China agrees to end domestic wind power subsidies

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By Richard Wolf, USA TODAY

WASHINGTON — China has agreed to stop subsidizing wind power companies that use domestically produced components rather than imports, a victory for U.S. manufacturers. U.S. Trade Representative Ron Kirk plans to announce China's action Tuesday, seven months after the United States launched an investigation following a complaint from the United Steelworkers.

The action is significant because of intense competition between U.S. and Chinese manufacturers of clean energy technology. Whether it will lead to other such actions involving questionable Chinese trade practices remains unclear.

"This issue has been a huge one," says Barry Bosworth, an economics and trade expert at the non-partisan Brookings Institution. "It's symptomatic of a principle that would apply across a wide range of trade."

The World Trade Organization prohibits government programs that give preferences to companies using local products, such as China's program of "indigenous innovation." The wind power grants ranged from $6 million to $22 million, Kirk's office says. "This outcome helps ensure fairness for American clean technology companies and workers," Kirk says.

The case marks the third successful challenge against Chinese government subsidies brought by the U.S. and other countries. China agreed to eliminate other subsidies following complaints filed by the U.S., Mexico and Guatemala in 2007 and 2008.

The issue of Chinese trade preferences was broached during President Hu Jintao's state visit in January and since then in meetings with Treasury and State Department officials. China had pledged to roll back such policies.

"The big question was whether they would follow through," says Philip Levy, a scholar at the non-partisan American Enterprise Institute. "This sounds like an early indication that they might."

China is the United States' biggest competitor in terms of energy innovation. Among emerging markets seeking to compete in manufacturing new technologies, it has by far the greatest resources to invest.

James Bacchus, a former World Trade Organization chief judge and member of

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Congress, says these types of trade subsidies "stand out as a sore thumb. They are patently illegal."

But Bacchus notes that other forms of trade protectionism are common among nations seeking to help domestic industries. As an example, he cites the Buy American provisions of the 2009 economic stimulus law that require the federal government in most cases to use domestic iron, steel and manufactured goods.

Eswar Prasad, a Cornell University senior professor of trade policy, calls the action by China "symbolically very important."

"Whether it opens the floodgates to a broader set of commitments remains to be seen," Prasad says. "I think it is premature to declare victory, but it is certainly a hopeful step."