

EU and China: unbalanced trade?

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The Committee on International Trade adopted the report by Marielle DE SARNEZ (ADLE, FR) on EU and China: Unbalanced Trade?

Members recall that the EU is the top destination for Chinese exports, which rose by 39.5% between 2009 and 2010. Reaching a peak amount of **total trade of EUR 395 billion in 2010**, they note that the imbalance in bilateral trade has been in China's favour since 1997. This trade deficit amounted to EUR 168.8 billion in 2010 compared to EUR 49 billion in 2000.

Members also note that foreign investment by the EU in China in 2010 amounted to EUR 4.9 billion and foreign investment by China in the EU in the same year amounted to EUR 0.9 billion.

To respond to this imbalance in trade between the EU and China, Members are committed to finding a balanced approach as regards the exchanges with China. The following measures are proposed:

Improving market access: welcoming the strengthening of economic relations between the European Union and China, Members call on the Commission:

- to apply the principle of reciprocity to the EU's common trade policy with developed and emerging countries such as China, in order to restore fair competition and to ensure a more level playing field;
- to pursue a relationship of partnership and mutual benefits rather than engage in fierce competition and confrontation;
- to cooperate with the Chinese Government in order to **eliminate all remaining obstacles by 2016**, when market economy status is supposed to be granted China by the WTO.

The report regrets the existence of numerous tariff and non-tariff barriers to the Chinese market, such as certain forms of discrimination against foreign operators, particularly in the banking, insurance and telecommunications sectors, and the complexity of the tariff structure and technical barriers to trade, such as the lack of transparency in technical rules and conformity assessment procedures, etc. Members urge China to bring its state subsidy programmes into line with relevant WTO law given that **China has established very considerable trade advantages for itself in relation to the EU through targeted state subsidies**, using a great variety of legal constructs.

The Commission is called upon to reform the anti-subsidy regulation in order for the EU to be able to respond effectively to the considerable challenges presented by China.

Members are concerned by the lack of predictability and publicity in connection with the technical rules and standards applicable to products, particularly in relation to certification, creating significant trade barriers for businesses exporting to China. They call on the country to adopt international standards for products and services so as to promote increased trade between China and other countries. It is also necessary to stress the importance of **compliance by Chinese imports with European standards for food and non-food products**.

Members are also concerned by the fact that **foreign businesses face difficulties in accessing Chinese public procurement**, which stands in contrast to the fact that access to European public procurement is guaranteed. They are concerned by the possibly unfair terms of competition that apply whereby, in

particular, disguised state aid allows Chinese businesses to make markedly better offers than their European competitors. They call on the Commission to rapidly develop, if possible in 2012, a European instrument to ensure reciprocity as regards openness in public procurement markets.

The committee also considers it necessary to:

- reinforce instruments aimed at encouraging, coordinating and supporting market access for European SMEs on priority markets such as China;
- encourage China to become a signatory to the OECD Anti-Bribery Convention;
- encourage China to reform its procedure as regards the installation of foreign companies (joint ventures);
- make use of trade defence instruments which are consistent with WTO rules, such as **anti-dumping**, anti-subsidy and safeguard measures in order to ensure a level playing field for EU-China trade.

Defending the interests of European industry: Members deplore the inadequate protection of IPR in China, and regret the lack of specific means available to European businesses, and particularly SMEs, to counter IPR infringements effectively. They call on the Commission and Member States to defend IPR better in all multilateral organisations where China is a member (the WTO, the World Health Organisation (WHO) and the World Intellectual Property Organisation (WIPO)).

They also urge:

- China to continue to transpose into its national legislation current international law on the protection of IPR and, more specifically, to combat counterfeiting and piracy;
- the Commission and the Member States to step up customs cooperation in the EU and with third countries, particularly with China, on the seizure of counterfeit goods, and to simplify customs procedures.

Noting that **China produces 97% of the rare earths used in the world**, Members call on it to guarantee its trading partners sustainable production methods and fair market access. They invite the Commission to pay particular attention to any potential restrictions by China on the export of its raw materials and call on the Commission to develop a European strategy for the proper management of raw materials, involving increased energy efficiency, recycling, more efficient use of resources and the development of industrial cooperation in the green economy growth and innovation sectors.

