NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI

Subject: Minutes of the Meeting of Trade Counsellors, 21st April 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]
Minutes – Meeting of EU Trade Counsellors on 21st April 2015
Shanghai

1. Adoption of agenda
See annex 1 for participants’ list.

2. New developments in the standardisation reform
See annex 2 for presentation.

On the basis of a power point presentation made by D(see annex 2), introduced the SESEC project (Seconded European Standardisation Expert in China) which is entering into its third phase. The project, co-financed by the European Commission and European Standardisation organisations, aims at enhancing EU-China dialogue and cooperation in the field of standardisation, to ultimately facilitate EU industries and market access and business in China.

(see annex 2) recalled the long process of standardisation reform in China, underlining that the reform process is now well on track and should be achieved by 2020. She referred to the document n° 13 issued by the State Council on 20 March 2015 (“Plan for Deepening Standardisation Reforms”): this can be seen as the endorsement of SAC’s recent proposals. The purpose of the standardisation reform is to clarify 1) which standards industry has to comply with and 2) the difference (and frequent overlap) between technical (mandatory) regulations and (voluntary) standards.

[Art. 4.1(b), third indent]

Trade Counsellors underlined the important market access dimension of standards in China and mentioned the issue of foreign stakeholders’ better access to Chinese standardisation process.

[Art. 4.1(a), third indent and 4.3 first subparagraph]

See annex 3 for presentation.

2014 was a year of significant growth for our bilateral trade relations. China is the EU’s second biggest trading partner - behind the US. Whilst trade between EU and the rest of the world retracted by 1.1% between 2013 and 2014, by contrast bilateral trade with China increased by 9.1%. EU-China bilateral trade in goods reached € 467.5 billion in 2014. Exports (increasing by over 11%) grew significantly, tapping into China as a source of growth for the EU. Although exports grew at a higher pace than imports, the trade balance deteriorated—the deterioration in the trade deficit (reaching almost €138 mio) underlines that we still have a distance to go until trade becomes a genuine two-way street. China represents an increasing share of EU’s trade. This illustrates the continuous trend of increasing interdependence of our economies. Studies suggest that about half of imports respond to intra-company transactions.

Sectorially, 2014 was an excellent year for the European manufacturers of transport equipment, driven by a +20% growth in EU’s exports of cars and parts - in spite of last year’s difficulties (antitrust). The situation is highly contrasted in the machinery sector,
with a significant number of highly competitive sub-sectors, but also with an overall significant trade deficit close to €89 mio (mainly pushed by the unbalanced trade in office equipment and mobile phones). Turning to the chemicals sector, EU industry remains strong in pharmaceuticals and speciality chemicals, but weaker in basic chemicals, plastic and rubber products. Foodstuffs is another illustration of EU's ability to tap into China's growth (despite a rather disappointing year for wines and spirits). The trade picture in the textile and the manufactured goods sectors suffers from persistent imbalances. Turning to the geographical breakdown, despite some inconsistencies between the European and Chinese sources, the trends continue with Germany and the Netherlands enjoying a positive balance. Aside from Finland, which this year also enjoys a positive balance, other MS have deficits.

For China and on the basis of their own figures, 2014 was a tough year with a modest 3.4% growth of overall trade, well behind the objective set at the beginning of the year (7.5%). Trade with the EU was however +9.9%—and EU represents 6.5% of China GDP and 15.8% of its overall exports to the world.

4. ICT rules for banking and related cyber issues

the matter was raised also in the context of the TRIMs Committee on 16 April, by the US, Japan, the EU and Canada. CN responded by explaining the purpose of the measure and confirmed that it will be in line with its WTO obligations.
5. Exchange on recent and upcoming visits

On Thursday 30th April, the Spanish Minister for Industry, Tourism and Trade will be in Shanghai for the inauguration of a plant of a Spanish company at the Chemical Industrial Park of Shanghai.

Annexes:
1. List of participants
2. Presentation: Review and Analysis On China Standardization Reform
3. Presentation: Trade in Goods EU/China Statistics
List of Participants, TCM 21.04.2015, Shanghai

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<tr>
<th>Name</th>
<th>Member States</th>
<th>Email Address</th>
<th>Phone Number</th>
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Introduction

SESEC III

Committee involving all partners.
The project is led by CEN, supported by a Steering SESEC II (2009-2012). SESEC I (2006-2009) and builds on two previous phases, SESEC I, SESEC and ETSI. It Standardization Organizations CEN, CENELEC and ETSI, Commission (EC), the EFTA and the three European Commission III is a project co-financed by the European Reform

Review and Analyses

22 April 2015
SESEC III
What is the goal?

The SESEC initiative supports European policy and European Standardization Organizations' strategic objectives in China.

Its ultimate goal is the enhancement of EU-China dialogue and cooperation in the field of standardization, to facilitate the EU industries business in China.

China Standardization Reform Review

- Standardization Law was released in 1988
- Since 2002, there were several rounds of the modification process with no achievements.
- In early 2014, China started the new round of Standardization Reform and the modification of China Standardization Law. This work was led by State Council and the plan work was mainly done by SAC (China Standardization Administration).
- On 20th March 2015, State Council of China issued No. 13 Documents of 2015, "Plan for Deepening Standardization Reforms". This official document can be regarded as the official endorsement of SAC's recent proposals.
Reform Targets

Standardization Reforms

Main points of Plan for Deepening Management Efficiency

1. Push the Chinese economy to move towards higher levels.
2. Let standards be a "hard asset" for quality.
3. Form a model that effectively support the development of a unified market system.
4. Make the standardization management system more harmonious, more cooperative and efficient.

The overall objectives of the reform:

Problems of current standards system

Fourth, the standardization coordination mechanism is far from economic.

Third, the standards system is less than reasonable and cannot severely overlap and contradicting.

Second, standards are seriously overregulated and conflicting.

First, many standards are void, outdated and lagging much behind, and are hard to meet the needs for boosting the quality.
Main points of Plan for Deepening Standardization Reforms

Reform measures
1. Build an effective and authoritative standardization coordination mechanism. E.g. Set up a state council standardization coordination promotion mechanism under which a state council leader as the convener and which is attended by the leaders of various relevant departments.
2. Consolidate and streamline mandatory standards.
3. Optimize and improve the recommendatory standards
4. Cultivate and develop group (or organizational) standards
5. Relax restrictions on and allow more room for enterprise standards.
6. Boost the internationalization levels of Chinese standards

Main points of Plan for Deepening Standardization Reforms

Specific reform agenda
1. First phase (2015-2016), actively advance the pilot reform effort.
   - revise the Standardization Law of the People's Republic of China, (Complete before the end of June, 2016)
   - comprehensively clean up the current national standards, industry standards and local standards; Optimize the procedures for approval of standards proposals, shorten the period for standards development; Clean up existing mandatory standards; Make Group standardization management rules; pilot projects for enterprises standards;
   - The number of international standards whose development is led and joined by Chinese experts will account for 50% of total each year. (Complete in 2016)
Specific Reform Agenda

Main Points of Plan for Deepening Standardization Reforms

1. Second phase (2017-2018), study advance the transition to a new...

2. Specific Reform Agenda

3. Third phase (2019-2020), a well-structured, mutually-supporting, full-ranging new-type standards system meeting the needs of the economic and social development will take shape.

4. By 2020, the number of mandatory standards under the government lead will be cut by over 30%, and the number of group standards under the government lead will be reduced by over 20%.

5. By 2020, the number of group standards under the government lead will be reduced by over 20%, and the number of group standards under the government lead will be reduced by over 20%.

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9. By 2020, the number of group standards under the government lead will be reduced by over 20%, and the number of group standards under the government lead will be reduced by over 20%.

10. By 2020, the number of group standards under the government lead will be reduced by over 20%, and the number of group standards under the government lead will be reduced by over 20%.

