Journal of the European Union Chamber of Commerce in China

EURObiz

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March/April 2013

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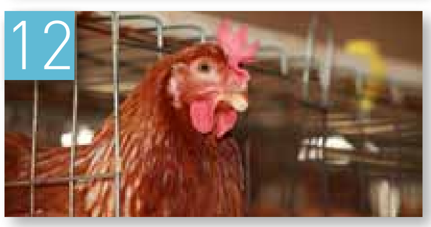

REGULARS

On the cover

Inspections commence in Changsha at the start of a food safety inititiative undertaken by the local government.

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FOOD FOR THOUGHT

Mr Davide Cucino
President of The European Union Chamber of Commerce in China

As the ancient Chinese saying goes, "food is the first necessity of the people". In recent years, Chinese consumers have enjoyed a boom in choice for food products. Belgian chocolate, German beer, French and Italian wine, Greek olive oil, Scottish salmon and Spanish ham are no longer exotic delicacies out of reach to the vast proportion of Chinese consumers, but are common items for many of China's urban citizens. European food manufacturers have not only brought new gourmet items, but have also contributed to China's food industry through innovation, standards, new production technologies and hygiene and risk assessment processes; it is these issues—not just choice—that are increasingly at the forefront of the thoughts of the Chinese consumer following various food safety scandals that have produced sizeable impacts on China's society.

In this issue of EURObiz we focus on food safety and food security issues and examine some of the steps that China needs to take in order to a secure safe and sustainable food supply.

Access to safe food has become a major concern for the public and the restoration of consumer confidence in food governance is an urgent challenge facing China's leaders. Although China promulgated a food safety regulatory framework in the Food Safety Law in 2009 and established a National Food Safety Commission in 2010 to coordinate ministerial action, Chinese consumers are still frequently disappointed by government management during food safety crises.

The recent meetings of the NPC and CPPCC (*lianghui*) demonstrate that food safety issues are high on the agenda. Although a number of ministries will still be responsible, including the Ministry of Health and the Ministry of Agriculture, the newly-named and beefed-up China Food and Drug Administration has clearly been earmarked as the ministry primarily responsible for food production, circulation and consumption regulation. This decision to establish a more powerful, ministerial-level watchdog with clear responsibilities, as well as the appointment of the former director of the National Food Safety Commission, Zhang Yong, as its head demonstrates an increased emphasis on tackling food safety issues as well as efforts to streamline and better coordinate government processes in the sector. The Chamber has represented the interests of many member companies involved vertically and horizontally with food safety in presenting such recommendations to various relevant Chinese administrations in recent years.

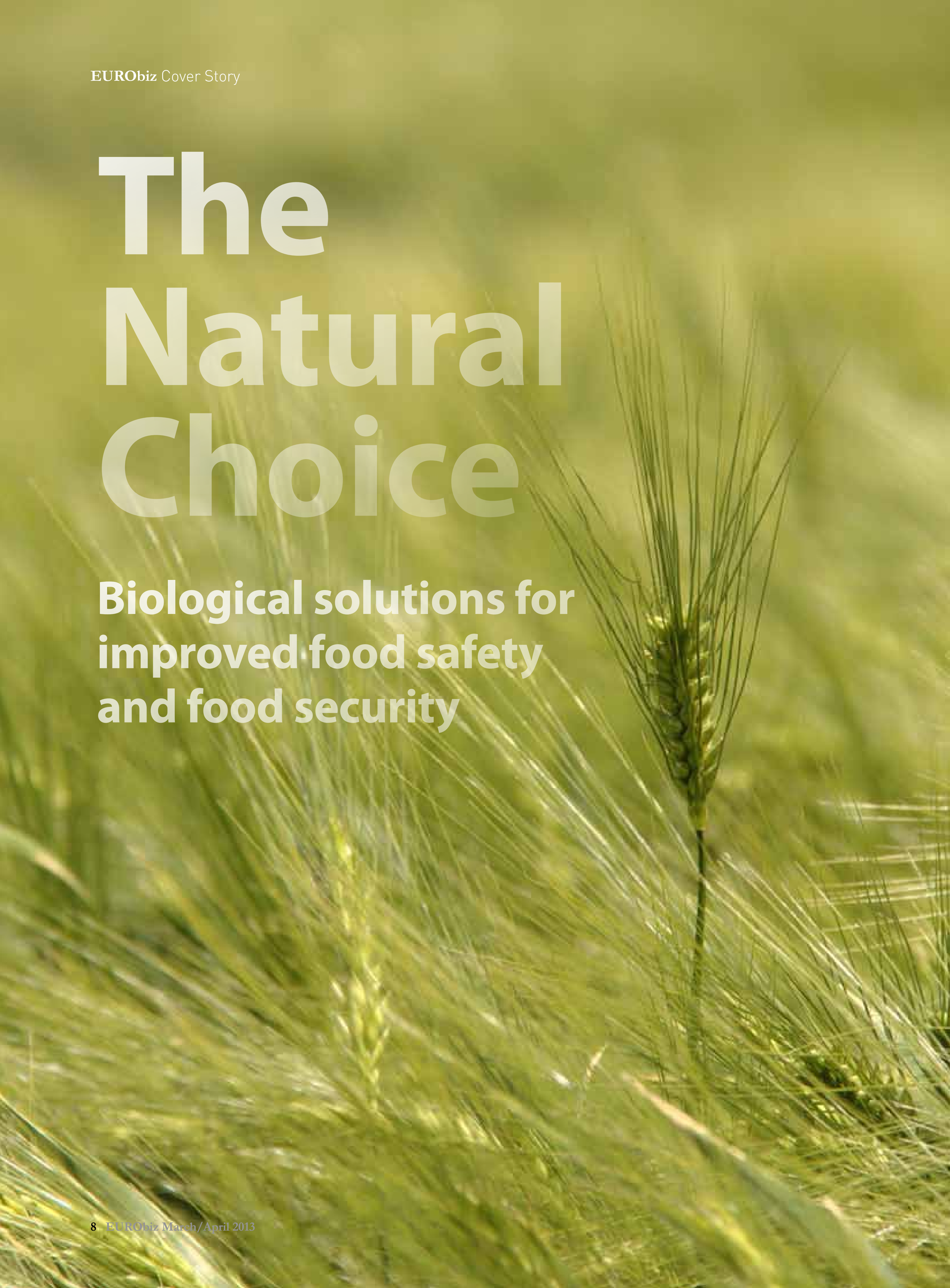
The restructuring is part of broader efforts to reduce bureaucracy and improve governance efficiency. The European Chamber has long recommended such efforts, as well as the elimination of overlapping responsibilities between ministries and governments departments, and so welcomes many of the developments at the parliamentary meetings.

Particular importance had been placed on 2013's *lianghui*, as most people in China anticipated that they would mark the beginning of a period of serious economic reform, where China's leaders would outline concrete steps to shift from an investment-led model of economic development to one driven by domestic consumption and greater competition in the marketplace.

Although stopping shy of providing a clear roadmap of the reforms needed, there are increasing indications that the Chinese leadership knows that bold steps are required. Zhang Gaoli, himself appointed Vice Premier during the NPC session, has since further stated that China will work to create a fair environment for various forms of enterprises, from both China and abroad, as part of its economic readjustment efforts.

Every year the Chamber highlights the importance of consultation, and by its very nature the lianghui provides an efficient conduit for this to take place. The increased number of delegates from various corners of society and the engagement of many representatives with the greater public through social media increased the importance of the sessions as well as its resonance with the Chinese people.

Before I finish, please allow me to take this opportunity to ask that you attend our Annual General Meeting on 24th April in Beijing and vote for the election of the European Chamber's President, Vice Presidents and Treasurer, as well as the elections for the Boards of the Chamber's local Chapters; and to extend a heartfelt thanks to those who have served so diligently alongside me on the Executive Committee and on the local Chapter Boards over the last year.



The Natural Choice

Biological solutions for improved food safety and food security

One of the biggest challenges facing the Chinese Government is maintaining a safe and secure food supply for its ever-expanding population. In this article Rio Praaning from PA International analyses the challenges and opportunities in a global context, identifying strategic partnerships between the public and private sector, CSR initiatives and natural, biological solutions as three positive ways of addressing this issue.

Through slight adaptations of the Food Value Chain malnutrition can be beaten. Through the application of new biological technologies agricultural production can be both increased and cleaned up: "Food security through food safety" as one industrial leader suggested during a meeting with the Chinese Academy of Agricultural Sciences.

The World Health Organisation (WHO, 1966) defines food security as existing "when all people at all times have access to sufficient, safe, nutritious food to maintain a healthy and active life". If around 80 per cent of all food in the Gulf is imported; if other parts of the world are developing similar numbers due to global warming—just look at the melting of the Himalaya—it appears that the world is racing headlong towards a future with scarcities of unseen proportions. As a consequence, any technology, any system, any approach that can improve an uncertain future must be explored and put to use. Fast.

Due to China's size and its demographic development—ever larger numbers to be fed by dwindling resources—this matter is crucial to China and, indeed, the rest of the world. Increased globalisation means that we are all stakeholders in this issue and thus have a collective responsibility to ensure that China's rise to 1.7 billion people, and subsequent decrease due to rapid ageing, is assisted appropriately.

One way to address this looming crisis is through public/private sector partnerships (PPP). Governments, international organisations, non-governmental organisations and multinationals are progressively working together in developing strategies and approaches for coordinated action for safe and sufficient food for all. In May 2013, the European Union will launch a new Communication on Nutrition which will be based on a combination of PPP and corporate social responsibility (CSR). CSR is a win-win situation between industries and society whereby industries invest in education and training of civic society in such a way that civic society, local to a factory or extraction industry, is enabled to deliver services or products that the industry requires. Governments can assist such CSR initiatives through taxation or other facilities.

Applied to agriculture, a multitude of manufacturing and extracting companies can actually use their CSR funds, in combination with government funds, to assist current or even new agricultural projects with the introduction, training and use of the latest proven technologies. This is entirely in line with China's 12th Five-Year Plan (12th FYP) that strongly emphasises investment in research and development to radically improve agricultural output, reduce environmental damage caused by intensive agriculture and embed the entire agricultural sector in an ecological system catering to food safety and food security.

How could this be done? A key example is the current global focus of regulators and industries on the use of biostimulants and biofertilisers. Biostimulants are based on natural products (e.g. seaweed extracts, amino acids, humic acids) and biofertilisers on beneficial soil microorganisms (useful soil bacteria or soil fungi). Both have the demonstrated capacity to improve a plant's physiology—the functioning of a plant.

For example, they can enhance plant growth, increase the nutrient uptake efficiency, stimulate the plant's defence system against pests and diseases or enhance a plant's environmental stress physiology. This results in considerably higher crop yields, sharply reduced need for chemical fertilisers and pesticides and more resilience to unfavourable conditions such as droughts, high temperatures and soil salinity.

Certain biofertilisers, also called inoculants, can fix nitrogen from the air into the soil, which allows for the reduction in the use of chemical nitrogen fertilisers. In short, biostimulants and biofertilisers contribute to better soil and ecological conditions and increase agricultural output with much less environmental damage.

What is the European Union up to in this field? It is requiring a rapid reduction in the use of agricultural chemicals to prevent a further dramatic reduction of Europe's bee population, which are essential for natural pollination.

A similar emphasis on biological solutions is developing in the Americas, and indeed throughout the Middle East, Asia and Africa. Ever since the 2008 spike in food prices, and its devastating effect on poverty-stricken communities, responsible governments have engaged in both crisis management efforts and in improved production through high technology.

What is the current situation in China? In general terms the Chinese nation is threatened by food and water scarcity, ever-longer periods of drought, seriously polluted soil and groundwater due to overuse of chemical fertilisers and pesticides, reduced arable land and reduced numbers of farmers.

On Chinese farmland, soil fertility contributes only 50 per cent of agricultural production, which is 20 per cent lower than in western countries. According to a new, unpublished, science-based, Chinese report China's arable land accounts for approximately eight per cent of the world total, yet it uses one third of the world's nitrogen fertiliser, which suggests serious overuse.

Moreover, 70 per cent of these chemicals are estimated to end up as residual waste, leading to serious soil and water contamination problems, according to the findings of the Chinese Academy of Agricultural Sciences (CAAS). In a policy directive issued in late January 2013, the State Council ordered local governments to "attach great importance" to soil pollution and prevent the situation from getting worse, as well as to monitor the soil quality. Local governments should categorise land under their jurisdiction according to soil quality and establish a database by the end of next year.

It is estimated that more than ten per cent of the Chinese Mainland's farmland was polluted and that about 12 million tons of grain was contaminated by heavy metals every year over the past decades. Other reports claim even more serious environmental damage, including pollution of China's main rivers. This is also reported in the unpublished report. It shows that not only is China the largest user of pesticides worldwide (although the application of chemical pesticides can offset 15 to 30 per cent of annual losses in agricultural output), they also leave contaminating residues on agricultural products, which eventually has a much larger adverse effect on food safety and food security. All of this could be avoided if biostimulants and biofertilisers were used.

According to its 12th FYP the Chinese Government is aware of the urgent need to shift to more sustainable agriculture models. A series of policies is being adopted to support and benefit farmers in rural areas. By increasing financial subsidies, reforming rural taxes and other levies, and liberalising the grain market, the Central Government aims to ensure steady and sustainable crop production.

