



“The Hamburg Summit: China meets Europe”

Keynote speech by

by

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Introduction

- Very pleased to be taking part in this second “Hamburg summit” and would like to congratulate the organisers on having identified the importance of the EU’s relations with China and on having arranged such an interesting programme
- No doubt I have been invited in my capacity as Chair of the European Parliament’s International Trade Committee. However I would not presume to set out an official position of the European Parliament, far less the position of the European Union as a whole.
- Instead I will try to give you my personal reflections on the current state of EU-China trade relations although, of course, these thoughts draw on the work that my committee has undertaken over the last two years.

Doha Development Agenda

- Before turning to Europe’s bilateral trade relations with China, I would like first to say a few words about the WTO negotiations – the so-called Doha Development Agenda
- No doubt like some of you, a number of Members of the European Parliament were ready to give up part of their summer holidays so as to be able to attend the WTO meeting Ministers had been expected to hold in Geneva in late July
- Unfortunately, owing to a lack of convergence between major trading partners, the WTO’s Director General, Pascal Lamy, decided on an indefinite suspension of the negotiations.
- Last week the European Parliament adopted a resolution reiterating its full commitment to the multilateral approach to trade policy; regretting the suspension of the Doha Round negotiations; and expressing disappointment that insufficient flexibility on the part of some of the major players led to deadlock.
- At the same session the European Parliament adopted a resolution on EU-China relations, which focused on political rather than trade issues, including the human rights situation in Tibet. However I do not intend to go into these issues today.

China’s role in the DDA negotiations

- China has been a WTO Member since December 2001. As the world’s third largest exporter, it unavoidably has a key role to play in the negotiations.
- In many sectors China stands to gain a lot from a successful conclusion of the round. It has clear offensive interests in most chapters of the negotiations, including NAMA, services and Trade Facilitation.

- With respect to trade defence, China, being both a traditional target of anti-dumping and countervailing measures by other members and a major user, is trying, like the EU or the US, to balance these interests by ensuring improvements to the agreements concerned which would strengthen disciplines and clarify rules, while preserving the legitimacy and effectiveness of these instruments.
- The main feature of China's involvement in the DDA, however, has been its strikingly passive attitude. Despite its brilliant economic performance, China lays a lot of emphasis on its developing country status and, for both economic and geopolitical reasons, is showing solidarity with the claims of the developing world. China also insists on its status as a "Recently acceded member".
- The purpose of this strategy appears to be to avoid having to make any liberalisation commitments beyond what was agreed at the time of its accession and benefit from concessions made by others (such as the EU, the US, Japan and South Korea).
- China's main trading partners, who are facing rapidly increasing deficits in their trade with China, are growing more and more impatient with this attitude.
- As the Parliament's resolution said, a strong commitment on the part of all major players is now needed so as to come to a balanced agreement on each of the Round's main negotiation topics so as to ensure that the DDA ultimately results in meaningful and sustainable economic gains, particularly for the developing countries. China certainly has its part to play in achieving such an outcome.

EU-China trade relations

... have being growing rapidly for 25 years

Let me now turn to the EU's bilateral relations with China

- We are each other's second largest trading partners.
- Trade was worth over €200 billion in 2005 and has grown sixty-fold over the last 25 years of Chinese economic liberalisation.
- The EU trade deficit with China has also grown dramatically, exceeding €100 billion in 2004.
- When China started WTO accession in the mid eighties it accounted for less than 1% of world trade. Today it is the world's third largest exporter and its share of trade continues to grow.
- At same time, the growing Chinese middle class represents a potentially important market for European products whilst European firms are amongst the leading Foreign Direct Investors in China.

- The INTA trade committee has therefore given a high priority to EU-China trade relations: choosing this as the subject of one of our first major reports; sending a Delegation to Guangdong province in advance of the WTO Ministerial conference in Hong Kong; and raising specific issues (expiry of textile quotas, protection of intellectual property rights, possible dumping of products such as footwear) with Commissioner Mandelson.
- Also recognise the challenges China's growing exports pose for developing countries with whom the EU has close and long-standing ties. As a result, need to think through the consequences for our development policies - including through reform of the Generalised System of Preferences and "Aid for Trade".

... raise a number of concerns

On 13 October 2005, the EP adopted a report on prospects for trade relations between the EU and China.

The resolution called for:

- increased dialogue to address many outstanding WTO implementation issues
- market economy status only to be granted once China had fulfilled the relevant criteria
- measures to protect European intellectual property against counterfeiting
- China to contribute to a successful outcome of the DDA, including by acting as a link to third world countries
- a resolution of the problems caused by the implementation of the Memorandum of Understanding on imports of clothing and textiles
- greater regulatory convergence
- gradual decontrol of China's exchange rate
- recognition that China's income inequalities are amongst the fastest growing in the world
- China to ratify key International Labour Organisation (ILO) conventions
- China to play a full role in promoting sustainable development, including through collaboration with the EU on renewable energy and by tackling the problem of illegally-sourced timber
- the continuation of the arms embargo on China
- the EU to find a response to increasing public disquiet about the impact of globalisation, including by developing a coherent long term strategic response to China's expansion which recognised that the challenges currently being faced by the textiles or

footwear sectors would soon be experienced by other industrial sectors

Let me now pick up a few of these points in more detail.