At the same time, Members urge the Commission to **negotiate an ambitious and balanced EU-China investment agreement that seeks to create better environment for EU investors in China**. The Council is called upon to elaborate its mandate for a future investment agreement with China, taking fully into account Parliament's views and positions, as set out in the resolution of 6 April 2011 on the future European international investment policy. Members stress the importance of business-to-business cooperation, and the setting up of partnerships between Chinese universities and EU companies.

Alleviating currency competition: Members point out that **China holds sovereign debt of Member States in the eurozone**. Given the importance of this situation, they call on the Commission to start discussions with the European Central Bank (ECB) and Member States on the creation of a coordinated system to identify which parties hold sovereign debt. They are concerned that the EU's negotiating capabilities in trade negotiations with China are being undermined by the latter's contribution to the financial stabilisation of the eurozone.

They also emphasise that the alleged undervaluation and non-convertibility of the yuan might give Chinese exports an unfair competitive advantage, as China holds one-third of the world's foreign exchange reserves. They call for the **international financial regulations** applicable to – and the macroeconomic coordination between – G20 countries **to be strengthened**, as economic stability and

global trade would otherwise be at risk. They call on China to allow the yuan to appreciate to reach an appropriate exchange rate.

Towards a new institutional framework for EU-China trade relations: Members call on the Member States, using appropriate monitoring mechanisms, to ensure that foreign enterprises operating in the EU respect all legislation in force in the Single Market, **including social and environmental standards**, to ensure the protection of patents and to contribute to efforts promoting the sustainability of employment when they purchase European businesses or set up subsidiaries in the EU. They ask the Commission and Member States to set up a body entrusted with the ex ante evaluation of foreign strategic investment, along the lines of the Committee on Foreign Investment in the United States (CFIUS), in order to obtain a clear picture of businesses operating and investing in the territory of the EU, and to report to the parliament on a regular basis. The EU is called upon to act within all appropriate international organisations, such as the WHO, the International Labour Organization (ILO) and the United Nations (UN), in order to initiate a process of reform geared at including binding social, environmental and health standards into the rules on the organisation of trade governed by the WTO.

In parallel, Members deplore the fragmented and uncoordinated institutional framework of the EU-China trade relations and call on the Commission urgently to revise the bilateral relations organisational chart, to pursue better coordination and to eliminate the redundancies at the level of the countless working groups, dialogues and other formal – and informal – bodies active in this area.

They also ask:

- the EU to develop a strategy to avoid compulsory technology transfers;
- for strict compliance with European rules and standards for all goods in circulation on the internal market.

Assessing China's global role: given China's growing influence in the theatre of international trade, Members call on the EU to remain vigilant concerning the political, economic, social and environmental impact of increasing Chinese investment in developing countries, particularly in Africa and Latin America.

Members are concerned that some European companies invest in China mainly because of the low cost of production caused by lower social, environmental and human rights standards. They strongly recommend that the Commission and the Member States promote effective corporate social responsibility (CSR) practices by European companies in China.

The report emphasises that, in the best interests of developing countries as well as of broader global competition and growth, EU enterprises and actors seeking to compete with China in trade and economic relations with developing countries should work to present offers that are the **most attractive in terms of long-term sustainability and benefit**, including environmental, social, human rights and governance aspects. Noting that China is the world's largest emitter of greenhouse gases, Members call on the EU to propose within international organisations that ecological aspects and climate change targets should be included in discussions relating to international trade. They encourage, therefore, the EU and China to develop a closer and more responsible strategic dialogue based on mutual understanding.

Reinforcing the EU to cope with global competition: Members call on the EU to develop an ambitious common industrial policy based on research and innovation that benefits from innovative financing arrangements such as project bonds and that supports the development of SMEs.

They call on the EU to:

- **enhance the value of European production** by providing better quality information to consumers, particularly through the adoption of the regulation on origin marking (**‘made-in’**) of products imported into the EU;
- speak with one voice in order to prevent partnerships and bilateral agreements weakening the EU position;
- implement a long-term strategy with regard to China, ensuring the operational coordination both between the EU institutions and between the EU and the Member States;
- build up extensive cooperation with China in areas of joint research such as product safety and human health, and to establish further scientific, technological and cultural exchanges;
- resolve issues through increased bilateral co-operation or dispute settlement in the WTO.