

EUROPEAN UNION

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 15 September 2015

Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI

Subject: Minutes of the Meeting of Trade Counsellors, 6 July 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 6 July 2015
Shanghai**

1. Adoption of agenda

- 2. "If EU companies are granted 'National Treatment' under the EU-China Comprehensive Agreement on Investment, will this increase your market access in China?" Presentation by [REDACTED] [Art. 4.1(b)]**

See Annex 1

3. Debrief of EU-China Summit

The EU China Summit, and related events, took place on 29 June in Brussels.

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

The discussion focused on investment opportunities, including EFSI and the silk road initiative, and 28 September was agreed as a date for the High Level Economic Dialogue (Beijing) where inter alia, parties will discuss synergies on investment, digital and connectivity. Also at the Summit, Premier Li proposed an EU China Investment Fund.

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

During the EU-China was also organized a side event to celebrate the 10th anniversary of the EU-China IP Dialogue Mechanism. At this occasion, an MoU to enhance IP cooperation has been signed between Commissioner C. Malmström and Minister Gao. The main highlight of the MoU is the level-up of the IP Dialogue to Vice-ministerial level with a reporting mechanism to the Joint Committee and to the HED. The role of the IP Dialogue will be also to provide guidelines to the IP Working Group based on list of agreed priorities.

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

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

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

5. AOB

National Treatment as a Basis for Securing Market Access under a Comprehensive Agreement on Investment with the PRC

Presentation to EUCCC Shanghai Regarding Report Prepared for the
European Commission Directorate-General for Trade
July 6, 2015

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Introduction

Purpose

To assess whether granting of national treatment to foreign investors in China under the EU-China Comprehensive Agreement on Investment (CAI) would assure market access.

Underlying Questions

1. *Domestic Restrictions:* To what extent are Chinese investors themselves subject to market access restrictions, so that enjoying national treatment would not assure market access?
2. *Enforceability:* Would a Chinese violation of national treatment obligation be provable/enforceable?

Approach

1. Discuss government approval processes at central and locals for domestic investments;
2. Review fundamental policies guiding investment screening processes, especially industrial policies and policies supporting state sector;
3. Provide examples in 10 illustrative industry sectors of interplay of processes and policies for approving domestic investments; and
4. Consider input from EUCCC.

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Introduction

Ten Illustrative Industry Sectors

1. Automobile Manufacturing
2. Chemical Manufacturing
3. Construction & Infrastructure
4. Distribution
5. Energy
6. Financial Services
7. Healthcare
8. Mining
9. Professional Services
10. Telecommunications

Five Illustrative Provincial-Level Governments

1. Beijing
2. Chongqing
3. Guangdong
4. Shanghai
5. Tianjin

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Regulatory Framework for Domestic Investors

Domestic Investment Approval Process (3 CRITICAL STEPS)

Administrative Discretion: High, Medium, or Low

- Step 1: Anti-Monopoly Law Review -- *if Necessary*
- Step 2: Name Registration by Relevant AIC
- Step 3: Specific Project-Related Approvals From Various Authorities -- if Relevant (e.g., land use, zoning, construction, environmental)
- Step 4a: Project Approval -- if Applicable
or 4b: Project Filing -- if Applicable
- Step 5: Licensing from Industry Regulator -- if Applicable
- Step 6: Enterprise Registration with Relevant AIC

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Step 1: Anti-Monopoly Law Review -- *if Necessary*

Applicability

Investment subject to AML review by MOFCOM if –

- » investment made by way of concentration (*i.e.*, merger, or acquisition of assets or equity conferring control), or by way of acquisition through contract or other means conferring control or “decisive influence” over another entity; and
- » all participating entities (i) have combined turnover of over RMB 10 billion worldwide or RMB 2 billion in China, and (ii) at least two participating entities each have turnover in excess of RMB 400 million in China.

Exceptions if –

- » investment made by establishing greenfield solely-owned or solely-controlled enterprise,
- » one party owns at least 50% voting equity or assets in each other party, or
- » uninvolved third party owns at least 50% voting equity or assets in each involved party.

Also unclear if MOFCOM has authority to review –

- » mergers of SOEs
- » SOE transactions related to central role of SOEs in national economic development plans.

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Step 1: Anti-Monopoly Law Review -- if Necessary

Evaluation Criteria

MOFCOM will decide whether to allow investment and/or impose conditions by judging potential impact on competition in relevant market, taking into account –

- market share of participating entities,
- degree of market concentration, and
- impact of concentration on technological advancement, consumer welfare, and national economic development.

Potential Concerns – *Related to both Domestic Restrictions and Enforceability*

- Broad administrative discretion to implement industrial policy and state sector priorities and to extract extra-legal concessions.
- Uncertain application to SOE-related transactions.

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Step 4a: Project Approval -- if Necessary

- Project approval process used by NDRC and local counterparts to ensure investments align with national economic priorities and industrial policies.
- 2004 *Decision of State Council on Investment System Reform*, and accompanying *Catalogue of Investment Projects Subject to Approval of the Government* ("Government Approval Catalogue"), liberalized project approval process.

- 2004 Decision essentially groups investments into three categories:

Category 1 (*Fixed Asset Investments included in Project Approval Catalogue*)

- Generally require **project approval** by NDRC, local DRC, or other specified regulator (sometimes by State Council).

Category 2 (*Investments not included in Project Approval Catalogue*)

- Technically, **project filing** required with local DRCs for all such investments.
- In practice, given NDRC jurisdiction over "industrial" rather than services sectors, domestic investors generally only file if investments involve construction, manufacturing, or other fixed assets.

Category 3 (*Domestic Investments with Government Funding*)

- SASAC approval also required.

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Step 4a: Project Approval -- if Necessary

2014 Project Approval Catalogue (76% reduction in central govt. approval items since 2004)

- Covers 42 specific project types falling within 12 industry categories:

- | | |
|-------------------------------------|---------------------------------|
| 1. agriculture & water conservancy; | 7. light industry; |
| 2. energy; | 8. new & high-end technologies; |
| 3. transportation; | 9. urban construction; |
| 4. information industry; | 10. social undertakings; |
| 5. raw materials | 11. foreign investment; |
| 6. machinery manufacturing; | 12. outbound investment. |

Evaluation Criteria

NDRC or designated regulator (or local counterpart) is to evaluate application based on:

1. Compliance with laws, regulations, and macro-control policies;
2. Compliance with development planning, industrial policies, technical policies, and market access standards;
3. Rational development and efficient utilization of resources;
4. Potential effect on China's national security, economic security, and ecological security; and
5. Potential for adverse effects on public interest, especially in project location.

Potential Concerns

- Significant *Domestic Requirements* and *Enforceability* concerns.

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Step 5: Licensing from Industry Regulator -- if Necessary

- Central and local level measures impose licensing requirements to engage in various types of business activity.
 - Previously, such licenses were usually required before AIC processed enterprise registration (Step 6), but new reform trend sometimes reverses this order.
- Central government maintains online *Consolidated List of Administrative Approval Items by Departments under the State Council* ("Consolidated List").
 - Current list contains 1624 administrative approval items, including 1579 licensing requirements and 45 project approval requirements (tracking the Government Approval Catalogue), administered by 60 central-level agencies. (6 have been canceled and 59 delegated to local authorities per various notices)
- We have categorized items on List by --
 - industry
 - type of license (i.e., project approval, non-project approval market entry, product, personnel, or operations)
 - applicability to foreign and/or Hong Kong/Macao investors

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Step 5: Licensing from Industry Regulator -- if Necessary

Industry	Project Approval	Type of License Requirement				Sub-total
		Non-Project Approval Market Entry	Product	Personnel	Operation	
Agriculture, forestry and fishing	0	21	7	1	17	46
Mining and quarrying	3	16	0	0	18	37
Manufacturing	9	36	78	2	22	147
Electricity, gas, steam and air conditioning supply	9	9	0	4	4	26
Water supply; sewerage, waste management and remediation activities	1	7	0	0	2	10
Construction	13	32	0	1	15	61
Wholesale and retail trade; repair of motor vehicles and motorcycles	0	126	11	3	19	159
Transportation and storage	2	52	3	25	40	122
Information and communication	2	72	3	3	21	101
Financial and insurance activities	0	58	0	17	70	145
Real estate activities	0	2	0	1	0	3

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Step 5: Licensing from Industry Regulator -- if Necessary

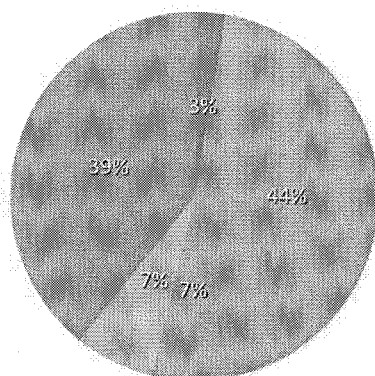
Industry	Project Approval	Type of License Requirement				Sub-total
		Non-Project Approval Market Entry	Product	Personnel	Operation	
Professional, scientific and technical activities	0	103	3	25	8	139
Administrative and support service activities	0	4	0	1	0	5
Public administration and defense; compulsory social security	0	114	5	27	349	495
Education	0	2	0	0	0	2
Human health and social work activities	0	12	3	1	4	20
Arts, entertainment and recreation	2	12	1	1	13	29
Other service activities	0	15	0	1	21	37
Activities of extraterritorial organizations and bodies	0	1	0	0	0	1
Cross-industry items	4	17	2	0	16	39
TOTAL	45	711	116	113	639	1624

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Step 5: Licensing from Industry Regulator -- if Necessary

Breakdown of 1624 Items on Consolidated List by License Type



- Project Approval
- Market Entry Licensing
- Product Licensing
- Personnel Licensing
- Other Operations Licensing

- Consolidated List useful reference tool but not a substitute for comprehensive review of industry-specific measures, which may prescribe additional licensing requirements.
- List doesn't include licensing requirements imposed at sub-central level.
- Significant potential for *Domestic Restriction and Enforcement* concerns.

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Role of Local Government in Investment Approval Process

- Recent trend to delegate approval authority to provincial-level governments and below, depending on industry sector and size of investment.
- Goal is to balance competing goals:

Advantages of Central Approval

- Support national economic goals & priorities
- Ensure coordination & cooperation between localities

Advantages of Local Approval

- Address disparities between localities
- Foster competitive spirit of local authorities
- Free up central level officials to handle more complicated, nation-wide issues

- Some centrally-imposed requirements allow low level of discretion to local officials, who simply ensure that technical application requirements are met.
- Others allow medium-to-high level where close understanding of local conditions is required.
- Approval requirements also sometimes issued locally to reflect local goals & conditions.

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Domestic vs. Inbound Foreign Investment Approval Processes

Inbound Foreign Investment	Domestic Investment
Step 1a: AML Review -- if Necessary (HIGH ADMINISTRATIVE DISCRETION)	Step 1: AML Review -- if Necessary (HIGH ADMINISTRATIVE DISCRETION)
Step 1b: National Security Review if Necessary (HIGH ADMINISTRATIVE DISCRETION)	N/A
Step 2: Name Registration by Relevant AIC (LOW ADMINISTRATIVE DISCRETION)	Step 2: Name Registration by Relevant AIC (LOW ADMINISTRATIVE DISCRETION)
Step 3: Specific Project-Related Approvals From Various Authorities -- if Relevant (MEDIUM ADMINISTRATIVE DISCRETION)	Step 3: Specific Project-Related Approvals From Various Authorities -- if Relevant (MEDIUM ADMINISTRATIVE DISCRETION)
Step 4: Project Approval (HIGH ADMINISTRATIVE DISCRETION) or Project Filing -- if Applicable (MEDIUM ADMINISTRATIVE DISCRETION)	Step 4: Project Approval (HIGH ADMINISTRATIVE DISCRETION) or Project Filing -- if Applicable (MEDIUM ADMINISTRATIVE DISCRETION)
Step 5: Licensing from Industry Regulator -- if Applicable (HIGH ADMINISTRATIVE DISCRETION)	Step 5: Licensing from Industry Regulator -- if Applicable (HIGH ADMINISTRATIVE DISCRETION)
Step 6: Enterprise Approval by Commerce Authority (HIGH ADMINISTRATIVE DISCRETION)	N/A
Step 7: Enterprise Registration with Relevant AIC (LOW ADMINISTRATIVE DISCRETION)	Step 6: Enterprise Registration with Relevant AIC (LOW ADMINISTRATIVE DISCRETION)

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Preliminary Checklist for Domestic Investor Market Access

(Applicable to private investors not relying on government funding.)

1. Is AML clearance required?
2. What project-related approvals from local authorities will be required (e.g., land use, zoning, construction, environmental)?
3. Is project approval required (i.e., is project type listed in Project Approval Catalogue)?
4. Are licenses required per Consolidated List?
5. Does review of industry-specific measures promulgated by central and local government agencies reveal any other licensing/approval requirements?

If any such approvals or licenses are required, next step is to assess laws, economic/industrial policies, competitive environment, and local conditions likely to inform approval authorities' review of investor's application.

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Policies Guiding Investment Screening Processes

Industrial Policy in China

- PRC originally followed Soviet model and used industrial planning documents to set specific production targets.
- Industrial policy documents now used to galvanize government agencies, officials, state-owned banks, and SOEs to pursue national economic goals in coordinated manner.
- Current focus on developing priority industries, especially in the state sector, by --
 1. promoting "indigenous innovation";
 2. helping China move up value chain; and
 3. building domestic "champion" companies (especially SOEs) capable of competing globally.
- Regulators required to evaluate investment applications on basis of industrial policies.
- Implementation often driven through regulations that guide and incentivize market actors to engage in preferred activities.

Industrial Policy in China

Industrial policies appear in many forms, ranging from general, high-level policy guidelines to specific, legally-binding goals, targets, and restrictions:

■ Five Year Plans

- *Outline of the Twelfth Five-Year Plan for National Economic and Social Development* sets broad policy directions for 2011-2015 period.
- At least 31 additional 12th FYPs covering specific social/economic sectors have also been issued by State Council to promote goals highlighted in 12th FYP:

- | | | |
|--------------------------------------|---|--------------------------------------|
| 1. Indigenous Innovation | 12. Strategic Emerging Industries | 22. Development of Western Regions |
| 2. Energy Development | 13. Integrated Transportation | 23. Drug Safety |
| 3. Services Industry | 14. Food Safety | 24. AIDS |
| 4. Healthcare Industry | 15. Energy Saving/Emission Reduction Industries | 25. Endemic Diseases |
| 5. Air Pollution Prevention | 16. Social Security | 26. Environmental Protection |
| 6. National Ocean Economy | 17. Sewage Treatment/Recycling | 27. Greenhouse Gas Emissions |
| 7. Domestic Trade | 18. Waste Treatment | 28. Population Development |
| 8. Energy Saving/Emissions Reduction | 19. Government Informatization | 29. Safe Production |
| 9. Electronic Ports | 20. Medical/Health System Reform | 30. Aging Services Industry |
| 10. Ethnic Minority Affairs | 21. Revitalization of NE China | 31. Energy Saving/Emission Reduction |
| 11. Public Service System | | |

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Industrial Policy in China

■ Medium- and Long-Term Plans

- MLTPs look beyond 5-year window.
- We've identified 7 currently-effective MLTPs issued by State Council:
 1. National Medium- and Long-Term Plan for the Development of the Logistics Industry (2014-2020)
 2. National Medium- and Long-Term Plan for the Development of the Satellite Navigation Industry
 3. National Medium- and Long-Term Plan for the Construction of Major Science and Technology Infrastructure (2012-2030)
 4. National Medium- and Long-Term Plan for Animal Epidemic Disease Prevention and Treatment (2012-2020)
 5. Ancillary Policies to the Outline of the National Medium- and Long-Term Plan for Science and Technology Development (2006-2020)
 6. Outline of the National Medium- and Long-Term Plan for Science and Technology Development (2006-2020)
 7. National Medium- and Long-Term Plan of the Ministry of Health and Other Departments for Schistosomiasis Prevention and Control (2004-2015)

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Industrial Policy in China

■ Industry-Specific Policies and Plans

- We've identified 12 currently-effective industry-specific policies and plans issued at the central government level for the ten illustrative sectors:

1. Opinions of the State Council on Promoting the Development of the Service Outsourcing Industry
2. Several Opinions of the State Council on Promoting the Healthy Development of the Photovoltaic Industry
3. Opinions of the State Council on Deepening the Circulation System Reform and Accelerating the Development of the Circulation Industry
4. Notice of the State Council on Issuing the Planning for the Development of the Energy-Saving and New Energy Automobile Industry (2012-2020)
5. Replies of the General Office of the State Council on Further Promoting the Development of the Service Outsourcing Industry
6. Notice of the General Office of the State Council on Issuing the Comprehensive Work Plan for Reducing Distribution Costs and Improving Distribution Efficiency
7. Guiding Opinions of the National Energy Administration on Controlling the Total Amount of Coal and Optimizing Industrial Layout
8. Guiding Opinions of the Ministry of Transport, the National Development and Reform Commission, the Ministry of Education and Seven Other Departments on Promoting the Transformation and Upgrading of the Vehicle Maintenance Industry to Improve Service Quality
9. Notice of the General Office of the National Development and Reform Commission and the General Office of the Ministry of Industry and Information Technology on Matters concerning the Government Verification and Approval of Investment Projects of Enterprises in the Manufacturing and Communications Sectors
10. Management Rules for Manufacturing School Bus and Market Access of Products
11. Policies for the Coal Industry
12. Outline of the Reform and Development of the Circulation Industry

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Industrial Policy in China

■ Local and Provincial Industrial Policies

- Local governments and their constituent agencies often issue industrial policies highlighting their own economic goals & priorities.
- We've identified seven currently-effective broad industrial policy documents issued by the five illustrative provincial-level governments (or by local governments under them):

1. Notice of the People's Government of Beijing Haidian District on Issuing the Implementation Measures for Promoting the Development of Major Industries
2. Implementation Opinions of the People's Government of Guangdong Province on Promoting the Industrial Restructuring
3. Notice of the People's Government of Shanghai Yangpu District on Issuing the Several Policy Opinions for Promoting the Industrial Development
4. Notice of the People's Government of Shanghai Songjiang District on Issuing the Implementation Opinions for Prioritizing the Development of Advanced Manufacturing Industry
5. Notice of Shanghai Municipal Commission of Economy and Informatization on Management of Industrial Investment Projects
6. Implementation Opinions of the People's Government of Shanghai Fengxian District on Supporting the Development of Super Industries and Major Projects
7. Notice of the People's Government of Tianjin on Approving and Forwarding the Tianjin Development and Reform Commission's Draft Catalogue on Guidance the Development of Industrial Technology

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Industrial Policy in China

■ Catalogues

- Issued from time-to-time by central and local governments to list industry sectors eligible for designated treatment.
- We've identified thirteen currently-effective catalogues issued by central government agencies, including, e.g., Project Approval Catalogue and Foreign Investment Catalogue:

1. Catalogue of Investment Projects Subject to Government Verification and Approval
2. Catalogue of Industries Encouraged to Develop in the Western Region
3. Catalogue of Priority Industries for Foreign Investment in Central & Western China
4. Catalogue for Guiding Industry Restructuring (2013 Amendment)
5. Catalogue for Guiding Development of Key Products & Services in Strategic Emerging Industries
6. Catalogue for Guiding the Locality of Industries
7. Catalogue of Industries for Guiding foreign Investment
8. Catalogue of Guiding Elimination of Outdated Processes, Equipment and Products in Certain Industries
9. Catalogue of Equipment (Products) of Environmental Protection Currently Encouraged by the State
10. Catalogue of Encouraged Key Industries Enjoying Income Tax Preferential Treatment in Distressed Areas of Xinjiang Province
11. Catalogue of Ministry of Culture for Guiding Investment in the Cultural Industries
12. Catalogue of Key Techniques and Products of China's Information Industry with Indigenous Intellectual Property Rights
13. Catalogue for Guiding Development of Renewable Energy Industries

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Industrial Policy in China: Examples

National Energy Administration: Guiding Opinions of National Energy Administration on Controlling Total Amount of Coal and Optimizing Industrial Layout (2014)

Policy calls for "strictly controlling increases" in coal production in accordance with the "controlled east, stable middle, and developing west" overall strategy. It states, "for a period of time, no new coal projects in the eastern region; for the middle region (including the northeast), maintain moderate-strength development." Article 4, "Strict Examination and Approval of Increased Capacity Projects," states that approvals are to be temporarily suspended for "areas that have not completed the task of eliminating obsolete production capacity."