China and the WTO

(1) Chinese accession to the WTO -terms and conditions-

- The EU was a strong supporter of China's accession to the WTO, taking the view that a WTO without China was more than incomplete.
- The commitments requested from China in the context of accession to the WTO were intended to secure improved access for EU companies to China's market and reduce import tariffs and other non-tariff barriers.
- The Chinese accession allowed more substantial investments by EU companies in the country and encouraged China's own efforts to promote transparency, fairness and openness in its trade regime across the board. It opened to foreign companies key service sectors such as insurance and telecommunications. WTO membership also reinforced China's own process of economic reform and development.
- I would now like to mention some of the commitments undertaken by China as part of its WTO accession. You will see that these commitments are not exactly symbolic.

(First) China committed itself to provide non-discriminatory treatment to all WTO Members. All foreign individuals and enterprises are supposed to receive a treatment no less favourable than that accorded to enterprises in China with respect to the right to trade.

(Second) China had to remove dual pricing practices as well as differences in treatment accorded to goods produced for sale in China in comparison to those produced for export.

(Third) China agreed to renounce price control practices for purposes of affording protection to domestic industries or services providers.

(Fourth) China committed itself to implement the WTO Agreements in an effective and uniform manner by revising its existing domestic laws and enacting new legislation fully in compliance with the WTO Agreements.

(Finally) from 2005 all enterprises have been granted the right to import and export all goods and trade them throughout the customs territory with limited exceptions.

- In return, Beijing obtained that quantitative restrictions or other measures maintained against imports from China in a manner inconsistent with the WTO Agreement would be phased out.

- To face the inevitable increase of Chinese exports and the possible negative effects on the other WTO members' economies, the accession treaty introduced a Special Transitional Safeguard Mechanism to be applied in cases where imports of products of Chinese origin cause or threaten to cause market disruption to the domestic producers of other WTO members. However this mechanism has never been used due to strong Chinese opposition to something they see as punitive and discriminatory.

(2) Market Economy Statute (MES)

- It was also agreed that China would be treated as a non-market economy for the purpose of the anti-dumping agreement. This matters because it allows a more effective application of antidumping duties against China. There has been increasing pressure from Beijing to receive market economy status without delay. The European Commission is currently assessing Beijing's market economy progresses and might, at the end of this review, grant MES to China. I am confident that the European Commission will take its final decision only on the basis of sound economic findings.

(3) Trade disputes

- I cannot honestly say that China has fully implemented all its WTO obligations. There is still more work to do. This is of course one of the Community's key priorities in its bilateral trade and economic relationship with China.
- The main issues identified so far by the EU side include inadequate enforcement of intellectual property rights, the definition of industrial policies which might discriminate against foreign companies (e.g. in the automobile sector), the barriers to market access in a number of services sectors (including construction, banking, telecommunications, express courier) and access to raw materials.
- One of the consequences of China's accession to the WTO was that quotas on textiles and footwear terminated in 2005. I am aware that effects of the liberalisation on the European industry in these sectors have been rather serious.
- Last year the European Commission applied quotas on certain textile items and opened an antidumping investigation covering leather footwear which has led to the imposition of provisional duties and a Commission proposal for definitive duties of 16.5% on certain leather shoes from China. I am aware that this is more than a simple antidumping case. It is also a philosophical fight between those that defend the existence of a manufacturing industry in Europe and those that see in delocalisation the only response to changed conditions of competition.
- In my opinion, both parties are right. It is inconceivable that the Community industry will produce only in Europe. But equally inconceivable that Europe becomes a manufacturing-free zone. I am therefore strongly convinced that international rules must be respected. I am also of the opinion that political considerations should not prevail over technical findings in an anti-dumping case.
- In cases where Chinese companies have been shown to use illegal methods (dumping, subsidies, counterfeiting) to boost their exports to Europe and kick-out our industry from the market, there is no

doubt that the Community has not only the right but also the obligation to intervene and restore a level playing field.

Conclusions

- I hope I have given you a broad overview of the current state of EU-China trade relations. Certainly there are lots of problems and issues to be resolved. At the same time, we should put these points into perspective. With €200 billion worth of trade a year, there are bound to be disputes – the situation is no different with EU-US trade. What matters is that we, as politicians, make our contribution to resolving the problems as they arise so that individuals and firms can gain mutual benefit from commercial exchanges within a system of free and fair trade.