- Visibly increased consistency between international and domestic standards and the results of China's national standards
- Improved and enhanced the number of standards
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Observations and Analyses

For the European industries or European exports to China
Trade in Goods
EU / China
Statistics

EU / China: 40 years of bilateral relations
Total EU28 merchandise trade with China
(imports + exports, dollars)
### Key Figures

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Period</th>
<th>Values</th>
<th>Total Trade</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last year</td>
<td>min</td>
<td>2014</td>
<td>302,593</td>
<td>164,120</td>
<td>-138,473</td>
</tr>
<tr>
<td>Rank as EU partner</td>
<td></td>
<td>2014</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Share in EU trade</td>
<td>%</td>
<td>2014</td>
<td>10.0</td>
<td>9.7</td>
<td>-10.2</td>
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<tr>
<td>Annual growth rate</td>
<td>%</td>
<td>2013-2014</td>
<td>8.5</td>
<td>11.2</td>
<td></td>
</tr>
<tr>
<td>Annual average growth rate</td>
<td>%</td>
<td>2010-2014</td>
<td>1.5</td>
<td>9.8</td>
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</table>

### Import and Export Growth Rates

- **Imports Growth Rate**
- **Exports Growth Rate**
- **Trade Deficit Growth Rate**

### EU Imports and Exports

- **EU Imports**
  - Share of China in EU imports
  - Share of China in EU exports

- **EU Exports**
  - Share of China in EU exports

### Trade Sector

Trade section...
### Trade Flows by SITC Product Grouping 2014

<table>
<thead>
<tr>
<th>SITC Line 1 Product Group</th>
<th>Value (€m)</th>
<th>Value Share (%)</th>
<th>Value Share Total (€m)</th>
<th>Value Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>10,073</td>
<td>62.0</td>
<td>16,012</td>
<td>6.1</td>
</tr>
<tr>
<td>Exports</td>
<td>8,701</td>
<td>51.0</td>
<td>13,922</td>
<td>-7.4</td>
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</table>

### Trade Flows by HS Section 2014

<table>
<thead>
<tr>
<th>HS Sections</th>
<th>Value (€m)</th>
<th>Value Share (%)</th>
<th>Value Share Total (€m)</th>
<th>Value Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>10,073</td>
<td>62.0</td>
<td>16,012</td>
<td>6.1</td>
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</table>

### Share of Total

<table>
<thead>
<tr>
<th>HS Sections</th>
<th>Imports Share (%)</th>
<th>Exports Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>62.0</td>
<td>51.0</td>
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</table>

### Other Machinery

<table>
<thead>
<tr>
<th>Value (€m)</th>
<th>Value Share (%)</th>
<th>Value Share Total (€m)</th>
<th>Value Growth (%)</th>
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</thead>
<tbody>
<tr>
<td>Imports</td>
<td>1,072</td>
<td>6.5</td>
<td>1,675</td>
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<td>Exports</td>
<td>787</td>
<td>4.8</td>
<td>1,224</td>
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### Breakdown by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value (€m)</th>
<th>Value Share (%)</th>
<th>Value Share Total (€m)</th>
<th>Value Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>10,073</td>
<td>62.0</td>
<td>16,012</td>
<td>6.1</td>
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</table>

### Share by HS Sections

<table>
<thead>
<tr>
<th>HS Sections</th>
<th>Imports Share (%)</th>
<th>Exports Share (%)</th>
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</thead>
<tbody>
<tr>
<td>TOTAL</td>
<td>62.0</td>
<td>51.0</td>
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</table>
Machines

Total trade 2014
- C084: Mechanical machinery
- C086: Electrical machinery

- Machines and mechanical appliances
  - Domestic washing machines
  - Refrigerators, freezers, and other refrigerating or freezing equipment
  - Air conditioning machines
  - Pressing, molding, and shaping equipment
  - Household or laundry-type washing machines
  - Harvesting or threshing machinery
  - Weighing machinery

- Turbines, turbopropellers, and other gas turbines
- Pumps for liquids
- Machining centers
- Compressors
- Diesel engines
- Internal combustion piston engines
- Dishwashing machines
- Components of complete industrial plants
- Transmission shafts, including camshafts and crankshafts, and cranks
- Spark-ignition reciprocating or rotary internal combustion piston engines
- Machines for preparing textile fibers
- Machine tools

- Trade section 2010-2014
- Imports
- Exports

- Mechanical machinery and appliances (incl. computers) [C084]

- Change in total imports and exports
- Change in total machinery and electrical machinery

- Trade balance
- Percent of HS6 subheadings with a positive trade balance

- Automatic data-processing machines
  - Office printing machines
  - Refrigerators, freezers, and other refrigerating or freezing equipment
  - Air conditioning machines
  - Pressing, molding, and shaping equipment
  - Household or laundry-type washing machines
  - Harvesting or threshing machinery
  - Weighing machinery
### Geographical breakdown (as seen from China)

<table>
<thead>
<tr>
<th>Country</th>
<th>Trade total</th>
<th>% of total</th>
<th>% change</th>
<th>China's trade with the EU</th>
<th>% of EU's trade</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>177,753</td>
<td>13.3%</td>
<td>+2.2%</td>
<td>29%</td>
<td>13.3%</td>
<td>+2.2%</td>
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<tr>
<td>United Kingdom</td>
<td>80,872</td>
<td>6.2%</td>
<td>+2.2%</td>
<td>13%</td>
<td>6.2%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>74,283</td>
<td>5.6%</td>
<td>+2.2%</td>
<td>22%</td>
<td>5.6%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>France</td>
<td>55,797</td>
<td>4.2%</td>
<td>+2.2%</td>
<td>18%</td>
<td>4.2%</td>
<td>+2.2%</td>
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<tr>
<td>Italy</td>
<td>48,045</td>
<td>3.6%</td>
<td>+2.2%</td>
<td>6%</td>
<td>3.6%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Spain</td>
<td>27,714</td>
<td>2.1%</td>
<td>+2.2%</td>
<td>2%</td>
<td>2.1%</td>
<td>+2.2%</td>
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<tr>
<td>Belgium</td>
<td>27,277</td>
<td>2.1%</td>
<td>+2.2%</td>
<td>5%</td>
<td>2.1%</td>
<td>+2.2%</td>
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<tr>
<td>Poland</td>
<td>17,194</td>
<td>1.3%</td>
<td>+2.2%</td>
<td>3%</td>
<td>1.3%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Sweden</td>
<td>13,962</td>
<td>1.1%</td>
<td>+2.2%</td>
<td>2%</td>
<td>1.1%</td>
<td>+2.2%</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>10,981</td>
<td>0.8%</td>
<td>+2.2%</td>
<td>1%</td>
<td>0.8%</td>
<td>+2.2%</td>
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<tr>
<td>Denmark</td>
<td>10,605</td>
<td>0.8%</td>
<td>+2.2%</td>
<td>1%</td>
<td>0.8%</td>
<td>+2.2%</td>
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<td>Other MS</td>
<td>70,856</td>
<td>5.5%</td>
<td>+2.2%</td>
<td>5%</td>
<td>5.5%</td>
<td>+2.2%</td>
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</tbody>
</table>

Source: Custom General Administration of the People's Republic of China. 

### Notes
- **Trade total**: Trade total in million USD.
- **% of total**: Percentage of the EU's trade with China.
- **% change**: Percentage change from the previous year.

### Additional Information
- **Trade section**: Trade section includes detailed data on imports, exports, and trade balance for different countries.
### China's foreign trade data

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<td><strong>Exports</strong></td>
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<tr>
<td>Headline exports</td>
<td>9.4</td>
<td>15.1</td>
<td>11.6</td>
<td>4.7</td>
<td>9.5</td>
<td>-3.3</td>
<td>48.3</td>
<td>-15.0</td>
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<tr>
<td>Processing exports</td>
<td>-0.5</td>
<td>13.2</td>
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<td>1.5</td>
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<td>-18.4</td>
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Source: ECB, WFS
Beijing, 28th April 2015

Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, BEIJING

Subject: Minutes of the Meeting of Trade Counsellors, 22nd April 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]

15, Dongzhimenwai Dajie, Sanlitun, 100600 Beijing, China. Tel +(8610)8454 8000; Fax +(8610) 8454 8011
Minutes – Meeting of EU Trade Counsellors on 22nd April 2015
EU Delegation – Trade Section

1. Adoption of agenda
See annex 1 for participants' list.

2. New developments in the standardisation reform – [Art. 4.1(b)]
See annex 2 for presentation.

[Art. 4.1(b)] briefly introduced the SESEC project (Seconded European Standardisation Expert in China) which is entering into its third phase. The project, co-financed by the European Commission and European Standardisation organisations, aims at enhancing EU-China dialogue and cooperation in the field of standardisation, to ultimately facilitate EU industries and market access and business in China.

