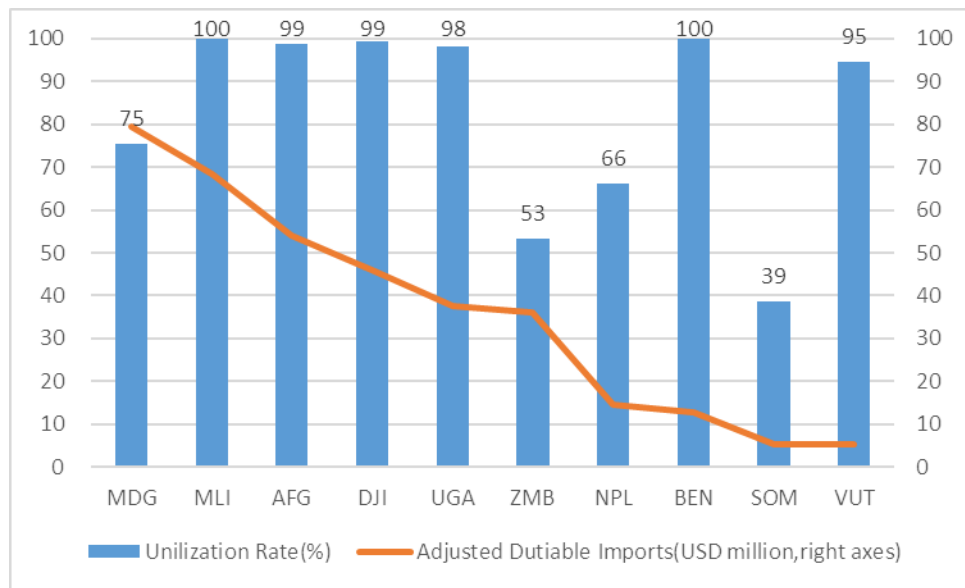
Figure 1 – Chinese Utilization Rates and Adjusted Dutiable imports from LDCs Adjusted Dutiable Imports > US\$100 million



3.3. Among the 14 Members that have eligible import value over US\$100 million, except for Angola, which has a utilization rate of 4%, the utilization rates of the remaining 13 Members remain at a high level, and most of them exceed 94%. The reason for Angola's low utilization rate is that Propane (27111200) did not apply for the LDC-PTA tariff rate, and its import value (US\$320 million) accounts for 85% of the eligible import value of Angola. According to the relevant importer, it did not apply for the preferential treatment because it does not aware that Propane could enjoy the 0% tariff rate under LDC-PTA. Now the importer is considering applying for the LDC-PTA in the future.

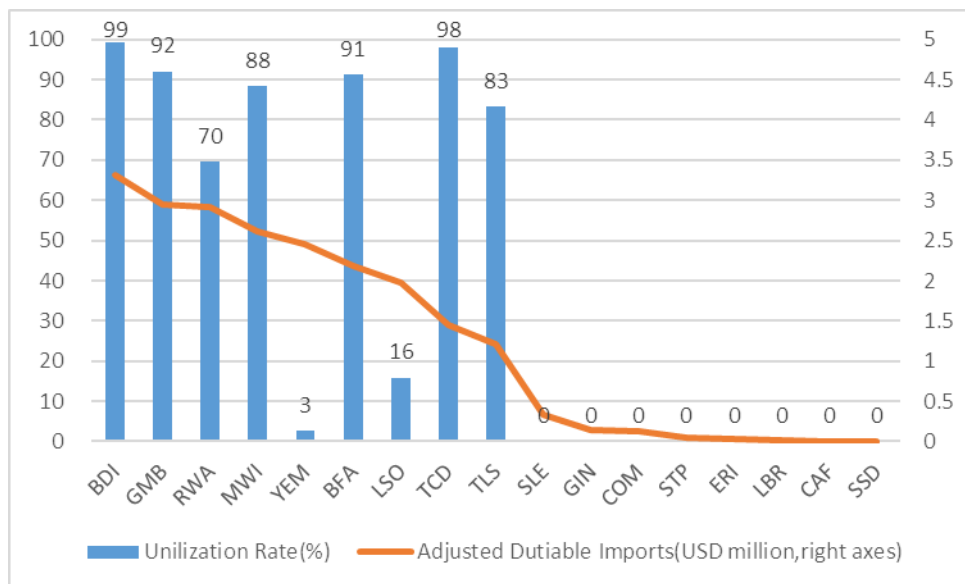
3.4. Among the ten Members that have eligible import value between US\$100 million and US\$5 million (Figure 2), six of them have a utilization rate greater than 95%, and only Somalia has a utilization rate below 50%.

