

EU-CHINA RELATIONS: AN OVERVIEW OF SECTORAL DIALOGUES

BETWEEN CHINA AND THE EUROPEAN COMMISSION

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What are Sectoral Dialogues and what drives them?

Relations between the European Union and China have intensified tremendously in recent years. To some extent this is the natural consequence of China's impressive economic growth and her increasing importance on the world stage as a major political partner. But substantial impetus for the rapid development of the relationship also stems from the shared interests that exist between the EU and China.

Evidence of this complementarity of interests can clearly be seen in the political arena, in areas such as multilateralism and global sustainable development. Considerable further evidence is to be found in the **less visible, but flourishing area of exchanges on sectoral policies and technical issues or, as they are known, 'sectoral dialogues' between China and Europe.** These dialogues have grown considerably in recent years and now cover a wide range of areas: from space technology to enterprise regulation, and from environmental issues to education and the information society.

In many of these areas **China and the EU face similar problems and favour similar approaches to them.** Some examples:

- In the area of **competition policy**: both China and the EU strive to create a level playing field for the activities of both state-owned and private companies, and for large corporations and small businesses. The fact that the EU has, over the years, developed a wide ranging competition policy has not gone unnoticed in China. As a consequence, during the past year preliminary exchanges of experiences have taken place between Chinese and European policy makers and specialists on this subject. Chinese is currently drafting comprehensive competition law and the draft law in fact bears many similarities to the EU model.
- On **Internal Market issues**: like the EU, China is committed to eradicating market fragmentation in order to reap the full benefits of a large internal market. The free movement of people and goods, the provision of services without frontiers, and public procurement all continue to present regulatory challenges to both sides.
- **Regional policies and other income re-distribution mechanisms**: China's political leaders have on several occasions expressed concern over income disparities that are emerging in China, particularly in relation to the urban/rural divide. Achieving "balanced development" is now an explicit goal under China's economic policy. The EU, for its part, has a wealth of experience in regional and rural development policies which squarely addresses the issues related to disparities in regional growth. Chinese and EU specialists have started exchanging experiences on these issues with the intention of intensifying co-operation in the years to come.
- China and the EU are both major players in **international trade** and very close interaction at all levels on trade issues is in place. Both Chinese and EU policy makers are fully aware of the benefits of free and open markets, but social and regional considerations also play an important role in decision making. Both sides tend to seek consensus-oriented solutions in order to avoid conflict – a path which implies lengthy co-ordination before decisions can be taken.

In short, China and Europe have considerably more in common than might appear at first sight. This creates a strong mutual interest to promote the exchange of experience and know-how.

China today is experiencing challenges which Europe started to tackle a number of years ago in areas such as the environment, the internal market, and competition. The EU is demonstrating its willingness to **share this experience with China**. And China has shown an interest in using the best practices of the “EU model” in these policy areas.

In other areas too, both Europe and China are simultaneously confronted with new challenges, such as the rapid advances in science and technology and problems with health protection. This is a two-way street. In some areas Europe could usefully benefit from Chinese know-how and experience. Peaceful nuclear research is an example of such an area, where Europe will soon have to close down its ageing experimental nuclear reactors, whereas China is currently building state-of-the-art facilities. As a consequence of the conclusion of a new Euratom agreement - concluded at the December 2004 EU-China Summit – China is prepared to share the technology behind her new facilities with European researchers.

Common interests and complementarity – together with political receptiveness on both sides - thus help to explain why the Sino-European relationship has grown so quickly on many fronts.

Who participates and how do they work in practice?

The purpose of this document is to provide an overview of the European Commission’s –sectoral activities which now cover **some 20 different areas**. It does not deal with exchanges that take place in the areas of human rights and migration, which are of a somewhat different nature and more directly related to the EU-China political dialogue. The new Tourism Agreement (also known as the Approved Destination Status Agreement – ADS) is also not covered here, although it will serve to bring Chinese and Europeans closer together through the facilitation of travel for Chinese citizens to EU destinations.

