



U.S. - CHINA TRADE COMMUNIQUE

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- China's VAT Rebate Benefits U.S. Importers
- 2016 U.S.-China Trade Data
- U.S.-China Business Development Tool
- Recent U.S.-China Trade Disputes

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Opportunities in China's Booming Aerospace/Aviation Market

China is the second largest air travel market in the world, and it is projected to pass the U.S. as the world leader by 2024, according to the International Transport Association. Both the 12th and 13th Five-Year Plan of the Central Government contain the national commitment to build more than 500 general aviation airports in China to accommodate the estimated 7% annual growth in passenger traffic through 2030. It is estimated that between 2017-2032, enterprises and individuals in China will purchase over 5,000 aircraft with 50+ seats, of which 75% of those aircraft will be single-aisle jet airliners.

The continuous opening of low-altitude airspace has accelerated the demand for helicopters in China. The demand for high-quality imported civilian fixed-wing and rotorcraft component systems, parts and services continues in China. The best commercial opportunities include: final assembly and tier-one suppliers; niche/sophisticated parts manufacturing; airport design and construction engineering; and general aviation services/training.

The Civil Aviation Administration of China ("CAAC") prohibits U.S. aviation manufacturers from operating in China unless through co-ventures with Aviation Industry Corporation (AVIC), Commercial Aircraft Corpora-

tion of China or one of their respective subsidiaries. The primary aircraft parts manufacturers in China are located in Shanghai, Chengdu, Xi'an, Jiangxi and Shenyang.

Recent developments in the China aerospace/aviation market include:

- ◆ On December 18, 2016, the CAAC announced the guideline for the coordinated development of a world-class airport cluster and aviation hub serving the Beijing-Tianjin-Hebei region by 2030. This initiative includes building Beijing's third civil airport (Daxing International Airport). It will take five years to complete and will become the second largest airport in Beijing.
- ◆ On December 16, 2016, Airbus announced the 300th delivery of an A320 aircraft from the Airbus (Tianjin) Delivery Center, which is a joint venture between Airbus, AVIC and the Tianjin Airport Economic Area Zone.
- ◆ On December 14, 2016, Honeywell Aerospace Asia-Pacific announced that it received approval to use Mandarin language in the safety-alert system for helicopter cockpits. This enhanced ground proximity warning system was ap-

proved by the U.S. Federal Aviation Administration.

- ◆ On December 10, 2016, Bell Helicopter announced it will build an assembly line for Bell 407GXP helicopters in the Xi'an National Civil Aerospace Industrial Base in Xi'an, the capital of Shaanxi Province. The project received funding from Shaanxi Aviation Industry Development Group Co., Ltd., and the project will include centers for helicopter training, emergency response and rescue, and research related to drones.
- ◆ On November 16, 2016, Boeing Shanghai Aviation Services signed an agreement with Taikoo (Shandong) Aircraft Engineering Co., Ltd. to convert 737 passenger planes into the 737BCF cargo aircraft beginning in 2017.



CCC Mark Exemptions Available For U.S. Repair Exports to China

The China Compulsory Certification (“CCC”) mark is a compulsory safety mark for many products that are imported, sold or used in the China market.

The CCC applies to 158 broad product groups, especially automotive parts, electronic products and IT products. For manufacturers planning to export products to China that fall within the CCC Product Catalogue scope, compliance is mandatory.

There are two occasions when a CCC mark is not required. One occurs when the product falls outside the CCC Product Catalogue. The importer may provide detailed product information, such as a product manual, test reports, declaration of conformity, invoice and bill of delivery to the local China Entry-Exit Inspection and Quarantine Bureau (“CIQ”) to prove that its product does not fall within the

CCC Product Catalogue. The CIQ will then issue a declaration that the product does not need a CCC mark, usually within one week.

The other occasion is when goods that are subject to the CCC mark requirements qualify for an exemption. CCC exemptions include: products for scientific purposes and product testing; products for commercial display (not for sale); spare parts required to build a production line; products that are processed in China and, as part of a larger product, are exported again; and products that are directly used for the end-user’s repair service. Products and parts that are eligible for exemption need Special Exempt Approval.

Recommended Compliance Actions.