State Council: Several Opinions of the State Council on Promoting the Healthy Development of the Photovoltaic Industry (2013)

Policy states, "While expanding the photovoltaic generation and applications, control overall production capacity, eliminate obsolete production capacity, and work hard to adjust industrial structure and technological advancement." It calls for different levels of support to different photovoltaic enterprises, emphasizing support for key enterprises that have "high technical level [and] strong market competitiveness.... eliminating inferior enterprises. Policy sets specific thresholds and targets for various aspects of industry's development. It includes provisions advocating mergers and acquisitions and industrial restructuring to "cultivate a batch of integrated photovoltaic cell manufacturing enterprises that....[among other things] possess indigenous intellectual property."

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Industrial Policy in China: Examples

State Council: Several Opinions of the State Council on Promoting the Sustainable and Healthy Development of the Rare Earth Industry (2011)

Document calls for government to “control total volume and optimize inventory, accelerate implementation of the ‘large enterprises, large groups’” strategy for the industry, and “further enhancing the concentration of the rare earth industry.” It also describes how government is to “strictly manage access to the rare earth industry” through setting “industrial and environmental thresholds for access.” The policy later states that “we shall conduct strict management of rare earth mining rights, and in principle, continue to suspend acceptance of new applications for registration of rare earth exploration or mining and prohibit existing mines from expanding their production capacities.”

General Office of the State Council: Guiding Opinions of the General Office of the State Council on Promoting the Prosperity and Development of the Film Industry (2010)

These Guiding Opinions, in promoting the development of the domestic film industry, call on government agencies to “work hard to cultivate and develop a batch of state-owned or state-controlled leading backbone enterprises.”

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Industrial Policy in China: Examples

CFDA: Opinions of China Food and Drug Administration on Deepening Drug Review and Approval Reform and Further Encouraging Drug Innovation (2013)

“The relevant authorities will accelerate the examination and assessment process in relation to the registration of indigenous medicines with indigenous IPR that have better ability to cure major diseases, rare diseases, and diseases affecting the elderly and children, and those that have been included as special projects of the National Science and Technology Plan.”

National Energy Administration: Notice on Issuing the Guiding Opinion for Energy Work in the Year 2014 (2014)

NEA calls for advancing energy-related technology development in the country through development of important projects. It states: “We shall adhere to indigenous innovation, and encourage the introduction, digestion, absorption, and re-innovation [of technology], taking major energy projects as the carrier, government as the leader and enterprises as the subject to establish a mechanism for indigenous innovation systems which combines the force of the government, enterprises, schools, research institutions and users, and shall promote localization of energy equipment, and the ‘upgrading’ of scientific and technological energy equipment. We shall speed up the building of an indigenous innovation technology platform by energy enterprises and energy equipment manufacturing enterprises, promote localization of energy equipment, enhance the level of independence of energy equipment, form an internationally competitive energy equipment industrial system, and actively support energy equipment enterprises to ‘go [abroad].’”

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Industrial Policy in China: Examples

Ministry of Science & Technology, MOFCOM, et. al.: Guiding Opinions on Promoting the Development of Strategic Emerging Industries in International Markets (2011)

"The promotion of the international development of strategic emerging industries requires us to understand recent developments in economic globalization, gradually deepen international cooperation, actively explore new models of cooperation, and participate in international cooperation at a higher level so as to **enhance the capability of independent development and the core competitiveness of strategic emerging industries.**"

PBOC, CBRC, CSRC, CIRC: Guiding Opinions on Further Supporting the Restructuring and Revitalization of Key Industries and Curbing Overcapacity in Some Industries through Financial Service (2009)

"We shall encourage all banking financial institutions to innovate in financial products; support enterprises in key industries that innovate, import, or absorb key technologies and major equipment which have potential for development and have a high degree of industrial linkages; and **promote the indigenous innovation of domestic enterprises and localization of the manufacture of major technical equipment.**"

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Differentiated Treatment of State-Owned Enterprises

- Party policy continues to maintain that state sector should be "dominant."
- As of 2013, China had approx. 155,000 non-financial SOEs, with assets of RMB 104 trillion, net profits of RMB 1.9 trillion, and 37 million employees.
- Centrally-owned SOEs include:
 - 112 SOEs managed by the State-Owned Assets Supervision and Administration Commission ("SASAC");
 - Financial SOEs managed by China Banking Regulatory Commission (CBRC), China Insurance Regulatory Commission (CIRC), and China Securities Regulatory Commission (CSRC)
 - e.g., Bank of China; China Life Insurance (Group) Company;
 - SOEs managed by other central government ministries and agencies
 - e.g., China National Tobacco Corporation (China Tobacco) managed by State Tobacco Monopoly Administration
- Our previous *China Investment Restraints Report* searched 250,000 laws & regulations and found relatively small number of measures favoring SOEs.

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Differentiated Treatment of State-Owned Enterprises

Industry	Prohibitions	Restrictions	Preferential Treatment	Total
CROSS-CUTTING	2	4	8	14
National Defense	2	2		4
Energy Utilities (Supply of Electricity, Gas, and Water)		1		1
Forestry		1		1
Energy		1		1
Mining	1	1	1	3
Tobacco	1			1
Automobile Manufacturing		1		1
Information Technology and Telecommunications	4	5		9
Universal Equipment Manufacturing		1		1
Culture, Sports, Entertainment		3		3
Environment	1			1
Distribution	4	4	0	8
TOTALS	15	24	9	48

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Differentiated Treatment of State-Owned Enterprises

- However, still effective 1999 *Decision of the Central Committee of the CPC on Major Issues Concerning Reform and Development of State-Owned Enterprises* provides that state-owned capital must play leading role in:
 - industries related to national security;
 - natural monopoly industries;
 - industries involving major infrastructure or important mineral resources;
 - industries that provide vital products and services to the public; and
 - pillar industries and backbone enterprises in high and new technology sectors.
- Together, Chinese measures and policies have been implemented by regulators in ways that have substantially benefitted SOEs and impacted competitive environment in China.
- Evidenced by leading role played by SOEs in ten illustrative sectors, as discussed below.

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Ten Illustrative Industry Sectors

Checklist for Domestic Investments

1. Approval Items

- a) Is AML clearance required?
- b) What project-related approvals from local authorities will be required, if any (e.g., land use, zoning, construction, environmental)?
- c) Is project approval required (i.e., is the project type listed in the Project Approval Catalogue)?
- d) What licenses are required, if any, in accordance with the Consolidated List?
- e) What other licenses and approvals are required, if any, under industry-specific measures promulgated by central and local government agencies?

2. Approval Criteria and Related Factors

- a) What qualifications and conditions for granting the required approvals identified above are prescribed in relevant laws and regulations?
- b) What guidance for approval authorities is contained in relevant central and local level economic plans and industrial policies?
- c) What role do SOEs play in the specific industry sector?

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Approval Mapping Database (Questions 1c-1e)

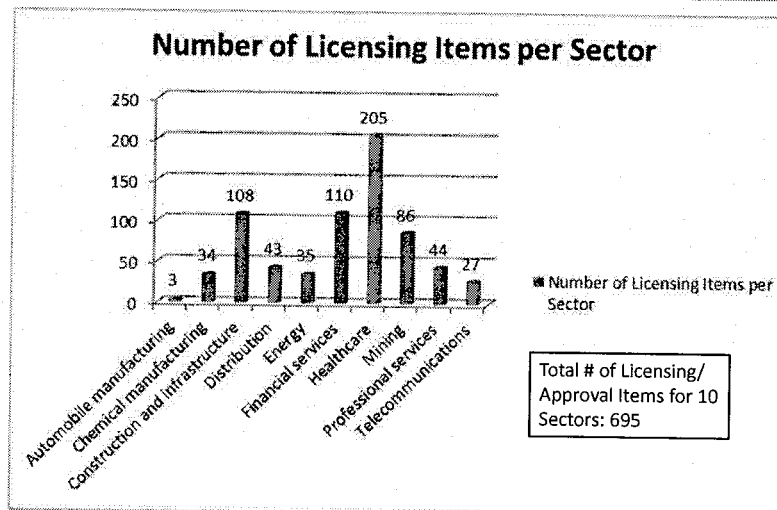
#	Sector	Project Approval	Type of Licensing Requirement				Sub-total
			Non-Project Approval Market Entry	Product	Personnel	Other Operations	
1	Automobile manufacturing	1	2	1	0	0	4
2	Chemical manufacturing	6	15	9	0	6	36
3	Construction and infrastructure	45	38	0	6	22	111
4	Distribution	0	31	5	0	10	46
5	Energy	9	12	1	7	8	37
6	Financial services	0	58	0	16	54	128
7	Healthcare	3	106	57	7	48	221
8	Mining	8	41	2	3	32	86
9	Professional services	0	20	0	24	4	48
10	Telecommunications	2	19	4	0	3	28
	Total	74	342	79	63	187	745*

*Note: Some of the 695 licensing items shown on following charts contain more than one licensing requirement.

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Approval Mapping Database (Questions 1c-1e)

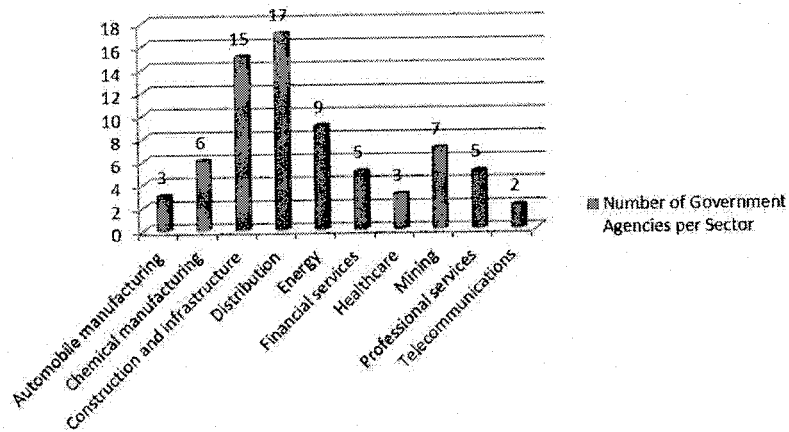


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Approval Mapping Database (Questions 1c-1e)

Number of Government Agencies per Sector



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Summary of Domestic Investment Market Access Analyses for Ten Illustrative Project Types

#	Project Type	SOEs Hold Majority Market Share	Project Approval Requirement	Market Access Licensing Requirement		Industrial Policies Exist for This Project Type
				"Yes" or "No"	License Conditions Include Industrial Policy Elements	
1	Automotive Manufacturing Companies	✓	✓	Yes	✓	✓
2	Ethylene Production	✓	✓	Yes	✓	✓
3	Construction Companies	✓		Yes		✓
4	Direct Selling Companies			Yes	✓	✓
5	Nuclear Power Plants	✓	✓	Yes	✓	✓
6	Insurance Companies	✓		Yes	✓	✓
7	Drug Wholesale Companies	✓		Yes	✓	✓
8	Rare Earth Mining Companies	✓	✓	Yes	✓	✓
9	Law Firms			Yes	✓	✓
10	Basic Telecommunications Services	✓		Yes	✓	✓

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Domestic Investor Market Access for 10 Sample Project Types

• Preceding table shows:

- SOEs occupy majority market share in 8 out of 10 project types.
- Project approvals (explicitly designed to screen projects on industrial policy grounds) required for 4 out of 10 project types.
- Market access-related licensing requirements required for all 10 project types.
- Conditions for obtaining licenses, as provided in relevant measures, include industrial policy elements (as opposed to containing only objective technical qualification requirements) for 9 out of 10 project types.
- Industrial policy provisions exist for all 10 project types.
- All 10 project types subject to some type of *discretionary approval* process and some type of *industrial policy consideration*.

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EUCCC Input	Legal & Regulatory Restrictions on Domestic Companies		Enforcement & Administrative Discretion			Restrictions Discriminating Against Foreign Investment
	Dominance of SOEs	Certification, Accreditation & Approval Difficulties	Informal Pressure & Favoritism Toward Chinese Companies	Transparency Challenges	Certification, Accreditation & Approval Difficulties	Limited Access to Markets
Unidentified Group	1			1		1
Automotive	3					2
Auto Components			1	1		
Medical Devices			2		1	1
Banking & Securities	1		1	1		3
Carbon Market				1	1	
Consumer Finance			1			1
Insurance	1		2	1		1
Information & Communication Technology	3					2
Metals & Mining	1		3	1		
Postal & Courier Services	2					2
Quality & Safety Services	1				1	1
Renewable Energy		1	3	2		2
Energy				1		2
Information Security			1	1		1
Construction	1			1		1
TOTAL	14	1	14	11	3	20

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EUCCC Input

- Preceding table shows:
 - EUCCC industry groups cited 28 issues involving administrative discretion and 14 related to dominance of SOEs.
 - Of 63 relevant issues raised overall, only issues directly addressed by grant of national treatment are 20 related to promulgated measures that explicitly discriminate against foreign investors.

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Conclusions

Conclusions

- Q. Will foreign investors gain market access in China in sectors currently prohibited or restricted, on the basis of "national treatment" alone, under CAI?
- A. If (i) project type not on negative list, and (ii) investment not blocked on "national security" grounds under "essential security" exception, then answer depends on:
- a) types of approvals required for specific investment;
 - b) approval criteria set forth in relevant laws, regulations, and policies; and
 - c) whether administrative discretion likely to be exercised in non-discriminatory manner.

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Conclusions

1. Potential foreign investors should review approval requirements and policies for domestic investors in their sectors to determine whether national treatment alone would open new doors in China.
 - "Negative list" showing exceptions to national treatment won't capture all industries subject to market access restrictions, because some restrictions are applicable to domestic as well as foreign investors.
2. It is important that transparency provisions in CAI are adequate to ensure that administrative decisions are non-discriminatory and subject to effective administrative and judicial review.
3. Even if *current* laws and policies for domestic investors in particular sector would not block investments by foreign investors enjoying national treatment, it is important to ensure that the CAI would protect against adverse *changes* in such laws and policies.
4. If market access is a fundamental objective of CAI, should it include affirmative market access commitments (*cf.* Canada-European Union Comprehensive Economic Trade Agreement)?

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Market Access Checklist for Foreign Investors with National Treatment

1. Identify specific types of proposed business activity.
2. Confirm that business activity types are not on "negative list."
3. Is national security review required?
4. Determine types of approvals required for domestic investors:
 - a) Is AML clearance required?
 - b) What project-related approvals from local authorities will be required, if any (e.g., land use, zoning, construction, environmental)?
 - c) Is project approval required?
 - d) What licenses are required, if any, in accordance with the Consolidated List?
 - e) What other licenses and approvals are required, if any, under industry-specific measures promulgated by central and local government agencies?
5. Determine approval criteria and related factors:
 - a) What qualifications and conditions for granting the required approvals identified above are prescribed in relevant laws and regulations?
 - b) What guidance for approval authorities is contained in relevant central and local level economic plans and industrial policies?
 - c) What role do SOEs play in the specific industry sector?

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Discussion

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SEOUL SHANGHAI SILICON VALLEY WASHINGTON

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EUROPEAN UNION

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 15 September 2015
Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, BEIJING

Subject: Minutes of the Meeting of Trade Counsellors, 9 July 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 on 9 July, Beijing 10:00 to 12:00

EU Delegation South Wing – Prodi meeting room

1. Adoption of agenda

See annex 1 for participants' list.

2. Debrief of EU-China Summit ([Art. 4.1(b)])

The EU China Summit, and related events, took place on 29 June in Brussels.

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

The discussion focused on investment opportunities, including EFSI and the silk road initiative, and 28 September was agreed as a date for the High Level Economic Dialogue (Beijing) where inter alia, parties will discuss synergies on investment, digital and connectivity. Also at the Summit, Premier Li proposed an EU China Investment Fund.

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

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

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

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

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

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

3. Exchange on recent and upcoming visits [Art. 4.1(b)]

- France:

Prime Minister Li visited France from June 30th to July 2nd. In Paris, he met with President Hollande and Prime Minister Valls. He then went to Arles and Marseille for a cultural stop and Toulouse for an economic program (French-Chinese Business Summit and Airbus HQ visit).

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

- Belgium: [Art. 4.1(b)]

The King and the Queen of the Belgians paid a State visit to China from 20 till 27 June. They visited Wuhan, Beijing, Shanghai, Suzhou and Shenzhen and had official, business and academic meetings in all 5 cities visited. Over the visit, a little less than 100 contracts were signed in the healthcare, financial services, clean tech, high tech sectors as well as a

twinning between the Provinces of Guangdong and Limburg and a Custom's Cooperation agreement around CITES.

In Beijing, the King held bilateral talks with President Xi Jinping, Prime Minister Li Keqiang and Yu Zhengsheng, Chairman of the Chinese People's Political Consultative Conference (CPPCC). The Vice-Prime Minister and Minister for Foreign Affairs Didier Reynders had a bilateral meeting with his counterpart.

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

4. **Made in China 2025—Challenges and Opportunities** ([Art. 4.1(b)])

EUDEL gave an overview on the "Made in China 2025" strategy announced by Premier Li in his government work report to the NPC last March and released via a State Council notice on 8 May. The ambitious long term industrial policy strategy aims at making China a world power by climbing up the value chain, moving from quantity to quality. China should be transformed from a large manufacturing country to a strong manufacturing one in three decades (until 2045 and even 2049 for the 100th anniversary "new China"). This requires speeding up and upgrading China's manufacturing sector while boosting high-technology industries. 2025 will be the first step of the long term strategy. Ten priority sectors (almost identical to the seven strategic emerging industries identifies in the 12th Five-Year plan) have been identified to comprehensively upgrade Chinese industry across the board.

Two main features of "Made in China 2025" are the multiple signs of economic nationalism (e.g. the objective is to substitute foreign inputs for core components and materials by domestic ones) and the strong emphasis put on investment (either for going out – via the export of production capacity to third countries – or bringing in foreign key technologies that can contribute to the upgrade of Chinese industry). A final characteristic is the horizontal nature of the strategy which goes beyond the traditional approach to promote only innovation.

Much more detailed plans will be needed with appropriate budget to implement "Made in China 2025" together with an appropriate coordination between all the Ministries and administrative bodies involved (the State Council "small leading group" chaired by Vice Premier Ma Kai will be instrumental, with four Ministries having a key role: MIIT, NDRC, MOST and MOF).