On 16th June, 2011, at the National Conference on the Professional Prevention and Control of Crop Diseases and Pests, the Ministry of Agriculture proposed that pesticide use must be reduced by 20 per cent by the end of the 12th FYP. In the meantime, it proposed to raise the status of agriculture and to change its production and operating practices. So indeed it can be expected that there will be greater

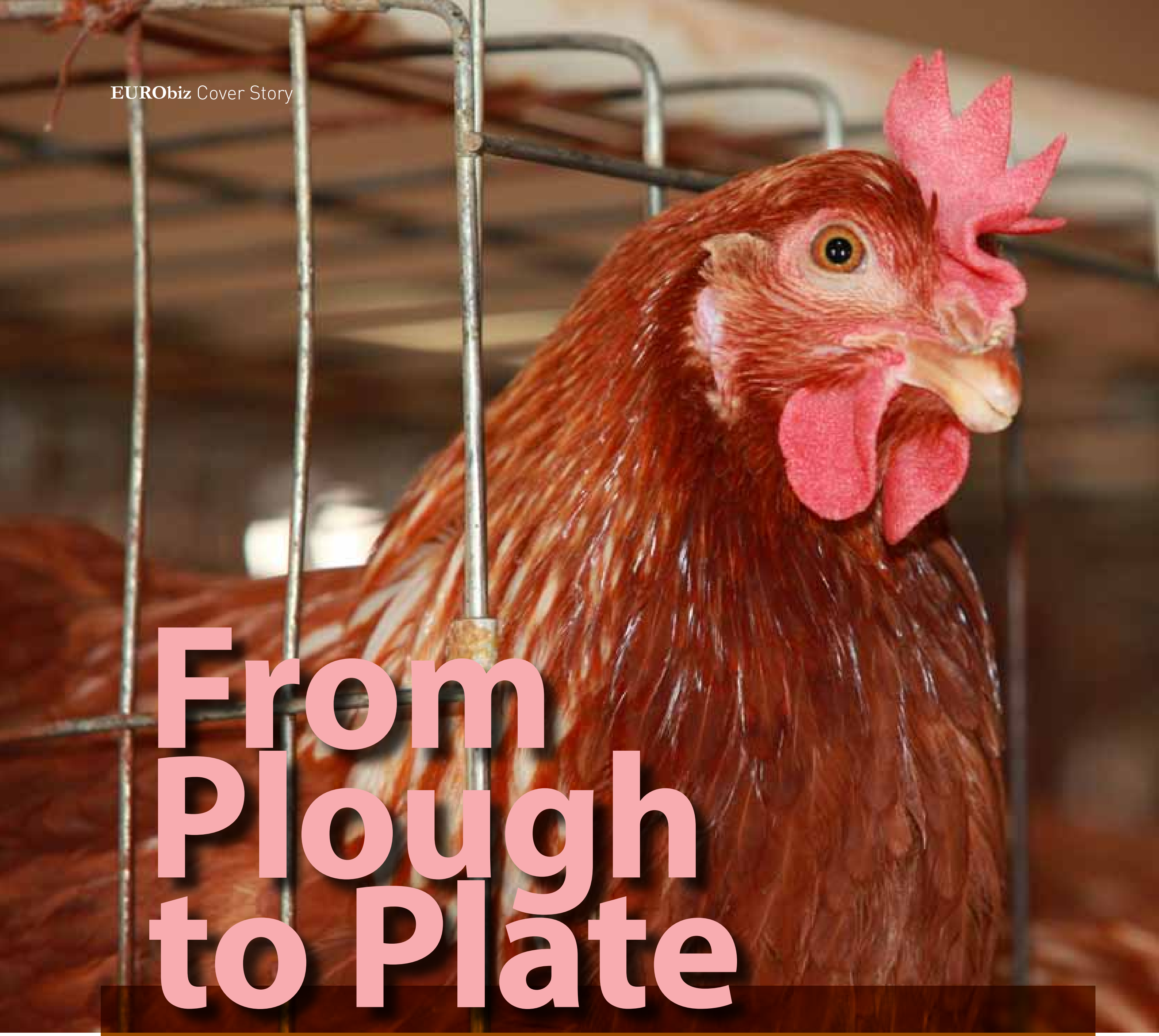
emphasis on bio-system prevention and control in agricultural production in the near future.

In this context CAAS and PA plan to organise a ministerial-level symposium in May, 2013 to enhance cooperation in technology areas where it is most needed in order to ensure food security, food safety and public health. The symposium will address the agricultural priorities and objectives in China's current FYP and national activities and initiatives in improving food safety and food security, as well as seeking opportunities for enterprises to participate in PPP and CSR projects to cope with the challenges of food safety and food security.

Among the speakers at this symposium are experts from Koppert Biological Systems from the Netherlands. Koppert is the international market leader in biological crop protection and natural pollination; they deliver biofertilisers and biopesticides, different natural enemies to control pests, as well as several species of bees to carry out natural pollination. This fits well with the requirements of the 12th FYP. According to Koppert biological control is safe, does not pollute, saves energy, is effective and can be easily incorporated with other plant-protection measures.

CAAS is right to discuss, and then test, the new biological alternatives to fight pests and fertilise soil. This may lead to three wins: one for the government whereby they can clean up soil and groundwater, improve food safety and food security and reduce financial losses caused by food-borne diseases; another is for the consumer who is supplied with safe and healthy food; the last is for industries that can strengthen their 'license to operate' while feeding their staff with optimal, locally-produced food. Those interested in the results of the CAAS/PA Symposium should contact info@pa-asia.com.

Rio D. Praaning Prawira Adiningrat *is founder and Managing Partner of PA Europe, PA Asia, PA Russia, PA Middle East and PA CSR. In 2004 he established the Public Advice International Foundation (PA International) through which elder statesmen and former top business executives provide advice on international socioeconomic and cultural issues, on a non-profit basis. Projects are focussed on global malnutrition, humanitarian aid, health, education, and environment. PA organise major all-stakeholder conferences with presidents, ministers, IGOs, NGOs, CEOs and civic society.* Eb



From Plough to Plate

A link in the food supply chain that can be easily overlooked is animal feed, yet the food consumed by livestock ultimately has a profound effect on the food that ends up on our tables, whether it is meat, eggs, milk or other dairy products. **Angela Booth**, Technical Assurance Director of **AB Agri**—a market leader in animal nutrition—talks to EURObiz about some of the challenges in the industry and explains how responsible innovation will be a major contributor to a providing a cleaner, more sustainable food supply for the future.

AB Agri enjoys a long history in China, with whom they traded tea as far back as the late 1800s. They made their first investment in 1985 and have been producing animal feed here since 1996.

> **"Feeding the animals that feed us—feed security is becoming just as much a global issue as food security."**

Although China's agriculture industry has changed since AB Agri started doing business here, Booth says some of the challenges they found then still apply today, namely "raw material volatility, finding and retaining talent and supply chain quality assurance."

"China was very different back then, farms were much smaller and there were far fewer large-scale, professional feed producers. The dairy industry was also not significant," she continues, "Aside from the challenges, there were huge opportunities but very few companies had the luxury of being able to 'test' the very exciting, yet undiscovered, Chinese market."

Innovation

The rate at which China is consuming food is incredible and it will only continue to increase: their annual consumption of animal protein was 71 million tonnes in 2012—more than double that in the United States. Therefore the quality and sustainability of the feed given to livestock is crucially important in assuring a safe and secure food supply.

Making affordable, readily-available quantities of these kinds of feeds presents a formidable challenge to markets like China and Booth believes the best way to address this challenge is through innovation.

Innovation is an integral element of AB Agri's business, such as their research into how to improve feed utilisation and sourcing alternative sources of key ingredients. For example, over the next three years they will be working with the UK Technology Strategy Board to explore growing insect larvae to produce alternative sources of protein to soya in temperate climates. Initiatives like this aim to relieve pressure on supplies of traditional nutrient sources that are also used for human consumption.

AB Vista, a division of AB Agri, is investing GBP 5 million (EUR 5.7 million) per year to develop enzymes that reduce environmental impact while improving efficiency. They launched Quantum Blue in 2012, a product containing phytases, enzymes that, when added to feed, release phosphorus and other nutrients when consumed. This reduces overall feed costs and increases nutritional uptake which in turn reduces pollution risks from manure. This product was developed through collaboration between AB Enzymes and AB Vista and with Roal, their manufacturer in Finland. The global phytase segment is estimated to be in excess of GBP 250 million (EUR 290 million).

In order to get these innovative products onto the market and make an impact in China's supply chain, AB Agri face a financial challenge. Although Chinese food safety laws do not include the whole supply chain, and therefore animal feed, many of the legislative requirements for animal feed in China are similar to those in Europe.

The licensing and registration required for certain products, as well as technical evaluation of a product's efficacy, stability and environmental impact, that is required before approval of a product is granted is time consuming, which leads to high costs. This in turn can push new generation products beyond the financial reach of many local farmers.

Although this evaluation process is very much necessary, effective dialogue between industry, scientists and government is increasingly important to improve its efficiency and maintain sufficient product supply.

Control and legislation

In emphasising the crucial role that animal feed plays in the process of 'plough to plate' Booth recalls the effects of BSE and Salmonella in Europe, which led to wholesale changes

in legislation:

"Having traceability, hygiene and hazard controls right across the supply chain—feed to food—to avoid food safety problems has been mandatory in Europe since the publication of the General Food Law 178 [(EC) No 178/2002] more than a decade ago," she adds. "Ensuring that we do everything we can to protect the environment during food production is also imperative. It is the responsibility of each link of the supply chain to deliver this, and without it the industry has no future."

This leads, inevitably, to the question of sustainability. In order to meet demand, production in the industry will need to be intense, but Booth says the impact can be mitigated through their investment into alternative sources of ingredients while looking for alternative co products from the food and drink industry. She also points to their work in measuring the "carbon footprint and biodiversity-on-farm of producers within the food supply chain" through AB Agri's sustainable supply chain division, AB Sustain.

Many new changes have been made to the feed legislation published in China since the end of 2011, and in the future the as-yet-unpublished *Quality and Safety Management Guidelines for Feed* will require feed producers to implement Hazard Analysis and Critical Control Points (HACCP), a management system that requires producers to control and prevent chemical, biological and physical hazards throughout their entire process.

Also, says Booth, limitations have been placed on what Chinese non-manufacturers can do in terms of contract manufacturing and marketing claims, although "requirements for other parts of the supply chain are less specific and not linked. Traceability is mandatory in Europe: in China this would also be beneficial but it needs to be practical."

She emphasises that "the aim of these new requirements is to raise the bar for the industry", however, the key challenge for China, as it is for Europe, is one of implementation.

An effective method of implementing feed and food safety legislation in Europe to date has been through third-party certification from independent assurance schemes. Booth says that although ISO 22000 and 9001 are already widely applied in China, the effectiveness of these certifications for assuring the feed industry can be argued, "Although the new guidelines for feed management are a step in the right direction, practical schemes that control risks both up and down the supply chain need to be developed and Industry has a role to play in this."

There isn't a quick solution when it comes to satisfying China's insatiable appetite for protein; it will take a com-

bined effort in which providing quality, sustainable feeds plays just one part.

"Maintaining supply at the same time as quality standards requires responsible innovation, cross-supply chain collaboration and practical and proportionate legislative measures. Feeding the animals that feed us—feed security is becoming just as much a global issue as food security," Booth concludes. "Reducing waste in agri-food stuffs, making safe, valuable materials go further and ensuring supply chain integrity are just some of the things we need to be actively addressing."

***AB Agri**, the agricultural division of Associated British Foods plc, operates at the heart of the agri food and drink industry with activities that stretch from 'plough to plate'. The business' unique breadth and experience enables it to add value and drive profit for organisations all along the food, drink and biofuel industry supply chain.*

Today, AB Agri operates in 70 countries worldwide, supplying products and services to farmers, feed and food manufacturers, processors and retailers through employees in 20 markets operating right across the entire supply chain. For more information go to www.abagri.com.

Recipe for Success

Overcoming operational challenges in the Chinese meat industry

It took sausage manufacturer **RTJ Tastes Ltd** around 18 months to get their China business up and running, during which time they had to go through the not inconsiderable formalities of certification and the organisation of production and trade, as well as the process of hiring and training staff. Although its mother company is in Poland, RTJ's production in China serves only the domestic market. According to Executive Director **Jacky Kasperowicz**, production costs in China are considerably higher than in Poland as a result of many factors, including the difficulties of sourcing high-quality raw materials. Yet despite this, and other challenges that they encounter on a daily basis, Kasperowicz is upbeat about their China operation and explains they are even planning to expand their product range

All images courtesy of RTJ Tastes Ltd

When Jacky Kasperowicz considers the rapid pace of change and development taking place in China it is hard for him not to draw comparisons with his native Poland. Fifteen to 20 years ago it was going through a similar transformation, and these days he says he is prone to regular bouts of *déjà vu*. But his sense of having seen it all before gives him an advantage, he says it helps him to "plot scenarios for consumer behaviour, and the industry in general, over the coming years."

A major player in the Polish meat industry, Kasperowicz says that RTJ Taste's decision to enter the Chinese market was a result of an invitation to invest here along with a desire to expand into the Asian market as a whole. They identified a growing potential consumer base, with an increased desire amongst Chinese consumers for Western food products. The move also represented an opportunity to build customer awareness in a market that was previously dominated by very poor quality meat products.

Initially the statistics that Kasperowicz studied appeared very attractive indeed—a population 35 times the size of Poland, food consumption growing annually and double-digit annual growth in food purchasing and food imports. But the statistics were just indicators, not a key to opening the door to the Chinese market. Beyond the numbers lay the realities of conducting business in China.

"Every day our company is faced with many issues such as the purchase of raw materials, production and delivery logistics," says Kasperowicz, "and we have to deal with a very inefficient distribution system here, which is two to three times less effective than in Europe."