- ◆ Check whether the product that is being exported to China requires a CCC mark by a Harmonized Schedule number or product groups.
- ◆ If the product classification or name of the product is similar to a good that is subject to a CCC, further check to see if the product actually falls outside the CCC Product Catalogue and obtain a declaration from the CIQ.
- ◆ Determine whether the product is eligible for a CCC exemption and seek a Special Exempt Approval.
- ◆ If none of the above applies, start the CCC mark



China’s New Guidelines on Inbound Investment

On October 8, 2016, new legislative guidelines were approved by the State Council and were followed by the issuance of the “Temporal Method of the Establishment and Alteration Filing Management of Foreign-Invested Enterprises” by the Ministry of Commerce. The new guidelines are designed to improve the procedures regulating inbound investment into China. Some key aspects of the new guidelines include:

1. Registration Filings -- registration wait times will be reduced. Under the new filing system, for any industry that is not restricted or banned, companies will be able to complete an online registration which will be processed and completed within three working days.
2. Targeted Sectors -- high-tech industries and research and development in modern agriculture and services, high-tech industries, new energy and green business will be encouraged.
3. Mergers and Acquisitions (“M&As”) -- there will be limited impact on M&As. For M&As, the new filing program will only apply when foreign investors purchase existing foreign-invested enterprises in China. If foreign investors purchase domestic, non-foreign-invested enterprises, both equity and asset mergers will continue to be regulated by the current administrative system.
4. Administrative Approval -- there will be streamlined administrative approvals and increased local government powers. China’s State Council also moved to streamline administrative approval and give more power to local governments to promote investment projects related to container terminals, vehicle engines, urban transit systems and inland water transportation.



U.S. and China Increased Anti-Corruption Enforcement and Rules in 2016

Enforcement of the Foreign Corrupt Practices Act of 1977 (“FCPA”) remained a high priority for the U.S. Government worldwide during 2016, but especially in China. Thus far, there have been 13 enforcement actions under the FCPA that are related to activities in China, and there are more open investigations of possible violations related to China.

In November 2016, a leading global financial services institution agreed to pay more than US\$130 million to settle Securities and Exchange Commission charges that it won business from clients and corruptly influenced government officials in the Asia-Pacific region (especially China) by giving jobs and internships to their relatives and friends.

In September 2016, a Utah-based skin care products company agreed to pay more than US\$765,000 for an improper payment that was made to a charity that was related to a high-ranking member of the Communist Party of China in order to influence the outcome of a pending provincial regulatory investigation in China.

In July 2016, a U.S. technology multinational agreed to pay more than US\$14 million to settle charges that its China subsidiary used sham vendors to make improper payments to employees of China Government-owned shipyards and other officials to win business.

In February 2016, a Massachusetts-based tech company and its China subsidiaries agreed to pay more than US\$28 million to settle FCPA cases involving bribery of government officials in China to win business.

China is in the midst of a wide-range anti-corruption campaign. Unlike the U.S., China does not have a uniform law on anti-corruption and bribery. Instead, the anti-corruption regime is found in various laws, administrative regulations, judicial interpretations and disciplinary guidance that are enforced by different China Government agencies.

Historically, China anti-corruption law focused on preventing and penalizing those who accepted, rather than offered, bribes. Some of the most recent amendments to two anti-corruption laws indicate that China is now strengthening legislation and enforcement efforts which prohibit the offering of a bribe. For example, in the Ninth Amendment to the Criminal Law of the PRC (Draft), one of the most important proposed changes is increased punishment for those who offer bribes, including an increase in monetary penalties, fewer available mitigating factors for reduced sentencing and a ban on working in certain sectors for a certain period of time.

On January 7, 2017, the Central Commission for Discipline Inspection announced measures to maintain and strengthen anti-corruption rules within the Communist Party of China. These measures include strict procedures for the selection of officials for government positions.

China penalized 415,000 officials for discipline violation in 2016, which was a 20% increase over 2015 discipline violation actions. In 2016, 76 of those penalized officials held ministerial posts or were part of provincial leadership, with many in Beijing and two large provinces: Zhejiang and Shanxi.

Recommended Compliance Actions.

- ◆ Review the administrative rules in China regarding protocols when doing business with state-owned enterprises.
- ◆ Review the parameters of sales contests implemented in China-based operations and the financial reporting of payments made to China-based vendors.
- ◆ Emphasize the importance of anti-corruption compliance and empower compliance professionals within the company.
- ◆ Perform FCPA and anti-corruption risk assessments on a regular basis.
- ◆ Train all at-risk employees and third parties (*e.g.*, agents, representatives, joint-ventures, licensees and vendors) regarding anti-bribery policies and procedures at the company.
- ◆ Conduct corruption due diligence before transacting with third parties or partnering with another company.



Shanghai MRO Aviation Park Seeking U.S. Firms

Qingpu Civil Aviation Park (“Qingpu Park”) is one of the fastest-growing maintenance, repair and overhaul (“MRO”) aviation hubs in China. Located near the Hongqiao Transportation Hub on the west side of Shanghai, this specialty aviation park was approved by the Shanghai Municipal Commission of Economy and Information in October 2012 and is part of the Industrial Area in the Qingpu Export Processing Zone. In accordance with the national aviation industry development strategy, the Qingpu Park focuses on MRO services for civil aviation systems, parts and associated

equipment. The goals of the Qingpu Park include aviation parts logistics and talent training. The civil aviation industry has been established by the Shanghai Municipal Government as a top priority, and the Qingpu Park has been confirmed as an important base.