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

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

6. Trade Defence Cases and their impact [Art. 4.1(b)]

[Art. 4.1(b)] started his presentation by mentioning the **value of trade affected by anti-dumping and countervailing measures**, which gives an idea of the magnitude of trade distorting practices. EU measures in force against China affect a trade value of around **29 billion EUR (almost 10% of China's exports to the EU)**. China's measures in force against the EU affect a trade value of around **1.4 billion EUR (1% of EU exports to China)**. The EU figure is distorted by the weight of the Solar Panels case (see below).

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

Solar Panels

[Art. 4.1(b)] recalled that the EU solar panels case was the **largest EU trade defence case ever**. At initiation stage, the estimated value of Chinese exports of solar panels to the EU was 22 billion EUR.

[Art. 4.1(b)] recalled that Solar panels AD and AS definitive measures were imposed in December 2013 for 2 years (namely till 5 December 2015).

The **price undertaking** covers around 90% of China's exports of Solar panels to the EU. For Chinese exporters not party to price undertaking, the average duty is 47.7%. The price undertaking incorporates a quarterly adaptation mechanism. The EU Commission

monitors the implementation of the price undertaking.

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

On 6 May 2015, the EU Commission initiated a **partial interim review** limited to the benchmark of the quarterly adjustments of the price undertaking. This follows EU ProSun's request for a change of the adjustment mechanism (aiming to exclude the quotations of Chinese prices in the database which is used as benchmark for the MIP quarterly adaptation).

On 29 May 2015, the EU Commission initiated an **anti-circumvention investigation of the AD and AS measures via Malaysia and Taiwan**, based on a complaint by EU ProSun. The complaint claims that Chinese producers have been trans-shipping solar modules and cells originating in China via Malaysia and Taiwan. Some other companies are alleged to assemble modules exclusively from Chinese cells and sell them in the EU as originating in the country of assembly. As cells determine the origin of solar panels, such a practise also constitutes circumvention and customs origin fraud. The Commission has nine months to conclude this investigation. In case circumvention is found, the existing measures against China may be extended to Taiwan and Malaysia, but genuine Taiwanese and Malaysian exporting producers will be exempted from the extended duties.

On 5 June 2015, the Commission published the Regulation enforcing **withdrawal of the undertaking for 3 exporters** (out of more than 120). These are companies 'Canadian Solar', 'ET Solar', 'ReneSola'.

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

The EU solar panels industry will have an opportunity to lodge a request for an **expiry review by December 2015 (2 years from entry into force of the measures)**.

[Art. 4.1(b)] also noted that difficulties continue with MOFCOM in the **Polysilicon** case with the timely implementation of the price adjustment.

Steel products

Provisional measures

In the anti-dumping proceeding concerning **Stainless Steel cold-rolled flat products** imported from China, the EU imposed provisional duties ranging between 24.3% and 25.2% in March 2015. The value of China exports to the EU of this product is around **288 million EUR in 2014**. The product concerned is used notably in car parts and refrigerators.

In the anti-dumping proceeding into **Grain-Oriented Flat-Rolled Products of Silicon-Electrical Steel (GOES)** imported inter alia from China, provisional measures have been imposed at the rate of 28.7% in May 2015. Provisional measures are in place for 6 months. This is a small case. The value of China exports to the EU of this product is around **8 million EUR in 2014**.

Initiations

In April 2015 was the initiation of an anti-dumping proceeding concerning imports from China of **high fatigue performance steel concrete reinforcing bars ("HFP rebar")**. The product concerned is used to reinforce (principally concrete) structures, to strengthen and

hold the concrete in tension. The large majority of the EU sales of HFP Rebar is in the UK and Ireland. The value of China exports to the EU of this product in 2014 is around 70 million EUR.

In May 2015 was the initiation of an anti-dumping proceeding into certain cold rolled flat steel products imported from China and Russia. Cold-rolled flat steel product is an industrial input purchased by end users for a variety of applications, mainly in manufacturing but also in construction. The value of China exports to the EU of this product in 2013 is around 300 million EUR.

[Art. 4.1(b)] commented that there are **blatant overcapacities in the steel sector** in China. MOFCOM recently reported that China's steel export in the first four months of 2015 soared by 32.7 percent. [Art. 4.1(a) third indent, and 4.3 first subparagraph]

Cases initiated by China recently

Only one new case has been initiated by China recently (in April). It concerns "unbleached sack kraft paper" (HS Code: 48042100) originating in EU, US and Japan. This is a small case in value. EU export value in 2014 to China was around 14 million EUR. This case concerns mainly the following Member States: SWE, BUL, AUS. MOFCOM issues provisional measures (if any) 4 to 8 months after the initiation of the investigation.

[Art. 4.1(a) third indent, and 4.2 first indent]

7. AOB

Annexes:

1. List of participants
2. PTT Overview on Made in China 2025

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

List of Participants, TCM 09.07.2015, Beijing

4.1.b

Name	Member States	Email Address	Phone Number
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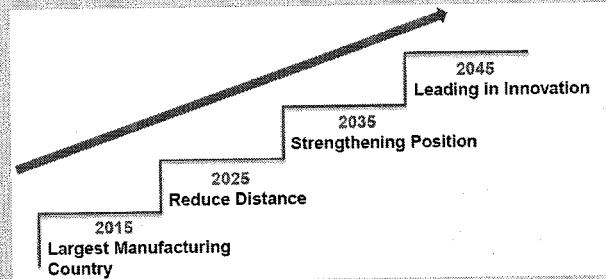
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4.1.b



Strategic Goal

"Transformation from a large manufacturing country to a strong manufacturing country in three decades."



Speeding up the restructuring and upgrading of China's manufacturing sector for better quality and efficiency

3

10 Priority Sectors

- 1) New advanced information technology
- 2) Automated machine tools & robotics
- 3) Aerospace and aeronautical equipment
- 4) Maritime equipment and high-tech shipping
- 5) Modern rail transport equipment
- 6) New-energy vehicles and equipment
- 7) Power equipment
- 8) Agricultural equipment
- 9) New materials
- 10) Biopharma and advanced medical products

4

Comments (1)

- Multiple signs of ***economic nationalism***:
 - Goal of raising the minimum domestic content of core components and materials (from 40% in 2020 to 70% by 2025)
 - Willingness to rely on domestic technology (e.g. in sensitive sectors like chips manufacturing or nuclear energy)
- Heavy emphasis on ***investment***:
 - Double objective of "going out" and "bringing in"
 - Level of utilisation of foreign capitals and international cooperation (OBOR) should be improved

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Comments (2)

- 'Made in China 2015' is different from previous industrial policy initiatives:
 - Focus on entire manufacturing process (not just innovation)
 - Integrated approach: promotion of advanced industries + traditional ones + modern services
- Many different concrete targets set (e.g. innovative capacity, quality & efficiency, integration of industrialisation and IT, green development)
- "Strategic support" measures to be expected for Chinese industry and companies
- Foreign companies are likely to face new challenges and new opportunities with 'Made in China 2015'

6

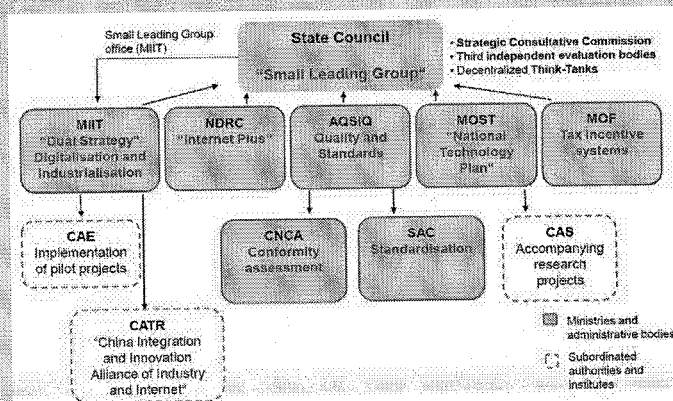
Next Steps (1)

- Much more detailed plans to be further defined with appropriate budget
- Consistency with the 5-year Plans cycle to be clarified (13th Five-Year Plan)
- '*Made in China 2015*' should fit into the broader framework of SOEs reform
- Role of the State Council 'small leading group' (led by Vice Premier Ma Kai) to pilot the implementation
- Efficient coordination between various Ministries and administration bodies will be key to success

7

Next Steps (2)

Implementation of '*Made in China 2025*': political responsibilities and division of tasks



8



4.1.b



EUROPEAN UNION

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 16 September 2015

Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, BEIJING

Subject: Minutes of the Meeting of Trade Counsellors, 27 August 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 on 27 August, Beijing 10:00 to 12:00

EU Delegation South Wing – Prodi meeting room

1. Adoption of agenda

See annex 1 for participants' list.

2. 'Outlook of the latest export/imports in China' including the 'trade impacts' of the stock-exchange fluctuations and devaluation of the yuan [Art. 4.1(b)]

See annex 2 for PPT

1. Trade statistics EU-China

According to Chinese official data from the Customs General Administration, overall international trade went down by 7% year-on-year during the first 6 months of 2015, a figure well below the trade growth target. Whilst exports were kept at similar levels to those last year, imports have experienced a significant decline of 16%. The trade situation has been particularly acute with China's traditional trade partners (EU [-7%] and Japan [-11%]). By contrast, CN-US trade increased by 4% from last year. China also claims that the situation has been better with countries alongside One Belt One Road.

The trade results for July follow the same negative path as for the beginning of the year. According to Chinese data, China's exports have dropped by 8.3% yoy to US\$ 195.1 billion in July. As far as exports to the EU are concerned, the slump reaches - 12.3%, thereby resulting in a 4.3% decrease in exports to the EU over Jan-July 2015. Imports also fell by 8.1% to US\$ 152.1 billion. Over the Jan-July period, imports from the EU have gone down by 12.3%.

Data taken from the European side offer a highly contrasted picture of trade figures. Indeed, Eurostats suggest that China's exports to the EU have increased by 19.2% yoy over Jan-June 2015 and that imports had also increased by 7.4% with the trade balance rising by 34.3%. There seems to be no obvious explanation to these significant differences between EU and CN stats. The Euro/CNY rate has been quite stable during the first semester and the "Hong-Kong" factor itself could not account for such differences. The Spanish delegate suggested investigating the growing impact of trade that 'escapes' from customs statistics, in particular e-commerce trade.

Looking more closely at the trade structure, EU exports seem to lag in the sectors of transport equipment (-5.6% yoy), machinery and appliances (-1.8%) which account for more than a third of EU total exports to China. Yet, these figures have to be put into perspective with outstanding export performances registered by those sectors in 2014.

3. Exchange on recent and upcoming visits

See annex 3 for the lists of MS and EU events

4. Update on Cyber Security Law [Art. 4.1(b)]

See annex 4 for PPT

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

5. Highlights of this summer: newest on SOEs, developments at the WTO front, Tianjin etc [Art. 4.1(b)]

On SOEs: The State Council has finally approved an ambitious – and long-awaited – blueprint to overhaul China's sclerotic state-owned enterprises. The shake-up is expected to be the biggest of its kind in more than a decade and should take the shape of two new Temasek-style (Singapore's government-owned investment company) sets of companies which will channel funds to SOEs and should pressure them to turn a profit. In return, SOEs will be able to make more of their own business decisions and their boards of directors will be able to hire and fire managers. Sasac will no longer directly intervene in the running of most SOEs. The new system will aim to put greater distance between government and the day-to-day commercial operations of state firms, with the Sasac no longer directly intervening in the running of most SOEs but Sasac could be left in charge of several vital companies but the final decision had yet to be made. Details of the

blueprint are still scant but it seems that already earlier news is confirmed that SOEs would be grouped into various industries which each its own rules for privatization. It seems however unlikely that China will give up easily its control on strategic sectors so this new system will probably for other types of SOEs.

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

ITA - On 18 July a deal was reached on the coverage of ITA, resulting in a list of 201 items. Finally, the deal includes our ex out on car radios, as well as a small ex out on resistance measuring instruments proposed by the US. Now that the result is approved, negotiations on staging can start in the fall and the ITA-expansion can become a deliverable for the 10th Ministerial in Nairobi. (Products covered by this expansion include new-generation semi-conductors, GPS navigation systems, medical equipment, as well as machine tools for manufacturing printed circuits, telecommunications satellites and touch screens. Global trade of those products valued at more than 1.3 trillion U.S. dollars each year, representing about 7 percent of total world trade volume.)

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

On Tianjin: Many foreign companies affected, especially in the car sector with car losses due to explosion were huge. Toyota lost up to 3450 cars, Volkswagen 2748 cars and Renault 1500. Customers will likely have up to 6 months delay in the delivery of their cars. It is clear that is will have had an effect on trade as many ships were rerouted to Shanghai to deposit their deliveries. Production in affected companies is still not up and running as companies are still not allowed to enter their own sites. Inspections are ongoing but no foreign company is allowed to take samples of water of dust, only SOEs are in charge. However according to official info the Tianjin port and customs are already back on operation again.

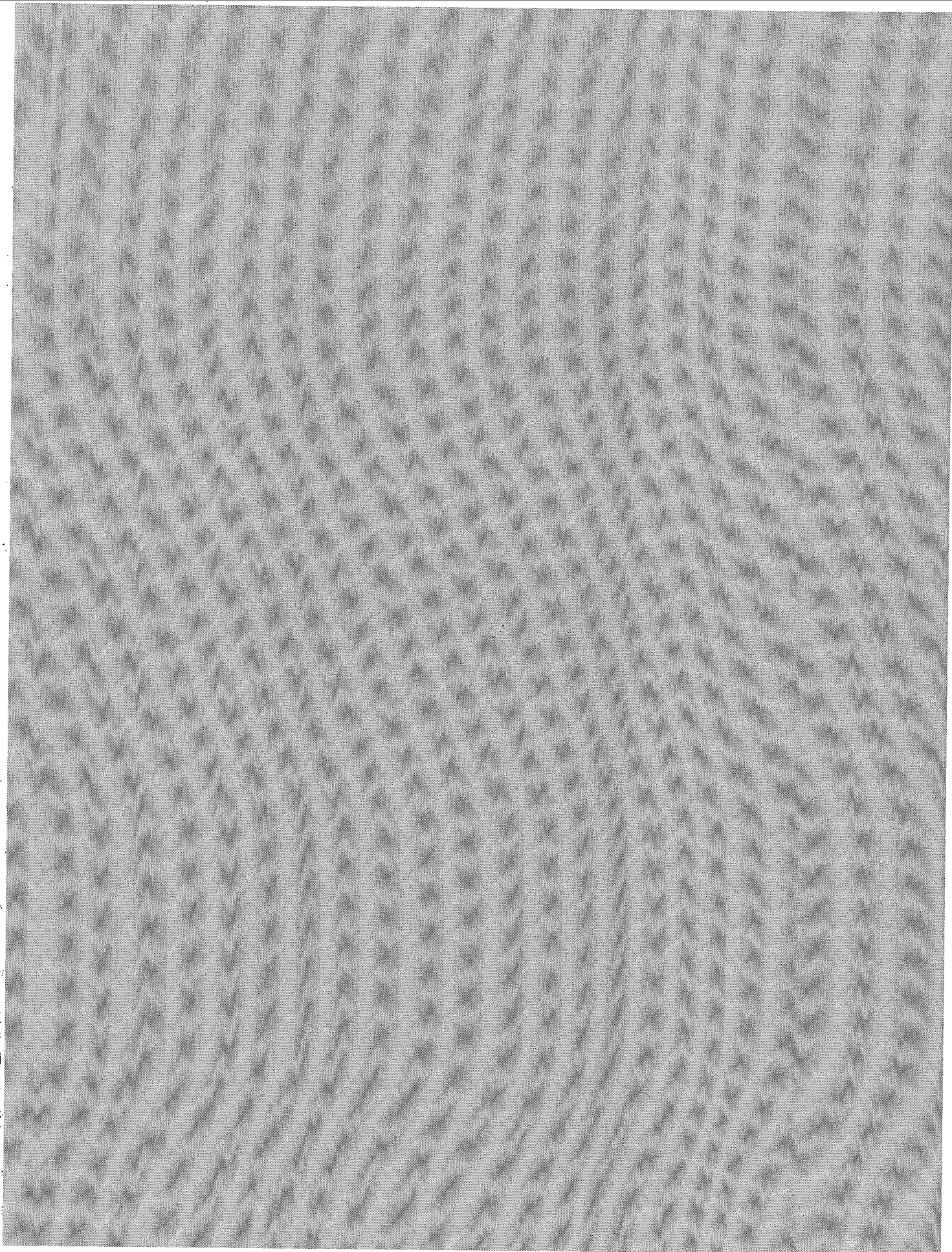
[Art. 4.1(a) third indent and 4.2 first indent]

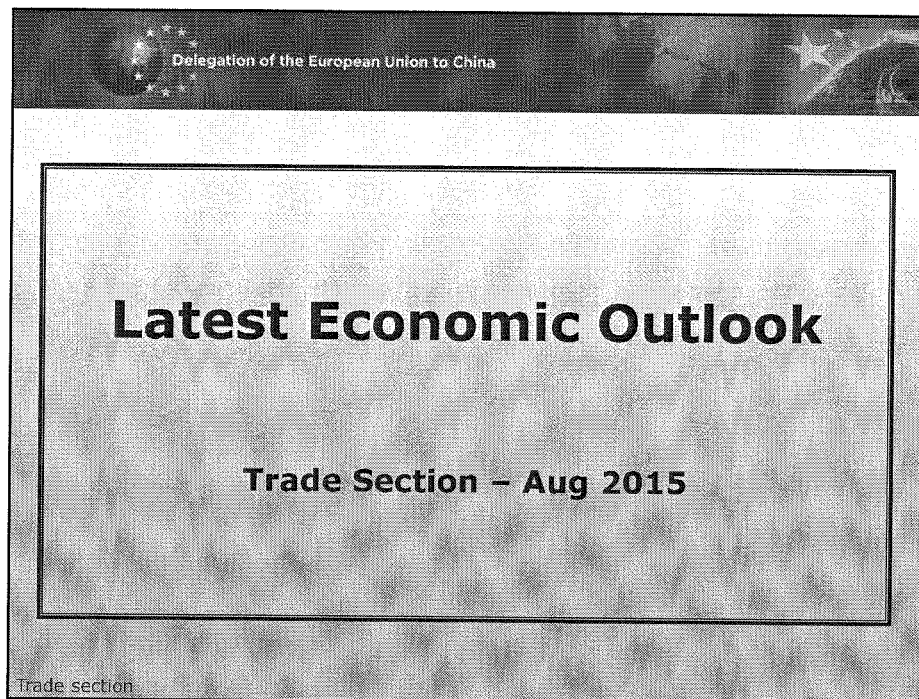
6. AOB

Annexes:

1. List of participants
2. PTT on economic outlook
3. Lists of MS and EU events
4. PTT on Cyber Security Law

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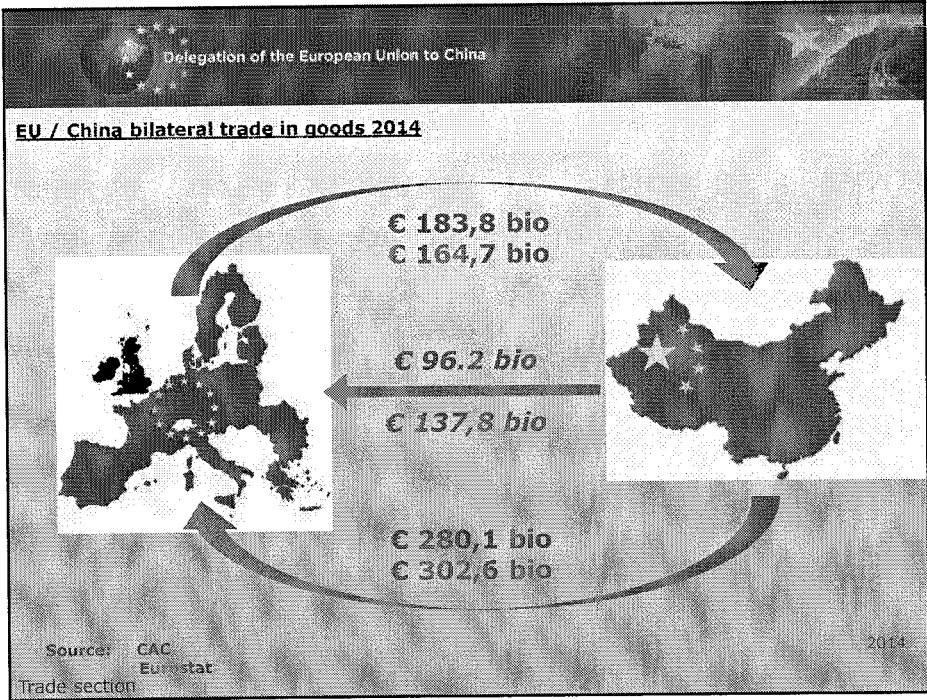




Delegation of the European Union to China

1. Trade Statistics EU / China

Trade section



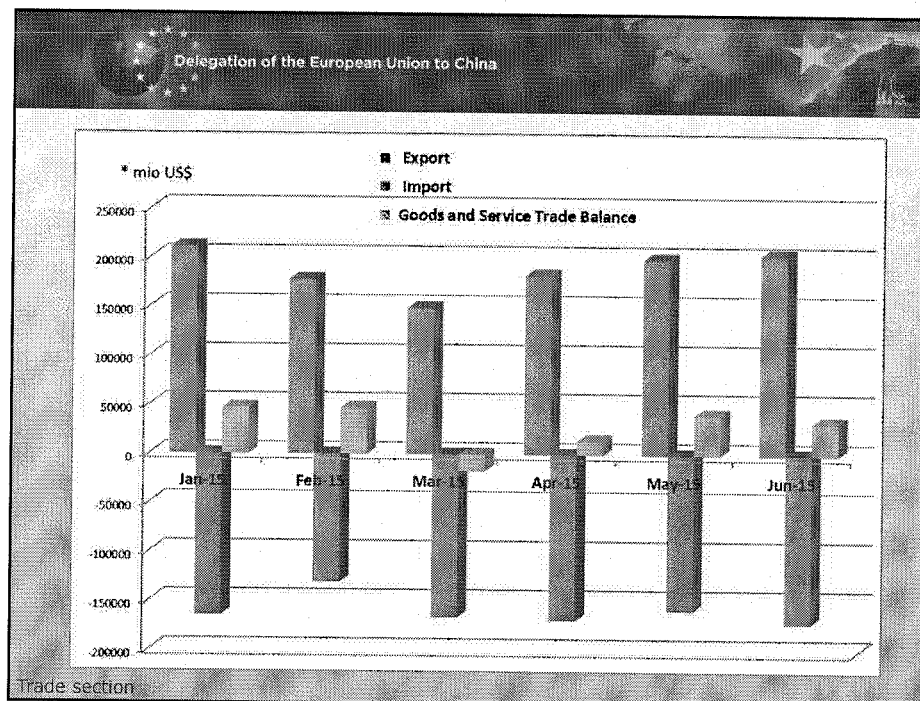
Delegation of the European Union to China

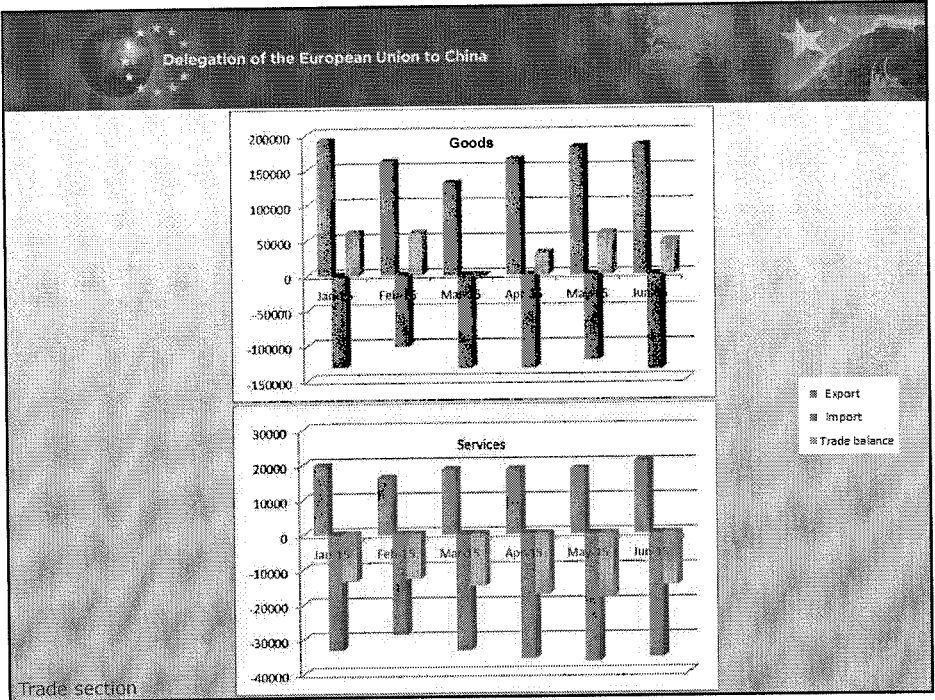
China international Trade – 2015

Source: China Admin of Foreign Exchange
Unit: mio US\$

Item	2015.1	2015.2	2015.3	2015.4	2015.5	2015.6	S1 2015
Goods and Service Trade Balance	46806	46973	-16844	13829	40579	32768	163811
Export	210832	177548	149003	182430	199082	203809	1122704
Import	-164326	-130575	-165847	-168602	-158503	-171041	1286515
Goods Trade Balance	60002	59684	-1868	31140	58844	47630	255405
Export	191151	161447	130605	163973	180710	183126	1011012
Import	-131149	-101792	-132470	-132833	-121866	-135496	1266417
Service Trade Balance	-13498	-12881	-14979	-17312	-18265	-14862	-91595
Export	19660	16101	18397	18457	18372	20683	111690
Import	-33177	-28783	-33377	-35768	-36637	-35545	20095

Trade section





Delegation of the European Union to China

Trade section

Mainland China Trade with the World (June 2015)
Source: Customs General Administration of the People's Republic of China
Unit: million US\$

Objective 2015
= + 6 %

	June 2015						Accumulated 2015						Trade total	% total	% change	Trade balance
	Imports	% total	% change	Exports	% total	% change	Imports	% total	% change	Exports	% total	% change				
World	145,437	100%	6%	191,975	100%	3%	808,623	100%	-16%	1,071,871	100%	1%	1,880,494	100%	-7%	263,249
EU 28*	18,604	13%	6%	30,016	16%	-3%	103,708	13%	-13%	169,027	16%	-3%	271,733	14%	-7%	64,321
USA	12,391	9%	7%	35,280	18%	12%	73,292	9%	-8%	193,267	18%	9%	266,668	14%	-4%	110,975
ASEAN 10	17,516	12%	7%	23,311	12%	6%	89,591	11%	-8%	134,690	13%	10%	224,281	12%	2%	45,069
Hong Kong	974	1%	8%	27,273	14%	0%	4,349	1%	-22%	141,849	13%	-9%	146,299	8%	-9%	137,600
Japan	12,460	9%	-8%	10,835	6%	-8%	69,710	9%	-11%	65,843	6%	-11%	135,553	7%	-11%	-3,667
Korea	13,041	10%	-3%	8,167	4%	4%	82,951	10%	-7%	49,109	5%	1%	131,959	7%	-4%	-33,742
Taiwan	12,888	9%	2%	4,982	2%	13%	69,066	9%	-4%	21,702	2%	4%	90,819	5%	-2%	-17,314
Asia	82,947	57%	-4%	95,650	50%	3%	454,576	56%	-12%	536,657	50%	-1%	990,233	53%	-6%	81,081
Europe (D)	25,096	17%	-3%	34,007	16%	-7%	144,398	18%	-13%	186,695	18%	-7%	333,084	18%	-10%	-44,298
North America	14,913	10%	9%	37,526	20%	11%	86,243	11%	-9%	207,632	19%	9%	293,875	16%	4%	121,309
Latin America	10,178	7%	-15%	11,291	6%	2%	47,587	6%	-25%	64,418	6%	4%	112,005	6%	-13%	15,830
Africa	5,655	4%	-31%	9,470	5%	15%	33,406	4%	-43%	52,427	5%	13%	95,635	5%	-18%	10,020
Oceania	6,061	5%	-26%	3,619	2%	9%	41,673	5%	-29%	23,041	2%	10%	84,714	3%	-19%	-16,632

Delegation of the European Union to China

Mainland China Trade with EU 28 (June 2015)

Source: Customs General Administration of the People's Republic of China

Unit: million USD

	June 2015						Accumulated 2015						Trade total	% total	% change	Trade balance
	Imports	% total	% change	Exports	% total	% change	Imports	% total	% change	Exports	% total	% change				
EU 28*	18,504	100%	-6%	30,016	100%	-3%	103,706	100%	-13%	168,027	100%	-3%	271,733	100%	-7%	84,321
Germany	7,695	42%	-12%	5,757	19%	-2%	43,835	42%	-13%	32,939	20%	-2%	76,774	28%	-9%	-10,868
UK	1,953	11%	5%	5,174	17%	4%	9,768	9%	-17%	26,977	16%	6%	36,745	14%	-1%	17,209
Netherlands	740	4%	7%	4,676	16%	-10%	4,208	4%	-15%	27,732	17%	-7%	31,941	12%	-8%	23,022
France	2,214	12%	-12%	2,328	8%	-5%	11,482	11%	-11%	12,987	8%	-5%	24,469	9%	-6%	1,505
Italy	1,428	8%	-8%	2,570	9%	2%	8,213	8%	-11%	13,968	8%	2%	21,781	8%	-6%	5,355
Spain	516	3%	12%	2,071	7%	5%	2,708	3%	-10%	10,440	6%	4%	13,148	5%	0%	7,732
Belgium	593	3%	-31%	1,395	5%	-10%	3,750	4%	-4%	8,658	4%	2%	8,108	3%	1%	5,228
Poland	216	1%	10%	1,184	4%	5%	1,440	1%	-31%	7,365	5%	-3%	11,715	4%	-14%	4,215
Sweden	601	3%	3%	649	2%	8%	3,193	3%	-7%	3,553	2%	7%	6,746	2%	2%	946
Denmark	355	2%	-4%	533	2%	-2%	2,051	2%	9%	2,997	2%	-7%	5,048	2%	-0.3%	359
Czech Rep.	219	1%	-7%	616	2%	-1%	1,436	1%	0%	3,567	2%	-1%	5,602	2%	-0.3%	2,331
Hungary	230	1%	-6%	403	1%	-24%	1,304	1%	-17%	2,490	1%	-17%	3,794	1%	-17%	1,186
Austria	419	2%	-18%	192	1%	-2%	2,847	2%	-11%	1,117	1%	2%	3,884	1%	-17%	-1,430
Finland	312	2%	-14%	267	1%	-48%	1,872	2%	-11%	1,579	1%	-38%	3,450	1%	-28%	293
Ireland	309	2%	-4%	215	1%	-12%	1,875	2%	2%	1,272	1%	3%	3,148	1%	2%	603
Slovakia	214	1%	-24%	154	1%	-25%	1,205	1%	-22%	1,178	1%	-16%	2,384	1%	-18%	28
Romania	108	1%	-6%	245	1%	-5%	640	1%	-13%	1,507	1%	-3%	2,148	1%	-7%	867
Portugal	124	1%	13%	275	1%	11%	728	1%	-10%	1,417	1%	-4%	2,145	1%	-6%	689
Greece	28	0.1%	3%	371	1%	-6%	142	0.1%	-16%	1,862	1%	-5%	2,005	1%	-6%	1,720
Malta	40	0.2%	13%	165	1%	-3%	254	0.2%	-4%	1,347	1%	-11%	1,601	1%	-10%	1,083
Luxembourg	21	0.1%	18%	141	0.5%	104%	157	0.2%	11%	1,102	1%	89%	1,289	0.5%	74%	645
Slovenia	24	0.1%	12%	166	1%	-3%	140	0.1%	-17%	567	1%	8%	1,136	0.4%	4%	837
Bulgaria	67	0.4%	25%	84	0.3%	-21%	588	0.4%	-25%	554	0.3%	-34%	625	0.2%	-33%	492
Lithuania	11	0.1%	-22%	90	0.3%	-31%	72	0.1%	-21%	564	0.3%	-21%	568	0.2%	-17%	423
Latvia	11	0.1%	-13%	90	0.3%	-28%	82	0.1%	19%	505	0.3%	-72%	567	0.2%	-5%	331
Estonia	13	0.1%	-10%	82	0.3%	-8%	126	0.1%	25%	459	0.3%	-72%	567	0.2%	-5%	331
Croatia	8	0.04%	27%	79	0.3%	-13%	46	0.05%	-3%	610	0.3%	2%	559	0.2%	2%	462
Cyprus	6	0.03%	90%	29	0.1%	-72%	26	0.02%	6%	246	0.1%	-57%	274	0.1%	-56%	233

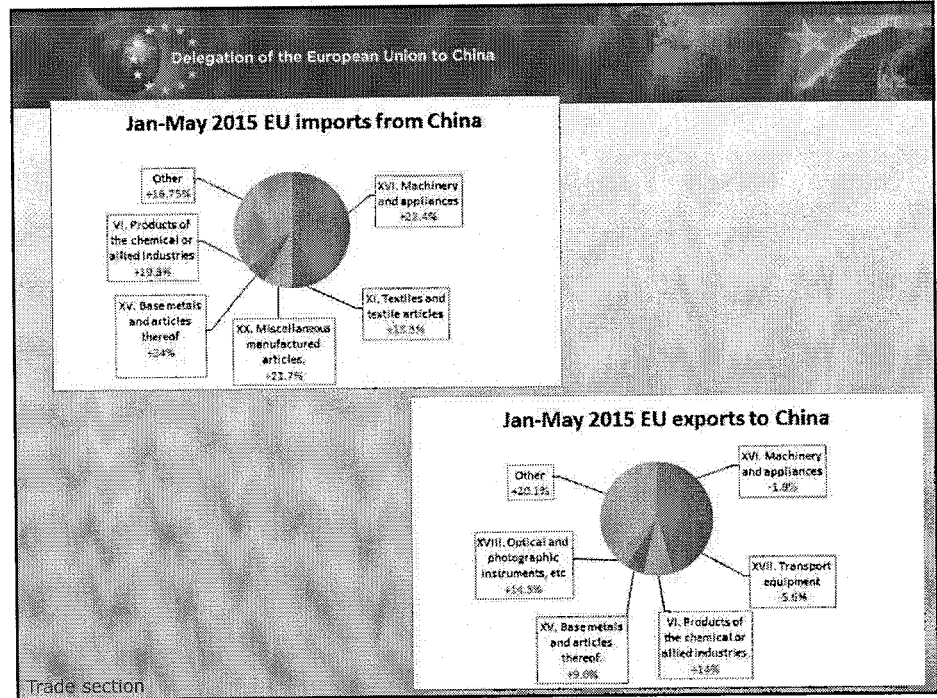
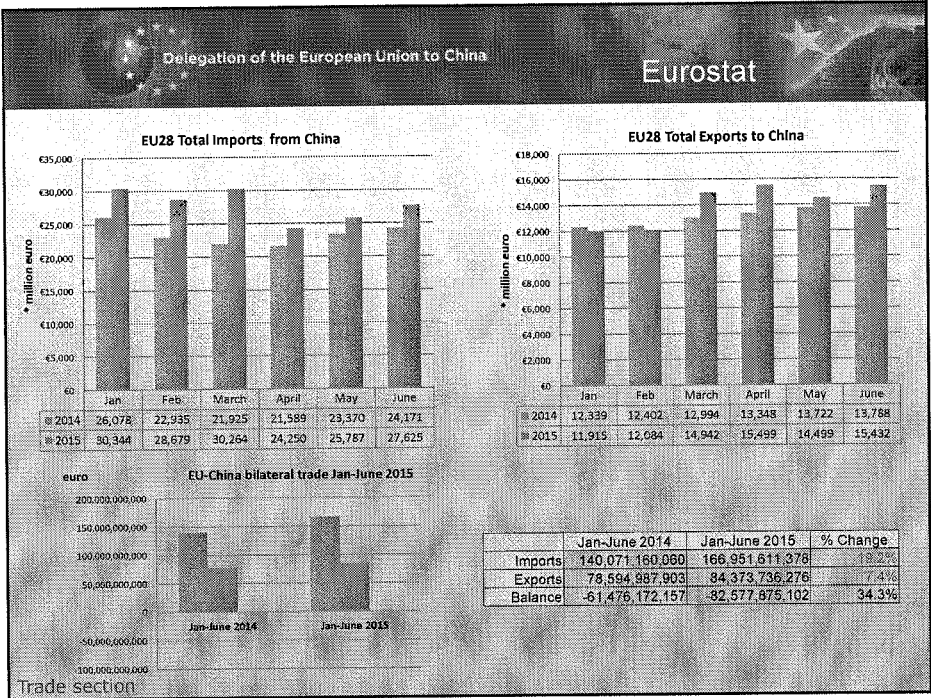
Trade section

Delegation of the European Union to China

Provisional data for July 2015: (in US\$ terms)

- **July CN Exports: \$ 195,1 billion [- 8,3 %]** ⇒ - 0,9 % over Jan-July 2015
 - EU: - 12,3 % ⇒ - 4,3 % over Jan-July 2015
 - US: - 1,3 % ⇒ + 7,3 % over Jan-July 2015
 - Japan: - 13 % ⇒ - 11,0 % over Jan-July 2015
 - BUT growth for countries alongside OBOR
- MoF COM: strong yuan (+ exceptionally good July 2014)*
- **July CN Imports: \$ 152,1 billion [- 8,1 %]** ⇒ - 14,6 % over Jan-July 2015
 - EU: ⇒ - 12,3 % over Jan-July 2015
- MoF COM: weak commodity prices*
- **July Total trade: \$ 347,2 billion [- 8,2 %]** ⇒ - 7,2 % over Jan-July 2015
- **July CN Trade surplus: + \$ 43 billion [- 9,1 %]**

Trade section



Delegation of the European Union to China

Conclusions

1. Significant differences between EU and CN stats – *no obvious explanation*

Jan-June 2015	EU exports to China	EU imports from China	Overall Trade
Eurostat	7.4%	19.2%	14.9%
CN GAC	-13%	-3%	-7%

2. If we believe the CN data:

- CN is off-track for achieving its 6% target for trade growth.
- stagnating exports will make it more difficult for CN to achieve the 7 % GDP growth target (historically one of CN growth model engines).
 - ⇒ Stimulus for domestic consumption
 - ⇒ RMB depreciation (?)