Another challenge they face is production lead times. At five days the cycle of production is around five times longer than in Poland. This is due to the fact that they use less salt and four times less nitride than European standards, which results in a much longer curing process. The benefit, though, is a finished product that is much more natural, bereft of mass, industrial production methods.

The adoption of such standards of production requires large amounts of labour and a reduction in the reliance on machinery, and this necessitates a huge amount of supervision of the manufacturing process and intensive training for their Chinese employees.

One of the concerns frequently raised by their customers is the issue of production quality. Kasperowicz points out that the company is heavily reliant on the experience of their Polish staff who are directly involved in the supervision of production and suppliers. Their production uses 100 per cent fresh meat, which is delivered hundreds of miles from professional farms, and staff carefully examine every batch of meat in terms of grading (percentage of meat, fat and water), correct temperature across a cross section of the meat, pH levels and microbiology (bacteria content).

Periodic inspections of suppliers is also essential. Because meat constitutes 98 per cent of the ingredients of their sausages it is particularly important to monitor conditions of slaughter and processing of the pork, which all comes from within China. In addition to providing safe, clean meat, Kasperowicz says the analysis and selection of the components of the meat they use is also important. "Suppliers must be able to demonstrate consistency of the product they supply, as this influences the parameters that are set for the whole production process. Other semi-finished products are imported from Europe as they are not available on the Chinese market," he says.

Recent food safety problems that have resonated around the world—the 'horse meat scandal' is a good example—have emphasised the need for companies in the food and beverage industry to keep their house in order. Consumer awareness of food safety issues has probably never been higher.

Well-established, high production standards and close attention to the quality of meat ensures RTJ's products remain very stable in tests conducted to measure shelf time and yet they contain up to 50 per cent fewer preservatives than the strict limits set by China's food standards. However, Kasperowicz stresses that this is contingent upon proper storage conditions, according to the recommendations on the packaging of their products.

Despite the operational challenges RTJ are optimistic and Kasperowicz is buoyed by the positive reaction to their products in China:

"In our original marketing strategy we had planned to introduce a few selected products—mainly sausages—to the Chinese market. The market, however, has forced us to develop this plan. Our product range has already been extended by a further eight new products, and we plan to introduce 15 more over the next quarter. In addition to the traditional, smoked Polish sausages, we already have smoked bacon and ham, and we are currently conducting tests with ripening sausages."

The company also has plans to develop products characteristic of Italian, French and Spanish cuisine in the future. However, in addition to aiming for authenticity, Kasperowicz says that they are always careful to adapt their products to suit Chinese tastes, for example, the proportion of spices used in their Polish sausage is different to those produced in Poland. Surprisingly they actually use less, as Chinese tastes are plainer than those of Poles.

Although the scale of production in China is nowhere near comparable to their Polish mother company, NIK-POL Ltd (it currently represents less than 1 per cent of the total share), they expect their Hussar brand to be associated with other high-quality products within the Chinese market. Says Kasperowicz, "This is still a very *niche* market in China, but we have a group of very loyal fans. The Chinese market is very interesting to us because of the high culinary requirements; the Chinese people are known for seeking new, quality culinary experiences." Eb

***RTJ Tastes Ltd** is a European Sausage Manufacturer with 25 years of experience. RTJ Tastes Ltd related group of companies own European production lines and distribution centres, employing 800 people with a daily production capacity of 80 tonnes. Their production line is supervised by a team of experienced European technologists in order to deliver top-quality products that maintain the highest European standards to their valued customers.*

Sweet Science

Trolli Guangzhou Confectionary Co Ltd has been operating in China for 13 years. **Anita Yi**, their Quality Assurance manager, tells EURObiz that for an operation of their size it is imperative that they fully comply with Chinese and international food standards, and make sure that all of their processes are rigorously tested on a regular basis. She says that food safety is not just a box to be ticked but rather a clearly defined code that, as a responsible company, they are compelled to live by.

All images courtesy of Trolli

In China regulatory authorities at all levels are strengthening supervision and management of food safety. New laws such as the Food Hygiene Law and the Quality and Safety Law, are helping to define the responsibilities of businesses involved in the food and beverage industry. Operators must plan and implement food safety policies based on these laws, and their policies must be documented, communicated and supported at all levels of their organisation. Focussing on food security, as well as the needs and expectations of customers and consumers, should be a priority.

Located in Shawan, a cultural town in Panyu District, Guangzhou, Trolli Guangzhou Confectionary Co Ltd (Trolli) has a total investment of USD 20.7 million. We specialise in the manufacture and marketing of gummy candies and are committed to product innovation. Our products sell in Europe, America, Australia and the Middle East, thus it is of paramount importance that our approach to food safety adheres to global standards.

In addition to complying with Chinese food safety requirements, our quality management system is also consistent with standards at our German factory, incorporating a comprehensive implementation of the International Food Standard (IFS), a standard which has been developed by German and French food associations, with additional assistance from other international retailers.

By receiving IFS certification, a company is able to demonstrate transparency throughout their supply chain, and the confidence this gives to clients can reduce overall costs by resulting in fewer customer audits. By receiving this certification from a third-party company it demonstrates to your clients that you are recognising and fulfilling your obligations to food safety. At Trolli our IFS audit is carried out by the German company TÜV Rheinland, and we are proud to say that every year we have received re-certification with a high rating.

Another important aspect of our overall quality system is our cooperation with a number of well-known, international food and pharmaceutical companies, such as Glaxo Smithkline, in order to continually enhance and refine our production operations. We have consistently received excellent food safety and quality system appraisals from them over the past two years.

As well as our implementation of IFS, we have also set up Hazard and Critical Control Points (HACCP). HACCP is a management system that enables us to control biological, physical and chemical hazards throughout our entire production process. From R&D and procurement, to production and final delivery to our customers, every step of the way is planned meticulously to ensure all processes adhere to the highest standards of food safety.

We carry out a comprehensive vendor evaluation and management system to guarantee the safety, as well as quality, of our raw materials. In addition to this, all auxiliary materials and packaging must be approved and coded in our system before they can be used in production. Once an item has been through the entire process, we then send samples to GBA Laboratory, a German third-party testing laboratory.

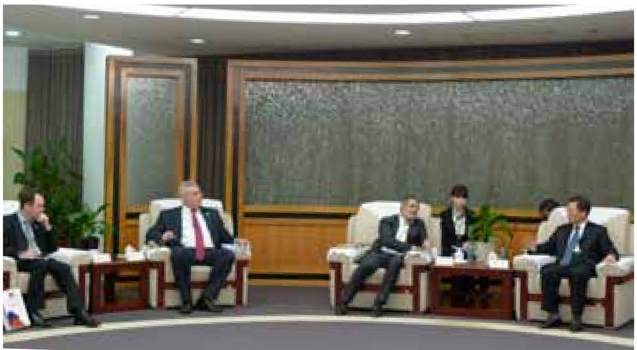

Trolli's Guangzhou Plant

As a responsible food company in China, we also take the initiative to ask the other candy producers and food enterprises to execute and propagate food safety. We try our best to educate people so that they might understand all of the issues involved; we are dedicated to contributing to a safe and healthy food industry in China, and throughout the wider world. This can only be done by being systemic, vigilant and ensuring that we all adhere to the highest standards of food safety. Eb

*The **Trolli** brand belongs to Merderer GmbH, a German company specialising in the production of gummy candy, a global market they lead in innovation and in which they are second in terms of tonnage. Their products are exported to over 80 countries worldwide from its four factories in Germany, Spain, Czech Republic and China.*

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with Shenzhen Vice Mayor Chen Biao



From left to right: Adam Dunnett, Secretary General of the Chamber, Holger Kunz, Chairman of the PRD Chapter's board, Chamber President Davide Cucino and Chen Biao, Vice Mayor of Shenzhen

On 25th February 2013, a European Chamber delegation met with Chen Biao, the Vice Mayor of Shenzhen Municipal Government, along with other Shenzhen Government officials. The delegation was led by Davide Cucino, President of the European Chamber, Adam Dunnett, Secretary General of the European Chamber, Holger Kunz, Chairman of the board of the European Chamber's PRD Chapter and Ms Francine Hadjisotiriou, General Manager of the European Chamber's PRD Chapter. This important meeting marked the first direct official dialogue between the European Chamber's PRD Chapter and the Shenzhen Municipal Government, following many years of close co-operation with Shenzhen government officials at different levels.

SCOFCOM 2013 Briefing on Shanghai's Commerce and Investment

Zhou Bo, Vice Mayor of Shanghai

The European Chamber was invited to attend the annual briefing hosted by the Shanghai Municipal Commission of Commerce on 20th February. Shanghai's newly-elected Vice Mayor, Zhou Bo, delivered a speech to more than 400 people, including SCOFCOM and Shanghai Government representatives, foreign Consulates, foreign Chambers of Commerce as well as foreign companies and representative offices. Shanghai's commerce and investment climate in 2012 was reviewed and strategies and policy incentives for the upcoming year were outlined.

Position Paper presentation to the Department of Foreign Trade and Economic Cooperation, Guangdong Province (DOFTEC)

Holger Kunz and Adam Dunnett present the Chamber's *Position Paper* to Chen Yuehua, Deputy Director General of DOFTEC

The European Chamber met with leaders of the Department of Foreign Trade and Economic Cooperation of Guangdong Province (DOFTEC) on 26th February in Guangzhou. The delegation was led by Adam Dunnett, Secretary General of the European Chamber and Holger Kunz, Chairman of the board of the European Chamber's PRD Chapter. The meeting provided an opportunity to raise some concerns of European businesses operating in the PRD to provincial government, which included IPR issues, customs regulations and general feedback on the business environment, and also to make some recommendations. During the meeting the delegation presented the *European Business in China Position Paper 2012/2013* to Mr Chen Yuehua, Deputy Director General of DOFTEC.

Holger Kunz (centre) flanked by Deputy Director General Chen Yuehua, Secretary General Adam Dunnett, Director Yu Jinfu, Francine Hadjisotiriou, General Manager of the PRD Chapter and other members of DOFTEC and the Chamber's PRD Chapter

General Manager of the Shanghai Chapter, Ioana Kraft (right), and other Chamber representatives meet with the Shanghai DRC, the Shanghai Commission of Commerce and the Shanghai Information Centre at the Chamber's Shanghai office

Other Lobby Activities

The European Chamber held bilateral meetings with Mauro Petriccione, Director for **Asia and Latin America, DG Trade** and Peter Berz, Head of Unit, **Far East, DG Trade**, in order to discuss the recent **EU-China Economic and Trade Working Group Meeting** (ETWG) and general EU-China relations. The ETWG is held once a year and alternates between Beijing and Brussels with the aim of identifying trade and investment priorities. Following the ETWG the **European Commission** debriefed members from the following working groups: Standards and Conformity; Healthcare Equipment; Logistics; Aviation; Cosmetics; Insurance; Banking and Securities; Legal and Competition; Construction; ICT; Finance and Taxation; IPR; and Maritime Transport. Members took the opportunity to discuss market access and operational issues faced by member companies operating in China.

The European Chamber welcomed representatives from the **Shanghai Development and Reform Commission, Shanghai Commission of Commerce** and the **Shanghai Information Centre** to its Shanghai office on 1st March. This meeting served as an opportunity for the Chamber to share its perspectives on market access barriers that its member companies are faced with in China. The Chamber delegation consisted of Energy Chair Henry Hu, Environment Vice Chair François Jenny, Construction Vice Chair Martin Zhao and PCR Working Group representative Thomas Shao, in addition to Shanghai Chamber General Manager Ioana Kraft and her Government Affairs colleagues Christine Ren and Bettina Buck.

A European Chamber delegation led by Jaspal Channa, General Manager of the Beijing Chapter, met the **General Administration of Customs (GAC)** on 6th March to discuss general cooperation and the possibility of organising a joint seminar between the GAC and the Chamber's Aerospace Working Group. GAC agreed to the organisation of the seminar and agreed to send experts and officials from relevant departments. In addition the Chamber also proposed to organise other regular workshops in the future with GAC led by other Working Groups such as Logistics and Maritime Transport. During the meeting representatives from various GAC departments introduced their work priorities for 2013 as well as upcoming regulations.

Secretary General Adam Dunnett received officials from **Beijing Municipal Commission of Commerce** (BMCC) at the Chamber's Beijing office on 18th March. The meeting commenced with a general introduction to the Chamber, which was delivered by Adam. BMCC then briefed the Chamber on a transfer of responsibilities from CCPIT to the newly established Headquarters Economy Development Division within BMCC. Previously CCPIT was responsible for administrative approval and management of chambers of commerce and other foreign associations, this responsibility now falls under the remit of BMCC. The meeting concluded with both sides agreeing to strengthen future communication and cooperation between the Chamber and BMCC. Eb

A New Hope

Xi Jinping's Government Takes Shape: China's 2013 National People's Congress

The 2013 National People's Congress (NPC) saw the Xi Jinping administration begin to take shape. As China's long leadership transition finally concluded key personnel and structures are now in place. **APCO Worldwide's Kenneth Jarrett** and **Peter Martin** say that while there were few concrete policy outcomes, Xi and Li ended the Congress with hints about their government's future policy direction.

