

China announces new tariff exclusion process for 700 U.S. products

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On 18 February 2020 China's Tariff Commission announced a new tariff exclusion process in which importers can apply for exclusions from Chinese retaliatory tariffs when importing certain goods from the United States. The tariff relief is part of China's efforts to fulfill its commitments to purchase U.S. goods under the Phase One Trade Deal agreed to in January between the United States and China. The application process opens on 2 March.

The tariff relief covers over 696 tariff lines, including agricultural products such as soybeans, pork, beef, corn, wheat, mining and metal products such as copper ore, medical products such as cefaclor and insulin, as well as products in the energy sector, such as crude oil and liquefied natural gas (the full list is available [here](#)). Companies can also apply for tariff relief for other products subject to retaliatory tariffs that are not on the annex if they provide additional information. This is the first time it has expanded the exemptions to include energy products, such as liquefied natural gas and crude. This process largely follows the tariff exclusion process China introduced in May 2019 (the [previous process](#)). Products already included in the previous two exclusion lists do not need to apply for exclusion again, as long as the previous lists are still effective time-wise.

Application process

Starting 2 March companies may apply online through the same system as the previous process and provide additional information. Companies in China that import goods from the United States can apply for the tariff exclusion. It does not explicitly mention whether industry associations or commerce chambers can file such application on behalf of the companies, but in the past such associations or commerce chambers were encouraged to do so.

Companies will need to provide detailed information regarding their company, import records, and description of the product. In addition to the above, the Tariff Commission requires applying companies to provide the proposed volume of the goods to be purchased. If companies apply for goods outside the list of 696 goods, then it will also need to explain the economic effects of the tariffs on the applying company. A question and answer report by the Tariff Commission mentioned that more detailed guidance on how to use the system and what information to provide will be published soon, although the specific timeline for publication is absent.

Review process and approval

The announcement stated that exclusions will be granted based on commercial considerations and market conditions. We recommend emphasizing the market impact and commercial reasons to make such purchase, such as lack of substitutability as well as potential negative impact on Chinese market and industries.

The exclusion will be effective for one year once approved, the exemptions will apply to a particular volume of imports (including up to 10 percent more than what was agreed to in the contract). Any purchases exceeding that amount will still be subject to the Section 301 tariffs.

Companies will not be able to apply for a refund of the tariffs previously imposed, while in the previous process (and in the U.S. exclusion process) refunds of duties were provided of duties previously paid.

Approved purchases need to be completed before it expires by the end of each month. Extra volume exceeding what was approved in such monthly plans will need additional approval.

While the new exclusion process further demonstrates that Beijing is clearing the path to more U.S. imports, such efforts do not necessarily lead to a drastic surge in buying, as the novel coronavirus outbreak has dramatically reduced China's current demand for U.S. goods such as oil and natural gas as well as other commodities. We have already seen disruption of the schedule for China's imports for the year, especially in the first quarter when some shipments have been delayed or deviated and disputes have arisen out of trade contracts. That said, once the coronavirus is controlled, we expect to see China increase its purchases later in 2020 to make up for the reduced purchases now.

Contacts



Roy G. Zou
Partner, Beijing
T +86 10 6582 9596
roy.zou@hoganlovells.com



Rachel Xu
Senior Associate, Beijing
T +86 10 6582 9439
rachel.xu@hoganlovells.com



Stephanie Sun
Associate, Shanghai
T +86 21 6122 3817
stephanie.sun@hoganlovells.com



Benjamin Kostrzewa
Registered Foreign Lawyer, Hong Kong,
Washington, D.C.
T +852 2840 5080 (Hong Kong)
T +1 202 637 5600 (Washington, D.C.)
ben.kostrzewa@hoganlovells.com

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