[Art. 4.1(b)] recalled the long process of standardisation reform in China, underlining that the reform process is now well on track and should be achieved by 2020. She referred to the document no. 13 issued by the State Council on 20 March 2015 ("Plan for Deepening Standardisation Reforms"): this can be seen as the endorsement of SAC's recent proposals. The purpose of the standardisation reform is to clarify 1) which standards industry has to comply with and 2) the difference (and frequent overlap) between technical (mandatory) regulations and (voluntary) standards.

[Art. 4.1(a) third indent]

Trade Counsellors underlined the important market access dimension of standards in China and mentioned the issue of foreign stakeholders' better access to Chinese standardisation process.

[Art. 4.1(a) third indent and 4.3 first subparagraph]


[Art. 4.1(b)]
See annex 3 for presentation.

2014 was a year of significant growth for our bilateral trade relations. China is the EU's second biggest trading partner - behind the US. Whilst trade between EU and the rest of the world retracted by 1.1% between 2013 and 2014, by contrast bilateral trade with China increased by 9.1%. EU-China bilateral trade in goods reached € 467.5 billion in 2014. Exports (increasing by over 11%) grew significantly, tapping into China as a source of growth for the EU. Although exports grew at a higher pace than imports, the trade balance deteriorated—the deterioration in the trade deficit (reaching almost €138 mio) underlines that we still have a distance to go until trade becomes a genuine two-way street. China represents an increasing share of EU's trade. This illustrates the continuous trend of increasing interdependence of our economies. Studies suggest that about half of imports respond to intra-company transactions.

Sectorially, 2014 was an excellent year for the European manufacturers of transport equipment, driven by a +20% growth in EU's exports of cars and parts - in spite of last
year's difficulties (antitrust). The situation is highly contrasted in the machinery sector, with a significant number of highly competitive sub-sectors, but also with an overall significant trade deficit close to €89 mio (mainly pushed by the unbalanced trade in office equipment and mobile phones). Turning to the chemicals sector, EU industry remains strong in pharmaceuticals and specialty chemicals, but weaker in basic chemicals, plastic and rubber products. Foodstuffs is another illustration of EU's ability to tap into China's growth (despite a rather disappointing year for wines and spirits). The trade picture in the textile and the manufactured goods sectors suffers from persistent imbalances. Turning to the geographical breakdown, despite some inconsistencies between the European and Chinese sources, the trends continue with Germany and the Netherlands enjoying a positive balance. Aside from Finland, which this year also enjoys a positive balance, other MS have deficits.

For China and on the basis of their own figures, 2014 was a tough year with a modest 3.4% growth of overall trade, well behind the objective set at the beginning of the year (7.5%). Trade with the EU was however +9.9%—and EU represents 6.5% of China GDP and 15.8% of its overall exports to the world.

[Art. 4.1(a) third indent]

MS raised in particular the issue of deficits—a matter of continuing concern. A specific session with even more detailed sectoral information will be organised with interested Member States.

4. ICT rules for banking and related cyber issues [Art. 4.1(b)]

[Art. 4.1(a) third and fourth indents, Art. 4.3 first subparagraph]

the matter was raised also in the context of the TRIMs Committee on 16 April, by the US, Japan, the EU and Canada.

CN responded by explaining the purpose of the measure and confirmed that it will be in line with its WTO obligations.

[Art. 4.1(a) third and fourth indents, Art. 4.3 first subparagraph]
At the end of the meeting, a cocktail was held with [Art. 4.1(b)].

Annexes:

1. List of participants
2. Presentation: Review and Analysis On China Standardization Reform
3. Presentation: Trade in Goods EU/China Statistics
<table>
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Subject: Minutes of the Meeting of Trade Counsellors, 28th May 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]
1. Adoption of agenda
See annex 1 for participants' list.

2. Exchange on new potential market access issues.

[Art. 4.1(a) third and fourth indents,
Art. 4.3 first subparagraph]
3. **Update on public procurement**  

Deputy Director-General Pierre Delsaux (DG GROW – DG Internal Market, Industry, Entrepreneurship & SMEs) paid last week a visit to China (19-21 May). The main objective of his visit was to encourage China to keep on working and negotiating with GPA parties so that China can join the WTO Agreement on Government Procurement (GPA) rapidly and under satisfactory conditions.

Mr Delsaux indicated to Vice Minister LIU Kun (Ministry of Finance) that the EU appreciates the efforts made by China to improve its GPA 5th revised accession offer circulated in December 2014.
The EU intends to bring China's accession to GPA to the attention of Leaders during the forthcoming EU-China Summit.

4. IP State of Play and next steps

The presentation started with a scene setter: 2015 is the 10th Anniversary of the IP Dialogue mechanism.

The new Decade opens with a level-up Dialogue (DDG on EU side, Vice Minister on the Chinese side) and a permanent reporting mechanism to the HED.

A new Memorandum of Understanding (MoU) will be signed during the first Flagship celebration event, in BXL, at the end of June, and the first level-up IP Dialogue will take place the next day in BXL.

Quick presentation of the IPR-WG Meetings held between DG Trade and Mofcom:

During the week of 11th of May:

- Beijing Meeting on the 12th of May
- Shanghai Meeting on the 13th of May

Revue of the discussion points, on Trademarks (inclusive development theory, Bad Faith Trademarks), Patents (new draft patent law, new rules on the remuneration of Service of inventions, ...), copyrights, Enforcement, Counterfeiting, and cooperation (IP Key), cooperation between judges, with a special focus during the Shanghai Day where the Shanghai IP court was involved in two meetings.

A special point was dedicated to the recent EU initiative targeting On-line counterfeiting, with the specific contribution brought by all EU Member States, and invitation made to all Member States to further contribute in a substantive manner to the following activities (in particular a dedicated IP key workshop to be held after the summer break, organized back to back with the second 10th anniversary flagship event, this time in Beijing).

During the presentation, the list of the future and on-going Chinese legal initiatives on which the EU efforts will focus in the IP field was presented, e.g. the new Patent Law, the new Copyright law, the new e-commerce law, the new trade secrets laws ...
A specific invitation was made to contribute - through the periodic Market Access Team meetings dedicated to IPR issues - to the development of cooperation efforts, in particular involving judges, thanks to the good opportunity that he current attitude of the recently created specialized IP Courts represents.

The IP award ceremony was also mentioned, as well as the preparation of the (third and last) action plan of IP Key project.

5. **Exchange on recent and upcoming visits**

**France** mentioned the *Joint Economic Commission* which took place two weeks before, and which focused

[Art. 4.1(a) third and fourth indents, Art. 4.3 first subparagraph]

**Spain** referred to the April China-Spain *Joint Commission* with vice-Minister Zhong Shan, as well as to the related side events (business authorities working breakfast, signature of the MoU establishing the bilateral Business Advisory Council).

[Art. 4.1(a) third and fourth indents, Art. 4.3 first subparagraph]

The *Czech Republic* mentioned the forthcoming visit of Vice-Premier Liu Yandong on 14-18 June. The main topics will be education, traditional medicine and the launch of a direct flight between Prague and Beijing. She will also participate in the 1*st* CEEC-China Health Summit that will take place in Prague on 15-17 June. The Czech counsellor also referred to the recent 16*th* working conference in Hebei (with a focus on the functioning of the association) and the forthcoming Ningbo *China-CEECC Cooperation and Development Forum* in June, which will be attended on the Czech side by the deputy Minister for Industry and Trade.

**Poland** recalled that Poland is this year the country of honour of the Ningbo meeting and mentioned the bilateral strategic dialogue that took place in April in Warsaw. On 17*th* June will take place the 1*st* intergovernmental meeting between the Ministries of Foreign Affairs of both countries.

**Finland** mentioned the forthcoming visit of Vice-Premier Liu Yandong to Finland.

6. **AOB**

a. **Upcoming meetings**

1. 6*th* round of CAI negotiations (2-4 June – Brussels)
2. Events on the CAI with the Spanish (2 June) and French (5 June) Chambers
3. 5 June: "National Treatment under CAI" (Stratford)
4. 12 June: Presentation of China Observatory Report (Rhodium Group)
5. EU-China Summit – 29 June in Brussels
   Two declarations, respectively one on Climate change and one more horizontal) are under preparation. From the trade angle, the main topics revolve around
   o investment (both CAI and the EU investment plan),
o the upgrading of our IP relationship (with a new Memorandum of Understanding currently being negotiated),
o WTO issues: DDA and plurilaterals (EGA, ITA, ...),
o synergies between the Chinese 'One Belt, One Road' initiative and the EU connectivity platform, and
o the establishment of a Legal Affairs dialogue focusing on business issues.