Vice Premiers
Zhang Gaoli (executive vice premier; finance)
Liu Yandong (education, science, culture, health)
Wang Yang (unconfirmed)
Ma Kai (economic work)

State Councillors
Yang Jing (secretary general)
Cheng Wenquan (defence)
Yang Jiechi (foreign policy)
Guo Shengkun (public security)
Wang Yong (unconfirmed)

Ministers
Xu Shaoshi (NDRC)
Gao Hucheng (commerce)
Li Bin (health and family planning)
Lou Jiwei (finance)
Wang Yi (foreign affairs)

Leadership appointments

Top government appointments played out largely according to script, particularly the appointments of Xi Jinping (president), Li Keqiang (premier), Zhang Dejiang (NPC chairman) and Yu Zhengsheng (CPPCC chairman). Li Yuanchao's appointment as vice president surprised some and broke with recent tradition as Li is not a member of the Politburo Standing Committee. Li now ranks 8th in the hierarchy. Given his close ties to Hu Jintao, Li's appointment adds some factional balance to the top leadership.

The appointment of vice premiers

and state councillors also went broadly as expected. Those appointments, and the retention of 15 of 25 ministers, sent a strong message of stability. Many of the new faces were at key ministries, including the National Development and Reform Commission (NDRC), Commerce, Finance and the National Health and Family Commission. These top governmental appointments will be vital to shaping the policy environment affecting foreign companies.

Government restructuring

The widely anticipated government reorganisation was less dramatic than many expected and many of the most anticipated changes failed to materialise. NDRC and MOST emerged unscathed and there was no creation of new super-ministries, such as for energy, culture or finance. The changes that did take place—especially the abolition of the Ministry of Rail and a newly strengthened food safety organisation, the General Administration for Food and Drugs—seemed to reflect public pressures, an increasingly important feature of politics in today's China.

Other moves were more a matter of bureaucratic tidying up, with the merging of China's health and family planning authorities to create a National Health and Family Planning Commission; the merging of the broadcasting and publishing regulators to create a General Administration of Press, Publishing, Radio, Film and Television; as well as the enhancement of the powers of the National Energy Administration and the State Oceanic Administration.

Wen Jiabao's final work report: no surprises

Wen Jiabao delivered his final work report on a predictable note, laying out conservative targets for growth, inflation and money supply for 2013 and emphasising policy priorities closely in line with those of recent years. The absence of specific policy initiatives was appropriate for this swansong speech.

The report's key targets reflect the government's ongoing effort to shift toward consumption-led growth, improve the quality of investment, upgrade the industrial base, and move away from an investment-led, growth-at-all costs model:

- Growth: 7.5 per cent growth target for 2013, the same as in 2012
- Inflation: 3.5 per cent inflation rate, a drop from last year's 4 per cent
- M2 money supply: 13 per cent growth, the lowest in a decade

The 2013 budget also represented significant continuity with previous years, with a focus on increasing domestic demand and raising living standards. There were double-digit increases in only a few areas:

- Health: 28 per cent growth, as China continues with major reforms and improves access in rural areas
- Environmental protection: an increase of 18.8 per cent aimed to address one of China's most pressing domestic problems
- Defense: a 10.7 per cent increase, which got much attention internationally, although this amount represents a drop from last year's 11.2 per cent increase

Xi and Li Lay out their priorities

While the NPC itself did not produce significant policy initiatives, Xi and Li used the last day of the Congress to hint at the future direction of their administration. Xi reiterated his rhetoric about "national rejuvenation" and the "Chinese dream", suggesting an elevated role for nationalism in his administration.

Li Keqiang hinted at a policy programme consisting of increased market economic reforms, a pledge to maintain or increase levels of social spending, anti-corruption, urbanisation and reform of China's re-education through labour system. Li's press conference included specific pledges to "curb government power" by cutting the number of government approvals by one third and allowing private capital into industries monopolised by the state; a pledge to ring-fence social spending; as well as a promise to introduce transparency and a greater role for the media in tackling environmental- and food safety-related problems.

Implications for foreign businesses

Foreign enterprises now know the shape of the government they will face for the next five years. Xi has moved quickly to consolidate his authority. While policy continuity in the short term seems likely, Xi and Li's comments suggest considerable room for policy change in the coming months. The contours of those changes may become more evident as we approach the Party's Third Plenum in autumn. Public expectations run high, especially on corruption and pollution, and many policy makers believe that change is needed to sustain economic growth. Finally, the tone of Xi's rhetoric highlights the continuing dangers that nationalism poses to foreign enterprises in China. Foreign enterprises should prepare to adjust their engagement and advocacy strategies as well as their crisis management procedures to reflect these changing realities. Eb

APCO Worldwide *is an independent global communication, stakeholder engagement and business strategy firm with offices in more than 30 major cities around the world. We have been serving clients' interests in China since 1989. Today, our China team includes more than 100 professionals from a diverse range of backgrounds, including business, government, journalism, academic and civil society. We are based in well-established offices in Beijing, Shanghai and Hong Kong.*

Europe is China's major economic partner

China's trade with the EU is approximately

14%

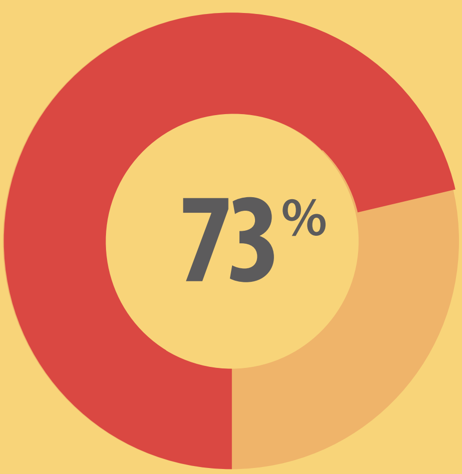
of its total trade volume[1]

China's GDP is

51.93

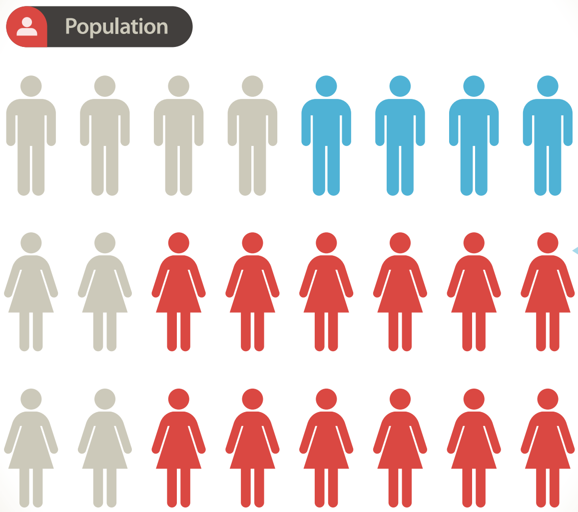
trillion RMB

Approximately ½ the size of the EU's GDP[2]



73%

of all fake goods detained and not released at European borders in 2011 came from China



In 2011 China had:

82 cities with a population of 1-2 million

31 cities with a population of 2-4 million

14 cities with a population over 4 million

China is expected to have bought

1/4

of the world's luxury products in 2012

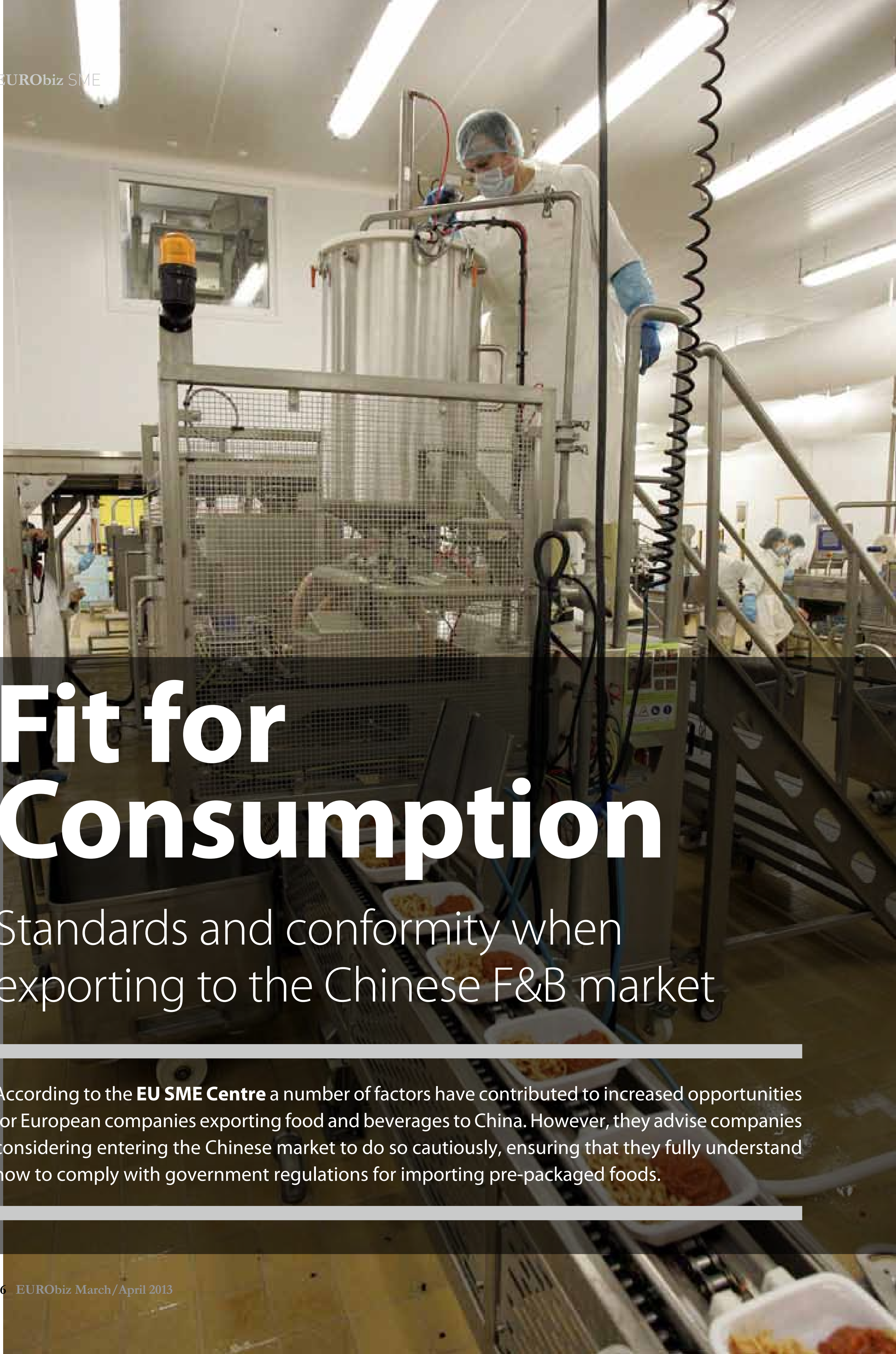
EU FDI into China was 6.11 billion USD in 2012,

Down

3.8% y-o-y

1 http://graphics.wsj.com/documents/ECONTRACKER _CHINA/index.php#ind=gdp

2 Source: Customs General Administration of the People's Republic of China, on 11th January 2013



Fit for Consumption

Standards and conformity when exporting to the Chinese F&B market

According to the **EU SME Centre** a number of factors have contributed to increased opportunities for European companies exporting food and beverages to China. However, they advise companies considering entering the Chinese market to do so cautiously, ensuring that they fully understand how to comply with government regulations for importing pre-packaged foods.

The Chinese food and beverage market, the world's largest grocery market in terms of revenue since 2011, has been shaken by a long list of scandals involving tainted food products in recent years. While some of these incidents have had serious repercussions for companies and consumers alike, they are having positive effects on the demand for foreign foods within China. Whereas short-term fluctuations in demand do not present sustainable opportunities for European food makers looking to sell their products in China, the gradually increasing distrust of domestically produced food and beverages, in combination with increasing disposable income and a growing taste for foreign foodstuffs in general, is creating new opportunities for European exporters in the long run. It is thus not surprising that the value of European imports of food and drinks to China has almost tripled during the last five years.

The rising demand for imported food in China offers opportunities for the roughly 280,000 food and drink companies in Europe, but due to the multitude of regulations and authorities involved in the process of importing food into the country and the volatility of the market—brand loyalty is very low in China—entering the Chinese F&B market has to been planned carefully. Below we ask Jon Echanove, an expert specialising in Chinese import standards, a number of questions on the most important regulations concerning importing pre-packaged food into China.

Who is in charge of supervising food imports into China?

There are many different administrations in charge of importing and ensuring the quality of imports into China when it comes to food and beverages. Until now the Ministry of Health has been involved, as well as the State Administration for Industry and Commerce, the Ministry of Agriculture, the State Food and Drug Administration and the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ).

In March 2013 the National People's Congress approved the decision to create the China Food and Drug Administration (CFDA), which will replace a large group of overlapping regulators. It will combine the functions of the existing State Council's Food Safety Office, the State Food and Drug Administration as well as the food supervision duties from the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) and the State Administration for Industry and Commerce (SAIC). It has yet to be seen what concrete changes these moves will bring about for European exporters of food and beverages into China.

Which of these organisations are European exporters likely to come across?

AQSIQ is probably the most likely point of contact between foreign importers and the Chinese authorities. They maintain 35 CIQ (China Inspection and Quarantine) centres throughout China at every major entry port responsible for commodity inspection, something most imports are subject to. They are also, through the Standards Administration of China (SAC), responsible for the development and publication of mandatory requirements concerning food safety. The technical requirements themselves might be developed by one of the other organisations mentioned above, but they are all published by SAC, which operates under the AQSIQ.

What are the most important requirements European exporters will have to meet?

The most important regulations when it comes to importing pre-packaged food into China pertain to food additives, labelling and packaging. There are also standards that regulate specific product groups like wine, olive oil or chocolate separately.

