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2 March 2007

BRITISH BUSINESS BUREAU CONFERENCE

EUROPEAN BUSINESS & CHINA: CHALLENGES AND ANSWERS

ADDRESS BY ADRIAN VAN DEN HOVEN, DIRECTOR FOR INTERNATIONAL RELATIONS

Ladies, Gentlemen,

I would like to thank the BRITISH BUSINESS BUREAU/CBI for inviting me to give a European Business perspective on the EU's trade and competitiveness challenges and China. It is always a pleasure to participate in a debate in the UK – not only because of this country's historical commitment to trade liberalisation but also because I believe that the UK plays an important role in driving European trade policy. I have no doubt that the CBI and the British Business Bureau (British business community) are key to ensure that the UK government continues to drive the EU trade agenda forward.

Our organisation has recently changed names from UNICE to BUSINESSEUROPE. The name change reflects the willingness of 39 national member federations from across Europe to present a more positive image of business at the European level and to engage more directly with EU institutions and the wider public to promote growth and job oriented EU policies. The international dimension of European policies is one of the key issues for BUSINESSEUROPE.

In this field, we appreciate the refocusing of EU trade policy around competitiveness because there are concerns that trade policy has been drifting too far away from the EU's core economic and commercial interests. The current EU policy outlined in Commissioner Mandelson's "Global Europe" Communication better reflects the trade policy response needed to address the competitiveness challenge from the emerging economies – notably China. That brings me to the topic of the day: UK trade associations and China.

China is understandably high up on the priority list of business associations working on trade policy and it ranks among the highest priorities for BUSINESSEUROPE. CBI and BUSINESSEUROPE have worked hard to respond to China's rise and to press the European Commission to develop a more strategic and better coordinated strategy for EU-China economic relations. Commissioner Mandelson's new China strategy is certainly a step forward by focusing on a reciprocal commitment to economic openness and market reform.



1. Trade

To say that China has become a major international trader is an understatement. Since its accession to the WTO, China has become the world's third biggest trader. Total EU-China bilateral trade has reached over €200 billion making China the EU's second biggest trading partner after the US. A recent Commission study shows that European business is well placed to continue making gains in the Chinese market. Still, the EU exports more to Switzerland – with a population of 7.5 million- than to China. Markets for higher-end products that the EU exports are expected to grow on average 12% per annum, reaching a combined value of over EUR 1,000 billion by 2010. Growth in the services sector, where the EU has a significant comparative advantage is growing more rapidly at 14% per annum and will reach a market value by 2010 of EUR 500 billion. So, there are still many possibilities for European business in China.

But to take advantage of the opportunities, the EU must strengthen its action to remove market access barriers in China. Non-tariff barriers, for instance, cost the EU firms more than EUR 21.4 billion a year in lost business opportunities in China. Among the main Market Access barriers European companies are facing are:

- Restrictions on foreign investment
- Restrictions on services market access in violation of China's WTO commitments
- Subsidies of all kinds
- lax enforcement of IPR
- Lack of transparency and unfair treatment by the Chinese administration and burdensome standards and compliance regimes (TBTs)
- Lack of uniform application of regulations and laws across the country
- Discriminatory Government Procurement Practices

Further opening markets would benefit to the EU and China by increasing welfare benefits for Chinese consumers and longer-term prospects for the competitiveness of Chinese business. For example, if China were to adopt international standards and apply its WTO commitments, Chinese companies would be able to compete more effectively on foreign markets where international standards are the norm. Competition in China should be fair and based on the full implementation of economic and trade rules. European companies are committed to China as a key partner that should play by the rules of international trade.

Concretely, BUSINESSEUROPE would like to EU to strengthen dialogues with China on trade policy issues to ensure adequate implementation of WTO commitments and removing new trade and investment barriers. To achieve this, the EU needs to make better use of diplomatic resources (both EU and national) to resolve barriers to EU industries and services providers.



2. Investment

Investments in China have been an important part of the strategies of many EU businesses to remain competitive by gaining access to lower-cost inputs. It has also helped European business maintain jobs and viable economic activities in the EU and to devote more investments into research, design, marketing, global management and complex manufacturing.

China, as one of the world's largest potential markets, has at times led to quick investment decisions which have not taken relevant risks such as technology transfers or IP infringements into account. In addition, the regional nature of the Chinese market often leads to region specific barriers. Enhancing awareness of risks associated with investing in China and ensuring better investment conditions is a key priority for BUSINESSEUROPE.

However, BUSINESSEUROPE also expects better treatment for European companies by Chinese authorities. In the manufacturing and services sectors European investors are still prevented from setting up wholly owned enterprises and are required to establish joint ventures with Chinese partners. In the telecoms and financial services sectors, EU firms have been unable to expand significantly because of high capital requirements and complex approval procedures. In manufacturing sectors, China continues to maintain investment restrictions on some key industries for Europe such as automobiles, petrochemicals or steel. Where equity restrictions are not a problem, local content requirements also create disincentives for foreign investors. Over 80% of the local content requirements are not compatible with China's WTO commitments and inhibits European business market activities.

Concretely, BUSINESSEUROPE would like the EU to address these investment concerns in the negotiation of a new Partnership and Cooperation Agreement this year. Such Agreement should focus on economic issues and be distinct from political cooperation agreements. Considering the open access that Chinese exporters and investors have to the EU market and China's economic weight, it is not too much to ask for reciprocal conditions for EU investors in China.