In parallel will take place the Business Summit, with new features such as the urbanisation forum and the innovation dialogue.

6. Visit in Beijing of Commissioner Georgieva from 8 to 11 June (main focus: the EU investment package)

b. Next TCM: 24 June + Farewell drink: EUDEL will organise a small event to say goodbye to those colleagues leaving Beijing this summer.

[Art. 4.1(a) third and fourth indents, Art. 4.3 first subparagraph]

Annexes:

1. List of participants
2. Speaking points
3. Pro Memoria: ETWG Report
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EU-China Economic and Trade Working Group – Beijing – 6-7 May 2015

The ETWG is a forum of expert-to-expert discussion, which enables a technical exchange on a range of priority issues concerning EU-China trade relations. This year’s ETWG was also one of the first of the regular meetings with China in the term of the current European Commission.

The discussions were divided into four sub-groups dedicated to goods, services, TBT and SPS, during which the sides exchanged views on some 30 different agenda items. The sub-groups discussions were followed by a plenary session co-chaired by

Although MOFCOM remains the main coordinator on the Chinese side, the meeting involved a number of experts from other Ministries and agencies,

Plenary Session

Traditionally, the Plenary Session concluded the ETWG. The biggest part of discussions at the Plenary Session was dedicated to reporting and taking-stock of the discussions held in the four subgroups. In addition, the Plenary discussed the following six stand-alone items.

1. Trade and investment aspects of the next Summit

Both sides exchanged views on the trade and investment-related priorities of the next EU-China Summit, scheduled to take place in Brussels on June 29. Both sides agreed that the Summit leaders take stock of the currently on-going investment negotiation, discuss the way ahead in post-Bali and plurilateral cooperation, and review the progress in the field of IP protection. The IP-related aspects of the Summit could possibly include involvement of Commissioner Malmström and Minister Gao in an IP-related event which could be held back-to-back with the Summit. Both sides agreed that DG TRADE and MOFCOM should get involved in the preparations (which are coordinated by the EEAS and the Ministry of Foreign Affairs) and the discussions on the Summit statement since the very beginning of this work. In addition, both sides discussed the possibility to hold a bilateral meeting between Commissioner Malmström and Minister Gao in the margins of the Summit.

2. Other trade-related meetings foreseen for 2015

The EU side and China agreed to hold the next High Level Economic and Trade Dialogue (HED), co-chaired by VP Katainen and Vice-Premier Ma Kai, and ideally the Joint Committee, co-chaired by Commissioner Malmström and Minister Gao, back-to-back on 28, 29 or 30 September. The EU side put forward the idea to focus the HED around the investment – an area where both sides demonstrate clear interest. Both sides agreed to launch early preparations to ensure good outcome of both meetings.
3. Investment

6. WTO post-Bali agenda, plurilateral negotiations on ITA, EGA, GPA and TiSA

As regards the post-Bali cooperation, the EU side praised the good cooperation with a view to ensure successful MC10 in Nairobi. It stressed the importance of the Domestic Support pillar in the negotiation and the need to work together to address concerns and find solutions which will allow moving forward. The EU side also inquired about the process of ratification of the Trade Facilitation Agreement. China underlined the need to respect red lines of all concerned parties. It expressed hope concerning swift finalization of the ratification of the Trade Facilitation Agreement but did not provide any details on this process.
Goods working group

1. ICT

Under this point, different issues related to China’s cyber security policies were discussed. Given the cross-cutting nature of these issues, the first part of the discussion (on the banking guidelines) took place with the participation of the TBT and services sub-groups.

1.1 Banking guidelines

The Commission welcomed the recent suspension of the banking guidelines and implementing measures and the announced review process regarding these measures. In this context, it underlined the importance of transparency, including TBT notification, and invited China to engage in a constructive dialogue as soon as possible, allowing the EU to share its experience in dealing with security related issues without creating market access problems. This is important not only in the context of the current review process, but also in view of the fact that this may be a first concrete application of a broader policy that in the future could also be deployed in other sectors/areas.
In a concluding remark, the Commission welcomed China's assurance that it will fully respect its TBT notification obligations.

1.2 Draft counter-terror law

The Commission referred to the comments it recently provided to China and notably to its concerns with regard to the trade implications of certain provisions of the draft counter-terror law (in particular relating to the far-reaching encryption approval rules; the in-country data storage obligations and the wide scope of the provisions, which are not limited to telecom providers but cover any supplier using ICT to provide internet or telecom-based services). The Commission requested an update on the next steps and timing of the legislative process relating to this law.

2. High Tech Working Group

The Commission underlined the importance of the HTWG and referred at the Memorandum of Understanding, which underlines the role of the HTWG in fostering bilateral trade in high tech
products, going far beyond mere export restriction issues. In this context, the Commission insisted on the need for a balanced agenda and participation of all relevant Chinese departments at the appropriate level for the HTWG to be efficient and successful. It requested that the importance of the role of the HTWG together with the issues of the agenda and appropriate participation be recalled at the upcoming HED.

3. **ITA**

4. **Steel**

The Commission noted the important increase in Chinese steel exports. The sector's overcapacities are putting pressure on the international market, thereby increasing the risk of generating trade frictions with trade partners. The EU side underlined the importance of addressing the root causes of these overcapacities via a sustainable restructuring in a market-driven manner (including by addressing subsidies, SOE behaviour and the policy on mergers and acquisitions). The Commission also presented its preliminary comments on the recently issued steel industry adjustment policy document, underlining in particular the need for a more ambitious approach, precise targets for capacity reduction and effective and enforceable implementation mechanisms. The focus should
shift from upgrading plants to market exit. The Commission requested to have a more detailed discussion on this issue in the context of the OECD and the next annual steel dialogue.

Both sides agreed to discuss more in detail in the context of the OECD Steel Committee and the bilateral steel dialogue. Contacts should be established to identify a date for the next bilateral steel dialogue (to be hosted by China).

5. Raw Materials/Conflict Minerals
6. **Aircraft certification / BASA**

The Commission referred to the (limited) number of applications for validation of EASA aircraft certificates pending with CAAC and urged CAAC to consider them positively.

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7. **Computer Reservation Systems (CRS)**

The Commission stated that this is a long-standing issue, that the adoption of order 242 in 2012 was a positive development, but that it was concerned that this has not led to any effective opening on the ground of this part of the market, despite the fact that some licences have been granted by CAAC and despite the efforts of EU operators to materialize the regulatory opening.

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**Services working group**

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1. **EU market access restrictions in services sectors**
2. **Financial Services**

The EU side raised continuing problems on banking and insurance (limitation of business scope/foreign equity caps, complicated and lengthy licensing procedures).

The EU side enquired about the state of play of setting up a risk based solvency regime for insurance companies in China (C-Ross) and raised some issues with the draft measure which seem to discriminate in certain instances foreign firms.

3. **Legal Services**

The EU side expressed its disappointment on the status of the liberalisation of legal services. In the 2015 Foreign Investment Catalogue, legal services have been moved from restricted to prohibited. The relaxation of the rules in the Free Trade Zones is welcome, but insufficient for the foreign law
firms: Law firms still cannot practice law in China or hire local PRC Lawyers.

4. Market access for Traditional Chinese Medicine (TCM)

5. ICT and Telecom
6. **Access to European project contracting market**

7. **Postal Services**
TBT working group

1. General regulatory approach in China and CCC
The EU side enquired about possible improvements in the area of simplification, transparency and overall consistency of technical regulation in China, and in particular of CCC.

2. Restrictions of chemicals in toys in the EU

3. Cosmetics in CN
The EU side requested an update on the revision of the Cosmetics Hygienic Management Rules (CHMR), on the revision of the authorisation process on new ingredients aiming at improved effectiveness and speed, and requested a number of clarifications and requests with regard to labelling involving over-stickering and substantiation of cosmetic claims.

4a. Revision of the legal framework for Medical Devices in the EU
4b. Medical Devices in CN

The EU side commended China for the general approach of Order 650 regulating medical devices, and in particular for the convergence with international classification in categories I, II, and III, and the increased reliance on the responsibility of manufacturers. The EU side raised two issues of draft implementing measures: a) limited extension of draft lists of Class II and Class III medical devices exempted from clinical trials; and b) high registration fees for Class II and Class III imported products. In addition, the EU side enquired about a recent initiative 'Buy China products' in the area of medical devices.