Exchanges take place under different denominations depending on the specific context of the sector. They are referred to as ‘dialogues’, ‘regular exchanges’, or simply as ‘co-operation’, and they take place at various hierarchical levels, from working level to ministerial level. A variety of participants may be involved, including officials, politicians, business organisations, and private companies. Proceedings are organised in a flexible way and take the form of working groups, conferences, annual formal meetings or simply informal exchanges. **Specialists from nineteen Directorates General in the European Commission are involved in regular exchanges with their respective counterparts in China.**

What purpose do they serve?

Sectoral dialogues have helped to develop a solid foundation for the EU-China relationship which is now characterised by increasingly close policy co-ordination in many important areas. The European Commission strongly encourages these dialogues, which are an important area of support to the overall relationship.

The dialogues constitute an **effective tool for further widening and deepening EU relations with China, for exploring new areas of common interest, for exchanging know-how, and, especially in the area of economic reform, ‘EU models and practices’**. A new support programme for dialogues and exchanges has consequently been included in the European Commission’s new National Indicative Programme for China covering the period 2005-2006. In addition to reinforcing the synergies between dialogues and the development assistance programme, the support programme will also provide more substantial back-up for the process.

Sectoral dialogues also tend to **pave the way for business and other operators** by eliminating potential regulatory obstacles, and through raising awareness and facilitating contacts. Regular exchanges between specialists, officials and the business community serve to boost mutual understanding, and provide the

substance for further **developing the EU-China ‘strategic partnership’**. This is a stabilising element for the relationship which helps to counterbalance other more sensitive issues such as human rights, migration, and trade negotiations.

What does the future hold?

Most of the dialogues have been established over the past two to three years, and they reflect the massive growth in **activity that has recently been characterising the relationship**. Sectoral dialogues & agreements are expected to play an increasingly important role in building a privileged EU-China relationship with important benefits for both sides.

EU- China sectoral dialogues: What are the areas?

Competition policy

Competition policy is a crucial issue in the context of China’s efforts to restructure its economy. The **fragmented Chinese domestic market** needs improved regulation to create a level playing field for market operators and to accompany the reform of large inefficient state-owned enterprises. In the medium-term improved regulation should also alleviate the current risks of trade dumping and economic instability emanating from China. With this in mind, in May 2004 China and the EU agreed upon a **permanent mechanism for consultation in this area**. The dialogue will enhance the EU’s technical and capacity building assistance to China in the area of competition policy, a process which is facilitated by the fact that the emerging Chinese competition system follows the “European model”. It is widely recognised that **international co-operation in the competition field is an essential factor in the fight against the formation of international cartels, and China can play a significant role in this domain**.

Consumer product safety

China is one of the EU’s most important trading partners when it comes to consumer goods, and this relationship can only be expected to grow in the coming years. By developing a common understanding between Europe and China on product safety issues, a culture of mutual understanding and trust can be developed. The recent Memorandum of Understanding between the European Commission’s DG for Health and Consumer Protection (SANCO) and the Chinese governmental agency for Quality Supervision, Inspection and Quarantine (AQSIQ) aims at considerably enhancing the co-operation on these issues and to establish better communication and collaboration between the responsible authorities on general product safety. A Working Group has been established between DG SANCO and AQSIQ to implement the different actions under the agreement.

Customs cooperation

Close co-operation between customs authorities is vital to **facilitate trade and to help combat illegal activities such as fraud and counterfeiting**. The EU-China customs co-operation agreement was signed in December 2004, and among other things opens the way for inspection missions in both directions in order to ensure the effective enforcement of customs regulations.

Education and culture

The new Erasmus Mundus programme came into force in 2004 and provides financing for third-country students to pursue post-graduate studies in Europe. Special ‘windows’ for China and other Asian countries have been set up to attract significant numbers of students from this region to study in Europe. Further ways of enhancing dialogue and co-operation in the field of education and culture are currently being explored.