As in any other market, food products in China have to be labelled according to national standards so that consumers can easily identify the product and its contents. As a general rule, labels have to be in Chinese and list all ingredients of a product in descending order of the amounts as well as the nutritional value. The product standards mentioned above might contain additional labelling requirements as well.

Lastly, packaging might become an issue, especially if it constitutes a large portion of a product's value, since one of the Chinese criteria for measuring excessive packaging is the cost of the packaging itself.

It has to be noted that all of the regulations mentioned above change with some frequency and occasionally without warning, so cooperating with a local partner is a big advantage when it comes to keeping up-to-date.

Are there any other regulations European food exporters need to be aware of?

For some pre-packaged food products, for example alcoholic beverages, a Chinese import licence is required. This licence is issued by the Ministry of Commerce and can only be acquired by Chinese entities, so exporters of those products will need to work with a Chinese importer, agent or distributor.

A relatively new regulation—effective since October 2012—requires all exporters of food products to be registered with AQSIQ. This registration must be completed by both the exporter and the Chinese importer and only shipments from registered companies will be allowed to enter the country. Eb

It all ad

Regulations for food additives in China

In their latest report the **EU SME Centre** examines food additives, outlining detailed requirements for European businesses wishing to import food products into China. Below is an introduction to these guidelines.

Sensitivity to food additives in China is part of the widespread concern over food safety, particularly as the majority of reported food safety incidents are the result of criminal contamination with illegal additives—as was the case in the melamine scandal of 2008. More insidious is the general public's fear that in order to reduce costs, Chinese producers add more chemicals than are necessary. The average packaged food in China will often contain more additives than its equivalent in Europe.

In an attempt to address these concerns, Chinese regulators have a strict focus on food additives. However, European producers should have little difficulty in complying with China's food additive requirements, including labelling, as approved additives are harmonised with international standards.

Both China and the European Union use the Codex Alimentarius international standards as the basis of their food additive legislation. Codex Alimentarius is based on advice from the Joint Expert Committee for Food Additives of the World Health Organisation (WHO) and the Food and Agriculture Organisation (FAO), both organs of the United Nations.

The high level of harmony between European and Chinese regulations for permitted food additives and their maximum quantities or residue levels means that European exporters can expect a high level of certainty that they fully comply with Chinese requirements. International food additives standards are updated regularly; the Ministry of Health therefore also occasionally releases updates to its regulations.

At the time of writing the latest update was in 2012. Exporters need to be aware that the information must be obtained from the most recent update, which refers to the 2011 regulations, rather than the regulations themselves. European food with permitted additives which are labelled correctly, and meet all other requirements not related to food additives, can expect to pass through cus-

dds up

toms and quarantine and onto the Chinese market.

Foods that contain additives that are not included in China's lists must be approved by the Chinese authorities. Requests to add new food additives are usually undertaken by Chinese industy bodies. It is rare for foreign corporations to undertake this process, but they are permitted to do so.

The World Trade Organisation (WTO) Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement) references Codex Alimentarius as the international consensus on food safety standards. As WTO members, both China and the European Union are bound to be guided by these common standards. Though countries are permitted to implement additional guiding rules to reflect local conditions, they can be challenged if they are not scientifically justified.

China

In accordance with international practice, Chinese food additives regulation is based on the principle that they are technically necessary and proven to be safe. Food additives can only be used if they are covered in the national food safety standards, within the list of allowable food additives of the Ministry of Health, and within the scope of allowed applications and dosage levels. Food additives that do not meet these criteria need to be registered as new food additives.

Food additives should not be intended to cover up food rancidness, quality defects (in the food itself or during processing) or be used for adulteration or falsification, or reduce the nutritional value of food. Levels of food additives should be as low as possible. Unless a residue level is specified, food processing aids used in the course of food processing should be removed.

Europe

Permitted food additives are listed in Annex II of Regulation (EC) No 1333/2008. The Regulation brings together, in a single legislative act, all types of food additives, including colours and sweeteners. The regulation also lists 12 substances or types of substance which are not considered to be food additives.

Under European legislation, food additives must be authorised before they can be used in foods. Since 2002, the European Food Safety Authority (EFSA) has overseen the regulation of food additives. Authorisation follows safety assessment by the EFSA.

The present regulatory framework has its origins in the reforms of December 2008, which, when they entered into force in January 2010, consolidated all food additives legislation previously covered by different directives.

If you would like to read these guidelines in full please go to www.eusmecentre.org.cn/content/food-additives-china to download a copy. Eb

*The **EU SME Centre** assists European SMEs to export to China by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs. The EU SME Centre is a project funded by the European Union.*

EUSME Centre

LIFE IN A GLASS HOUSE

By Carl Hayward

Twenty-two years ago, long before Chinese consumers had a voice, a CCTV programme was swinging the axe on their behalf, smiting those who sought to profit from providing sub-standard services or selling mediocre, or just plain dangerous, goods.

Broadcast every year on 15th March, CCTV's self-appointed consumer watchdog *3.15晚会* (*3.15*) serves as a good reminder to all companies that consumer rights must be respected. There is no doubting the importance of these kind of programmes, and over the years *3.15* has helped to highlight genuine consumer concerns that may otherwise have slipped under the radar.

The proliferation of Chinese netizens has effected a shift in power—consumers themselves are now able to hold companies to account over poor goods or services. Internet platforms, such as Weibo, have made word of mouth an incredibly potent tool to the extent that a company's brand image can now be enhanced or destroyed overnight.

Reacting to events surrounding 2013's *3.15* microbloggers have raised questions over whose image has truly been damaged this time around, those the watchdog purports to protect us from or the watchdog itself.

When President John F Kennedy delivered a special address to the US Congress on 15th March, 1962, setting out his vision for consumer rights, he became the first politician to formerly speak about this subject in an ethical way. In the speech he said:

"Consumers by definition include us all. They are the largest economic group, affecting and affected by almost every public and private economic decision. Yet they are the only important group...whose views are often not heard."

It is safe to say that Kennedy, the only president to have won a Pulitzer Prize, could never have imagined that his speech would indirectly inspire a gala television extravaganza in China nearly three decades later.

According to Consumers International, the consumer movement used Kennedy's ideas to develop a set of eight basic consumer rights, namely the rights to: satisfaction of basic needs; safety; be informed; choose; be heard; redress; consumer education; and a healthy environment.

On 15th March, 1983, World Consumer Rights Day (WCRD) was inaugurated with the purpose of promoting global awareness of consumer rights. Each year since, Consumers International, the organisers of WCRD, have introduced a specific theme, such as 'Consumers and Water' (2004), 'Unethical Drug Promotion' (2007) and 'Our Money, Our Rights' (2010), and encouraged consumers to exercise their rights. Eight years after the first WCRD, China's national television station aired *3.15* for the first time, on CCTV3, and CCTV9 with subtitles.

It came at a time when Chinese consumers being treated

unfairly had no real recourse against corporate entities, so *3.15* became invaluable in raising awareness of the idea of consumer rights in China. Its premise of reporting on individuals or entities that knowingly sold poor quality, defective or unsafe products and services not only provided consumers with a voice but also brought these companies to account.

Every year since CCTV has despatched dozens of reporters to investigate consumer complaints, with the resultant findings presented in a *60 Minutes*-style exposé. Companies or individuals that are found 'guilty' are publicly outed in a fairly sensationalist manner. The effects can be financially damaging and long lasting.

The relatively recent increase in power enjoyed by Chinese consumers to effectively report sub-standard goods and services—as a result of the advent of new media—has, in theory, rendered such television programmes much less effective. The truth is, however, that the public still loves a good scandal, and so much the better if it is delivered amidst the sparkle and glamour of a CCTV gala production. Every year exposed companies from the programme continue to make headline news in Chinese and international media, and this merely accelerates the online debate.

In the past targets of the programme have ranged from local restaurants with relatively small customer bases to large multinationals with huge profits at stake, and each year at least one 'prestige' case is featured.

Arguably this year's most well-known target, Apple, was accused in the CCTV report of discriminating against Chinese customers by providing after-sales service that allegedly falls below the standards Apple offers in other countries.

Ironically *3.15* may have unwittingly weakened their own position on the very medium through which they'd begun to garner support.

Immediately following the 2013 programme a slew of Weibo posts appeared denouncing Apple and accusing it of unfair treatment towards its Chinese customers, with posts from celebrities helping to stoke the fire. The model and actor Peter Ho, who has more than five million followers, posted the following:

"Apple plays so many tricks with their customer service? I feel hurt as an Apple fan. Have you done right by Jobs? Have you done right by boys who sell their kidneys, this is an example of big-name shops bullying customers. Post around 8:20."

The final comment, "Post around 8:20", set alarm bells ringing amongst the online community, leading many to speculate that Ho had been sent the comment by someone else and had merely copied and pasted it onto his Weibo, mistakenly leaving in the instructions telling him at what time he should post the comment. Ho later deleted the post, claiming that his account had been "hacked" and that he had no idea how this could have happened.

Many internet users concluded that CCTV had handpicked celebrities and other influential microbloggers to help deploy a coordinated attack on Apple. Former president of Google China, Kaifu Lee, admitting that he had been invited by *3.15*'s organisers to post comments on his Weibo about the featured reports (he said he would have agreed had the reports been about "Chinese livelihood", i.e. air, water and food safety, but declined as they were not) added more weight to this theory.

While the programme has underlined once again that when it comes to consumer grievances the best form of defence is prevention through respecting consumer rights, it has also emphasised that those who appoint themselves as watchdogs must ensure that they are as pure as the virtues they espouse. Eb

‘Made in

What’s Behind the Label?

n China’:

China’s grip on the ever changing global economic landscape has tightened in recent years. Due to the low cost of raw materials and labour, Chinese-made products now reach all corners of the industrialised world. The safety of consumer products has become an increasingly sensitive and much maligned topic, and deservedly so. Comprehensive quality standards are put in place in all regions of the world and are often amended in response to technological and economic developments in an attempt to remove potential trade barriers.

In the article below **David Chen**, a senior manager of overseas operations at **Centre Testing International Corporation (CTI)**, gives an overview of consumer product safety, the complications facing Chinese manufacturers and the matters in which globalisation has influenced the standardisation industry. Despite tightly controlled regulations for consumer product safety already existing in China, Chen explains that enforcement is often a key issue.

Although it is commonplace for a single consumer product manufactured in China to be sold across the European Union and in North America, end users are most likely unaware of the complexities facing retailers in trying to comply with the different quality standards throughout the supply chain.

Individual countries and regions are regulated by different standards for comparable products; the obligation lies with the manufacturer to comply with each of them. Although similar in scope, as well as the analytical instruments used in its testing methodologies, international standards differ through their restrictions on test items, permitted concentration values and functional properties, with Chinese standards generally being less strict in comparison to Western equivalents.

Quality standards in China are subdivided into four categories: national, industrial, provincial, and enterprise standards. National standards (GB) are the most prevalent and administered directly by the General Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ). Local testing laboratories are accredited by the China National Accreditation Service (CNAS) and China Metrology Accreditation (CMA); test reports bearing the mandatory CNAS and CMA marks verify a document’s legality in China with respect to the compliance of the product(s) in question. Further domestic and international marks may only be applied on a report by laboratories and organisations recognised by the corresponding accreditation bodies. In other words, in the world of quality testing, audit and certification, accreditations denote technical proficiency.

Using an electronic toy car as an example, the testing begins with its physical and mechanical properties, such as durability, fatigue and failure analysis, followed by flammability and toxic elements. These tests all belong to subsets of national and regional level regulations: GB (China), EN (EU) and ASTM/CPSIA (USA). The product must also comply with the equivalent standards of all of the other markets it will be exported to. In addition, toy regulations also include testing for electrical functions, concentration of phthalates, and many more. Phthalates—a commonly applied plasticiser used in juvenile products to increase the ductility of polymer

materials—has been shown to have adverse effects on health.

Depending on the composition of raw materials involved in producing the toy car, a more suitable substitute for hazardous chemicals may be found in the Restriction of Hazardous Substances (RoHS) directive; RoHS first took effect in the EU in 2006 with respect to electronic and electrical equipment placed on the markets of EU member states. Concentrations of six chemical substances classified as hazardous are restricted: Lead (Pb), Mercury (Hg), Cadmium (Cd), Hexavalent Chromium (Cr6+), Polybrominated Biphenyls (PBB), and Polybrominated Diphenyl Ethers (PBDE).