Figure 2 – Chinese Utilization Rates and Adjusted Dutiable imports from LDCs Adjusted Dutiable Imports US\$5 Million – US\$100 million



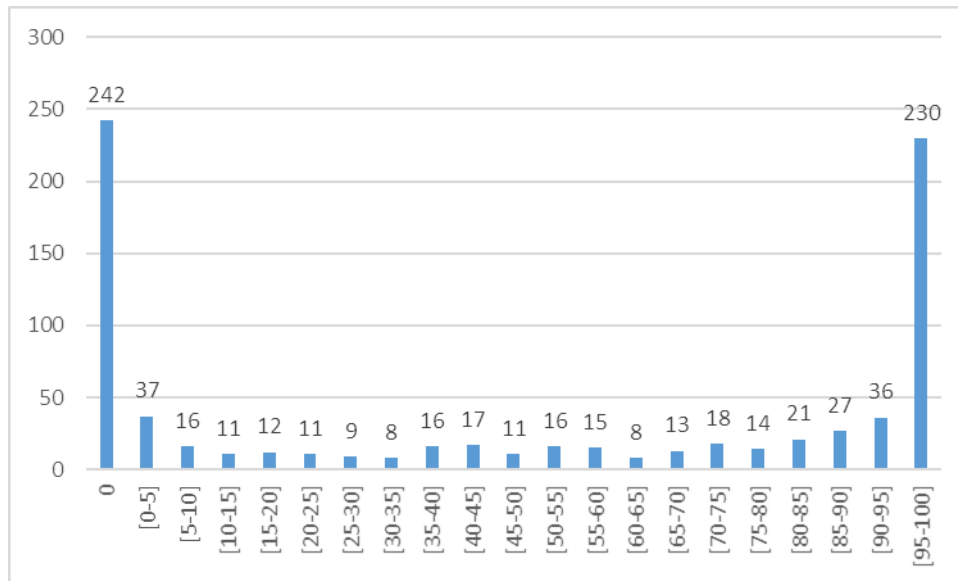
3.5. Among the 17 Members that have eligible import value less than US\$5 million (Figure 3), the utilization rate of seven Members is greater than 70%. The utilization rate of several Members such as Sierra Leone and Guinea is zero. Data shows that the eligible import value from relevant Members is quite small, most did not exceed US\$10,000.

Figure 3 – Chinese Utilization Rates and Adjusted Dutiable imports from LDCs Adjusted Dutiable Imports < US\$5 million



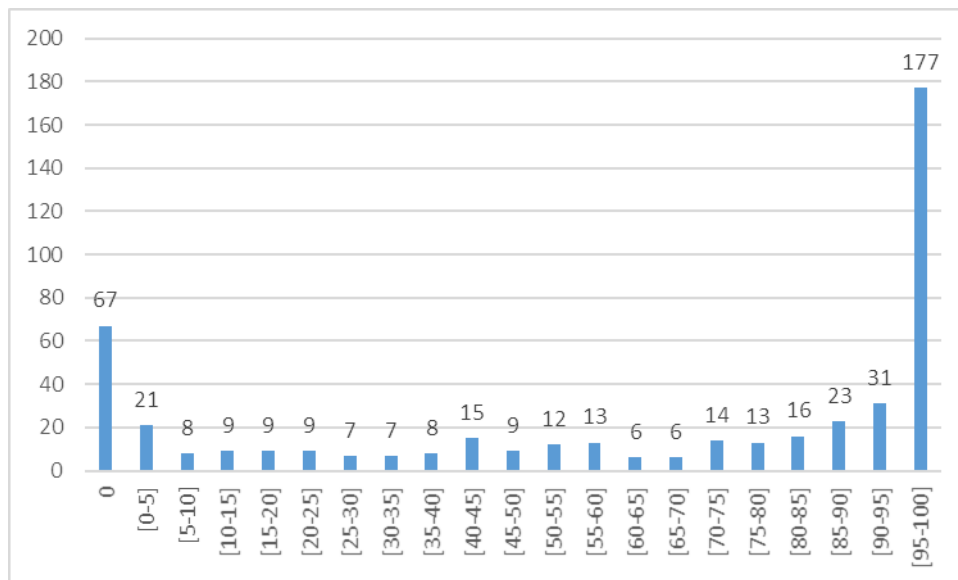
3.2 The Utilization Rate of Each Tariff Lines