Energy – including nuclear energy

China's increasing appetite for energy has significant repercussions on global markets and on the environment. The energy dialogue has been in existence since 1994 and is one of the earliest sectoral dialogues to have been established. It takes the form of annual working group meetings and a bi-annual Conference on EU-China Energy Co-operation. Current subjects of discussion include energy policy and development strategy, the evolution of energy markets, and security of supply and sustainable development. At the recent EU-China summit a Memorandum of Understanding on transport and energy strategies was concluded. Concrete actions are envisaged in areas such as energy regulation, renewable energy (including alternative transport fuels), energy efficiency, natural gas, clean coal technology (near zero emissions) and other new technologies in the energy sector. The new EURATOM agreement with China focuses on research into the peaceful use of nuclear energy and grants researchers from both sides access to each other's facilities. It is particularly interesting for European researchers to work in new state-of-the-art Chinese facilities, at a time when older European research reactors will soon be phased out.

EU and China are both participating in the international ITER programme for the construction of an experimental controlled fusion reactor.

Environment

Chinese policy makers increasingly see environmental protection as a major challenge for the country and China has an important global role to play in this field.

Over the last decade, contacts between the European Commission and the Chinese State Environmental Protection Agency (SEPA) have intensified. **The dialogue on environmental issues, which covers sustainable development, climate change, and renewable energy, was recently upgraded to ministerial level.** A substantial part of the EU-China financial assistance budget is furthermore allocated to environmental support programmes in response to the clear wish among policymakers in China to learn from EU experience. Co-operation and exchanges cover wide areas of environmental issues, ranging from biodiversity, climate change, and waste management, to water and air pollution, vehicle emissions, environmental indicators, sustainable consumption and production and environmental impact assessments. The Joint Declaration on Climate Change between the EU and China, adopted at the September 2005 summit, further underpinned this relationship by identifying concrete steps to be made in tackling the problems of climate change.

Space cooperation

The Commission and the Chinese government also launched a dialogue on **cooperation in space science, applications and technology.** Managers of aerospace companies and research institutions attended a workshop in April 2004. A joint EU-China Space Co-ordination Group will analyse the state of co-operation, identify current obstacles, and provide recommendations for industrial and scientific collaboration in order to facilitate the establishment of a long-term cooperation in the space sector.

Galileo global satellite navigation services

The European Galileo programme will provide **high precision global satellite navigation services,** an area in which China is keen to develop links with the EU. A co-operation agreement was concluded in October 2003 under which China has pledged to contribute €200 million to the programme, the estimated total cost of which amounts to some €3-4 billion. A follow-up agreement between the Chinese Remote Sensing Centre and the Galileo Joint Undertaking was signed in October 2004, opening up for the first time this Community undertaking to the full participation of a non-EU country. Chinese participation in the programme paves the way for tangible scientific and industrial collaboration projects.

Information society

The dialogue on information society started in 1997 and all exchanges in this wide area have now been grouped under one umbrella dialogue, covering both research cooperation and policy discussions. On the cooperation side the aim is to promote collaboration between European and Chinese research teams. This is seen as essential to ensure exploitation of research results at a global level and to build interoperable technology solutions. It is of high value for the competitiveness of European industry, and is of great interest to the Chinese government. It also offers a means to reach consensus on global critical issues such as security and dependability. Key issues on the policy side include the respective developments in telecom policy and activities in areas such as e-Government, security of networks, and the promotion of e-Commerce. At the same time, the Dialogue offers the possibility for the EU side to pursue concerns such as the assignment of 3G licences (third generation mobile communications) in China, delays in the emergence of a transparent regulatory framework for telecommunications, difficulties in accessing telecom services markets, and a number of standards issues. The dialogue is to be backed up with a considerable number of activities under the development cooperation programme (China-EU Information Society project).