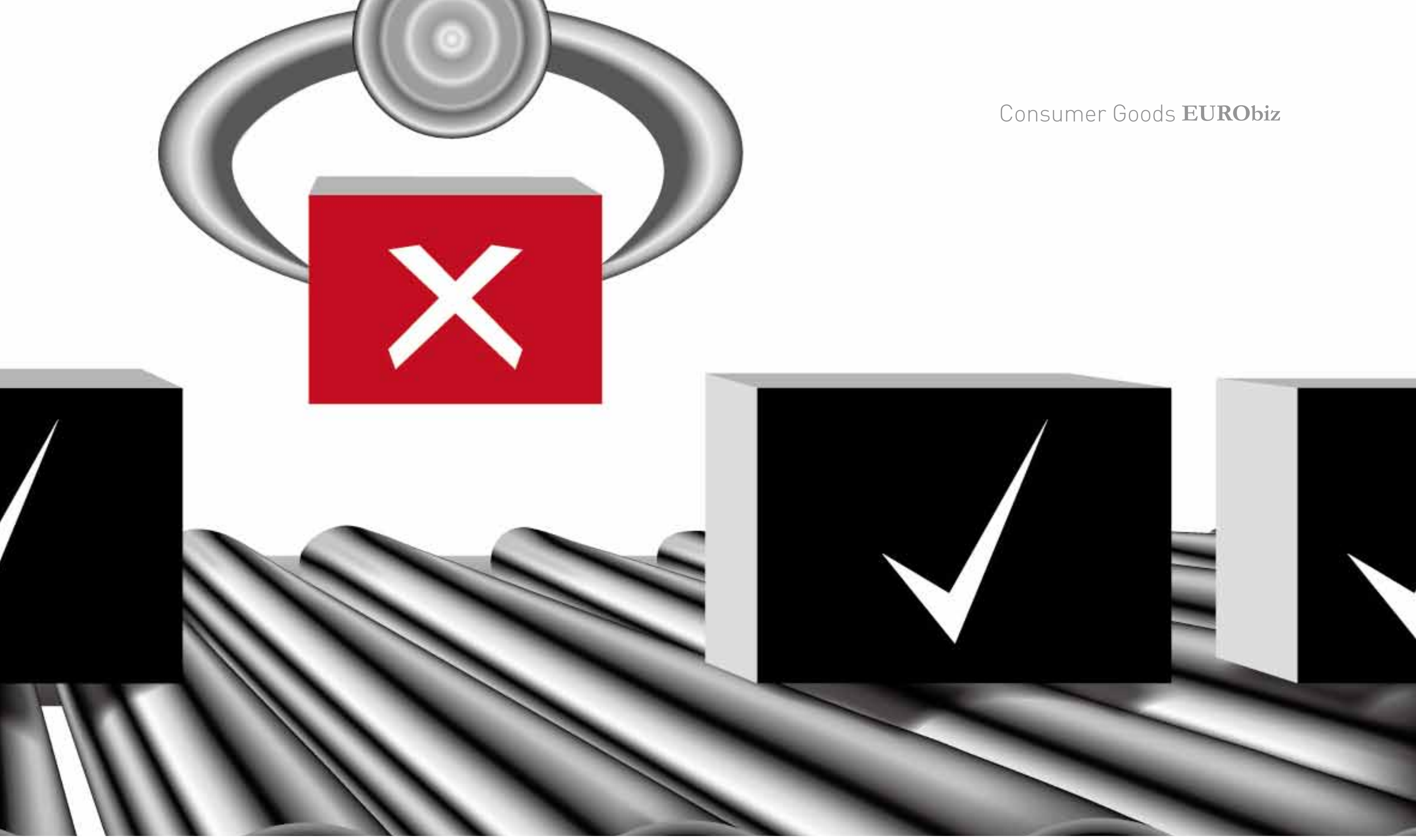
China's RoHS (officially known as the Administrative Measure on the Control of Pollution Caused by Electronic Information Products) was derived from the EU's RoHS and adopted at a later date, with restrictions imposed on the same six substances. The two scopes differ though: The EU's RoHS covers all electronic and electrical equipment with an appendix listing exempted items; China's RoHS is accompanied by a catalogue listing the individual categories of products that it applies to—electronic toy cars are not among those listed.

There is no labelling necessary for EU RoHS qualification, with document checks and test reports often conducted through customs. Conversely it is obligatory in China for all items contained in the RoHS catalogue to be clearly labelled and self-declared on the product's packaging, indicating the existence of hazardous substances, along with the duration in years before these substances will start to discharge into the environment. This illustrates the similarities and also the discrepancies found when comparing Chinese regulations to the existing international ones from which they are adopted, which is a common and reoccurring theme throughout product safety compliance.

Increased demand from foreign markets not only induces competition, but also complicates the procurement process. It cannot be ignored that the manufacturing boom in China is unquestionably driven by cost control. In order to gain a competitive advantage manufacturers and raw material suppliers have in known cases resorted to unethical practices. On the positive side, however, Chinese regulations are gradually being brought into line with international ones, paving the way for stricter levels of compliance further down the road.

In a perfect world there would be a single set of internationally recognised regulations, but this is not the case and is highly unlikely to ever come to fruition. It is possible for multiple regulations on chemical concentration levels to be cross referenced and combined but it is not possible to do this with physical, mechanical and flammability testing. Different functional features among products result in different test methods and requirements. In addition to these complications large multinational companies may also prefer to have their own internal standardisation systems, although these may already take overlaps of regulations into consideration.

If a product is potentially hazardous—to humans or the environment—as a result of its manufacture, and is intended for release into the EU market in quantities of one tonne per year or higher, it must be officially registered with the European Chemicals Agency. Registration must also include safety data sheets pertaining to the Registration, Evaluation and Authorisation of Chemicals (REACH) regulation.



REACH is accompanied by testing restrictions through the chemical substances of very high concern (SVHC). SVHCs are a group of chemical substances defined to be carcinogenic, mutagenic, toxic for reproduction (adverse effects on fertility or sexual function), or persistent and bio accumulative. China's adaptation of REACH features distinctive characteristics once again. It mandates new substances, including those used as intermediates and irrespective of its annual tonnage, to be notified with the Chemical Registration Centre of the Ministry of Environmental Protection.

Countless products worldwide are also subjected to certification prior to market entry; the CCC (China) and CE (EU) marks for instance are compulsory for affected products placed on those markets. In comparison with foreign countries there exist many imperfections detailing China's safety and quality management systems. Certification of a product is not in place to change the consumer's perception of its quality and safety at macro level. Analysing on a micro level though, certification may improve a product's compliance, conformity to management systems and market entry thresholds, consequentially improving the consumer's confidence in specific products. The long-term development of China's RoHS will speak loudly on this matter if products placed on the Chinese market one day are mandated to bear the CCC mark. It should be noted, however, that at the time of writing, although the blueprints are in place, China's adaptations of RoHS and REACH are yet to be made mandatory.

With all such regulations in place, why does the label 'Made in China' continue to be associated with low-quality goods and negative connotations? New regulations are routinely revised to become increasingly stringent but implementation is often not met with the required sense of urgency. The poor-performance levels of products manufactured in China, when compared to foreign imports, imply not only low quality but also low levels of compliance. For now, Chinese state and local government agencies, retailers and, most importantly, manufacturers, must continue to cope with this stigma.

It could be argued that through globalisation and public exposure perceptions of the 'Made in China' tag have improved slightly in recent years. Nonetheless, further, significant improvements to Chinese-produced commodities are required and these products will continue to be subject to close scrutiny by the rest of the world for the foreseeable future.

Perhaps most importantly of all, it is imperative for a nation of 1.3 billion people to increase the social awareness of the safety of its consumer products, only then will there be unequivocal commitment to quality from manufacturers and exporters. Eb

David Chen *has extensive experience overlooking partnerships with international retailers and supermarkets for* ***Centre Testing International Corporation (CTI)****. CTI is a Chinese domestic third party product testing, inspection, audit, and certification organisation. CTI, together with its subsidiaries CTI Certification and REACH24h Consultant Group, forms a 'one-stop' service network for its clients covering each step of the supply chain. For more information please visit www.cti-cert.com, www.cti-cert.org, www.reach24h.com.*

McCurry, a Malaysian restaurant, won an epic eight-year trademark battle with McDonalds on the grounds that no one could possibly confuse the two restaurants

Make Your Mark

Registering your trademark in China

The importance of trademark registration has been recently highlighted by a spate of bad-faith registrations, where some Chinese companies have systematically registered the trademarks of foreign companies with the express intention of selling them back at an inflated price.

If you want to protect and enforce your trademark in China, you must first ensure that it is properly registered. The **China IPR SME Helpdesk** give us a detailed guide on how to do this, and provide comparisons between the international and the Chinese national systems.

It is important to note that China uses the 'first-to-file' system, meaning that companies may lose legal protection in China if a similar mark has already been registered here. China is a member of the Paris Convention and WTO, so you ought to file in China within six months of registration of the same mark in Europe in order to keep the original application date.

A trademark must be used by the owner or risk being invalidated. Third parties may request invalidation through non-use if a trademark has not been used "on the goods, packages or containers, or on trading documents, in advertising, an exhibition or any other business activities" for three years after it was granted.

What is a trademark?

A trademark is a sign that serves the specific and primary purpose of identifying the goods or services of a producer, thus allowing the consumers to distinguish goods or services of one producer from those of another.

What can be registered as a trademark?

The sign may be composed of words, devices, letters, numerals, three-dimensional signs (shapes), combinations of colours or any combination of the above.

Trademarks in Chinese

If one does not exist, Chinese consumers are likely to find a Chinese name for foreign trademarks, so it is advisable to register a Chinese version of a foreign trademark to at least prevent an undesirable name or meaning from being assigned to your brand. Registration of a trademark in Roman characters does not automatically protect the trademark against the use or registration of the same or similar trademark written in Chinese.

Registration procedure

A trademark can be registered either through the national system by direct application to China's Trademark office (TMO) or through the international system by application to the World

Intellectual Property Organisation (WIPO).

National System

Make sure you select a trademark agent from the official list. The involvement of a trademark agent for the filing of the trademarks at the TMO is advisable for all companies and mandatory for foreigners without residence or place of business in China. National applications can only be made in Chinese.

International System

Upon receipt of the application for extension of protection, the WIPO issues a certificate, publishes the trademark in the International Trademark Gazette and notifies the trademark authority of the state concerned. International applications may cover more than one country at the same time and at the same cost, the basic fee covers up to three classes of goods and/or services, and registration is normally processed faster than national registration. International trademarks are protected for ten years with a renewable period of 20 years.

Comparisons: National vs. International Registration System

- In practice, both are valid for ten years.

Not *the* Body Shop - image courtesy of enterthepanda.com

- International applications may be made in English, French or Spanish; national applications can only be made in Chinese. Foreign companies must use a Chinese trademark attorney and have a Chinese company name and address.

- The fee for international applications covers multiple countries consecutively and up to three classes of goods or services; for the national system a separate application must be completed per class.

- Although there is no theoretical difference between international and national trademark registration, in practice it may be better to apply through the national system—you will be provided with a Chinese language certificate which can be used when undertaking any enforcement action in China and can accelerate proceedings when dealing with local authorities. You can request a Chinese language certificate through the international system from the TMO to certify an international trademark, but this can take up to three months.

- Both systems use the International Classification of Goods and Services under the Nice Agreement; Chinese classes also include sub-classes which are not widely used in Europe.

- Broader specifications are acceptable for international applications; national applications need to be more specific.

Trademark Certificate

It is necessary in China to request the TMO to certify an international registration, which may take up to three months, thereby affecting the speed of an enforcement action. Chinese trademark agents usually provide a watch service for their clients. It is highly recommended that this service, as well as the assessment and advice regarding the possibility to oppose, be entrusted to Chinese speaking professionals and conducted in Chinese, as some infringing trademarks that should be opposed may be in Chinese. Eb

CHINA IPR
SME HELPDESK

The **China IPR SME Helpdesk** *is a European Commission funded project that provides free, practical business advice relating to China IPR to European SMEs. To learn about any aspect of intellectual property rights in China, visit our online portal at www.china-iprhelpdesk.eu. For free expert advice on China IPR for your business, e-mail your questions to: question@china-iprhelpdesk.eu. You will receive a reply from one of the Helpdesk experts within seven working days. The China IPR SME Helpdesk is jointly implemented by DEVELOPMENT Solutions and the European Union Chamber of Commerce in China.*

Adapting to Change

An amendment to Chinese Employment Contract Law provides new challenges for businesses

On 28th December, 2012, the Amendment of Employment Contract Law (the Amendment) was released by the Standing Committee of the National People's Congress, which will be implemented on 1st July, 2013.

This is the first amendment to the law, which came into effect on 1st January, 2008. It focusses on the issue of labour dispatch, a term that refers to the practice of hiring employees through an employment service agency as opposed to direct employment. In the following article **Ms Wei Lu**, founder and COO of **CDP Group Ltd** in Shanghai, outlines the potentially far-reaching implications and advises companies to start formulating a plan as soon as possible.

Over the past five years the practice of labour dispatch has been frequently criticised by the media, particularly with regard to the issue of 'equal pay for equal work'. The legislature made this Amendment so as to regulate the practice of labour dispatch more strictly, mainly by clarifying and expanding some of the vaguer articles of Employment Contract Law.

There is a unique aspect to the situation of dispatching labour in China. Initially, as foreign companies could only be registered as representative offices or branches that couldn't hire employees directly, they were advised to hire employees through government agencies. This changed after WTO when dispatching services were suddenly available on the open market, with much easier entry for dispatching service vendors. Over the past decade it has become common practice for all kinds of companies to use dispatching services.

So what are the implications if the Amendment requires companies to 'take back' a huge number of dispatched staff by 1st July of this year when the legislation takes effect? Will companies be able to bear the huge costs involved, or have the capabilities to build the infrastructure to support the management of these employees? What are the long term risks to companies? These are the critical issues that companies need to address.

In summary the major points of the Amendment can be classified into the following four categories:

New requirements for qualification

Labour dispatch providers will now be required to:

- Have a minimum registered capital of RMB 2 million;

- Establish their internal management procedures and policies specifically for labour dispatch business services. It should closely follow all criteria of the Amendment, and Labour Authorities are empowered to examine and approve new administrative licenses of all labour dispatch businesses.

Many companies, including large foreign companies, SOEs and public domestic companies, now recruit over 70 per cent of their staff from dispatching vendors. Logistics, fast-moving consumer goods (FMCG), manufacturing and services are just some of the major industries that now leverage the existing dispatching model to reduce risks or labour costs.

Equal pay for equal work

- Dispatched employees are entitled to receive the same pay as that received by regular employees in the same positions.
- This principal shall be written into the Employment Contract & Labour Dispatch Agreement.