Figure 4 – Distribution of tariff lines over utilization rates Adjusted Dutiable Imports from LDCs > US\$10,000



3.6. In 2020, China imported 1,459 tariff lines that are eligible for LDC-PTA, of which 788 tariff lines have an import value greater than US\$10,000 (see Figure 4 for utilization rate). The value of goods with a utilization rate higher than 95% was US\$3.57 billion, accounting for 60.2% of the total import value of the eligible goods; the value of goods with a utilization rate lower than 5% was US\$930 million, accounting for 15.7%.

Figure 5 – Distribution of tariff lines over utilization rates Adjusted Dutiable Imports from LDCs > US\$100,000



3.7. There are 480 tariff lines with an import value greater than US\$100,000 (see Figure 5 for utilization rate), of which 286 tariff lines have a utilization rate greater than 60%, accounting for 60% of these tariff lines; 177 tariff lines have a utilization rate of 100% (accounting for 37%); 67 tariff lines have a utilization rate of 0% (accounting for 14%).

4 CHINA'S RESPONSE TO THE CONCLUSION OF THE LDC REPORT

4.1 Low Utilization Rate by the Top 5 Import LDCs

4.1. In the LDC report, the top five Members in terms of eligible import value and utilization rates are: Congo (DRC) 1%; Zambia 1%; Myanmar 6%; Bangladesh 44% and Cambodia 41%. According to China's calculations; the top five Members are Cambodia 72%; Myanmar 64%; Bangladesh 56%; Sudan 100%; and Angola 4%. The main reasons for these differences are:

4.2. First, some goods from Cambodia; Myanmar; and Bangladesh enjoyed other FTAs tariff rates (Asia-Pacific or ASEAN). After including these import value into the calculation, the utilization rates of the above three Members have increased significantly. The LDC's report has not covered these import value.

4.3. Secondly, the Interim Duty Rate of China for some goods that imported from Congo (DRC), Zambia, and Myanmar is 0%. Importers do not need to apply for LDC-PTA to enjoy the 0% tariff rate. In this case, such goods should not be included in the calculation. After excluding such goods, Congo (DRC) ranked 17th as the total eligible import value, with a utilization rate of 99%, and Zambia ranked 23rd, with a utilization rate of 53.3%. For example, Copper (74031111) is the largest commodity that Congo (DRC) export to China, and it could enjoy 0% tariff rate without applying for LDC-PTA.

4.2 Low Utilization Rate for Goods with a Large Import Value

4.4. The LDC report mentioned that the utilization rate of several goods with large import value is 0%. China found that the Interim Duty Rate for related goods (28469019, 28469099, 72026000, 74020000, 74031111, 74031119, 81052010, etc.) is 0%. As mentioned above, such goods should not be included in the calculation. The Interim Duty Rate for 27111390 and 27111200 is 1%. Also, as mentioned above, some importers were not aware of the LDC-PTA. The import value of such goods was accounting for 3.3% of the value of the above goods. Now China Customs has helped these importers to know the LDC-PTA.