Intellectual property rights (IPR)

China has made considerable efforts to adapt its IPR legislation to ‘Trade-Related aspects of Intellectual Property Rights Agreement’ (the TRIPs Agreement) – a cornerstone of the World Trade Organisation’s (WTO) legal framework. China became a WTO member in 2001. Further concrete action is however needed on the Chinese side to establish an **effective enforcement system for IPR**. A formal dialogue on this was signed in October 2003 and the Commission has been financing an important IPR technical co-operation programme. A follow-up programme, focusing on enforcement issues, is to be prepared for funding under the 2005-06 financial assistance programme.

Maritime transport

In 2002, a maritime agreement was signed between the EC and its Member States and China to **improve conditions for maritime transport** carried out by EU and Chinese companies between the EU and China and to third countries. The agreement which has just been amended to cover the 10 new EU Member States who joined in 2004, promotes notably the freedom for both sides to provide maritime transport services and to have unrestricted access to ports and auxiliary services. It also deals with the commercial presence of shipping companies. Maritime cooperation regarding notably safety, security and training will now also be extended to inland waterways and ports. An annual monitoring of the implementation of the agreement is taking place alternatively in China and in the EU.

Regulatory and industrial policy

The promotion of EU Internal Market rules in China will assist **regulatory convergence between the EU and China**, and will in the long term help to **eliminate obstacles to trade and investment** by comprehensive system of consultation and information on regulations, standards and certification procedures implemented by both parties. The quality and safety of Chinese goods sold on the EU market and elsewhere should further improve as a consequence. The dialogue provides for annual meetings to discuss major issues of common interest and to plan future co-operation, and for sectoral or horizontal Working Groups which focus on a broad scope of issues. There are currently 13 Working Groups established under this framework covering conformity assessment, standardisation, technical barriers to trade (TBT/WTO), electrical and mechanical products, toys, textile, lighters, medical devices, pressure equipment, automobile standards, cosmetics and radiation of mobile phones.

The Industrial Policy Dialogue promotes and enhances mutual understanding and awareness of current and forthcoming policy approaches including sustainable development, legislations and related issues in the industrial sector with a view to increase coherence between EU and Chinese industrial policy. The Parties promote consultations, mutual understanding and transparency. Working groups were established in three sectors (automobile, metals and textile).

Food safety - Sanitary and phytosanitary (SPS) issues

Co-operation between China and the EC in this field can bring benefits to the consumers of both parties and facilitate trade in agricultural goods. A Joint Technical Group was established in 2002 in order to deal with regulatory questions in this area. The recent Memorandum of Understanding between the European Commission's DG Health and Consumer Protection and the Chinese governmental agency for Quality Supervision, Inspection and Quarantine (AQSIQ) aims at considerably enhancing the co-operation on these issues and at establishing better communication and collaboration between the responsible authorities on food safety and SPS issues.

Science and technology (S&T)

The purpose of EU-China S&T co-operation is to produce common analyses of, and solutions to global challenges such as food and environmental safety, the management of natural resources, the control of infectious diseases, knowledge and digital divides. Progress in these areas also increases competitiveness and economic growth on both sides. The level of co-operation in this area has increased substantially since the bilateral S&T agreement entered into force in late 1999, promoting co-operative links between research organisations, industry, universities and individual researchers. A special €9 million programme was launched in July 2003 to help China and other Asian countries to undertake **SARS research**. Hydrogen and nano-technologies represent other promising new fields of common interest. The S&T agreement has been the subject of a successful external evaluation, and was renewed in December 2004.

Trade policy dialogue

This dialogue covers multilateral issues such as the Doha Development Agenda, regional issues related to regional integration and free-trade areas, and key bilateral issues. The **dialogue focuses on strategic issues** and therefore complements the institutional bilateral meetings (which cover, *inter alia*, trade), such as the Economic and Trade Working Group and the Joint Committee. The first high level Trade Policy Dialogue took place in June 2004.