Trade section

Delegation of the European Union to China

2. Investment flows update Q2

Trade section

Delegation of the European Union to China

2. Investment flows update Q2 :

based on 'China Observatory of FDI Monitor' by Rhodium

- FDI into China remains stable despite growing economic woes:

despite growing macro-economic worries and recent stock market turmoil, the recovery of FDI flows to China continued in the first half of 2015

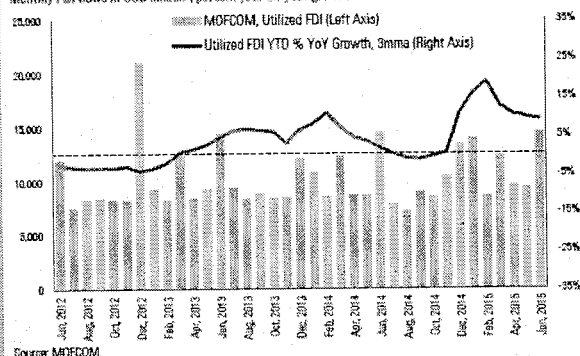
with utilized inward FDI up to 8% compared to Q2 2014.

growth particularly seen in high tech and advanced services

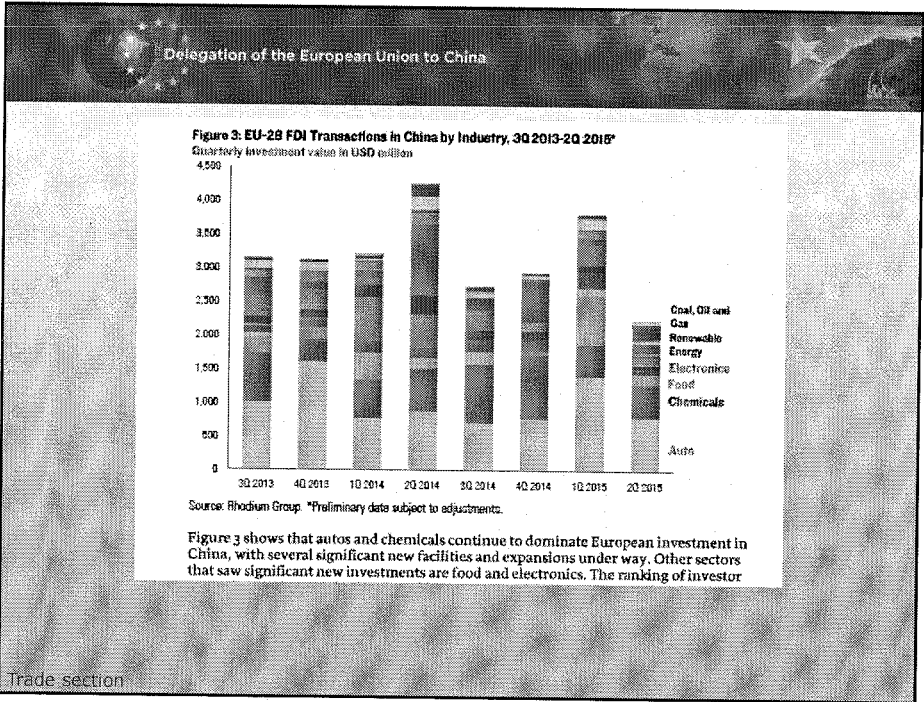
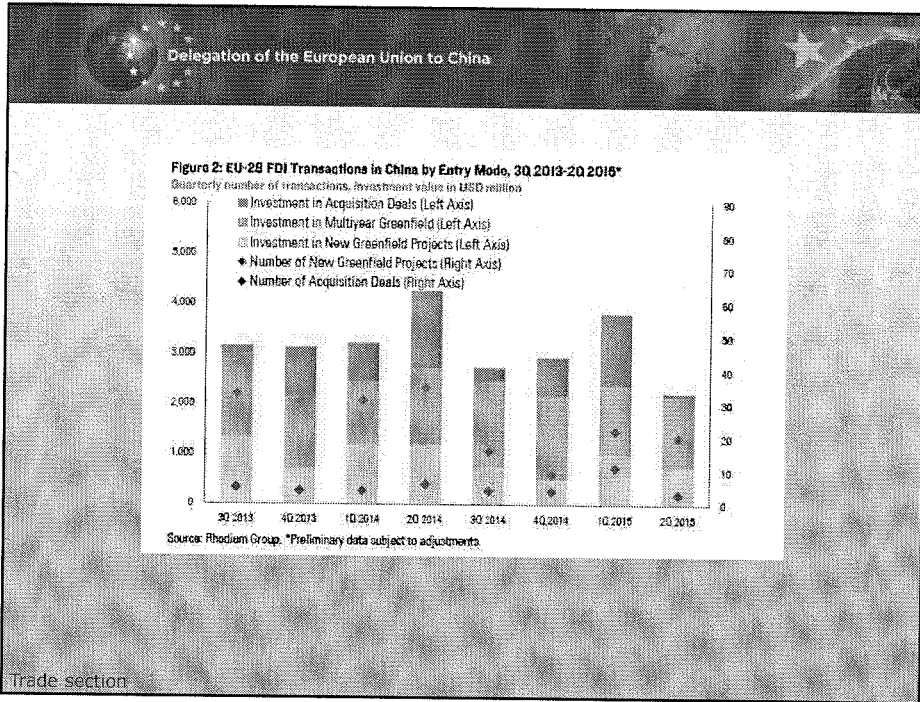
Trade section

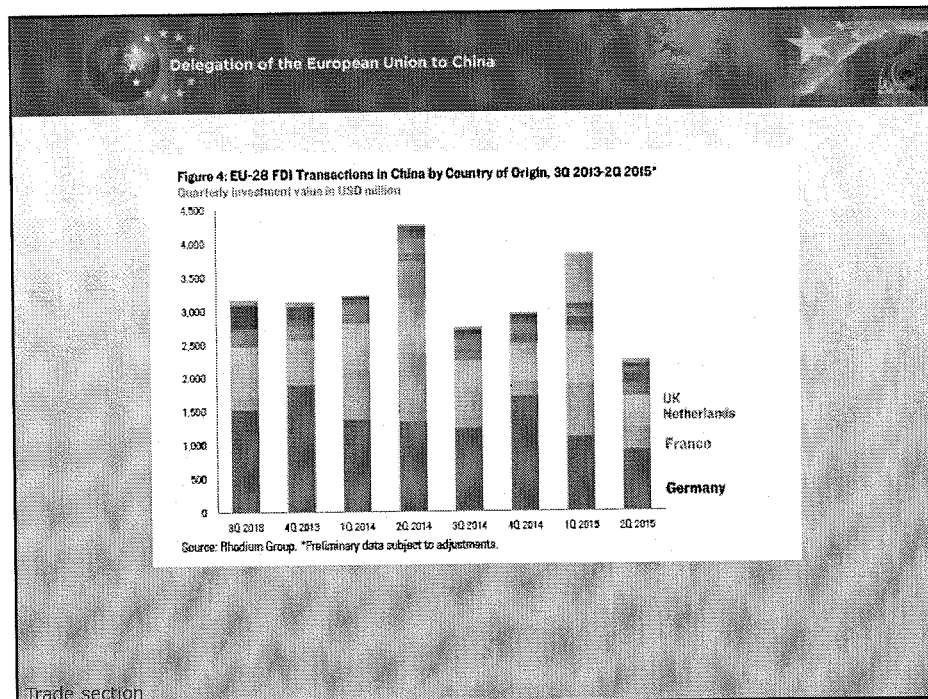
Delegation of the European Union to China

Figure 1: Foreign Direct Investment Flows in China, 2Q 2012-2Q 2015
Monthly FDI flows in USD million, percent year-on-year growth



Trade section





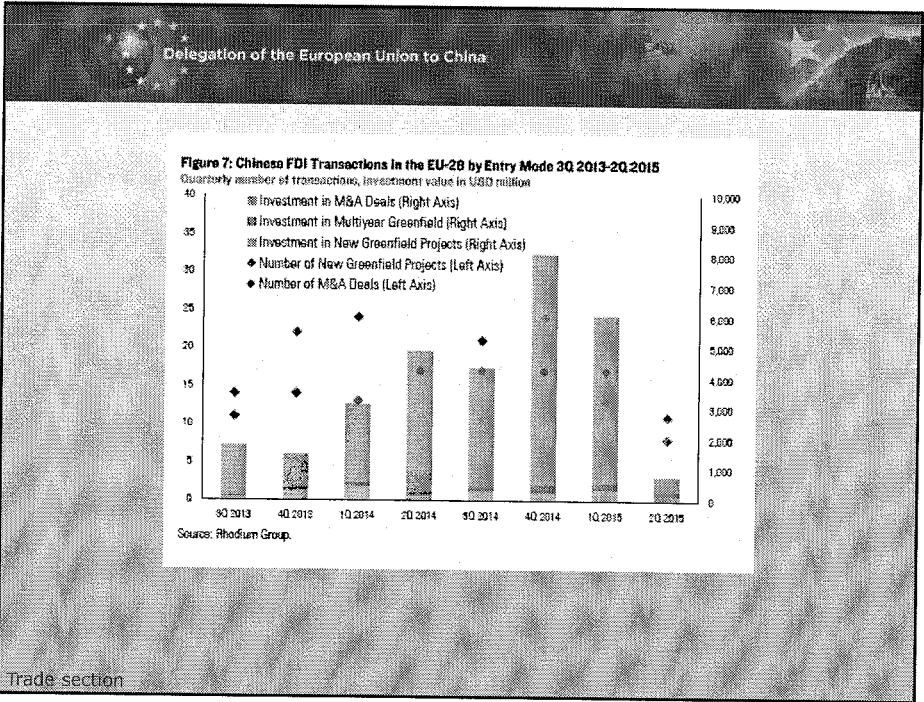
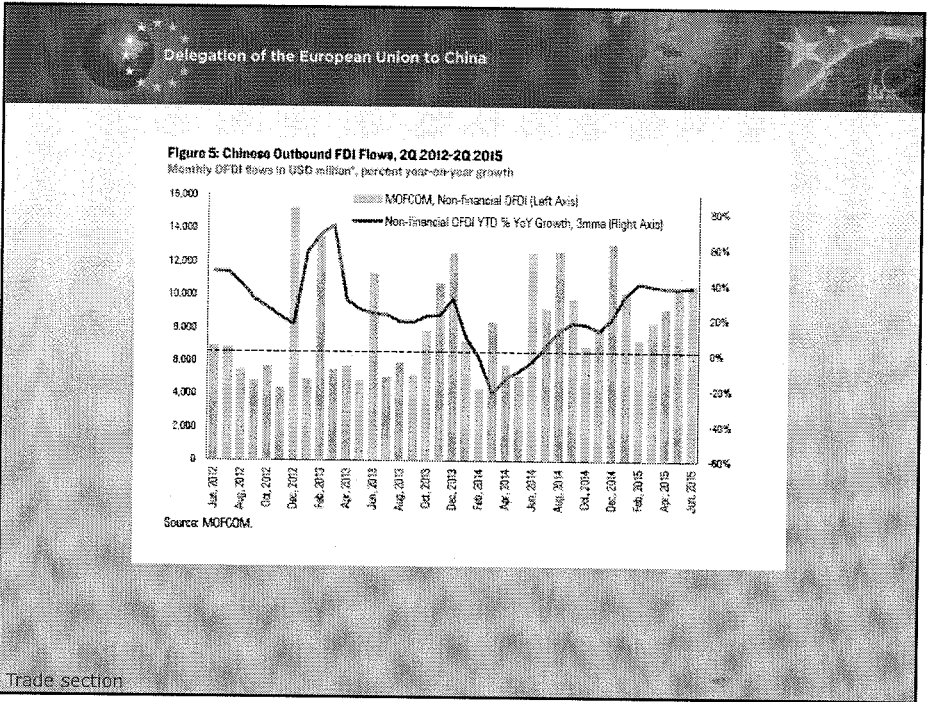
Delegation of the European Union to China

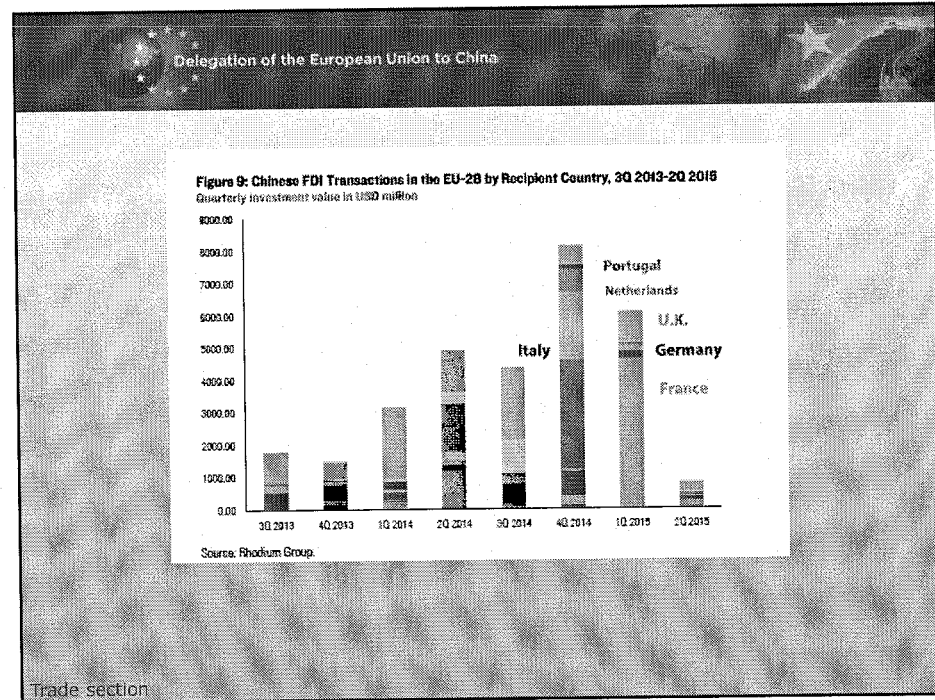
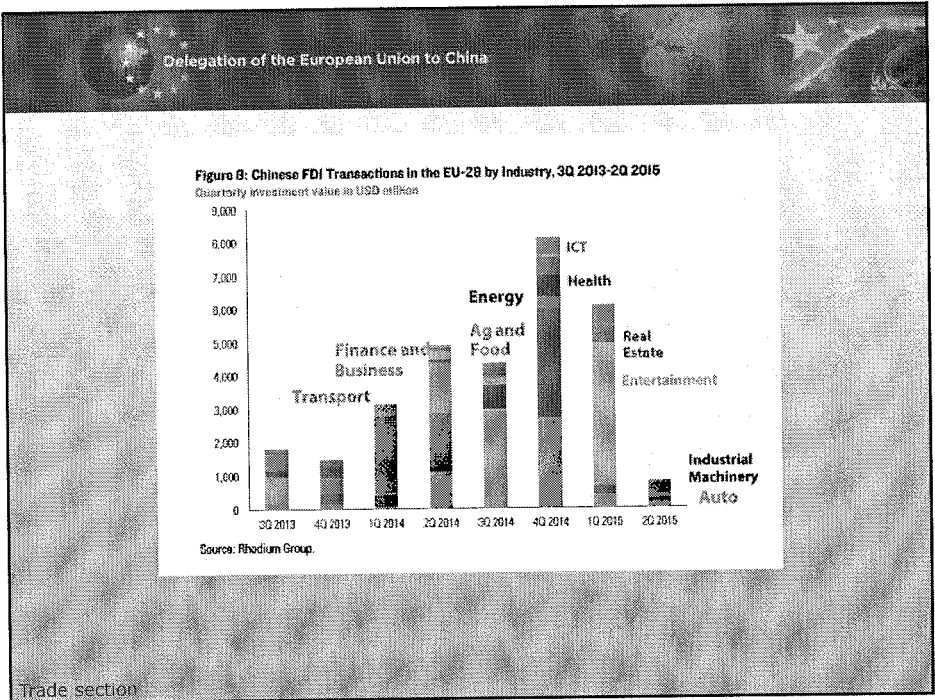
2. Investment flows update Q2 :

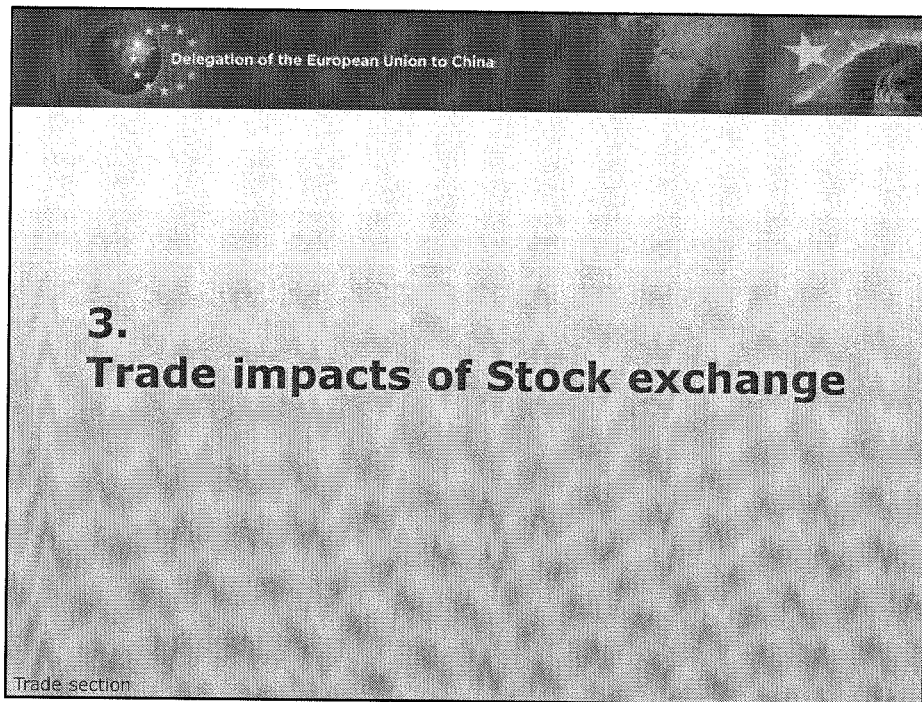
based on 'China Observatory of FDI Monitor' by Rhodium

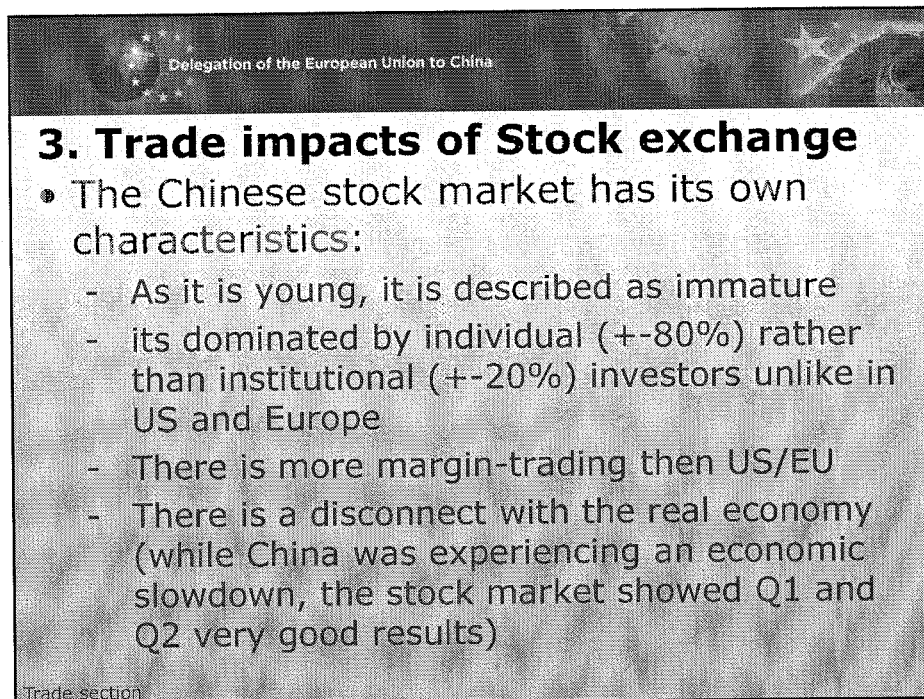
- Chinese ODI soars in response to new rules:
 - official stats show outbound FDI going up 29% year-on year
 - Abolishment of approval requirements and going out strategies seem thus to have worked.
- EU remains a favourite destination but M&A activity in Europe slowed significantly in 2Q after four quarters averaging \$5 billion each.

