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SPEAKING NOTES

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RELOCATION OF PRODUCTIVE CAPACITY AND THE BUILT-IN CONFLICT BETWEEN PRODUCERS AND IMPORTERS IN THE HOME COUNTRIES

Speaking notes for Carsten Dannöhl, Senior Adviser, BUSINESSEUROPE
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Ladies and Gentlemen,

I would to thank you very much for this opportunity to present our views today at this briefing, and I would like to thank very much Prof. Plasschaert for his interesting introduction, which clearly demonstrates one of the challenges we face in our relationship with China.

Before reacting in more detail to his remarks, I would like to raise a number of other points which are of very high importance to European companies. China's strong export performance stands out as one of the principal features of today's international trade landscape. Given the high growth rates in China, even during the crisis, and the huge business opportunities, it is a fact that a number of companies have moved parts of their production to China.

It is important to note that European companies benefit from the rise of China in world trade. Between 38% and 55% of Chinese exports are actually made by foreign-owned companies, some of them of European origin. Second, in addition to supplying China's domestic market, Chinese imports of European goods are transformed in Chinese factories into goods for the export market.

We also see an increasing sophistication of Chinese industry. In addition to steel, Chinese specializations include textiles, electronics and electrical equipment. These last three sectors on their own make up 40% of China's export surplus. Without wanting to exaggerate this phenomenon because of China's frequent role as an assembler of final products, we can expect competition from China for EU exports across the board as a defining trend of the next few years.

This being said, however, there is growing concern among European companies that business conditions in China are deteriorating for foreign investors. A number of recent policy initiatives have alarmed foreign businesses that they are not operating on a level playing field with their Chinese competitors. I just would like to highlight a few of them:

- A series of policies from 2006 to the present day establish preferential treatment for products containing "indigenous" intellectual property rights. There is an increasingly clear trend towards China selecting technologies and products based on the geographical origin of their creation. While we support and encourage innovation in China, this trend deprives Chinese users of the technologies and products best adapted to the market's needs. It also discriminates against foreign and foreign-invested Chinese companies and deters them from marketing innovative products in China. The proposed **National Indigenous Innovation Product Accreditation Catalogue for Government Procurement** of November 2009 has crystallised the challenge posed by such regulations by explicitly connecting "indigenous innovation" to government procurement.

- Chinese mandatory certification schemes such as the **China Compulsory Certification (CCC)** are a very challenging and harmful practice, which affect a broad range of industries. Apart from its very complex application, it forces companies to provide highly confidential business information to certification bodies when they seek certification. 1 May 2010 saw the entry into application of mandatory CCC-i testing for information security products destined for government procurement, which forces disclosure of highly confidential encryption source codes. In the field of information security products and wind power equipment, existing regulations and their implementation are explicitly discriminatory against foreign invested companies.
- As the world's third largest importer of raw materials, China's enormous demand for **energy and natural resources** has an impact on global markets for commodities. We recognise that this is a natural consequence of the industrialisation in China. But we cannot accept that the free operation of market forces in respect of supply and prices of raw materials and energy is distorted by Chinese governmental measures such as export taxes or export restrictions, for the benefit of Chinese producers.

So there are a number of concerns, and we have to find solutions to them. This will only be facilitated through close cooperation with China, and I think that is one of the major tasks for the EU in the coming years.

I would now like to make some specific comments on some of the issues raised by Prof. Plasschaert.

First of all, Trade Defence Instruments (TDI), which include anti-dumping, anti-subsidy and safeguards, are an important instrument for businesses facing unfair trade practices and a legitimate tool in international trade. Secondly, its use shows some effects, it is a strong instrument that the EU has at its disposal. Thirdly, we see an increasing trend of China using TDIs themselves against its foreign trade partners.

When discussing anti-dumping cases, it is important to assess them on a case-by-case basis. Some very interesting cases have been presented, each of them having its own specificities. As a general reflection, when discussing these issues and specific measures, we also have to assess if the target country is really playing by the rules of a free market economy.

It is important to make a distinction between on the one hand consumer goods – like shoes, and intermediate goods for industrial purposes – like steel pipes. Most EU anti-dumping cases target intermediate goods like chemicals or metals. This can be explained by the dumping (or subsidization) and by the structure of EU intermediate industries. Many of those industries combine the whole of the supply chain from very basic production to highly sophisticated chemicals or steel products. One part of the industry cannot survive without the other. Therefore, anti-dumping to protect for example the basic production is often vital for the survival of the higher-end production up the industrial value-chain.

A consumer, being it a company or a private person, will obviously always prefer the cheapest possible price, given it responds to the required quality standards. But we have to keep in mind the longer-term impact that an influx of dumped products would have for the economy as a whole. In the end it might lead to quasi-monopolistic control of a specific market by foreign exporters. This would mean a distorted market, with very likely higher prices than in open competition between domestic and foreign companies on the European market.

The issue of "community interest" test was also raised. For BUSINESSEUROPE, it is important that this is applied in full transparency, taking into account the different interests of the involved parties. Moreover, it must be applied on purely technical and not political criteria.

With those few remarks I would like to come an end. Thank you for your attention, and I look forward to our discussion.

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