4.3 Liberian Exports did not Enjoy Preferential Treatment

4.5. The LDC report mentioned that Liberia exported "Ships, boats and floating structures" of US\$28 million to China under most-favoured-nation (MFN) rate and failed to enjoy the LDC-PTA. China's data shows that in 2020, China imported goods under HS Chapter 89 from Liberia with only two tariff lines: 8906.9010 (motorized ships) and 8907.1000 (inflatable rafts), with a value of US\$28 million. These goods were declared as repair items which should not be excluded from the calculation of preference utilization.

4.4 Cambodian Exports did not Enjoy Preferential Treatment

4.6. The LDC report mentioned that Cambodia exported "Art of apparel & clothing access, knitted or crocheted" (HS Chapter 61) of US\$239 million to China, of which US\$108 million paid duty under MFN rate and failed to enjoy the LDC-PTA. China's data shows that US\$250 million of goods under HS Chapter 61 has been imported from Cambodia, of which US\$180 million was imports under the China-ASEAN Free Trade Agreement with a utilization rate of 71%.

4.5 Some Eligible Goods did not Enjoy Preferential Treatment

4.7. The LDC report mentioned that a total of 16 tariff lines with an eligible import value of more than US\$50 million were paid the MFN tariff rate with a tariff rate margin of 2%. According to Chinese data, there are no goods that meet the above conditions. China would like to have the list from the LDC Group in order to be able to verify the result.

5 CONCLUSIONS AND SUGGESTIONS

5.1. To sum up, the rules of origin of China's LDC-PTA are simple and convenient, and the utilization rate is generally high, albeit there are certain cases where the utilization rates of individual LDCs and goods are low. The reasons behind need to be studied together with relevant Members. In this

regard, China is willing to strengthen communication with beneficiary Members to further understand the actual reasons and difficulties. If assistance in capacity building is needed, China is willing to provide support.

5.2. At the same time, by comparing the differences between this report and the LDC report, it is once again proved China's point that the study on the utilization rate requires the comprehensive data from the preference granting Members. Data limitation of IDB may lead to misleading conclusion on the utilization rate. In this regard, China once again calls on all Members to strengthen their communication and cooperation to avoid diminish the value of our research due to the data limitations.

ANNEX**NUMBER OF TARIFF LINES AND ADJUSTED DUTIABLE IMPORTS OVER UTILIZATION RATES
CATEGORIES BY MEMBERS**

(Unit US\$1,000, in the order of UR and eligible import value)

Members	UR=0		0<UR<50		50<UR<70		UR>70	
	#TL	Adjusted dutiable imports	#TL	Adjusted dutiable imports	#TL	Adjusted dutiable imports	#TL	Adjusted dutiable imports
Cambodia	432	12,574	67	267,004	32	168,605	157	721,113
Myanmar	296	119,252	51	213,525	29	42,660	180	514,656
Bangladesh	319	26,892	72	295,789	21	108,609	78	289,968
Sudan							41	579,305
Ethiopia							108	331,769
Senegal							53	272,449
Niger							33	220,121
Lao	100	16,058	3	459	3	740	43	211,779
Tanzania							96	211,589
Togo							11	147,014
Mauritania							34	143,442
Mozambique							43	140,363
Congo, DR							19	105,477
Madagascar							212	79,399
Mali							29	68,521
Afghanistan							65	53,915
Djibouti							11	45,918
Uganda							45	37,522
Benin							14	12,859
Vanuatu							12	5,275
Burundi							11	3,313
Gambia							21	2,940
Malawi							24	2,613
Burkina Faso							7	2,178
Republic of Chad							8	1,445
Timor-Leste							8	1,211
Zambia					37	36,128		
Nepal					228	14,554		
Rwanda					24	2,909		
Angola			27	381,723				
Somalia			24	5,346				
Republic of Yemen			24	2,458				
Lesotho			15	1,968				
Sierra Leone	80	330						
Guinea	14	136						
Comoros	3	122						
Sao Tome and Principe	4	47						
Eritrea	3	30						
Liberia	2	11						
Central African Republic	1	0.8						
South Sudan	4	0.2						