5. Review of standardisation in China

The EU side requested an update of the review of standardisation in China, in particular with regard to improvements in transparency and consistency, the practice of rendering standards mandatory, and further relaxation of restrictions on participation of foreign-invested companies based in standard-setting in China, as announced by a recent document of the State Council of China.

6a. EU measures affecting Chinese footwear

6b. Odour-rating of footwear in CN

The EU side considers that odour-rating of footwear is not related to health and safety, and that therefore mandatory requirements should be avoided. Providing such information to consumers can be a legitimate objective of public policy. Therefore, the EU side invited China to address this objective by way of a voluntary standard and/or and industry commitment.

7. Unique Device Identification (UDI) of medical devices in the EU
SPS working group

1. EU regulation on Endocrine Chemical Disruptors (EDC)

2. Revision of China’s food safety law
The EU side welcomed the recent adoption of the Food Safety Law, which shall be implemented as of 1 October 2015, and thanked China for taking into account some of its comments such as the comments related to infant formula on OEM and subcontracting which have been deleted from the adopted text.

3. EU standard on anthraquinone in tea leaves

4. Pending applications from the EU for access of bovine and bovine products
The EU side once again urged China to lift the export ban which has been in place now for more than 15 years. The EU side presented a summary on the 17 pending applications, with the oldest one submitted already in 2005. The EU side recalled its long-standing demand for transparency on MS's pending applications calling China to provide.
5. Pending applications from the EU for market access into China for pork

The EU side recalled its long-standing demand for more transparency and trade predictability on Member States' applications for imports to China and handed over an overview table summarising the state-of-play.

6. Pending applications from the EU for market access into China for dairy and milk products

The EU side thanked China for progress on a number of Member States' applications and called for making rapid progress with the remaining EU applications and referred to an earlier promise made by China to finalise all audits before the end of 2015. The EU side welcomed the detailed information received from China on the state of play for the nine pending applications, as well as the partial tentative calendar of work in the future where China provide following details r.

7. Chinese standards on dairy products

The EU side requested China to bring the three standards on cheese, processed cheese as well as cream, butter and anhydrous milk fat (GB5420-2010, GB25912-2010 and GB19646-2010) in line with international standards, making reference to an earlier letter from the Commission including detail comments on the Chinese standards.

8. Chinese standard for listeria

The EU side requested China to bring the listeria standards in line with international standard set by the Codex Alimentarius, an EU request which has been there already for multiple years.
9. **China’s import conditions with regard to phthalates for alcoholic beverages**

The EU side reaffirmed its call for lifting the testing requirement on phthalates on imported spirits and to take duly into account the outcome of the Chinese risk assessment finalised in 2014. The EU side referred to earlier discussions with China where it was confirmed that the safety thresholds provided for two phthalates under the risk assessment of June 2014 which is applicable for all spirits (domestically and imported) above 38°. Therefore, the EU side requested clarification of the threshold level applicable to phthalates in imported spirits, and notably the different safety levels suggested by a risk assessment carried out in June 2014 by the National Health and Family Planning Commission (NHFPC) and the standard imposed by the AQSIQ on imported spirits (which are lower thresholds than the safety levels in the Chinese risk assessment).

10. **China’s import conditions related to Schmallenberg (genetic material)**
NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI

Subject: Minutes of the Meeting of Trade Counsellors, 29th May 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]

15, Dongzhimenwai Dajie, Sanlitun, 100600 Beijing, China. Tel +(8610)8454 8000; Fax +(8610) 8454 8011
Minutes – Meeting of EU Trade Counsellors on 29th May 2015
Shanghai

1. Adoption of agenda
See annex 1 for participants' list.

2. ETWG Debrief
EUDEL pointed the main elements which are detailed in Annex 2.

3. Exchange on new potential market access issues.

[Art. 4.1(a) third and fourth indents,
Art. 4.3 first subparagraph]
4. Update on public procurement

Deputy Director-General Pierre Delsaux (DG GROW – DG Internal Market, Industry, Entrepreneurship & SMEs) paid last week a visit to China (19-21 May). The main objective of his visit was to encourage China to keep on working and negotiating with GPA parties so that China can join the WTO Agreement on Government Procurement (GPA) rapidly and under satisfactory conditions.

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5. Exchange on recent and upcoming visits

Upcoming meetings
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In parallel will take place the Business Summit, with new features such as the urbanisation forum and the innovation dialogue.

6. Visit in Beijing of Commissioner Georgieva from 8 to 11 June (main focus: the EU investment package)

6. AOB
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</table>
NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI

Subject: Minutes of the Meeting of Trade Counsellors, 23 June 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]
1. Adoption of agenda

2. Putting the lens on the EUCC Business Confidence Survey. Presentation by EUCC

EUCC presented the main results of the just released EUCC 2015 Business Confidence Survey, with a particular focus on sector-by-sector analysis. The survey gathers data from 541 responding companies (out of 1,474 entities, meaning a 37% response ratio, similar as in previous years). While EU business remain committed to China, China’s economic slowdown is here. It is already significantly impacting the performance of European business in China. Margin pressures lead European business to reduce headcount. There is a striking diverging performance across sectors. 92% of financial services companies reported an increase or substantial increase in revenue over the past year. With growth moving away from investment towards consumption, the automotive sector remains amongst the most bullish and the industry is still eager to expand. The sectors of hospitality and healthcare are also doing well. With the exception of legal services (frustrated by the absence of liberalization), services sectors see little need to cut costs. Generally speaking, businesses directly affected by the slump in raw material prices such as energy and utilities and food and beverage industries, chemical companies, European companies in industrial goods and services, and transportation sector are the most bearish. Newcomers are the most optimistic about growth and profitability. Multinationals, veterans are the most concerned about economic headwinds. China remains one of the top three destinations for investments for 60% of companies, but much less so than in previous years (10 percentage points less for future investment). Foreign investment lacks a level playing field in China’s business environment and one third of European business puts investment on hold. 55% of companies feel discriminated against as compared to Chinese counterparts—same as last year. Unpredictability of the legislative environment, administrative issues, discretionary enforcement of regulations, and licensing requirements remain top impediments—also the same as last year. However, companies perceive some improvement in the enforcement of IPR. While 56% of companies believe this is still inadequate, the percentage of those believing it is adequate or excellent is 24%—6 percentage points more than last year.

See annex 1.

3. Update on EU-China transport relations (Trade Section)

On 11-13 May, European Commission Director-General for Transport (MOVE) J-A Machado visited Beijing and held, among others, the 6th meeting of the High-Level Transport Dialogue with NDRC Vice-Chairman Hu Zucai.

During the High-Level Dialogue on Transport, DG Machado raised three concerns repeatedly expressed by the EU transport industry in China: (1) international relay in the shipping sector in the FTZs is open only to Chinese-owned ships, as opposed to the traditional flag-based distinction; (2) generous ship-scraping and ship-building subsidies, which tend to add tonnage to a sector already suffering from overcapacity; and (3) local-content requirements in rail procurement procedures, with Joint-Ventures’ production not
In the shipping sector, the 12th implementation meeting of the EU-China Maritime Transport Agreement will take place end of September in Poland: both the industry and the Member States are invited to participate. The two issues mentioned above will figure in the agenda, as will other issues like LNG for shipping and further contribution of the shipping sector to the fight against Climate change.

In the railways sector, the 2nd meeting of the EU-China Rail WG between DG MOVE and the National Railways Administration (NRA) will take place in Beijing in September/October. Market access and local content will be in the agenda again, as well as connectivity issues, since rail connections were at the source of current connectivity policies. First results are expected by then from a study comparing rail comparison in the EU and China.

In the aviation Sector, discussions on a future Bilateral Air Safety Agreement (BASA) make progress and EASA is already working on a technical level with CAAC, but the formal negotiation mandate request to Member States has not been issued yet. BASA is clearly an issue of common interest, since it will facilitate market access for the EU industry and reinforce China’s capacity to assess the safety of aircraft. In addition, the Commission will present its Aviation Strategy before the end of the year, where it will set out the list of countries with which it will seek Aviation Comprehensive Agreements (we have them with US, Canada and now Brazil). Market potential for China

Finally, a new EU-China aviation project will i.a. support BASA negotiations and promote the EU industry in China.

See annex 2.