Trade section









Delegation of the European Union to China

3. Trade impacts of Stock exchange

- The Chinese stock market has its own characteristics:
 - As it is young, it is described as immature
 - its dominated by individual (+-80%) rather than institutional (+-20%) investors unlike in US and Europe
 - There is more margin-trading then US/EU
 - There is a disconnect with the real economy (while China was experiencing an economic slowdown, the stock market showed Q1 and Q2 very good results)

Trade section



Delegation of the European Union to China

3. Trade impacts of Stock exchange

- From January to May 2015 the Shanghai and Shenzhen stock exchanges have surged 147% and 153% respectively.
- However, from 12 June to 10 July, they respectively tumbled 29% and 33% with market losses of nearly 3 trillion euro (for that period).
- What happened since then? Governmental interventions seem to have only limited effect in time as volatility continues with :

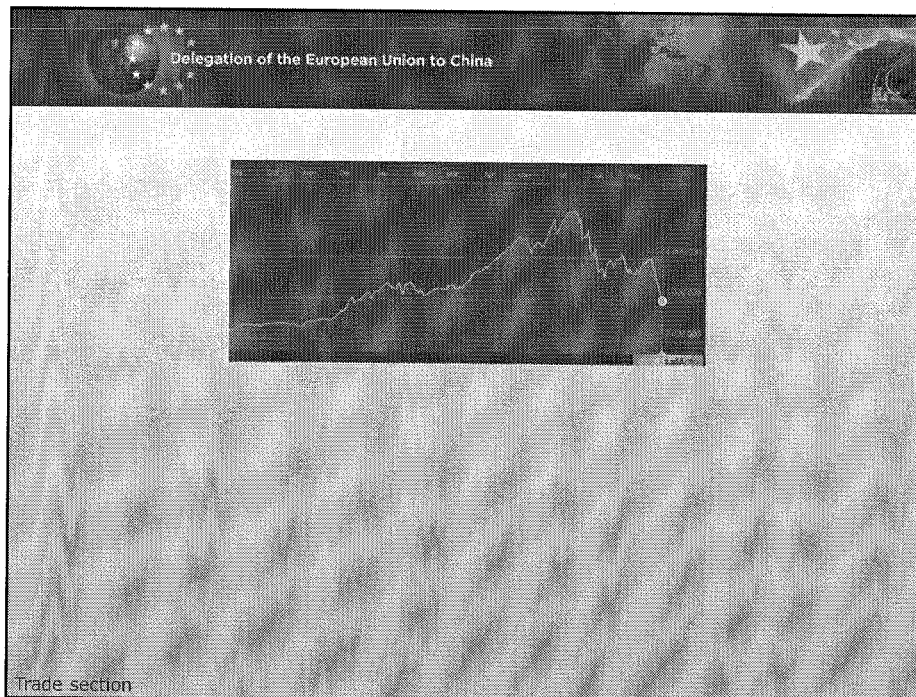
Trade section

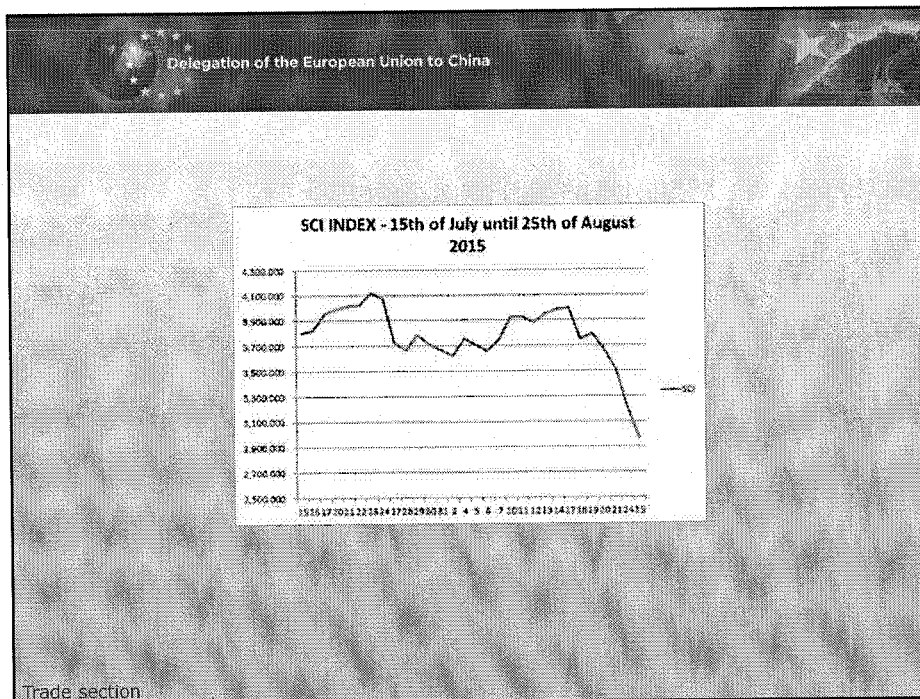
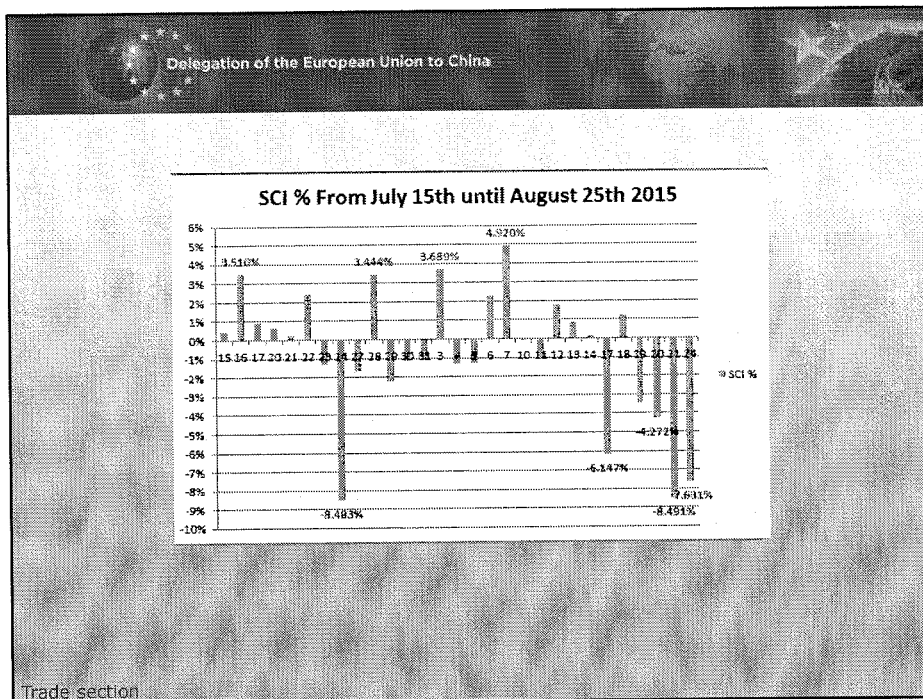
Delegation of the European Union to China


3. Trade impacts of Stock exchange

- e.g. plunge of 8.48% on 27 July
- on 10 August a State Council decision on SOE reform is announced and we see immediately highest raise of 4,92%
- on 11 August first depreciation of the yuan compared to US dollar which have again put the stock exchange in downwards trend with a total loss since Wednesday 19th August of 21,95%
- It now totally declined 44% since 12 June peak, erasing all gains since January 2015

Trade section








Delegation of the European Union to China

3. Trade impacts of Stock exchange

- Biggest consequences
 - Investor confidence has been clearly affected
 - Adverse effects of governmental intervention both politically and economically and seem likely to delay new reforms
 - For the EU, danger is that dampened growth and employment lead to less consumption and imports, widening the trade deficit.
 - While Chinese stock exchange is rather isolated and possible economic contagion seems limited, global markets have jolted and global sentiment is affected.

Trade section



Delegation of the European Union to China

4. Trade impacts of RMB depreciation

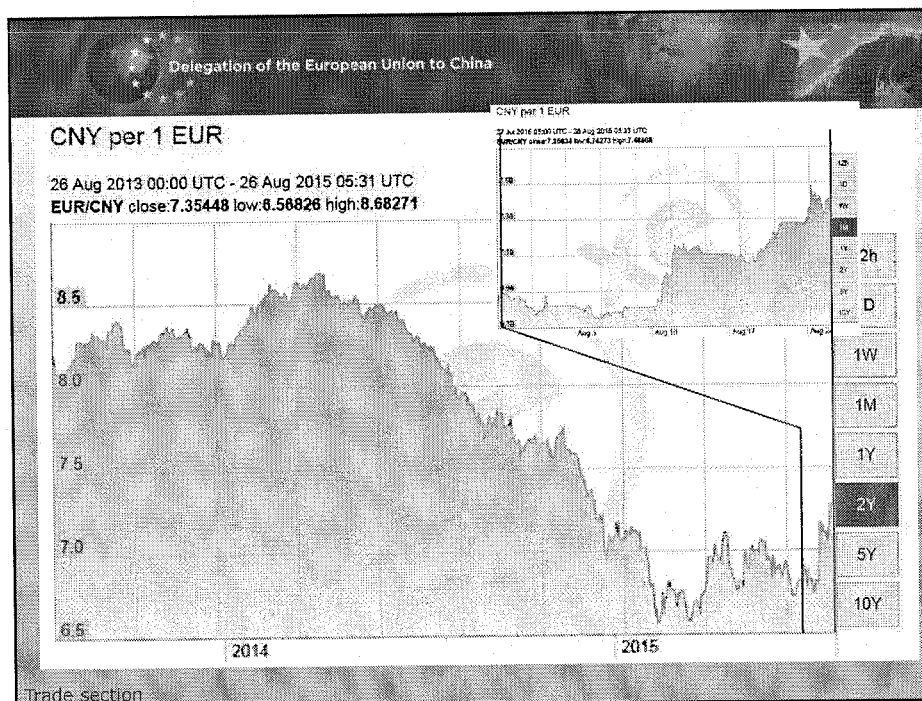
Trade section

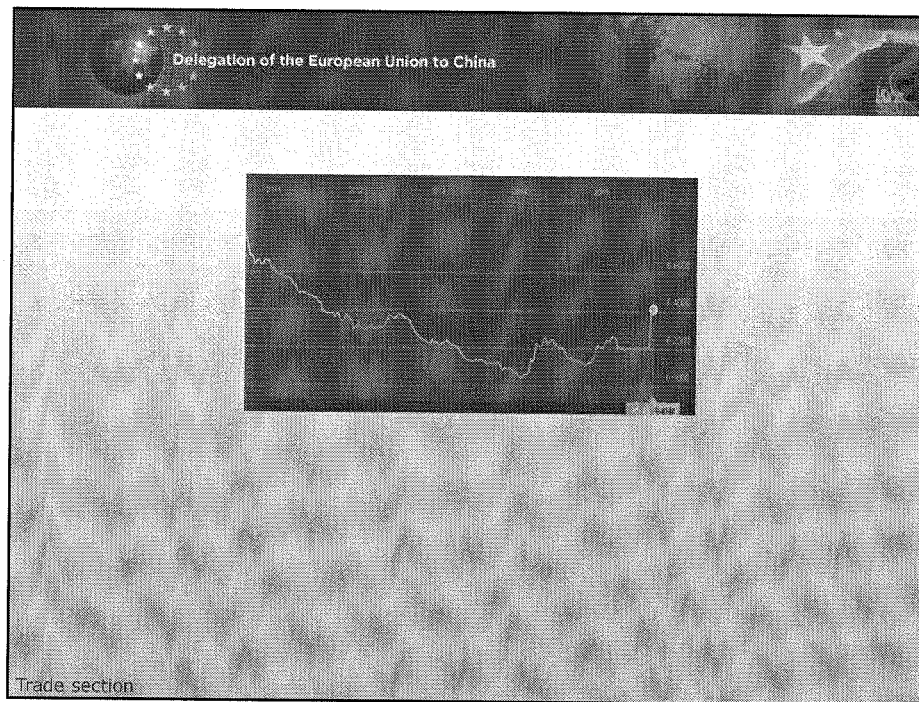
Delegation of the European Union to China

4. Trade impacts of RMB depreciation

- What happened?
 - In a move which surprised many, on 11th August, the PBOC modified the mechanism for managing the RMB exchange rate: it is to be fixed by the closing rate on the previous day's interbank foreign exchange market and allowed to fluctuate by 2% either side.
 - This has led to a depreciation of the RMB against the US dollar of 3% and more than 7% of the euro (even close to 9% according to some sources).

Trade section






Delegation of the European Union to China

4. Trade impacts of RMB depreciation

- What to make of it? (1)
 - Clear shift of policy during a time of economic stress (China did not devalue during the Asian financial crisis nor in the global crisis of 2008) to enhance 'Market orientation and benchmark status' of the RMB to advance liberalisation of the exchange rate.
 - On the face of it, a welcome reform as it allows market signals to play larger role in determining the exchange rate.

Trade section



Delegation of the European Union to China

4. Trade impacts of RMB depreciation

- What to make of it? (2)
 - It should probably be largely seen as part of the internationalisation of the RMB in its Special Drawing Rights (SDR).
 - Worries over growth and economic slowdown may have played a role in the timing of this unexpected decision.
 - The strategy of not going for a large devaluation but allowing gradual depreciation seems to be intended to reduce risks
 - But risks remains, not least in terms of confidence and potential capital flight

Trade section



Delegation of the European Union to China

4. Trade impacts of RMB depreciation

- What to make of it? (3)
 - Parts of Chinese economy still look strong (IMF report this August)
 - Some economist say global investors are overreacting and many reactions seem overblown (economic and financial collapse, competitive devaluation, etc)
 - Chinese financial system is rather isolated and economic spill-over should be limited;
 - We should not underestimate however what is happening; China playing a central role in global trade

Trade section

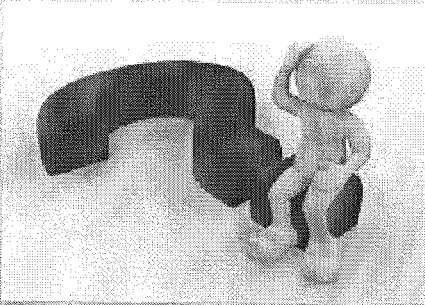
Delegation of the European Union to China

4. Trade impacts of RMB depreciation

- What to make of it? (4)
 - This all will of course have an impact on trade and investment.
 - E.g. there might be a boosting effect on Chinese exports to EU and put more pressure on EU imports to China thus increasing the already existing trade deficit.
 - On the other hand, if Chinese growth is stimulated and consumption goes up, EU imports might increase as well (albeit with delayed effect).
 - Investment patterns may be affected as well.

Trade section

Delegation of the European Union to China



Questions ?

Trade section

Date	Country/regional	Venue	Meeting
7-11 September	China	Dalian, Beijing	Commissioner MOEDAS , Summer Davos and meetings in Beijing
14-18 September	China	Beijing	7th Round of EU-China Investment negotiations
22-23 September	China	Poland	EU-China Maritime Agreement Implementation Meeting
28-Sep	China	Beijing	HED - VP KATAINEN /Commissioners MALMSTRÖM , CAÑETE , BULC and OETTINGER
Back-to-back to HED (tbc)	China	Beijing	EU-China Energy Dialogue with NEA - Comm CAÑETE
06-Oct	Mongolia	Brussels	EU-Mongolia Trade Sub-Committee
07-Oct	Mongolia	Brussels	EU-Mongolia Joint Committee
07-Oct	China	Brussels	EU-China Joint Committee
19-23 October	China	Shanghai (and Beijing?)	EU-China Competition week
15-Oct	China	Beijing	Bilateral Competition Dialogue - Commissioner VESTAGER
22-23 October	China	Beijing	DG COMP DDG MADERO - Fourth China Competition Policy Forum and the International Symposium on IP and Antitrust
28-30 October	China	Beijing	DG Robert Jan SMITS (RTD) Joint Steering Committee Meeting of the S&T Agreement
November 2015 (tbc)	China	Beijing	EU-China IP Working Group
3-6 November	China	China	Commissioner ANDRIUKAITIS (SANTE)
9-11 November	China	China	DG TAXUD (HoU) - GACC Illegal Waste Traffic WG in China
9-11 November	China	Beijing	GROW DDG PELTOMAKI (and other DG GROW colleagues) - GROW AQSIQ annual plenary meetings.
14-15 November	China	China	Phil HOGAN - Commissioner for Agriculture and Rural Development
15-19 November (tbc)	China	Shanghai, Beijing	Commissioner Jonathan HILL - financial services
17 or 20 November (tbc)	China	Brussels	Director Joelle JENNY - 4th meeting of EU-China Cyber Taskforce
November (tbc)	China	China	PEC President TUSK
Autumn 2015 (tbc)	China	China	Commissioner VELLA - Environment and MARE issues
Second half 2015 (tbc)	China	Beijing	IPR 10th Anniversary Beijing Flag Ship event with High Level participants from EU and CN back-to-back High Level visit?
2015 (tbc)	China	China	Euro Area Troika (Chair of Eurogroup, ECB and Commissioner for Economic and Monetary Affairs)



EUROPEAN UNION
DELEGATION TO CHINA AND MONGOLIA

Upcoming Member States High Level Visits

	Date	Representation	Issues discussed
Belgium			
Bulgaria			
Czech Republic			
Denmark			
Germany	28-30.10. (Hbc)	Chancellor Roth	2nd meeting Sino-German Economic Advisory Committee (Hbc) (Miroslava)
Estonia			
Ireland			
Greece			
Spain			
France	7-8-9 Sept. 18 Sept	• Foreign Trade Sub-Committee (Hbc) • Finance Ministry (Hbc)	tourism + agribusiness High level economic and financial dialogue (with Hbc KA)
Croatia			
Italy			
Cyprus			



EUROPEAN UNION
DELEGATION TO CHINA AND MONGOLIA

Latvia			
Lithuania			
Luxembourg			
Hungary			
Malta			
Netherlands			
Austria			
Poland			
Portugal			
Romania	end October 21 - 28	Minister for Economy/Trade Stoianescu	Economic Joint Commission (RO-CN)
Slovenia	Nov.	Minister of Agric. Prime Minister	16+1
Slovakia			
Finland			
Sweden	9-10 Sept	Minister of Innovation & Enterprise	
United Kingdom	20 Sept	Chancellor of Exchequer	Economic + Financial Dialogue



EUROPEAN UNION

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 16th September 2015
Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI

Subject: Minutes of the Meeting of Trade Counsellors, 28 August 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 28 August 2015
Shanghai**

1. Adoption of agenda

See annex 1 for participants' list.

