



THE PRESIDENT

Mr José Manuel Barroso

President
European Commission
BE - 1049 Brussels

BELGIUM

17 April 2008

Dear President,

BUSINESSEUROPE appreciates a lot your initiative to lead an important delegation of Commissioners on a visit to China to develop a more comprehensive dialogue on key issues on 25 April 2008. We hope that this initiative will help restart negotiations on the revision of the EU-China Partnership and Cooperation Agreement and deliver real progress in other areas of cooperation. We also appreciate that the European Commission has begun discussing trade problems much more directly in meetings with Chinese counterparts. However, European companies still face many barriers and challenges in accessing this key market which need to be addressed in a more resolute manner.

This new EU-China High Level Economic and Trade Mechanism, which will be launched during your visit, must give new strategic impetus to EU-China trade relations and deliver clear and tangible results in several areas. Its success will to a large extent depend on an efficient organisational structure. BUSINESSEUROPE calls upon the European Commission to guarantee effective cooperation and preparation, involving sufficient resources, and to consult closely with business.

1. TRADE IMPEDIMENTS

Bilateral trade and investment relations have grown enormously in recent years. However, the EU's trade deficit has increased rapidly and will exceed 170 billion euros in 2007, reinforced by the undervaluation of the Chinese Renminbi. China has to realise that an undervalued currency is not only damaging for the global economy, and in particular for Europe, but also for China's domestic interests. The sustainability of China's strong economic growth is impaired by inflation, excessive liquidity and asset price bubbles. A more flexible currency regime is essential for a rebalancing of the Chinese economy, allowing for a more rapid appreciation of the Chinese currency. The EU and China should place exchange rates, trade and investment at the core of their relations and make it a priority in the new Economic and Trade Mechanism.

As regards multilateral trade matters, China should fully implement its WTO commitments and comply with WTO panel decisions. We furthermore call upon China to contribute fully to an ambitious and balanced outcome of the Doha round, with new market access on industrial goods and services. China should also accede to the WTO Government Procurement Agreement and sign up to international technical regulations like the UN/ECE 1958 Regulations Agreement.

2. STATE INTERVENTION AND DISTORTIONS

Although we recognise that China is an economy in transition, we are very concerned about continued state practices that distort the Chinese market for European companies. Examples of particularly harmful distortions include almost unlimited state funds for export financing, heavy-handed state intervention in the banking sector and price-setting for raw materials. Other strong interventionist practices include the limitations put on investments, which still require 50%-50% joint ventures, and forced technology transfer. For example, China's 11th 5-Year Program (2006-2010) for Utilizing Foreign Investment urges large multinationals to move their high-tech and high-value-added processing facilities and R&D capacities to China. From a more systemic perspective, business is very concerned about national and local governments setting price targets or determining resource allocation in state economic plans. BUSINESSEUROPE calls upon the European Commission to work with the Chinese government to remove, at the very least, the most harmful distortions.

On the technical issue of Market Economy Status (MES) to China, the Commission must ensure that the matter is dealt with according to its merits and avoid unwarranted politicisation of the issue. Before being granted MES, China must properly fulfil the established criteria in several areas: financial sector reform; company law and international accounting standards; governmental intervention in the economy; freedom to trade; fiscal instruments; and enforcement of basic legal principles based on the principle of equal treatment for domestic and foreign companies. We have not seen evidence that these criteria have been met. Considering the implications for European companies, BUSINESSEUROPE therefore insists that the European Commission conducts a thorough and impartial assessment of the current business environment in China and the fulfilment of the conditions of a properly functioning market economy before granting MES.

3. INADEQUATE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

Although China has made progress in the streamlining of its intellectual property legislation, the effective enforcement of IP rights remains highly problematic, notably at regional and local levels. The scale of the production of counterfeit and pirated goods inside China remains at an alarmingly high level. In 2006, 79% of all counterfeit goods seized at EU borders came from China, compared with 54% in 2004. In addition, technical barriers of a regulatory nature are also detrimental to access to the market for foreign industry. Considering the fact that China is currently reviewing its patent law, as well as the trademark law and other key legal provisions, it is important to stress that the Chinese legal framework must be appropriate and in line with international

standards. The EU-China Dialogue on Intellectual Property, established in 2003, has to deliver on its expectations and produce tangible results. Its main themes remain the strict enforcement of IPR, including reinforced customs controls and border management, as well as the promotion of public awareness of the dangers of IPR violations.

4. A LEVEL PLAYING-FIELD FOR RAW MATERIALS

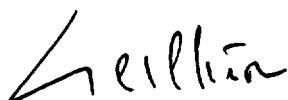
Securing a level playing-field for access to raw materials is a high priority for Europe's diverse and interdependent industries. The EU imports as much as 80% of some industrial raw materials. It is therefore crucial that the objective of a level playing-field for access to natural resources and unfettered trade is pursued. BUSINESSEUROPE is concerned about the proliferation of trade and investment restrictions around the world. China increasingly resorts to restrictions on raw materials, providing a poor example for other nations to keep or adopt similar policy measures. To fight against this mushrooming practice, the EU should address this problem not only at multilateral level, but also consistently in its bilateral relations.

5. A GLOBAL APPROACH TO CLIMATE CHANGE

With regard to climate change, the EU must work towards reaching a truly global agreement by 2009 in Copenhagen, which includes all major emitters on the principle of common but differentiated responsibilities. On the current projection, world CO₂ emissions will have increased by more than 50% in 2030, with China having already overtaken the USA as the country with the highest absolute CO₂ emissions. It is therefore essential that China accepts its responsibilities and takes up its global share in reducing emissions.

I am confident that your timely initiative will deliver concrete progress on the above-mentioned issues and I look forward to the Commission's report on the expectations for the new EU-China High Level Economic and Trade Mechanism.

Yours sincerely,



Ernest-Antoine Seillière