4. Debrief of last round investment negotiations (Trade Section)

EUDEL debriefed the TCM delegates on the outcomes of the 6th round of negotiations of the EU-China Investment Agreement (CAI), which took place in Brussels on 2-4 June 2015.

In spite of the very short deadline, the European Union managed to comment on the pre-consultation on the "Regulations on the Administration of Investment Projects Subject to
Government Verification and Approval and Investment Projects Subject to Government Record-filing. The EU insisted that, in order to unleash the creative power of mass entrepreneurship, all sectors should be open to domestic and foreign investment, devoid of State involvement, and subject only to limited and specific exceptions, exhaustively determined in advance. Specifically, the EU called for the elimination of the pervasive discrimination against foreign investment still enshrined in the Regulation and suggested to eliminate State involvement for foreign investors instead of imposing additional conditions also to domestic investors. In particular, the EU suggested that "national security" is narrowly and precisely defined and that references to other concepts linked to economic security are removed. The EU finally called for procedural improvements to limit discretionary application of the law, and to enhance transparency, predictability and accountability for investors.

5. Exchange on recent and upcoming visits

The exchange focused on the upcoming 29 June EU-China Summit, with core expected deliverables on investment, connectivity, IP, digital, legal affairs and WTO issues.

6. AOB

Annexes:

1. PPT: Business Confidence Survey 2015
2. PPT: EU-China Transport Relations: Latest Developments
2015
Business Confidence Survey
European Business in China

Contents
A. Methodology and respondents profile
B. Key takeaways
C. Changing the new norm
D. Climbing up the value chain
E. Relining the reform

Appendix 1
In 2015, the BCS reached a high response rate while maintaining a stable data set.

**Methodology**

**Survey design**
- > 40 questions on 4 core themes:
  - Company profile and statistics
  - Outlook on China, competition, company strategy and regulations
  - Human resources
  - Financial performance
- > A sector-specific and a chapter-specific section
- > Special attention paid in survey design to ensure consistency for year-on-year comparability, with some new questions to cover recent developments and topical issues

Source: BCS 2015, Roland Berger analysis
The majority of respondents have been operating in China for over a decade.

Breakdown of respondents by time in China (2015):

<table>
<thead>
<tr>
<th>Time in China</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 2 years</td>
<td>4%</td>
</tr>
<tr>
<td>2-5 years</td>
<td>13%</td>
</tr>
<tr>
<td>6-10 years</td>
<td>20%</td>
</tr>
<tr>
<td>11-20 years</td>
<td>31%</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Roland Berger analysis
<table>
<thead>
<tr>
<th>No</th>
<th>Key Takeaways from the Business Confidence Survey 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Chinese economy up the value chain</td>
</tr>
<tr>
<td>4</td>
<td>Innovation will be one of the most critical drivers needed to move the</td>
</tr>
<tr>
<td>3</td>
<td>The needed regulatory framework has yet to come into place</td>
</tr>
<tr>
<td>2</td>
<td>China remains a key market</td>
</tr>
<tr>
<td>1</td>
<td>Business challenge</td>
</tr>
</tbody>
</table>

- european companies are re-adjusting their strategies in response to a prolonged slow down
Financial performance presents a mixed picture with fewer companies reporting a year-on-year increase in revenues.

Evolution of company revenue in Mainland China year-on-year (2011-2015)

European consumer goods and services going strong

Mainland China Revenue by Sector

How did your company's total Mainland China revenue this year compare to last year?

Source: KCG 2015, Roland Berger analysis

Note: In 2015, individuals responding on behalf of a representative office were not asked this question.

Source: Business Confidence Survey Data, Roland Berger analysis

Roland Berger Strategy Consultants
Financial Services Witnessed Highest Revenue Increase

2014 Mainland China Revenue by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>2014 Revenue ($Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>121,500</td>
</tr>
<tr>
<td>Healthcare</td>
<td>51,200</td>
</tr>
<tr>
<td>Retail</td>
<td>82,100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>132,700</td>
</tr>
<tr>
<td>Consumer Products</td>
<td>92,400</td>
</tr>
<tr>
<td>Transportation</td>
<td>45,300</td>
</tr>
<tr>
<td>Chemicals</td>
<td>61,200</td>
</tr>
<tr>
<td>Energy</td>
<td>171,300</td>
</tr>
<tr>
<td>Construction</td>
<td>103,200</td>
</tr>
</tbody>
</table>

How did your company's Mainland China revenue compare to 2013?
Newcomers face better prospects, old timers stagnate

Mainland China Revenue by Time in China

How did your company's total Mainland China revenue this year compare to last year?

<table>
<thead>
<tr>
<th>Time in China, 2014</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;5 years</td>
<td>5-10 years</td>
<td>&gt;10 years</td>
</tr>
<tr>
<td>2014</td>
<td>30%</td>
<td>30%</td>
<td>40%</td>
</tr>
<tr>
<td>2015</td>
<td>35%</td>
<td>25%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Increased substantially (>50%): 10%
Increased (5-20%): 4%
Remained the same (+/-1%): 56%
Decreased (5-20%): 22%
Decreased substantially (>20%): 10%

Note: In 2015, individuals responding on behalf of a representative office were not asked this question.

Source: Business Confidence Survey Data, Roland Berger analysis.

Profitability increased...

EBIT in Mainland China

Please characterize your company's earnings before interest and tax (EBIT) in Mainland China.

<table>
<thead>
<tr>
<th>Year</th>
<th>Positive</th>
<th>Breakeven</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>10%</td>
<td>50%</td>
<td>40%</td>
</tr>
<tr>
<td>2010</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>2011</td>
<td>15%</td>
<td>65%</td>
<td>20%</td>
</tr>
<tr>
<td>2012</td>
<td>25%</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>2013</td>
<td>20%</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>2014</td>
<td>20%</td>
<td>40%</td>
<td>40%</td>
</tr>
<tr>
<td>2015</td>
<td>10%</td>
<td>50%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Note: In 2015, individuals responding on behalf of a representative office were not asked this question.

Source: Business Confidence Survey Data, Roland Berger analysis.
### China EBIT Margins vs. Worldwide Margins

#### Comparison

Professional Services score lowest in China vs. global EBIT margin.

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment</td>
<td>25%</td>
<td>26%</td>
<td>27%</td>
<td>28%</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>Technology</td>
<td>30%</td>
<td>31%</td>
<td>32%</td>
<td>33%</td>
<td>34%</td>
<td>35%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>40%</td>
<td>41%</td>
<td>42%</td>
<td>43%</td>
<td>44%</td>
<td>45%</td>
</tr>
<tr>
<td>Services</td>
<td>35%</td>
<td>36%</td>
<td>37%</td>
<td>38%</td>
<td>39%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Note: How do EBIT margins of your company’s China operations compare to your company’s worldwide margins?
Auto industry China EBIT margins highest relative to global margin

China EBIT Margins vs. Worldwide Margins by Industry

How did the EBIT margins of your company's Mainland China operations compare to your company's worldwide margins in 2015?

<table>
<thead>
<tr>
<th>Industry</th>
<th>EBIT Margins China</th>
<th>EBIT Margins Worldwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional services</td>
<td>20%</td>
<td>18%</td>
</tr>
<tr>
<td>Financial services</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>Machinery</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Electrical and auto components</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Energy and utilities</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Food and beverage</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Transportation, chemicals and distribution</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Healthcare Devices</td>
<td>20%</td>
<td>15%</td>
</tr>
</tbody>
</table>

HR costs significantly impact profit margins

Factors Impacting China Net Profit Margins

Please indicate the significance of the following factors affecting your company's net profit margin in 2014.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising labor costs</td>
<td>Strong Impact</td>
</tr>
<tr>
<td>Competition from foreign companies</td>
<td>Average</td>
</tr>
<tr>
<td>Slower economic growth in China</td>
<td>Average</td>
</tr>
<tr>
<td>Lower domestic demand</td>
<td>Average</td>
</tr>
<tr>
<td>Burdensome regulatory environment</td>
<td>Average</td>
</tr>
<tr>
<td>Slower economic growth in home market</td>
<td>Average</td>
</tr>
<tr>
<td>Competition from Chinese POEs</td>
<td>Strong Impact</td>
</tr>
<tr>
<td>Regulatory enforcement</td>
<td>Average</td>
</tr>
<tr>
<td>Competition from Chinese SOEs</td>
<td>Average</td>
</tr>
<tr>
<td>RMB volatility</td>
<td>Average</td>
</tr>
</tbody>
</table>
Growth and Profitability Outlook by Sector

Industrial goods and services most pessimistic

Business outlook on growth and profitability in China (2011-2015)

European companies' optimism about business outlook on growth
Automotive sector remains most bullish, chemical companies most bearish

Growth Outlook by Industry

How would you describe the business outlook in terms of growth for your sector in China within the next two years?