The Qingpu Park is located 60 km from Pudong International airport, 8 km from Hongqiao International Airport and 35 km from the center of Shanghai. The following MRO operators have established a presence in the Qingpu Park:

- ◆ Shanghai Pratt & Whitney Aircraft Engine Maintenance Co., Ltd.
- ◆ China Eastern Airlines Technology R&D Center Co., Ltd.
- ◆ Air France KLM Avionics Shanghai Co., Ltd.
- ◆ Shanghai X-Square General Aviation Service Co., Ltd.
- ◆ Shanghai Oxai Aircraft Co., Ltd.

To learn more about opportunities with the Qingpu Park, please contact Addison-Clifton at info@addison-clifton.com or 877-784-0095.

Polar Research Institute of China Tabs Addison-Clifton

The Polar Research Institute of China (“PRIC”) engaged Addison-Clifton as its representative in negotiating the operations and maintenance agreement for its newly-purchased “Snow Eagle” turbo-prop specialty aircraft.

The PRIC is a subsidiary body of the State Oceanic Administration. The PRIC, which was founded in 1989, coordinates Chinese polar research and makes available to national polar research the important infrastructure (e.g., the research ice breaker “Xuelong” and research stations in the Arctic and Antarctic). It undertakes to implement specific scientific research programs, operate the Antarctic facilities and provide logistics support. It carries out international cooperation and academic exchange activities.

The Snow Eagle is the first aircraft acquired by the PRIC, and it will be used to enhance its environmental research activities in Antarctica. China Eastern Airlines provided technical aviation assistance to Addison-Clifton during the agreement negotiation process. This specially-equipped aircraft puts the PRIC at the forefront of unique research capabilities among the five nations that are currently operating scientific research in Antarctica.



China's VAT Rebate Benefits U.S. Importers

The value-added tax ("VAT") export tax rebate refers to the money the tax authority returns to exporting enterprises for the indirect tax it pays in the production and distribution process. China has been increasing the tax rebate since the international financial crisis in 2008. By 2016, the China Government set the rebate rate at 17%, 14%, 13%, 11% and 9%, depending on the product.

U.S. buyers of China-origin goods may benefit from lower prices and lower customs duties payable for those products when imported into the U.S.

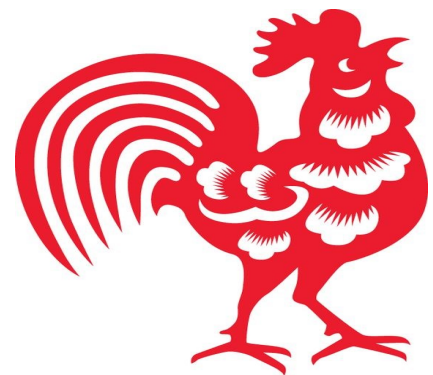
Effective November 1, 2016, the categories of products that are eligible for the 2016 VAT export rebate include the following:

- ◆ Gasoline and jet fuel.
- ◆ Armored glass for vehicle.
- ◆ Aircraft ignition engine, piston engine and diesel engine.
- ◆ Pump, fuel pump, liquid pump and air pump.

- ◆ Medical sterilization equipment.
- ◆ Apparatus and parts for filtering and purifying water.
- ◆ Industrial dust collector.
- ◆ Scales.
- ◆ Lawn mower.
- ◆ Food processor.
- ◆ Office machines.
- ◆ Rubber plastic processing machinery.
- ◆ Short distance towing truck trailer.
- ◆ Apparatus for measuring gas flow and pressure.
- ◆ Electricity meter.

Recommended Compliance Actions.

- ◆ Contact relevant authorities to confirm the applicable VAT rebate amount for the given production classification.
- ◆ Review the current quotations and terms from vendors and the China-based entities' business licensees in order to advise on VAT rebate eligibility.



2017 - "Year of the Rooster"

2016 U.S.-China Trade Data

The top U.S. exports to China during January-October 2016 include:

- ◆ Ag Products: US\$11.1 billion.
- ◆ Chemicals: US\$10.9 billion.
- ◆ Computer and Electrical Products: US\$14.1 billion.
- ◆ Machinery, except Electrical: US\$6.8 billion.
- ◆ Food and Kindred Products: US\$2.7 billion.
- ◆ Transportation Equipment: US\$21.9 billion.