In addition, China's timely accession to the WTO Government Procurement Agreement (GPA) needs to be supported to highlight the economic and political benefits of procurement reform. European companies rank among the best providers of key infrastructure which China needs to develop. Consequently, EU technical assistance should be used to help China develop transparent and open procurement rules at all levels.



3. IPR

IP protection in China remains a real concern for European companies. The drive to boost innovation in China has resulted in technology transfer obligations, joint-venture requirements and a generally lax enforcement of Intellectual Property Rights. The cost for European companies is substantial. If current trends in IP infringement continue, companies in certain sectors would expect to see a loss of revenue of over 20%, a cost higher than any other single NTB.

However, BUSINESSEUROPE recognises that China's priorities have shifted from absorbing technology to reducing dependence on foreign technologies, creating a form of technology import substitution. The drive for home grown innovation has thrown the question of IP enforcement into the limelight and strengthening IP enforcement has received an increasing amount of attention in the national economic development planning and in speeches of senior officials. For the moment, those companies in China who have IP want to protect it, while those who don't have it have no reason to protect it. Consequently, China is still struggling with the IP question in its drive to build an innovative economy.

BUSINESSEUROPE welcomes the fact that IPR is now highly placed on the Chinese agenda and calls for increased efforts on the EU-China Dialogue on IP to better ensure implementation of China's Intellectual Property Rights Action Plan and other IP commitments. European business should be strongly involved and regularly consulted in this.

Concretely, European companies, in particular SMEs need more support on the ground. Working through existing structures, such as the IPR helpdesk, the EU should provide training and advice on protecting and defending European intellectual property rights in China. The proposed European Centre in Beijing should be a good instrument, complementing existing structures, to increase concrete support for European SMEs in China. BUSINESSEUROPE is also working closely with US, Japanese and Chinese business to improve the protection of IPR in China.

4. Anti-dumping/Subsidies/MES

China is an economy in transition. It has made a lot of progress towards adopting market rules but there are still a number of challenges to be addressed. Consequently, BUSINESSEUROPE has called on the European Commission and the Chinese government to step up cooperation on adopting and implementing the reforms to become a market economy before granting market economy status.

EU companies often find themselves competing in unfair terms in China. The absence of conditions of fair market competition and inadequate legal protection pose serious problems. China has granted significant subsidies to favoured national industries. Chinese companies have also benefited from preferential policies such as privileged access to the state-owned banking sector and loans that never have to be paid back. China has also developed a taxation system granting tax preferences contingent on the use of local content or export performance. There is also clear evidence of Chinese



government intervention to set prices – in particular energy prices – at artificially low levels to subsidise Chinese production. Finally, many Chinese companies, in particular state-owned companies, still need to develop proper accounting systems to report on profits and losses.

BUSINESSEUROPE believes that China is making progress towards more transparent economic regulations, but it has to implement the rules and practices that ensure the proper functioning of a market economy before being granted the market economy status. Consequently, it does not support granting MES to China at this stage.

What role for European business?

BUSINESSEUROPE is firmly convinced that the Commission's new China Strategy affords ample opportunity for European business to contribute to improving the situation on the ground in China, notably due to its negotiating role on behalf of the EU for a new Partnership and Cooperation Agreement. Concretely, the Commission needs more information on the following issues from business:

- Non tariff barriers that block access to the Chinese markets.
- Information on Chinese subsidies that undermine the competitiveness of European business.
- Early warning on Chinese regulatory measures that may harm European investors in China.

This information can be given to the Commission directly or through relevant channels such as the CBI or BUSINESSEUROPE. I would like to highlight that BUSINESSEUROPE's China Network is open to participation from companies and sector associations nominated by our members like the CBI. For its part, BUSINESSEUROPE is active on trade, investment and IPR issues. However, it is likely that subsidies and investment restrictions will become high priority issues over the next year.

Another challenge will be how to engage in cooperation with China on energy and environmental issues in the future. Currently, China is engaging in a race for energy through a strategic pricing policy which is undercutting European access to oil and gas. The EU and China need to find a way to prevent harmful competition over energy sources perhaps by cooperating on energy efficiency. Similarly, there is not much point in pursuing an EU climate change strategy on the basis of CO2 emissions growth in China. The EU needs to find a way to commit China to fight against climate change – but in a way that will not hurt its growth prospects.

Conclusion

Looking to the medium term, if China is to ensure the sustainability of its economic growth, it needs to strengthen its domestic market of more than a billion consumers, not only focusing on export-oriented economic growth. The development of the Chinese internal market should help ensure the sustainability of its impressive economic growth while favouring a more balanced relationship with the EU and other main Chinese trading partners, based on open markets and fair competition.



As for the EU's response to the new environment shaped by China and other emerging economies, BUSINESSEUROPE believes that the EU must take up to the challenge of globalisation and compete. Europe needs policies turned in the right direction to overcome its challenges. In the face of stronger competition, the EU has to be ready to pursue reforms to maintain its economic competitiveness and social model. The EU cannot close itself off from globalisation.

I would like to conclude my intervention by underlining that the opportunities for closer economic cooperation with China should be fully exploited. BUSINESSEUROPE hopes that the EU will ensure the conditions are in place for European companies to benefit from Chinese economic opportunities and contribute to the economic development and social welfare of Chinese people. The EU and China should work to make sure that conditions are created for a win-win situation for all. Balanced trading relations between China and the EU are important for the economic development of both sides. To this end, BUSINESSEUROPE is committed to continue its action, as business must play an important part in reinforcing links between the EU and China.

I thank you for your attention and I am looking forward to continue our close cooperation in formulating an EU-China business strategy the future.