Economic slowdown hits transportation sector

Profitability Outlook by Industry

How would you describe the business outlook in terms of profitability for your sector in China within the next two years?
Newcomers most optimistic about growth and profitability

Economic slowdown
European companies are sensitive to a protracted Chinese

Growth and Profitability Outlook by Time in China

How much do you expect your business to grow in the next 12 months?
Industrial sector worst hit by economic slowdown,...

Impact of Chinese Economic Slowdown on Future Business by Sector

Please indicate how your company perceives the Chinese economic slowdown to impact future business in Mainland China.

... healthcare sector least impacted

Impact of Chinese Economic Slowdown on Future Business by Industry

Please indicate how your company perceives the Chinese economic slowdown to impact future business in Mainland China.

Source: Business Confidence Survey Data, Roland Berger analysis.

Note: Only industries with at least 10 responses are shown.
China's rank as destination for green investments in terms of investments but it slides down in the ranking. China is still a priority in terms of investments but it slides down in the ranking. Multinationals' veterans most concerned about economic headwinds.
Chemicals, automotive and hospitality industries score highest
To adapt to the Chinese economic slowdown, almost one third of European business plans investments in China as a destination for future investments by industry.

Auto and hospitality rank highest.
Automotive industry still eager to expand

China Expansion Plans by Industry

Is your company considering expanding current China operations in 2015?

European players withhold investments and consider investing elsewhere

Investment shift to other markets (2011-2015)

Source: Roland Berger analysis
Margin pressures push European business to engage in cost cutting programmes led by headcount reduction

Cost reduction plans in China (2013-2015) and first affected areas (2015)

Service sector sees little need to cut costs

Cost Reduction Plans in China by Industry

Does your company plan on cutting costs in China this year?

Source: BCG (2015), Roland Berger analysis
European companies are here to stay

Strategic Reasons to Operate in China

What is the primary strategic reason for your company to operate in Mainland China?

![Chart showing strategic reasons to operate in China]

Note: The percentages of respondents who answered "To provide goods or services for other markets", "To have access to the supply of goods or services from Chinese companies", and "To use local Intellectual and R&D resources" are not shown here because of the insignificant percentage points they represent.

Source: Business Confidence Survey Asia, Roland Berger analysis

Strategic Reasons to Operate in China by Industry

What is the primary strategic reason for your company to operate in Mainland China?

![Chart showing strategic reasons to operate in China by industry]

Note: Only industries with 10+ respondents shown.

Source: Business Confidence Survey Asia, Roland Berger analysis
R&D centers in China by industry

European auto companies most eager to engage in R&D

Only one quarter of Europeans have R&D centers in China
Although there are more China R&D centres achieving global levels of innovation, too many still focus on product localisation.

Innovation levels of China R&D centres (2014-2015)

Professional services generate most comparable level of innovation

Innovation Levels of China R&D Centres by Industry

How would you characterise the level of innovation generated by your company's R&D centre in Mainland China compared to your company's global/regional R&D level?

2015

- Automotive and auto components
- Machinery
- Chemicals and petroleum
- IT and telecom
- Healthcare (Pharmaceuticals)
- Healthcare (Medical Devices)
- Hospitality
- Professional services
- Energy and utilities

- We mainly use our R&D centre in China to produce localisation rather than pure innovation
- Our global/regional R&D innovation level is still far ahead of where we would like it to be in China
- We see a comparable level of innovation

Note: Only companies with an R&D centre in China were asked. Multiple answers were possible.

Source: Roland Berger analysis
Impact of China's Internet access on business by industry

China's Internet access legal and professional services most negatively impacted by

Internet restrictions

European companies' efforts to innovate in China are hampered by

Does this need to access China's Internet?

Does this need to access China's Internet?

Does this need to access China's Internet?

Does this need to access China's Internet?
Legal, healthcare (medical devices) and hospitality most impacted

Figure: Impact of Internet Issues on Data and Document Exchange by Industry

Does internal instability, slowness or censorship in China hinder data and document exchange with headquarters, partners, customers?

<table>
<thead>
<tr>
<th>Year</th>
<th>Professional services</th>
<th>Financial services</th>
<th>Machinery</th>
<th>Automotive and auto components</th>
<th>Chemicals and petroleum</th>
<th>Legal</th>
<th>Food and beverage</th>
<th>Healthcare (Medical Devices)</th>
<th>Transportation, logistics, and distribution</th>
<th>Hospitality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>60%</td>
<td>70%</td>
<td>30%</td>
<td>40%</td>
<td>70%</td>
<td>60%</td>
<td>60%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>2016</td>
<td>40%</td>
<td>70%</td>
<td>50%</td>
<td>24%</td>
<td>60%</td>
<td>50%</td>
<td>50%</td>
<td>24%</td>
<td>50%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: Only industries with >15% are shown here.
Note: The total takes is the number of respondents.

Legal and transportation most impacted

Figure: Impact of Internet Issues on Information Research by Industry

Does internal instability, slowness or censorship in China hinder you from searching for information and engaging in research?

<table>
<thead>
<tr>
<th>Year</th>
<th>Professional services</th>
<th>Financial services</th>
<th>Machinery</th>
<th>Automotive and auto components</th>
<th>Chemicals and petroleum</th>
<th>Legal</th>
<th>Food and beverage</th>
<th>Healthcare (Medical Devices)</th>
<th>Transportation, logistics, and distribution</th>
<th>Hospitality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
<td>50%</td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>2016</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>40%</td>
<td>24%</td>
<td>24%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Note: Only industries with >15% are shown here.
Note: The total takes is the number of respondents.
E. Raising the Reform

<table>
<thead>
<tr>
<th>Year</th>
<th>% of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>50%</td>
</tr>
<tr>
<td>2011</td>
<td>55%</td>
</tr>
<tr>
<td>2012</td>
<td>60%</td>
</tr>
</tbody>
</table>

IPR Protection: Written laws adequate, but enforcement is key.
Top five regulatory obstacles that hamper economic performance remain unchanged

Regulatory obstacles to doing business in China (2014-2015)

Rule of law increasingly important to drive growth


1) FIEs: Foreign invested enterprises

Note: The percentages shown are the sum of the top 1, 2 and 3.

Source: BCG 2015, Roland Berger analysis
European business divided on reform agenda

**Assessment of Reforms to Create Level Playing Field**

Has the ongoing reform agenda helped create an even playing field for foreign investors in China?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Don't know</th>
</tr>
</thead>
<tbody>
<tr>
<td>32%</td>
<td>37%</td>
<td>31%</td>
</tr>
</tbody>
</table>

Source: Business Confidence Survey Data, Roland Berger analysis.

European companies expect more efforts from the Chinese Government to improve rule of law

**Rating of current Chinese administration's efforts (2015)**

<table>
<thead>
<tr>
<th>Below expectations</th>
<th>Meet expectations</th>
<th>Exceed expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>55%</td>
<td>41%</td>
<td>4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Role of law</th>
<th>Political reform</th>
<th>Foreign policy</th>
<th>Economic reform</th>
<th>Anti-corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>62%</td>
<td>61%</td>
<td>41%</td>
<td>16%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: 2010-2013, Roland Berger analysis.
Ranking of government and corruption efforts by industry services and hospitality

Legal most disappointed by effort on rule of law

How does your company view the efforts in anti-corruption of the current Chinese administration in the past two years?
European business rates environmental efforts as weak

Rating of China’s Environmental Protection Measures

How does your company rate the government’s environmental protection measures of the past year?

![Bar chart showing the rating of China's Environmental Protection Measures.]

Source: Business Confidence Survey Data, Roland Berger analysis

Low rating of China’s environment impacts human resources

Air pollution remains a top HR challenge to attract and retain talent (2014-2015)

![Graph showing the percentage of companies affected by air pollution in attracting and retaining talent.]

Note: The percentages shown are the sum of the top 1, 2 and 3 challenges.

Source: BCG 2015, Roland Berger analysis
In the wake of greater market access on foreign investments, European companies are eagerly awaiting improved market access to foreign markets.
90% of legal firms more likely to increase investment, if market opens further

Impact of Greater Market Access on Investment by Industry

If greater market access were granted to foreign companies in your industry, how would this impact your company's investment decisions in China?