Often labour dispatch vendors are considered qualified, not due to the quality of their service, efficiency and/or their strategic value to customers, but simply due to the fact that they provide the relevant services. This has led to many labour abuses and has triggered legal cases on unequal pay, benefits and insurance coverage when comparing dispatched staff to direct-hire staff in equivalent positions.

Dispatch staff can only be appointed to temporary, auxiliary and substitutable positions

- Temporary positions shall not be longer than six months.
- Auxiliary positions are those that support the positions of main business units.
- Substitute positions are those that temporarily replace 'regular' employees who are engaged in off-the-job training, leave, or for other reasons which the employee cannot report to work for a fixed period.

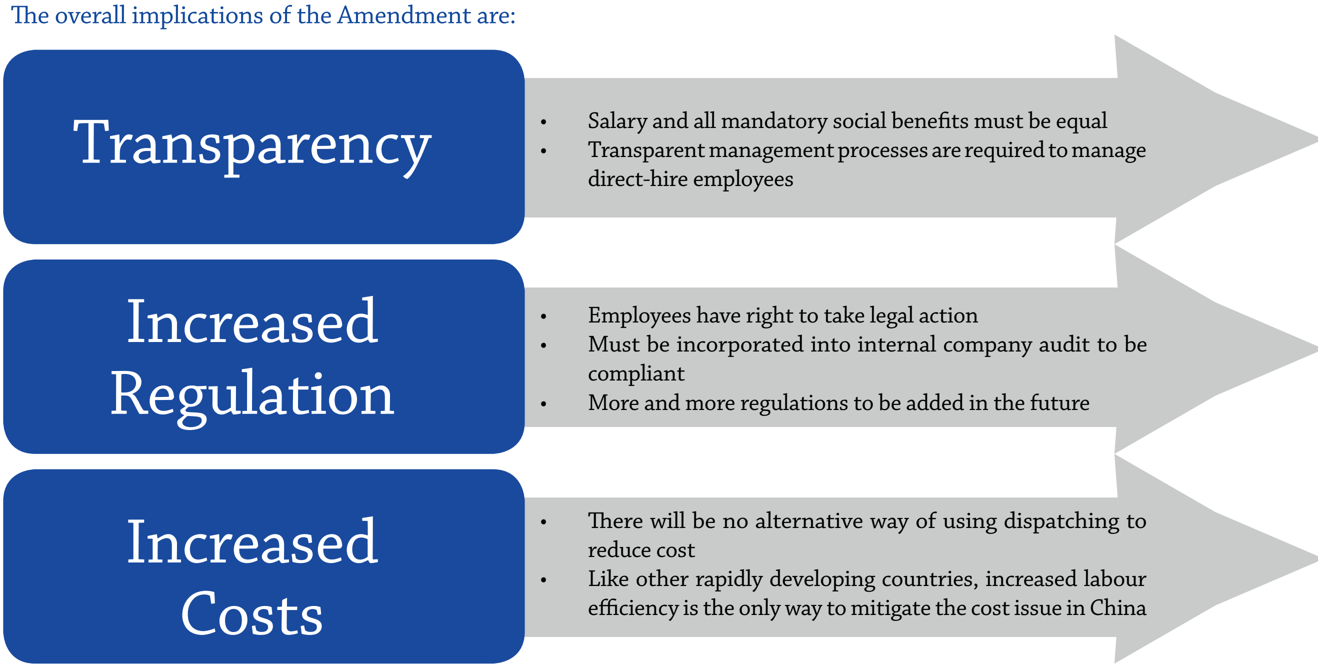
Labour dispatch shall be limited to a cap or fixed percentage

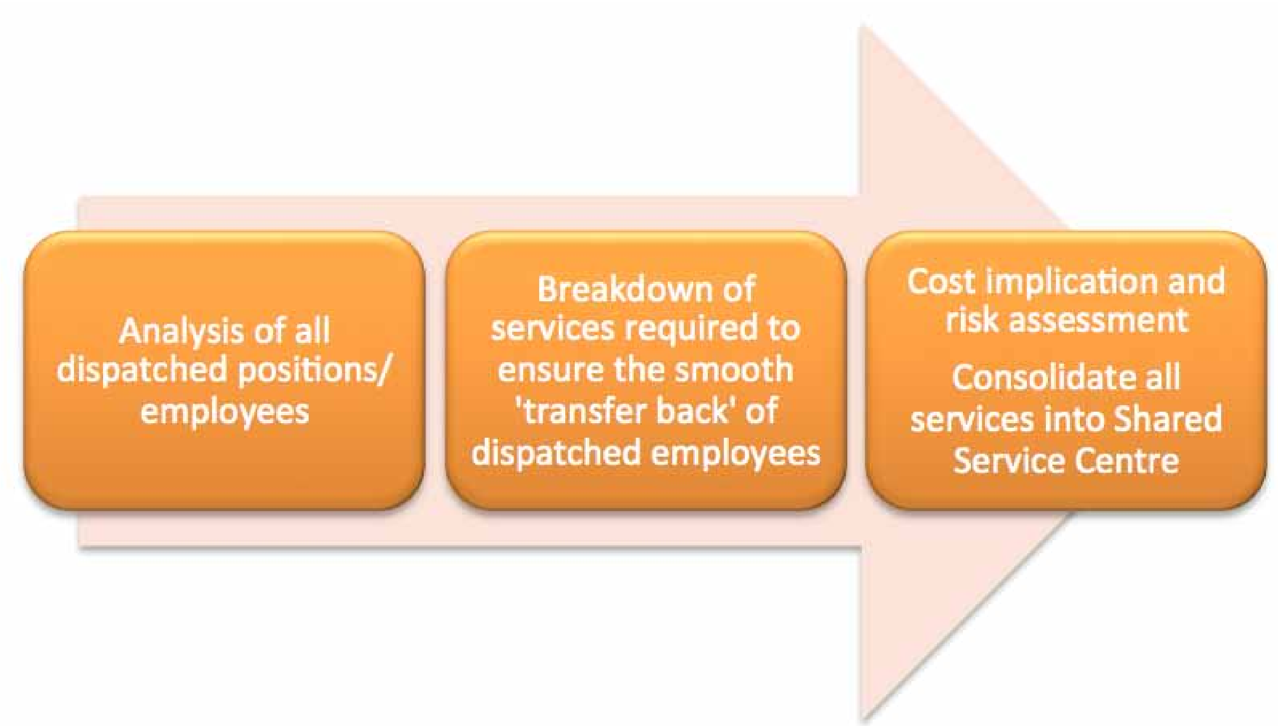
- Direct employment should be the main method for hiring employees in China.
- Labour dispatch is merely a supplement to direct employment.
- Employers shall strictly control the number of its dispatched employees, which shall not exceed a fixed percentage. The restricted range can be based on a percentage of the total headcount of an employer. Specific percentages are to be regulated by the Ministry of Human Resources and Social Security.

Based on the Amendment, we suggest that employers should complete internal work prior to 1st July, 2013, as follows:

- Check the current number of dispatched employees.
- Check the percentage of dispatched employees.
- Clarify the necessity dispatched positions.
- Harmonise the situation of equal pay for equal work.
- Undertake a plan of transition.

The overall implications of the Amendment are:





At CDP we have been following these trends and changes to the new dispatching policy with great interest, and are heavily involved with our client base to help them transition. We have been providing preliminary solutions, using our in-depth knowledge of HR services and solutions, to help them cope with the inevitable business changes by leveraging end-to-end services.

Our suggestion is that HR or other company executives ask themselves the following questions before formulating an action plan:

- Do current dispatched employees meet the new criteria for 'temporary', 'auxiliary' or 'substitutable'? Should we implement an overall position analysis to define which positions 'qualify' for future dispatching?
- How many, and what new, internal positions do we need to create in order to absorb all dispatched employees into 'regular' positions?
- What are the cost implications of this absorption process? Do we need to build a service centre, legal team or IT platform, or develop procedures for labour contract management to cope with the changes?
- What would be the most efficient model to manage this group of employees if we have to 'hire them back'?
- What about the actual recruitment? Can we outsource this or build shared services?

There are many ideas and discussions taking place, and there is still some time to think through the issue and prepare for the change. It never hurts to gather as much information as possible, try new approaches and leverage all internal and external resources to find the best solution that fits you. Some companies may choose to strengthen their internal HR operations by building up HR shared services and adding recruitment channels, some may choose to outsource non-core positions (Position Outsourcing) while others may want to try total outsourcing of services to reduce risks or increase efficiency.

At CDP we advise all employers to pay close attention to this Amendment, the subsequent local detailed regulations, and any updates to the related local judicial guidelines. It seems that the adjustment of employment structures will be a future trend of the Chinese labour environment. Senior executives should take time to think through long-term strategies of their local business and empower their HR to make this transition as smooth and risk-predictable possible. By using this opportunity smartly, companies can also unearth previously unseen risks, find solutions to cost inefficiency and process redundancy with break-through ideas on overall HR management. Eb

***CDP Group Ltd** is a leading one-stop HR outsourcing provider in Asia and Greater China. CDP provides a full set of comprehensive HR services of payroll outsourcing, benefit outsourcing, HCM on Cloud, HR shared services, performance on demand, recruitment services, expatriate services and other valued added services. Their service empowers companies to manage and optimise their HR management and services through the PEOPLE, PROCESS and PLATFORM model. For more information go to www.cdpgroupltd.com.*

ELDERLY CARE, AN IMMATURE MARKET

China's rapidly ageing population coupled with an expanding middle class means that increasing numbers of elderly Chinese people will be looking for private senior care in the future. In the following report **Helen Chen** and **Ken Y. Chen** from **L.E.K. Consulting** explain how the promotion of senior care to "encouraged" status in the Foreign Investment Catalogue in 2011 is opening up investment opportunities for foreign companies.

China is already home to more than 167 million people above the age of 60—more than the total population of Germany and France combined—and this segment of China's population is only increasing, expected to rise by another eight million per year over the next five years.

The speed of ageing in China is unique, considered one of the fastest growing in the world thanks to a rapidly falling mortality rate coupled with a low birth rate—a result of the country's infamous one-child policy. This ageing citizenry has led to a '4-2-1 paradigm', where a growing number of couples are responsible for just one child but four parents. As a result, nearly half of the country's elderly population lives alone.

In an effort to provide for this ageing segment, last December the Chinese Government set a target of creating an additional 3.4 million senior housing beds by 2015. While the number sounds substantial, if met this will still only provide housing for approximately four per cent of China's elderly. Thus, in the Foreign Investment Catalogue senior care was elevated to "encouraged" status, opening the door for foreign investment in the industry and inviting investors and operators in to leverage their knowledge and expertise in what is a relatively new market for China.

Shanghai's Pudong New Area was one of the first to act on this mandate, announcing last June that it would allow private enterprises to participate in its senior care market. Their new policies in the matter include a pilot program that encourages investment targeting the high-end market in order to provide expanded options for residents as well as to improve the quality of care offered.

With an increasing level of household wealth, it is projected that over one fifth of China's senior population will be able to afford high-end senior housing and care by 2020, establishing this as a truly lucrative market segment. Based on a recent L.E.K. analysis, Shanghai in particular appears to face a supply gap when it comes to high-end eldercare institutions.

Seizing the opportunity on the heels of Pudong's announcement, a joint venture (JV) between investor Columbia Pacific Advisors and US senior living provider Emeritus Corporation was publicised, stating approval from the Shanghai Government to open the first foreign-owned, for-profit senior care facility in China. They, along with others, believe the market is ready for expansion and have plans to open up to 30 similar facilities across the country once they lock in their model in Shanghai.

Also, in Qingdao, Internationaler Bund (IB) from Germany and Qingdao Baden Holdings Co from China set up a JV called Baden Chorden. This project was completed and commercialised in 2012.

Nonetheless, not all are as quick to jump in; regulations, market entry, business models and selecting suitable partners have kept many on the sidelines, looking for

their opportunity to enter the game, and there have been some casualties. Back in 2006, German company Augustinum began a JV project in Shanghai, but this failed two years later due to the policy barriers related to land development approval.

As with all budding markets, the regulatory environment around the senior care industry is still quite loose. The lack of clear policies and procedures has given many operators pause. While it has become increasingly easier to set up a Wholly Foreign-Owned Enterprise (WFOE) in China, more companies are looking into JVs to navigate the vague regulatory waters and complicated approval processes. However, although JVs can provide a market-entry advantage, they do come with their own set of unknowns, which is why it's important to know how to structure such a deal upfront, providing an opportunity to exit down the road if needed.

Whether through a WFOE or a JV, the market presents unprecedented opportunities for developers and operators alike, and as the senior-living sector is still in the early stages of its development, some have taken these loose strictures as an opportunity to design senior dreamlands, utilising technology and facility design to a degree that might not be feasible in stricter regulatory environments.

Along with developers and operators, L.E.K. has found that insurance companies are also planning to develop large-scale, comprehensive senior communities, leveraging their pool of existing customers to promote new housing investments. Chinese insurers, in particular, are looking into the market, but their success is contingent upon attracting the right partners to develop senior care projects, and thus several are turning to foreign operators to meet the Chinese consumer preference for international brands.

