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## **China - Peoples Republic of**

**Post:** Beijing

### **China Announces Additional Cotton Import Quotas**

**Report Categories:**

Trade Policy Monitoring

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**Report Highlights:**

On June 12, 2018, China's National Development and Reform Commission (NDRC) published an official notice issuing 800,000 tons in additional cotton import quotas subject to a sliding duty. NDRC will distribute the quotas according to an application process they administer. Currently, China is obligated under its WTO commitments to annually allocate 894,000 tons of Tariff Rate Quota (TRQ) cotton imports subject to a one percent duty. China has not issued additional import quotas for cotton since 2015.

## Summary

On June 12, 2018, China's National Development and Reform Commission (NDRC) published Notice (2018) No.7 on Issues Related to Application for Cotton Import Quota Subject to Sliding Duty. In an effort to meet the demand of the textile industry, NDRC decided to add 800,000 tons in additional cotton import quotas subject to a sliding duty. Under its WTO commitments, China is obligated to annually allocate 894,000 tons of cotton TRQ imports that are subject to a one percent import tariff. China has not issued additional import quotas outside of its WTO TRQ since 2015 (see Table 2). The out-of-quota duty is 40 percent and is not commercially viable based on current prices in both the international and domestic market.

The additional import quota of 800,000 tons will be allocated to non-state owned enterprises. Businesses will not have to differentiate between general trade and processing trade on their application nor will the allocation of the TRQ be divided between the two trade channels. Once businesses receive the TRQ from NDRC, they can choose the trade channel they would like to use to optimize costs and improve efficiency.

It is expected that the sliding duty TRQ will be used to import high-grade, high-priced cotton. The sliding import duty is calculated using a formula based on the taxable price. If the imported cotton's taxable price is equivalent or higher to RMB 15/Kg (\$2,380/ton), a volume based tariff is levied at rate of RMB 0.57/Kg (\$90/ton). If the imported cotton's taxable price is below RMB 15/Kg (\$2,380/ton), the following formula will be used for calculating tariff<sup>1</sup>:  $R_i = 9.337/P_i + 2.77\% * P_i - 1$ .

In order to apply for the new TRQ, enterprises need to meet the following requirements: have registered with the State Administration for Industry and Commerce prior to October 1, 2017; be in good financial status and hold a good record on taxation and credit; have no violation records in Customs since 2016; not be blacklisted on the "Credit China" website; not have a record of violation of the "Administrative Measures for Import Tariff Rate Quotas of Agricultural Commodity;" and the enterprise needs to possess self-owned spindles equivalent to 50,000 spindles or above. Applications can be submitted from June 15 to 29, 2018 to NDRC designated agencies, which will then submit the applications to NDRC before July 6, 2018. NDRC will distribute the quotas accordingly. The deadline for use of these TRQs is not known at this time but normally it is before the end of the calendar year.

### Table 1. Cotton Tariff Rate Duties

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<sup>1</sup>  $R_i$  refers to the tentative tariff rate based on price, if the calculation value is above 40%,  $R_i$  then is 40%;  $P_i$  refers to tariff taxable price, the unit is RMB/Kg)

<b>HS Codes: 5201, 5203</b>	<b>WTO TRQ Rate</b>	<b>Out-of-Quota Tariff Rate</b>
Quantity	894,000 MT	N/A
Duty	1 percent	40 percent

**Table 2. Cotton Tariff Rate Quota History**

<b>Year</b>	<b>WTO TRQ Quantity</b>	<b>Additional TRQ Quantities</b>
2002	818,500 MT	0
2003	856,250 MT	0
2004	894,000 MT	0
2005	894,000 MT	1.4 MMT
2006	894,000 MT	2.7 MMT, subject to variable import duty
2007	894,000 MT	2.6 MMT, subject to variable import duty
2008	894,000 MT	2.6 MMT, subject to variable import duty
2009	894,000 MT	400,000 MT TRQ only for processing trade, due to weak demands for cotton
2010	894,000 MT	2.67 MMT, subject to variable import duty
2011	894,000 MT	2.7 MMT, subject to variable import duty
2012	894,000 MT	2.4 MMT, subject to variable import duty
2013	894,000 MT	Estimated 2.3 MMT subject to variable duty or for processing trade
2014	894,000 MT	1.3 million tons additional TRQ subject to variable duty were distributed but not officially announced
2015	894,000 MT	Industry sources estimated about 300,000 tons of cotton were imported by China's bonded zones* and destined for processing-trade for re-export in 2015
2016	894,000 MT	0
2017	894,000 MT	0
2018	894,000 MT	800,000 MT, subject to sliding duty

\*Cotton imports by China's bonded zones are included in China's total cotton import data. However, industry sources explained that these imports are not subject to TRQ control if the processed products are proven to be exported.

Note: China's WTO commitment does NOT mandate a TRQ for CY05 and after, but China maintained an identical quantity of TRQ as CY04. In addition to those volumes, China adds TRQs based on market demand. The added TRQs are subject to a variable import duty.

Source: NDRC and industry estimates.