<table>
<thead>
<tr>
<th>Industry</th>
<th>Likely to increase investment</th>
<th>Less likely to increase investment in China</th>
<th>No impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional services</td>
<td>31%</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>Financial services</td>
<td>33%</td>
<td>31%</td>
<td>36%</td>
</tr>
<tr>
<td>Machinery</td>
<td>34%</td>
<td>33%</td>
<td>33%</td>
</tr>
<tr>
<td>Automotive and auto components</td>
<td>35%</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Chemicals and petrochemicals</td>
<td>37%</td>
<td>32%</td>
<td>31%</td>
</tr>
<tr>
<td>Legal</td>
<td>38%</td>
<td>31%</td>
<td>31%</td>
</tr>
<tr>
<td>Food and beverage</td>
<td>39%</td>
<td>32%</td>
<td>29%</td>
</tr>
<tr>
<td>Healthcare (Medical Devices)</td>
<td>40%</td>
<td>31%</td>
<td>29%</td>
</tr>
<tr>
<td>Transportation, logistics and distribution</td>
<td>40%</td>
<td>31%</td>
<td>29%</td>
</tr>
</tbody>
</table>

Note: Only industries with 10 or more shares

Source: Business Confidence Survey, Data Roland Berger analysis
Outline

1. EU-China High-Level Transport Dialogue (13 May 2015)
2. Maritime
3. Railways
4. Aviation

EU Council
EU Trade Commissioner Meeting

Latest Developments
EU-China Transport Relations:

EU Delegation, 24 June 2014
EU-China high-level Transport Dialogue

Interlocutors:
• J. Aguiar Machado, DG MOVE of the European Commission
• VC Hu Zucai of NDRC (Basic Industries Dept.) + representatives of NRA, MoT and CAAC

Main Points (the dialogue covers all dimensions of our transport relations: rail, maritime and aviation):
• DG Machado raised concerns on overcapacity with China’s generous shipbuilding subsidy, international relay, as well as market access issues in the rail sector
• Connectivity/OBOR was not in the agenda (VC He Lifeng in charge)

Maritime Transport

Upcoming meeting:
21-23 Sept 2015: 12th Implementation Meeting EU-China Maritime Transport Agreement (MOVE-MoT) in Poland

As usual, MS and industry are invited

Main Points (still tbd):
• China’s shipsracking/shipbuilding subsidy (MoT/MIIT)
• International relay in Chinese ports
• LNG for shipping
AIRPORTS

Market Access Concerns

Comprehensive study on railways' standards comparison

Main Points (still TBD):

Railways

Upcoming meeting:

September 2015: 2nd meeting of the EU-China Railways WG (MOVE)
Thanks for your attention
NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, BEIJING

Subject: Minutes of the Meeting of Trade Counsellors, 24 June 2015

Dear colleagues,

Please find attached the aforementioned minutes for your records, which I hope will be helpful.

Warm regards,

(signed)

[Art. 4.1(b)]
Minutes – Meeting of EU Trade Counsellors on 24 June 2015
EU Delegation – Trade Section

1. Adoption of agenda
   See annex 1 for participants’ list.

2. Putting the lens on the EUCCC Business Confidence Survey. Presentation by EUCCC

EUCCC presented the main results of the just released EUCCC 2015 Business Confidence Survey, with a particular focus on sector-by-sector analysis. The survey gathers data from 541 responding companies (out of 1,474 entities, meaning a 37% response ratio, similar as in previous years). While EU business remain committed to China, China’s economic slowdown is here. It is already significantly impacting the performance of European business in China. Margin pressures lead European business to reduce headcount. There is a striking diverging performance across sectors. 92% of financial services companies reported an increase or substantial increase in revenue over the past year. With growth moving away from investment towards consumption, the automotive sector remains amongst the most bullish and the industry is still eager to expand. The sectors of hospitality and healthcare are also doing well. With the exception of legal services (frustrated by the absence of liberalization), services sectors see little need to cut costs. Generally speaking, businesses directly affected by the slump in raw material prices (e.g., energy and utilities and food and beverage industries, chemical companies), European companies in industrial goods and services, and transportation sectors are the most bearish. Newcomers are the most optimistic about growth and profitability. Multinationals, veterans are the most concerned about economic headwinds. China remains one of the top three destinations for investments for 60% of companies, but much less so than in previous years (10 percentage points less for future investment). Foreign investment lacks a level playing field in China’s business environment and one third of European business puts investment on hold. 55% of companies feel discriminated against as compared to Chinese counterparts—same as last year. Unpredictability of the legislative environment, administrative issues, discretionary enforcement of regulations, and licensing requirements remain top impediments—also the same as last year. However, companies perceive some improvement in the enforcement of IPR. While 56% of companies believe this is still inadequate, the percentage of those believing it is adequate or excellent is 24%—6 percentage points more than last year.

Member States showed great interest in the presentation. Questions were raised:

[Art. 4.1(a) third and fourth indents]

See annex 2.

3. Update on EU-China transport relations (Trade Section)
provided an update on the latest developments in the EU-China transport relations.

On 11-13 May, European Commission Director-General for Transport (MOVE) J-A Machado visited Beijing and held, among others, the 6th meeting of the High-Level Transport Dialogue with NDRC Vice-Chairman Hu Zucai.

During the High-Level Dialogue on Transport, DG Machado raised three concerns repeatedly expressed by the EU transport industry in China: (1) international relay in the shipping sector in the FTZs is open only to Chinese-owned ships, as opposed to the traditional flag-based distinction; (2) generous ship-scraping and ship-building subsidies, which tend to add tonnage to a sector already suffering from overcapacity; and (3) local-content requirements in rail procurement procedures, with Joint-Ventures’ production not qualifying as local.

In the shipping sector, the 12th implementation meeting of the EU-China Maritime Transport Agreement will take place end of September in Poland. Both the industry and the Member States are invited to participate. The two issues mentioned above will figure in the agenda, as well other issues like LNG for shipping and further contribution of the shipping sector to the fight against Climate change.

In the railways sector, the 2nd meeting of the EU-China Rail WG between DG MOVE and the National Railways Administration (NRA) will take place in Beijing in September/October. Market access and local content will be in the agenda again, as well as connectivity issues, since rail connections were at the source of current connectivity policies. First results are expected by then from a study comparing rail comparison in the EU and China.

In the aviation sector, discussions on a future Bilateral Air Safety Agreement (BASA) make progress and EASA is already working on a technical level with CAAC, but the formal negotiation mandate request to Member States has not been issued yet. BASA is clearly an issue of common interest, since it will facilitate market access for the EU industry and reinforce China’s capacity to assess the safety of aircraft. In addition, the Commission will present its Aviation Strategy before the end of the year, where it will set out the list of countries with which it will seek Aviation Comprehensive Agreements (we have them with US, Canada and now Brazil). Market potential for China

Finally, a new EU-China aviation project will i.a. support BASA negotiations and promote the EU industry in China
4. Debrief of last round investment negotiations (Trade Section)

EUDEL [Art. 4.1(b)] debriefed the TCM delegates on the outcomes of the 6th round of negotiations of the EU-China Investment Agreement (CAI), which took place in Brussels on 2-4 June 2015.

In spite of the very short deadline, the European Union managed to comment on the pre-consultation on the "Regulations on the Administration of Investment Projects Subject to Government Verification and Approval and Investment Projects Subject to Government Record-filing". The EU insisted that, in order to unleash the creative power of mass entrepreneurship, all sectors should be open to domestic and foreign investment, devoid of State involvement, and subject only to limited and specific exceptions, exhaustively determined in advance. Specifically, the EU called for the elimination of the pervasive discrimination against foreign investment still enshrined in the Regulation and suggested to eliminate State involvement for foreign investors instead of imposing additional conditions also to domestic investors. In particular, the EU suggested that "national security" is narrowly and precisely defined and that references to other concepts linked to economic security are removed. The EU finally called for procedural improvements to limit discretionary application of the law, and to enhance transparency, predictability and accountability for investors.
5. Exchange on recent and upcoming visits

The exchange focused on the upcoming 29 June EU-China Summit, with core expected deliverables on investment, connectivity, IPR, digital, legal affairs and WTO issues.

6. AOB (blank)

Annex 1. List of Participants