Textile trade dialogue

To pre-empt potential conflicts after the abolition of textile quotas on 1 January 2005, the textiles trade dialogue examines ways in which a smooth transition to the quota-free textiles trade environment can be assured, and the process contributed to the textiles agreements forged earlier this year. The Commission expects the dialogue to lead to practical results which will have tangible and positive effects on trade in textiles and clothing between the two sides, based on fair and healthy competition in the marketplace. In addition to the government-to-government dialogue, an EU-China business dialogue is also being set up.

Macro-economic and financial sector reforms

At the December 2004 EU-China Summit the two sides announced a dialogue process on macroeconomic and financial sector issues. Matters that are currently of a topical nature such as **monetary issues and macroeconomic performances will be discussed**, as will be longer-term issues such as **financial sector regulation and public procurement**. The inaugural session of the dialogue took place in February 2005 in Brussels. Areas for potential further cooperation were identified, e.g. accounting standards and the implementation of the Basle II agreement. Another event currently under preparation is the organisation of a Financial Services Roundtable with the Chinese government and industries under the auspices of the EC-funded Financial Services co-operation project.

Employment and social affairs

On 5 September 2005, during the EU-China Summit, Commissioner Špidla signed with the Chinese Minister of Labour and Social Security, Mr Tian, a Memorandum of Understanding (MoU) on EU-China

cooperation on Labour, Employment and Social Affairs. The MoU provides the framework for EU-China dialogue on areas such as social protection, social cohesion, labour legislation, employment, labour relations and social dialogue. Each side will visit the other at least once a year in Brussels and Beijing alternately. The first China-EU event under the MoU, a seminar on "Employment Promotion and Vocational Training", took place the day after the signing of the MoU. The next event will take place in Brussels in autumn 2006 and the theme will be "Mobility of workers". In addition, the EU will assist China in the modernisation of its social protection systems through a five-year cooperation programme to start in January 2006.

Envisaged new dialogues, exchanges or agreements

Balanced regional development – regional policy

China is faced with considerable regional development disparities and more general income disparities. The new Chinese leadership has committed itself to tackling these problems. An initial exchange of experiences between Chinese and Commission officials took place in Brussels in October 2004, and further exchanges are planned.

Agricultural dialogue

On 15 July, 2005, a Joint Declaration was signed between the Chinese Ministry of Agriculture and the Directorate General for Agriculture and Rural Development of the European Commission, establishing a dialogue on agriculture between the two sides. The objective of the dialogue is to promote bilateral cooperation and to facilitate the communication on arising issues and their efficient resolution. The working methods will include regular meetings during which new legislation and regulations, new technologies, quality policies (including geographical indications and organic production) and any other topic of mutual interest, relating to agriculture, will be discussed.

Civil aviation

The **need to develop a new framework for China-EU civil aviation relations** was highlighted by a 2002 judgement of the European Court of Justice. The Court ruled that bilateral air services agreements between European Member States and third countries such as China are contrary to European law if they discriminate against carriers from other Member States. This is practically the case under all existing bilateral air services agreements between EU Member States and third countries including China. However, China has now agreed to restore legal certainty through negotiating and EU-China horizontal agreement that would bring all bilateral agreements into conformity with Community law. Negotiations on this agreement will start mid-December 2005 in Beijing.

The Chinese side has furthermore shown strong interest in enhancing technical co-operation and assistance in a broad range of areas including aviation safety, security and air traffic management. A highly successful co-operation project in this area financed with EC funds and with funds from both the European and Chinese industries was extended in 2005 until mid-2006. A highly successful EU-China Aviation Summit took place on 30 June-1 July 2005 in Beijing jointly organised by the European Commission and the Chinese civil aviation authority CAAC.

Transport (in general)

At the recent EU-China summit a Memorandum of Understanding on transport and energy strategies was concluded with the Chinese National Development and Reform Commission which will allow for the institutionalization of the cooperation in the transport sector. It was agreed also to launch cooperation on road and railway transport.