The top China exports to the U.S. during January-October 2016 include:

- ◆ Apparel: US\$26.1 billion.
- ◆ Leather and Allied Products: US\$17.9 billion.
- ◆ Chemicals: US\$13.2 billion.
- ◆ Computer and Electrical Products: US\$129.2 billion.
- ◆ Electrical Equipment: US\$33.8 billion.
- ◆ Furniture and Fixtures: US\$17.3 billion.
- ◆ Plastic and Rubber Products: US\$13.1 billion.

<u>MONTH</u>	<u>IMPORTS (US\$ Billion)</u>	<u>EXPORTS (US\$ Billion)</u>	<u>BALANCE (US\$ Billion)</u>
January 2016	8,212.1	37,145.7	-28,933.5
February 2016	8,048.7	36,160.8	-28,112.1
March 2016	8,952.3	29,852.7	-20,900.5
April 2016	8,667.1	32,973.2	-24,306.1
May 2016	8,518.3	37,535.2	-29,016.9
June 2016	8,822.7	38,579.0	-29,756.3
July 2016	9,156.9	39,487.1	-30,330.2
August 2016	9,393.9	43,247.3	-33,853.4
September 2016	9,559.9	42,022.7	-32,462.8
October 2016	12,698.0	43,807.1	-31,109.1
TOTAL 2016	92,029.9	380,810.8	-288,780.9

Source: U.S. Census Bureau/Foreign Trade-U.S. Trade With China.

STAR LINK - U.S.-China Business Development Tool

Star Link is a featured service by Addison-Clifton to provide customized B-2-B match-making and strategic support services for business enterprises operating in the world's two largest economies: China and the U.S.

Star Link is a video conference platform that is supported by our Asia Market Services Team. We utilize Cisco Web-X or Skype communication technology to facilitate discussions (translation included). We will have match-making parties' profiles prepared and circulated to each other in advance of the meeting. The Star Link agenda will include: (1) introduction of participating parties; (2) each party's objectives and business plan; (3) cooperation topics discussion; and (4) next steps determination. Addison-Clifton will also assist in following up with both parties after the program regarding the cooperation plan execution.

If your company is seeking opportunities and/or partners in China, or needs assistance on specific trade challenges regarding entering the Chinese market or expanding relationships with Chinese companies, please do not hesitate to contact us to access our Star Link Program.

We are pleased to invite you to a free A-C Star Link Program trial meeting at your convenience. To access this business development tool, please contact Sissi Shen at 86-21-2221-8280 or info@addison-clifton.com



A-C STAR LINK 星联

Recent U.S.-China Trade Disputes

On January 7, 2017, the U.S. set final dumping and subsidy rates on imports of biaxial integral geogrid construction products from China. The U.S. asserted that the products have been sold in the U.S. at dumping margins of 372% and received subsidies of 15.6% - 152.6%. The U.S. Customs and Border Protection will require cash deposits at these final rates when the products enter the U.S.

During the past 18 months, China and the U.S. have been active in introducing trade dispute resolution cases to the World Trade Organization ("WTO") for resolution. On December 15, 2016, the U.S. requested consultations with China on its tariff quotas, including bowls for wheat, short-, medium- and long-grain rice and corn. The U.S. claimed that the measures appear to be inconsistent with the provisions of the General Agreement on Tariffs and Trade ("GATT") and China's protocol for its accession to the WTO.

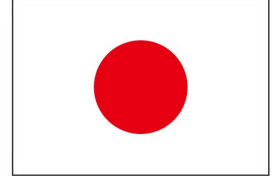
On December 12, 2016, China requested consultations with the U.S. concerning provisions of U.S. law relating to the determination of normal value for "non-market" economy countries in an anti-dumping proceeding involving products from China. China asserted that the measures appear to be inconsistent with the WTO anti-dumping agreement, the Marrakesh Agreement and the GATT.

On September 13, 2016, the U.S. requested consultations with China regarding certain measures through which China provides domestic support in favor of agricultural producers; in particular, those producing wheat, India rice, Japonica rice and corn. The U.S. claimed that the measures appear to be inconsistent with the WTO agreement on agriculture.

On July 13, 2016, the U.S. requested consultations with China regarding China's export duties on various forms of antimony, cobalt, copper, graphite, lead, magnesium, tantalum and tin. The U.S. claimed the measures appeared to be inconsistent with China's accession agreement with the WTO.

On December 8, 2015, the U.S. requested consultations with China regarding tax measures in relation to the sale of certain domestically-produced aircraft in China. The U.S. claimed that the measures are inconsistent with the GATT and China's accession agreement with the WTO.

Addison-Clifton Asia Market Services





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