2. 'Outlook of the latest export/imports in China' including the 'trade impacts' of the stock-exchange fluctuations and devaluation of the yuan [Art. 4.1(b)]

See annex 2 for PPT

3. Exchange on recent and upcoming visits

See annex 3 for the list of EU events

4. Update on Cyber Security Law [Art. 4.1(b)]

See annex 4 for PPT

5. Highlights of this summer: newest on SOEs, developments at the WTO front, Tianjin etc [Art. 4.1(b)]

On SOEs: The State Council has finally approved an ambitious – and long-awaited – blueprint to overhaul China's sclerotic state-owned enterprises. The shake-up is expected to be the biggest of its kind in more than a decade and should take the shape of two new Temasek-style (Singapore's government-owned investment company) sets of companies which will channel funds to SOEs and should pressure them to turn a profit. In return, SOEs will be able to make more of their own business decisions and their boards of directors will be able to hire and fire managers. Sasac will no longer directly intervene in the running of most SOEs. The new system will aim to put greater distance between government and the day-to-day commercial operations of state firms, with the Sasac no longer directly intervening in the running of most SOEs but Sasac could be left in charge of several vital companies but the final decision had yet to be made. Details of the blueprint are still scant but it seems that already earlier news is confirmed that SOEs would be grouped into various industries which each its own rules for privatization. It seems however unlikely that China will give up easily its control on strategic sectors so this new system will probably for other types of SOEs.

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

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

ITA - On 18 July a deal was reached on the coverage of ITA, resulting in a list of 201 items. Finally, the deal includes our ex out on car radios, as well as a small ex out on resistance measuring instruments proposed by the US. Now that the result is approved, negotiations on staging can start in the fall and the ITA-expansion can become a deliverable for the 10th Ministerial in Nairobi. (Products covered by this expansion include new-generation semi-conductors, GPS navigation systems, medical equipment, as well as machine tools for manufacturing printed circuits, telecommunications satellites and touch screens. Global trade of those products valued at more than 1.3 trillion U.S. dollars each year, representing about 7 percent of total world trade volume.)

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

On Tianjin: Many foreign companies affected, especially in the car sector with car losses due to explosion were huge. Toyota lost up to 3450 cars, Volkswagen 2748 cars and Renault 1500. Customers will likely have up to 6 months delay in the delivery of their cars. It is clear that it will have had an effect on trade as many ships were rerouted to Shanghai to deposit their deliveries. Production in affected companies is still not up and running as companies are still not allowed to enter their own sites. Inspections are ongoing but no foreign company is allowed to take samples of water or dust, only SOEs are in charge. However according to official info the Tianjin port and customs are already back on operation again.

[Art. 4.1(a) third indent and 4.2 first indent]

6. AOB

Annexes:

1. List of participants
2. PTT on economic outlook
3. List of high level visits
4. PTT on Cyber

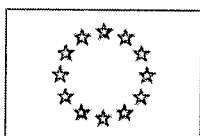
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[Art. 4.1(b)]

Name	Member States	Email Address	Phone Number
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17



EUROPEAN UNION

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 29th September 2015
Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, BEIJING

Subject: Minutes of the Meeting of Trade Counsellors, 21 September 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 on 21 August 2015, Beijing 15:00 to 17:00

EU Delegation South Wing – Prodi meeting room

1. Adoption of agenda

See annex 1 for participants' list.

2. Reform and closing up? A view sector by sector [Art. 4.1(b)]

[Art. 4.1(b)] presented the new EUCCC Position Paper, released during a press conference on Tuesday, 8th September, 2015, both in Beijing and Shanghai.

The main message of the European Chamber (EUCCC) this year is as follows. Foreign businesses hailed the promulgation of the Third Plenum's Decision (November 2013), China's reform vision until 2020. Last year's paper analysed the Third Plenum Decision, now the EUCCC is taking stock. Two years on, reform is either insufficient or inexistent.

The situation is portrayed as "Reform and Closing up" – a twist on China's official slogan of the past three decades, "Reform and opening up."

EUCCC considers that China is at a cross-road. China's economy is running out of steam and 'old recipes' cannot be reproduced. Having reaped all the low-hanging fruit of growth, it needs to embrace a set of bold reforms such as accelerating the reform of the financial system; limiting the State engagement in the economy; increasing market access for the private sector, including foreign business; abolishing the Foreign Investment Catalogues.

Amongst EUCCC Working Groups, 24% perceive that little or no progress has been made, or the situation has even deteriorated. 66% of the Working Groups perceive that some progress has been made, but work still remains. 10% of the Working Groups perceive that targets have basically been reached, or that there is a clear working plan.

A novelty in this year's Position Paper, the EUCCC sends a 'wish list' to Brussels, detailing notably recommendations on what European business invested in China would like to see included in the ongoing negotiations for an EU-China Comprehensive Agreement on Investment (CAI). The EUCCC hopes that the CAI will go significantly beyond the provisions of the national bilateral investment treaties (BITs), and will include an effective Investor-State Dispute Settlement mechanism, as well as a chapter dedicated to SMEs.

The Position Paper 2015/2016 received a lot of quality media coverage both internationally and domestically in China. It garnered headlines in all major international media outlets such as the Financial Times, Wall Street Journal, Bloomberg, Washington Post, Reuters, as well as widely disseminated stories from major newswires such as OWC, DPA, AFP.

Overall, EUCCC considers that the economy is going through a bump, but EUCCC remains bullish over the medium term.

EUCCC presented the main findings of key sectoral Position Papers, namely those of the Financial Sectors working groups, of the Healthcare and Cosmetics working groups, and of the transportation working groups. Interested Member States may request similar vertical analysis on other sectors by the end of this week.

Member States asked questions on the date of the European Presentation Tour of the Position Paper (week of 25 January 2016), on reform, on the ease of doing business, on the next five-year-plan, on the difficulty to reach out to Chinese authorities.

See annex 2 for the EUCCC Power Point presentation.

3. Latest work on trade and investment policy regarding China by the European Parliament

[Art. 4.1(b)]

[Art. 4.1(b)] gave an introduction about the role of the European Parliament in the Common Commercial Policy. He stressed that by entry into force of the Treaty of Lisbon, the European Parliament stepped into the picture of the European Unions trade policy by (1) achieving co-decision powers together with the Council and (2) by receiving powers to consent on international trade agreements. Simultaneously, foreign direct investment was introduced as an exclusive Union competence under the CCP. Since then the EP has emerged as a fully-fledged legislator and has also given consent to numerous trade agreements. In relation to China, the EP adopted its recommendations and support to opening the negotiations on a bilateral investment agreement in 2013. In its resolution Parliament stressed the importance of including Market Access in the negotiations and a chapter on sustainable development. The recommendations were given before adoption of the negotiating directives by the Council. This practice regarding recommendations has been followed in connection to opening of other negotiations as well, such as the Japan FTA and the TTIP negotiations with the US. The EP is closely following the Commission's negotiating agenda. The EP's position on EU-China trade relations dates back to 2012, currently there is a general resolution on EU-China political relations in the making, which is likely to be voted in plenary later this year.

4. Exchange on recent and upcoming visits, including a debrief on CAI negotiations

CAI Negotiations

The 8th round of the EU-China investment negotiations took place in Beijing from the 14th until the 18th of September. The negotiations were very well attended from the Chinese side with more than 50 Chinese colleagues present and over 30 different Chinese Ministries and agencies represented.

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

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

5. AOB

Tianjin blast and consequences

EUDEL mentioned that EU chemicals companies report great difficulties in exporting/importing hazardous chemical products to/from Tianjin port, but also to/from other Chinese ports. Some are reverting to air transportation instead. It seems there is a mismatch between instructions given by Port authorities, overly cautious after the Tianjin blast, and Customs instructions, with the consequence that trade of hazardous chemicals has practically come to a halt.

EUDEL is gathering evidence from Member States and business in order to determine the appropriate course of action.

SOE reform

On 13th September, the long awaited Guidelines on SOE reform were published to invigorate torpid SOEs.

[Art. 4.1(a) third indent]

The Guidelines notably announce modernization of SOEs through:

- a) the enhancement of state assets management (code word for better control of SOEs);
- b) promotion mixed ownership

[Art. 4.1(a) third indent]

- c) avoidance of erosion of state assets

[Art. 4.1(a) third indent]

d) strengthening and improving the appointment of directors and executives [redacted]
[redacted] [Art. 4.1(a) third indent]
[redacted]

e) reducing overall salaries of SOEs [redacted]
[redacted] [Art. 4.1(a) third indent]
[redacted]

f) classifying SOEs into commercial enterprises and public service enterprises [redacted]
[redacted] [Art. 4.1(a) third indent]
[redacted]

g) the nurturing of some key players to equip them with the means to face international rivals and go successfully global [redacted]
[redacted]

[redacted] [Art. 4.1(a) third indent]
[redacted]
[redacted]
[redacted]
[redacted]

Annexes:

1. List of participants
2. PPT European Business in China Position Paper 2015/2016

List of Participants, TCM 21.09.2015, Beijing

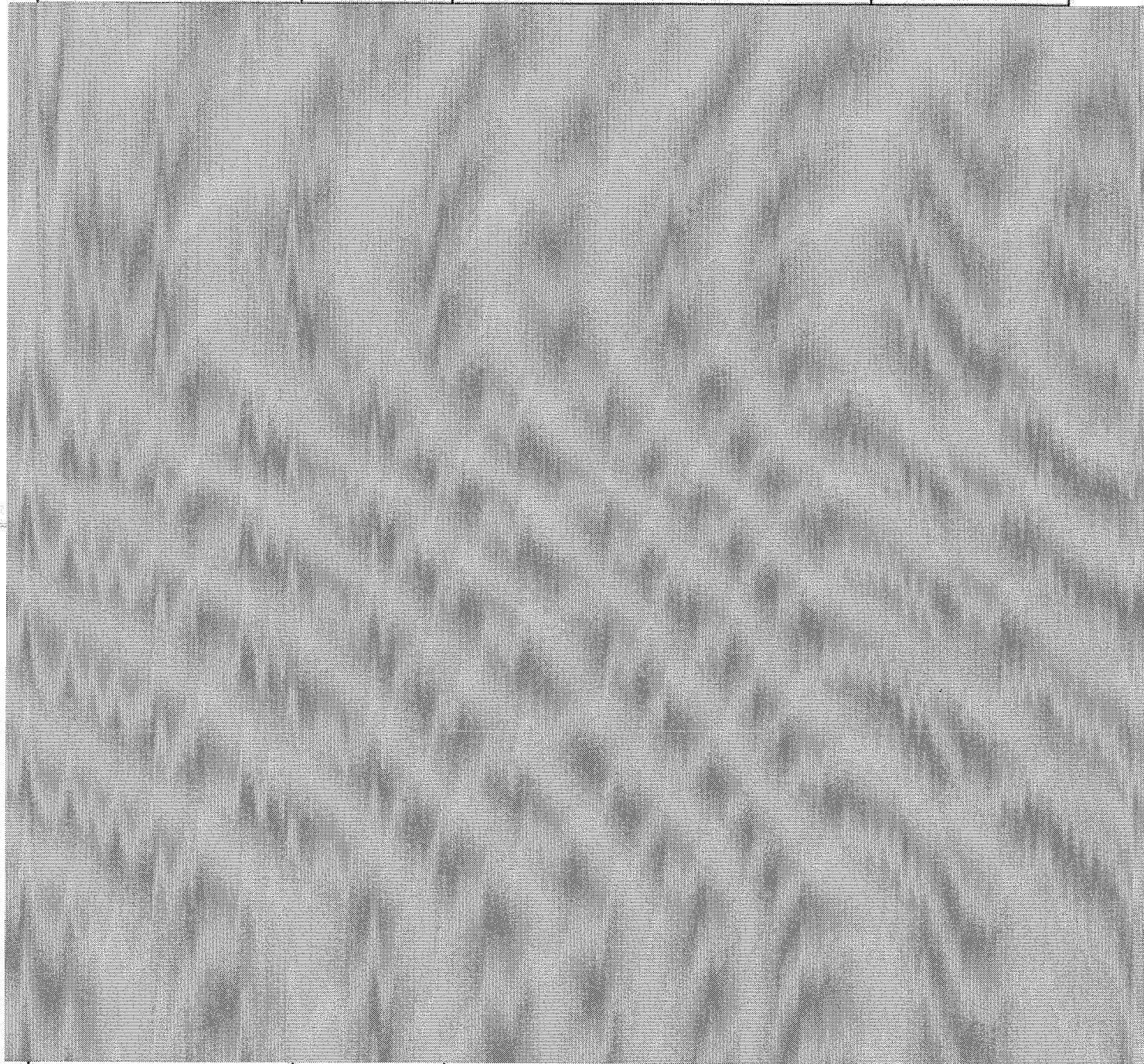
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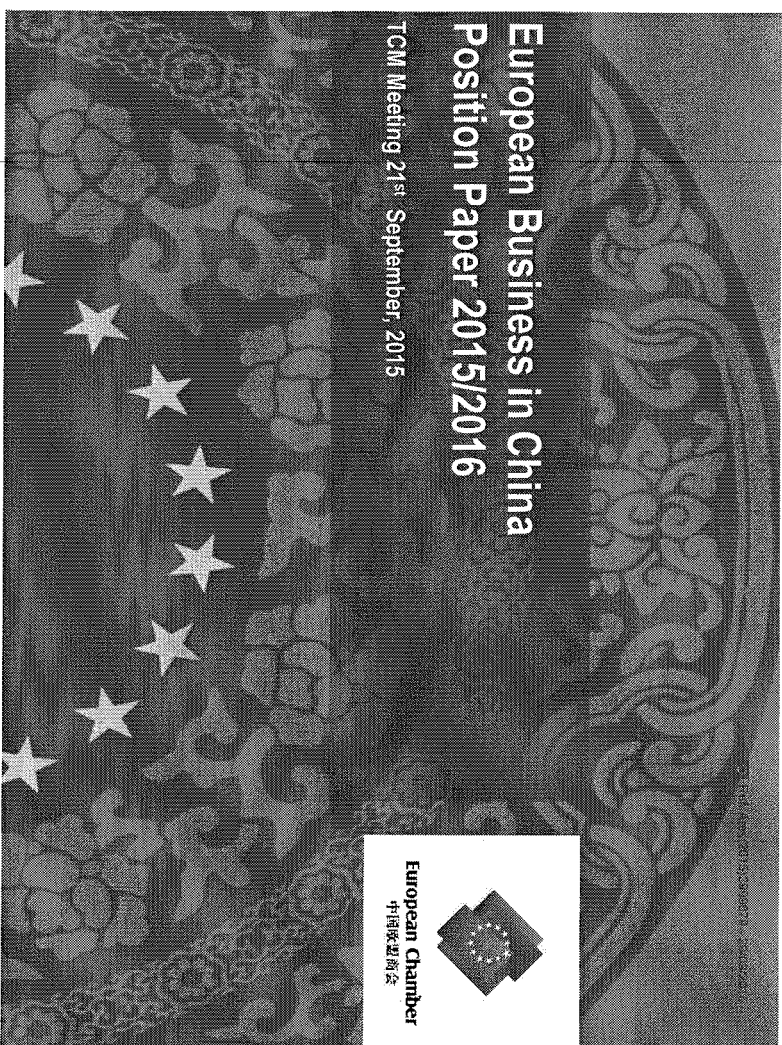
Annex 1

ANNEX1

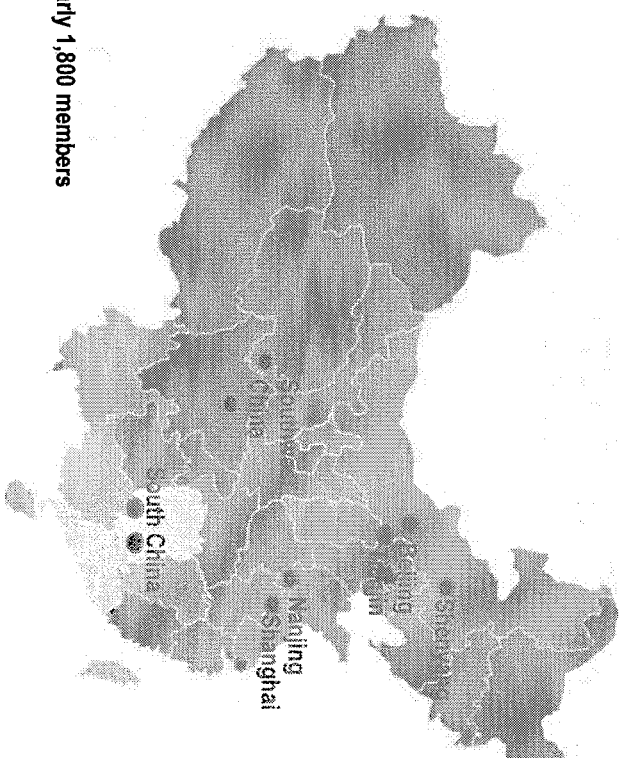
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Name	Member States	Email Address	Phone Number
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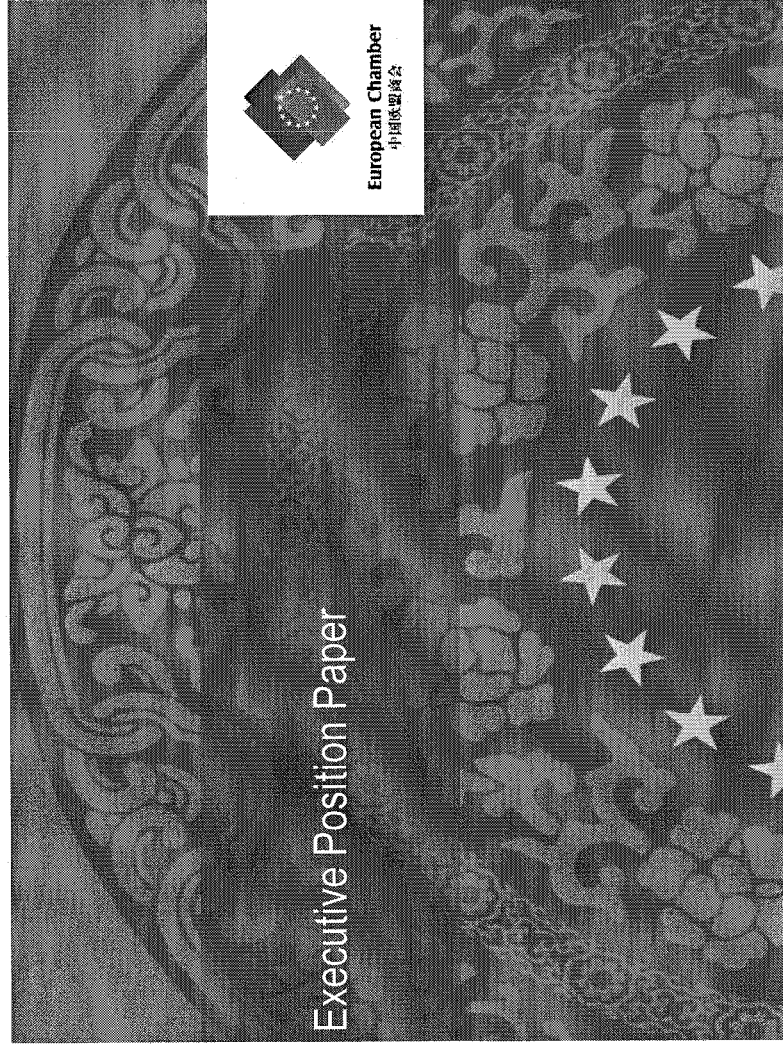




European Chamber Introduction

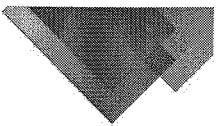


Nearly 1,800 members



Key Take-aways

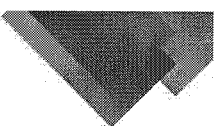
1. The Chinese economic slowdown necessitates urgent reforms
2. Chamber's Third Plenum 'Reality Check' shows reform implementation is slowing
3. The Chamber recommends a new 'toolbox'
4. Chamber views the EU-China Comprehensive Agreement on Investment as WTO 2.0



1. Reform...

www.european-council.europa.eu

1. A reduction of government approval procedures
2. Expansion of pension and healthcare insurance coverage
3. Budgetary and local debt reforms
4. Establishment of specialised IPR courts
5. Shortening of the *Foreign Investment Industrial Guidance Catalogue (Foreign Investment Catalogue)*



1. ...and Closing Up

www.european-council.europa.eu

1. Market forces still being constrained
2. Protectionist tendencies in procurement
3. Legislative texts cause concern in the markets
4. *Foreign Investment Catalogue* denies market access

2. The Third Plenum's Decision



European Chamber
HOLLAND



European Chamber
HOLLAND



2. Third Plenum 'Reality Check'



WG perceives little or no progress has been made, or the situation has even deteriorated.

24%



WG perceives some progress has been made, but work still remains.

66%

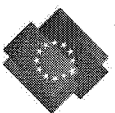


WG perceives the target(s) has (have) basically been reached, or that there is a clear working plan.

10%

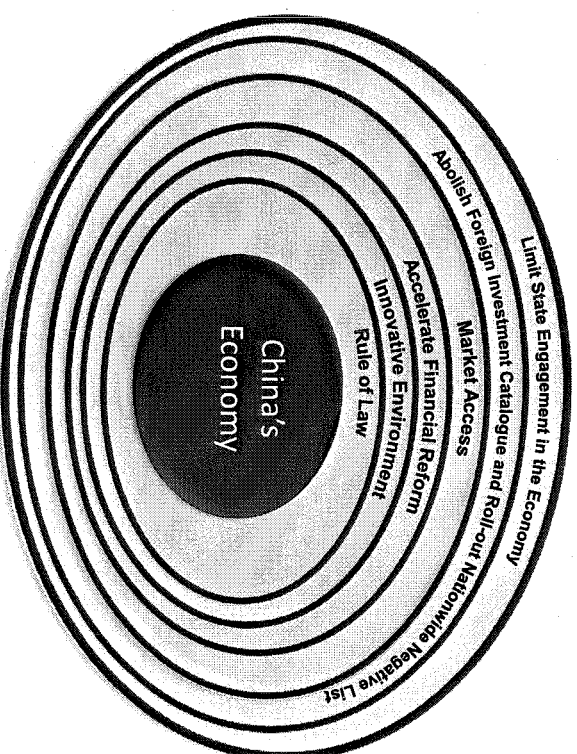
The 'New Toolbox'

European Chamber
中国欧盟商会



3. The 'New Toolbox' – the 3rd Plenum's 60 Decisions

www.eurorchamber.org.cn



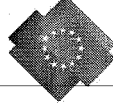
4. The EU-China Comprehensive Agreement on Investment (CAI)

The EU-China CAI is arguably *the* most important issue in EU-China bilateral economic and trade relations

Any CAI needs to include:

- ▶ Robust market access
- ▶ Investor-State Dispute Settlement mechanism
- ▶ Strengthened transparency and an improved regulatory framework for all companies

The Audacity to Change



European Chamber
中欧商会

The Audacity to Change

1. A **sense of urgency** needs to be running through every echelon of the Chinese Government
2. **Foreign business** is an important stakeholder in China's reform process
3. The *Decision* should form the basis of China's *13th Five-Year Plan (2016–2020)*
4. The Chinese leadership:
 - should stick to the bold **reform pledges** made in the *Decision*;
 - must counter **protectionist tendencies**; and
 - needs the **audacity to change**.

Media coverage

Media Slide

(as of 20th September, 2015)

- 80 journalist in attendance
- (107 registrations by 8th September)
- Major headlines in international news outlets
- (at least) 70 original articles (EN, CN, DE, ES, FR) and 110 republications
- TV interviews with CCTV, Bloomberg, and ARD

Portfolio

A gazetasági hírtörténe

La Chine doit avoir «l'audace de changer», estime l'UE

THE TIMES OF INDIA

Las empresas europeas piden al Gobierno chino "audacia" para reformas

www.europeandebate.com.cn

Daily Mail

CHANNEL NEWSASIA

Associated Press



24 DRE



Media Slide (Cont'd)

www.europeandebate.com.cn

European Businesses Seek Economic Reform Progress in China

China Progress Report

A review of reforms promised by Beijing, according to an EU business group

THE WALL STREET JOURNAL

China's Slowdown a 'Gamechanger' for European Companies

Bloomberg Business

Positionspapier: Europäische Unternehmen beklagen Reformstau in China

SPIEGEL ONLINE manager magazin

A nationalist China unsettles foreign companies

dpa

Europäische Unternehmen erklären goldene Zeiten in China für beendet

Europäische Handelskammer: „Chinas Reformschwung ist vorbei“

Frankfurter Allgemeine

Business group says China running out of time for reform, calls for faster market-opening

EU lobby warns China over 'slow' reforms

AFP

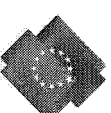
CCTV.COM

Media Slide (Cont'd)

Key media take-aways:

- “reform and closing up”
- China’s economic slowdown is “game changer” for EU firms
- reform progress is faltering / China needs to “step up” economic reforms
- Protectionist (“nationalistic” to some media outlets) are “unsettling” European companies
 - e.g. National Security Law, (draft) Cyber Security Law, etc.
- Old vs. new toolbox
- “Does China have the audacity to change?”

Financial Services



European Chamber
中欧商会

Market Overview and Outlook

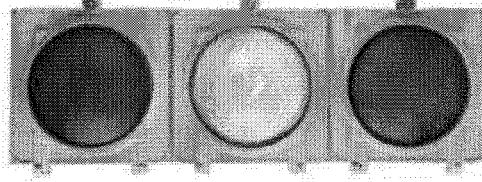
- Low market share for foreign players:
 - 1.62% in the banking sector
 - 4.5% in the insurance sector

Business Confidence Survey

- 92% of financial services reported an increase or substantial increase in revenue
- 61% foreign financial services are optimistic about growth outlook
- However, only 20% optimistic in terms of profitability outlook
- 67% perceive the Chinese economic slowdown to impact future business; however, only 15% are planning to cut costs this year.
- 76% perceive rule of law, transparent policy-making and implementation will be significant for China's economic performance
- 67% would increase investment if greater market access were granted

Status of Reform (Reality Check)

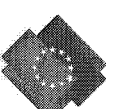
1. Establishing a unified, open, competitive and orderly market system is the basis for the **market to play a decisive role** in the allocation of resources.
2. Relaxing control over investment access. We will have the **same laws and regulations** on Chinese and foreign investment, and keep foreign investment policies **stable, transparent and predictable**.
3. ... **improve the government organisational structure**, function composition and work procedures so that we will have a good administrative system with decision-making.



Top CAI Priorities

- Market and ownership access
- Speed and transparency of licence approval process
- Flexibility in the adaptation of their local set-up

Healthcare + Cosmetics



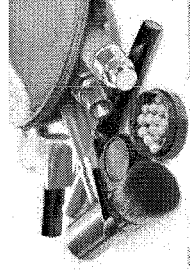
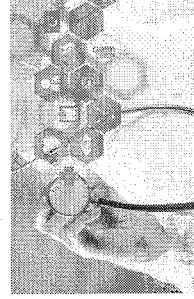
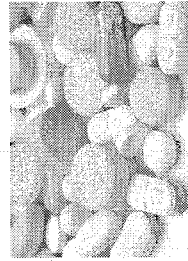
European Chamber
中國歐盟商會

Market Overview and Outlook: growing pie ...

www.euripe.com/chart/chart.asp

Healthcare (Pharma + Medical Devices)

- China spends 5.6% of the GDP on health care
- Annual growth $\geq 10\%$
- Growth higher than GDP expected within the next years
- But: growth rate of imported products is lower than total growth
- Cosmetics: 2nd largest market in the world (after USA)



Status of Reform (Reality Check):

www.euripe.com/chart/chart.asp

... with less share

Progress in the Reform Process



Healthcare Reform: public hospital reform, more private hospital, freedom of doctor practising in private hospitals, development of DRG, etc.



Private hospitals included in reimbursement system



Foreign medical institutions "restricted" in 2015 Foreign Investment Catalogue

Hurdles

- Innovation
- Procurement
- Registration; Equal Treatment

Top CAI Priorities

- Definition of Products "made in China"
- Avoid government interference in hospital sourcing
- Equal taxation of foreign-invested distributors of imported cosmetics

Transport & Mobility

China's Mobility Sector Overview and Outlook

- ❑ **Logistics:** China surpassed US as the largest express delivery market in the world in 2014
 - In 2014, 6.9% year-on-year growth in total revenue of logistics sector and 7.9% in value of goods
 - 49.7% increase in online sales in 2014 as a booster for logistics industry
- ❑ **Aviation:** China is the world's fastest-growing market. The airline traffic increased 13%, surpassing 100 million passengers for the first time during 1Q2015
 - Overall international traffic remains small for Chinese airlines, accounting for only about 7% of total carriage
 - Compared with its commercial aviation sector, China's general aviation sector is still unevenly distributed
- ❑ **Automotive:** China is already the world's largest automotive market and it is poised to grow for decades to come
 - Rapid growth over the last five years until 2014. Sales of passenger cars and heavy duty vehicles averaged growth at 26 per cent and 11 per cent per annum
 - A slowdown is expected in the automotive industry. Growth of sales of passenger cars and heavy duty vehicles is expected to decelerate to 12 per cent and six per cent per annum until 2020, as a result of lower market demand
- ❑ **Rail:** By the end of 2014, China's rail network ranks as the second biggest rail network in the world. China also has the world's busiest railway system, both in terms of passenger and freight traffic
 - The 13th Five-Year plan (2016-2020) is going to extend China's golden age for railway building
- ❑ **Maritime Transport:** China will continue to be the most important market for global shipping in 2015 and over the years to come.
 - In 2014, progress was made by Chinese ports in improving the ability of shipping lines to safely engage in low visibility navigation, saving shipping lines and ports significant costs, and, by extension, enhancing China's foreign trade environment

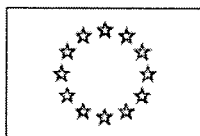
Status of Reform (Reality Check)

Category	What did the Third Plenum's Decision Say	What is the reality
The Market's Decisive Role	Let the market play a decisive role in allocating resources.	Automotive A foreign investor's maximum share in the automotive industry is limited to 50 per cent and each foreign car maker is limited to establish no more than two such Sino-foreign joint ventures (JVs) for the production of passenger cars, and two for commercial vehicles (2-2).
SOE Reform: Independent Decision-making of enterprises and fair competition	Enact market rules that are fair, open and transparent	Auto Components European automotive suppliers in China are often forced to establish JVs with Chinese OEMs in order to get business. Rail Foreign players in the rail industry are often not given the opportunity to comment on drafts of standards and specifications, which may lead to entry barriers and unfair competition
Administrative Reform	Improve the government organizational structure, function composition and work procedures so that the industry will have a good administrative system with decision-making	Aviation & Aerospace Burdensome administrative approval processes are still common in certain areas, for instance aircraft purchase and registration. Automotive Multiple government agencies regulate the automotive industry in an uncoordinated manner, resulting in different understanding, inefficient work and unnecessary costs.

Top CAI Priorities

Market Access Issues

- **Automotive:** A foreign investor's maximum share in an automotive enterprise is limited to 50 per cent and a foreign investor is only allowed to establish no more than two such Sino-foreign joint ventures (JVs) for passenger vehicles production, and two for commercial vehicles ('2+2') production.
- **Aviation:** The mandatory set-up of joint ventures (JVs), the approval of aircraft purchases/registrations, the operation of GA activities and the allocation of airport time slots are just a few examples which could be improved to the benefit of the industry as a whole.
- **Rail:** Limited market access remains a major issue for foreign players participating in the Chinese market. For markets related to mainline rail business, no foreign entity is allowed to bid directly for a project in rolling stock or signaling segments.
- **Maritime Transport:** International relay can only be carried out by Chinese flagged vessels operated by wholly Chinese-owned companies; resolving this market access barrier remains an issue of the highest priority for the EU liner shipping community in China.

**EUROPEAN UNION**

DELEGATION TO THE PEOPLE'S REPUBLIC OF CHINA AND MONGOLIA

The Head of Trade Section

Beijing, 29th September 2015
Limited

NOTE FOR THE ATTENTION OF EU TRADE COUNSELORS, SHANGHAI**Subject: Minutes of the Meeting of Trade Counsellors, 23 September 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 23 September 2015
Shanghai**

1. Adoption of agenda

See annex 1 for participants' list.

2. Reform and closing up? A view sector by sector [Art. 4.1(b)]

[Art. 4.1(b)] presented the new EUCCC Position Paper, released during a press conference on Tuesday, 8th September, 2015, both in Beijing and Shanghai.

The main message of the European Chamber (EUCCC) this year is as follows. Foreign businesses hailed the promulgation of the Third Plenum's Decision (November 2013), China's reform vision until 2020. Last year's paper analysed the Third Plenum Decision, now the EUCCC is taking stock. Two years on, reform is either insufficient or inexistent.

The situation is portrayed as "Reform and Closing up" – a twist on China's official slogan of the past three decades, "Reform and opening up."

EUCCC considers that China is at a cross-road. China's economy is running out of steam and 'old recipes' cannot be reproduced. Having reaped all the low-hanging fruit of growth, it needs to embrace a set of bold reforms such as accelerating the reform of the financial system; limiting the State engagement in the economy; increasing market access for the private sector, including foreign business; abolishing the Foreign Investment Catalogues.

Amongst EUCCC Working Groups, 24% perceive that little or no progress has been made, or the situation has even deteriorated. 66% of the Working Groups perceive that some progress has been made, but work still remains. 10% of the Working Groups perceive that targets have basically been reached, or that there is a clear working plan.

A novelty in this year's Position Paper, the EUCCC sends a 'wish list' to Brussels, detailing notably recommendations on what European business invested in China would like to see included in the ongoing negotiations for an EU-China Comprehensive Agreement on Investment (CAI). The EUCCC hopes that the CAI will go significantly beyond the provisions of the national bilateral investment treaties (BITs), and will include an effective Investor-State Dispute Settlement mechanism, as well as a chapter dedicated to SMEs.

The Position Paper 2015/2016 received a lot of quality media coverage both internationally and domestically in China. It garnered headlines in all major international media outlets such as the Financial Times, Wall Street Journal, Bloomberg, Washington Post, Reuters, as well as widely disseminated stories from major newswires such as OWC, DPA, AFP.

Overall, EUCCC considers that the economy is going through a bump, but EUCCC remains bullish over the medium term.

EUCCC presented the main findings of key sectoral Position Papers, namely those of the Financial Sectors working groups, of the Healthcare and Cosmetics working groups, of the

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

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EUDEL is gathering evidence from Member States and business in order to determine the appropriate course of action.

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[Art. 4.1(a) third indent]

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- c) avoidance of erosion of state assets

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[Art. 4.1(a) third indent]

- e) reducing overall salaries of SOEs

[Art. 4.1(a) third indent]

- f) classifying SOEs into commercial enterprises and public service enterprises

[Art. 4.1(a) third indent]

g) the nurturing of some key players to equip them with the means to face international rivals and go successfully global [REDACTED]

[REDACTED]
[Art. 4.1(a) third indent]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Annexes:

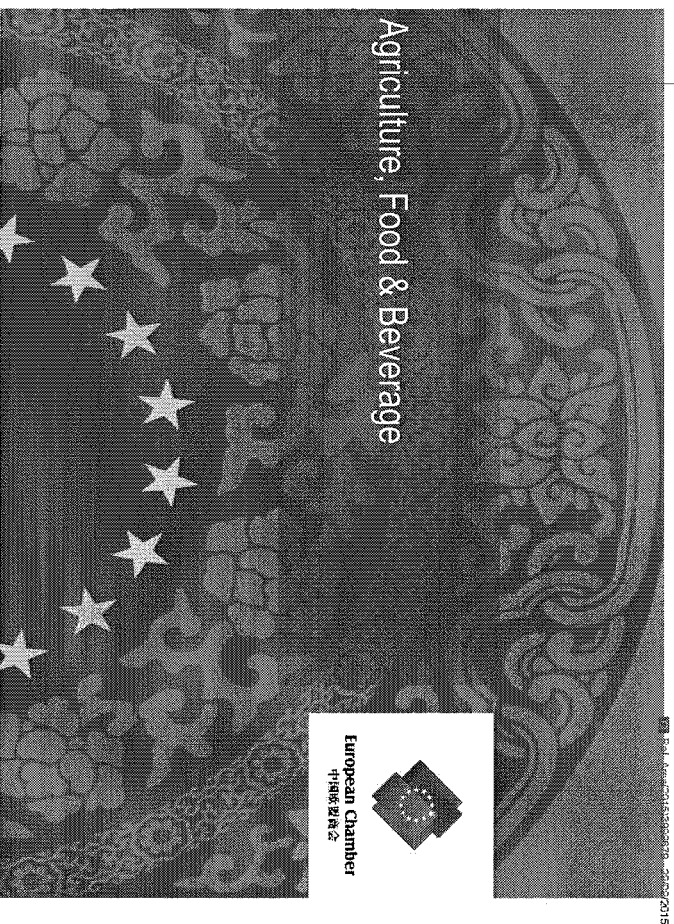
1. List of participants
2. PPT European Business in China Position Paper 2015/2016
3. PPT Agriculture, Food and Beverage

CONFIDENTIAL

ANNEX1

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Answer 1 AN

[illegible]



Market Overview and Outlook

- An increasing number of Chinese consumers have turned to imported consumer brands due to rising concerns over food safety in recent years.
- China will become the biggest importer of food products in the world by 2018.
- Rapid development of cross-border e-commerce but not covered in the new Food Safety Law.
- New requirements are raised in the new Food Safety Law to strictly regulate infant formula sector.

Source: McKinsey

Status of Reform (Reality Check)

- Improve and unify an authoritative food and drug safety supervision organization – the overall supervision framework is set up (CFDA, SAIC, AQSIQ) at central level but local implementation doesn't strictly follow it.
- Establish the most stringent regulatory system covering the whole process and simplify administrative procedures – new Food Safety Law to be implemented on October 1.
- Establish a food tracing system and quality labelling system – unclear requirements of food origin traceability, a lack of clear leading and responsible government departments, and government departments at all levels having their own interests in building separate tracing systems. Add extra cost on companies.

*Source: McKinsey

Top CAI Priorities

- Assess the necessity of revising existing, or establishing new, voluntary national or industrial standards by fully assessing existing national food safety standards.
- Clarify the status of food standards in law enforcement by supervision and administration authorities, ensuring that only situations related to mandatory standards should form the basis for law enforcement actions.
- Publish a clear timeline and systematic plan for the current round of institutional reforms, and set up a clear supervision channel from the central to the local level.
- Allow other government laboratories and private, third-party laboratories to carry out testing in order to reduce the workload and expedite the response process.
- Provide, for each product, a testing matrix and field of application, cross-recognition and equivalence between local testing methods and international methods.
- Introduce comprehensive, reasonable and fair rules to clarify corresponding responsibilities of all suppliers and participants in the food supply chain.