There are great opportunities in the senior care market, and as the government seeks to attract foreign investment and experience to provide for its ageing population there is much to be gained for investors, operators and developers alike. But as companies investigate and prepare to enter the market they will need to be able to decipher the consumer demands as well as understand how to best navigate regulations, build appropriate models for the market and identify potential partnership pitfalls. Eb

L.E.K. Consulting *is a global management consulting firm that uses deep industry expertise and analytical rigour to help clients solve their most critical business problems. Founded more than 30 years ago, L.E.K. employs over 1,000 professionals in 21 offices across Europe, the Americas and Asia-Pacific. L.E.K. has been on the ground serving clients in China since 1998.*

L.E.K. advises and supports global companies that are leaders in their industries—including the largest private and public sector organisations, private equity firms and emerging entrepreneurial businesses. For more information, please go to www.lek.com.

Image courtesy of Ulrich O. Birch

The World's Factory in Transition

Thirty years ago **Dongguan** was just a collection of villages and towns spread out over 2,500 square kilometres on the Pearl River Delta. However, thanks to the 'reform and opening-up' introduced in 1978, generous fiscal support from both the central and local government has transformed this erstwhile rural backwater into one of today's leading global manufacturing centres. In 2012, the city's GDP alone exceeded the RMB 500 billion benchmark for the first time, registering at RMB 501 billion (USD 80 billion). **Yao Lu** from **Dezan Shira & Associates** takes us on a tour of this former 'factory of the world'

Geographical overview

The city's initial economic growth spurt can be largely attributed to its strategic location. Lying in the central-southern part of Guangdong Province and east of the Pearl River, it adjoins Guangzhou to the northwest, Shenzhen to the south, and is positioned ideally at the centre of the Guangzhou-Hong Kong economic corridor. This, along with its abundant supply of cheap labour and land, began to attract manufacturers from Hong Kong and Taiwan in the late 70s.

Manufacturing base

More than three decades on, goods produced in Dongguan are well-known around the world. The city has formed an advanced and comprehensive manufacturing system that covers more than 60,000 types of products across 30 different industries, and almost every one of Dongguan's individual towns has its own unique industrial expertise, such as:

Southern China's Clothing Kingdom
Humen, a town which lies to the southeast of Dongguan, started its apparel manufacturing in 1993. The region now has more than 1,200 clothing manufacturing enterprises, with more than 300,000 employees engaged in the industry. Humen is famous for its production of women's jeans and fashion garments. In 2011, the town sold 250 million pieces of clothing worldwide with total sales reaching RMB 20 billion.

Shoe-making base
Houjie is one of the largest shoe-making bases in China. There are more than 500 factories in the town involved in shoe making, and over 800 engaged in the supply of raw materials, machinery and leather for the industry. In 2010, 600 million pairs of shoes were made in the town, with sales revenues rising to RMB 20.9 billion. It is expected that by 2015, 900 million pairs will be produced with sales revenues amounting to RMB 28.5 billion.

Construction of the World Shoe Centre, located in the Houjie Ecology Industrial Park, started in 2011. Total investment into the project is estimated at roughly RMB 1.6 billion, and after its completion, it will serve as the international centre for shoe material procurement, shoe exhibitions and trade fairs, and a hub for R&D of new materials and techniques.

Economic Transformation

By transforming Dongguan from a collection of small towns into an international manufacturing giant in less than three decades, the so-called 'Dongguan Model' has received worldwide recognition. It even continued to thrive during 2006 when the appreciation of the *renminbi* caused other manufacturing centres to struggle due to rising production costs. However, in the fallout from the global financial crisis, Dongguan's GDP growth slowed to 5.3 per cent, the city's lowest growth level since 1978. As a result the local government realised that the city's low-end manufacturing model needed to be upgraded and, in 2010, the city was designated as a pilot city to be upgraded and undergo industrial transformation.

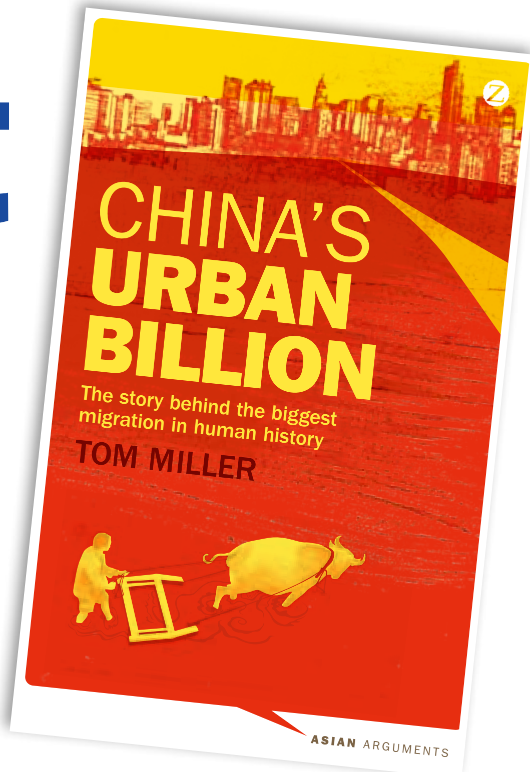
Despite these improvements Dongguan has failed to regain its former reputation as the 'world's factory'. However, changes and developments are actually taking place in the city, specifically:

- Share in processing trade increased by 11.3 per cent
  The exportation of high-tech products in the processing industry has increased its share of the total from 38.1 per cent in 2008 to 49.4 per cent in 2011.
- Foreign-invested enterprises more than doubled domestic sales levels over three years
  Sales increased from RMB 133.9 billion in 2008 to RMB 247.9 billion in 2011, taking up 34 per cent of the total trade sales in 2011, compared with 26 per cent in 2008.
- Original brands doubled from 2008-2012
  Since 2008, original brands developed within the city's processing industry increased from 2,068 to 4,325, while the newly-established research institutions of the processing industry reached 441, forty-nine times the number in 2008.
- Labour-intensive industries see factories shrink but values jump
  While the number of enterprises and employees involved in labour-intensive industries are slowly decreasing, the overall export value of labour-intensive products is increasing. Take Houjie for example, the amount of shoe-making factories in the town decreased from more than 600 in 2007 to only 400 in 2011, and the number of employees engaged in the industry dropped from 150,000 to 100,000. However, the value of shoe exports increased from RMB 15 billion to RMB 30 billion at the same time, while the average export price for a single piece of clothing increased by 61 per cent.
- More than 1,500 low-end manufacturing projects transferred
  As the city seeks to upgrade its manufacturing base, Dongguan has transferred more than 1,500 projects to other parts of Guangdong Province in the last two years, with most of them belonging to low-cost, low value-added, labour-intensive, pollution-intensive industries.

In addition, the city's industrial fixed assets investment in projects above RMB 5 million in the last two years totalled RMB 69.5 billion. When this production capacity is finally unleashed it is expected to generate RMB 200 billion in industrial output and RMB 40 billion in industrial added value. Eb

***Dezan Shira & Associates** is a specialist foreign direct investment practice providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. For further details or to contact the firm, please visit www.dezshira.com or email alberto.vettoretti@dezshira.com .*

The Biggest Migration in Human History



In our *Position Paper 2012/2013* the European Chamber recognises that China's massive process of urbanisation will bring many opportunities, as well as challenges. It goes on to note that although European industry is well placed to support China in terms of knowledge, experience and technology, at present there are restrictions on "the access required to help tackle the real issues that China faces across various urbanisation-related fields, including energy, utilities, transport and construction."

Two of China's key urbanisation challenges—addressed by the Construction Working Group in 'Section Four: Trade in Services' of the *Position Paper*—are maintaining sustainable urban development, and ensuring that new infrastructure meets the necessary standards of quality. In his book, ***China's Urban Billion: The Story Behind the Biggest Migration in Human History***, **Tom Miller** examines these issues and explains how China must follow a responsible and sustainable path to urbanisation and address social reforms for urban migrants, or risk facing a human catastrophe.

"By 2030, when China's urban population is projected to swell to 1 billion, its cities will be home to one in every eight people on earth. How China's urban billion live will shape the future of the world."

For 30 years, China has pursued an exploitative model of urbanisation that allowed it to industrialise on the cheap. But that model has run its course. As China's cities grow, their biggest challenge is to find a healthier path to urban development. This book aims to show why this must happen and to explain how it can be achieved.

First, it describes the process by which hundreds of millions of people will move off the land and into the city. And second, it suggests how China can begin to create liveable cities that fully capture the economic benefits of urbanisation.

Nowhere is China's urban miracle more obvious than in Chongqing municipality. Often wrongly called the world's largest city, it is actually a mostly rural city-province a little larger than Scotland, with a resident population of 28 million. Around one quarter of these people live in the city proper, which is rapidly expanding to accommodate an enormous influx of new urban residents. By 2020, planners expect the city's population to top 12 million.

Chongqing's leaders want many more rural people to migrate to the city and other towns within the municipality. They believe that faster urbanisation will unlock economic growth and boost rural incomes. Their ambitious goal is to double the municipality's urban *hukou* population from 10 million in 2010 to 20 million by 2020.

Even without explicit central-government support, China is already urbanising faster than expected. In 2011, the country passed a development milestone: for the first time, more than half its citizens lived in towns or cities. The number of people in urban areas jumped to 691 million, taking China's urbanisation ratio past 51 per cent. In 1980, fewer than 200 million people lived in towns and cities. Over the next 30 years, China's cities expanded by nearly 500 million—the equivalent of adding the combined populations of the US, the UK, France and Italy.

The primary driving force behind urbanisation is economic. Migrant workers earn far more than those who stay on the farm. And the productivity gains from the twin processes of urbanisation and industrialisation are vital for the national economy: moving hundreds of millions of people out of economically insignificant jobs on the land and into factories and onto building sites in the city produces enormous economic growth.

Mass migration to the cities makes sense both for individual farmers and for the country as a whole. For this reason, nothing is likely to halt the huge migration from farm to city—bar economic collapse, political turmoil, or some other cataclysmic event. Historical experience, economic logic and government policy all point to the same conclusion: by 2030, 1 billion Chinese will live in cities.

This leaves two central questions. What kind of lives will China's urban billion lead? And what will China's cities be like?

If China's leaders get urbanisation right, they may succeed in tilting the world's second-largest economy away from its reliance on investment and manufacturing towards greater consumption of goods and services. City folk are richer and consume far more than their country cousins. If rural migrants can become genuine consumers, they will rebalance China's economy and put future growth on a more sustainable footing. But if China's leaders get urbanisation wrong, the country could spend the next 20 years languishing in middle-income torpor, its cities pockmarked by giant slums. Nearly one in three urban residents do not currently receive urban social benefits, and this figure could climb to nearer one in two if reforms are not made.

Above all, the Central Government must take some of the financial pressure off local governments by shouldering more of the fiscal burden of reform. How the process of urbanisation is financed could decide whether China's current economic model continues, stalls or blows up in its leaders' faces. If China gets urbanisation right, it will surpass the United States and cement its position as the world's largest economy. But if it turns sour, the world's most populous country could easily become home to the world's largest urban underclass. That would be a disaster. Eb

China's Urban Billion: The Story Behind the Biggest Migration in Human History *is available at the Beijing Bookworm, priced at RMB 200, and from Amazon (paperback USD 29.95, Kindle USD 16.47).*

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER

1

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Book Presentation (1)
Author Tom Miller presented his book, *China's Urban Billion: The Story behind the Biggest Migration in Human History*, on 20th February 2013, at the Renaissance Beijing Capital Hotel. The breakfast event saw a full house of attendees engaging in discussions about the impact of urbanisation on China's economy and the subsequent business opportunities for European companies.

Insight China: Is the China's Investment Model Coming to An End (2-5)
The first Beijing edition of Insight China in 2013 was held on 28th February at the Renaissance Beijing Capital Hotel, with renowned economists Zhang Wenkui, Michael Pettis, Murtaza Syed and Andrew Polk. More than 100 attendees were engaged in this stimulating debate.

Related Parties' Equity Transfer Transactions (6&7)
On 14th March 2013, the European Chamber hosted a breakfast seminar, Recent New Developments on Related Parties' Equity Transfer Transactions - A Tax and Legal Perspective, at the Westin Chaoyang Hotel.

PRD CHAPTER

1

2

One Night in Europe Gala Dinner (1&2)
On 9th March, 2013, the European Chamber's PRD Chapter successfully held its One Night in Europe Gala Dinner at the Mandarin Oriental Hotel, Guangzhou. The Gala Dinner is the region's premier social event of the year, providing a night of European food, drinks and entertainment. The event was attended by more than 260 guests from EU-member country's Consulate Generals in Guangzhou, Chamber-member companies and friends from the European business community.

SHANGHAI CHAPTER

1


2

Insight China: Is China's Investment Model Coming to an End? (1&2)
On 26th February, the Shanghai session of Insight China was successfully held at Le Royal Meridien Hotel, Shanghai. More than 80 attendees joined the afternoon seminar with speakers Professor Zhu Tian, Chair, Economics and Decision Sciences Department at China Europe International Business School, Mandarin Capital Partners Managing Director, Mr Alberto Forchielli, and Corporate Network Director at the Economist Intelligence Unit, Ms Mary Boyd.

SOUTHWEST CHAPTER


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3

EU SME Centre Seminars (1&2)
On 27th and 28th February 2013, the European Chamber Southwest Chapter co-organised two seminars with the EU SME Centre in Chengdu and Chongqing. Mr Benoit Misonne, Market Access Advisor of the EU SME Centre, introduced the centre and the services they provide for SMEs. Tamás Hajba, Consul General of Hungary, representatives of the Danish Consulate, the British Consulate, and local trade agencies joined the seminars.

VIP Networking Dinner (3)
On 27th February 2013, the European Chamber Southwest Chapter held their VIP Networking Dinner at the Millennium Hotel Chengdu. Mr Chen Zhongwei, Director of the Chengdu Logistics Bureau, shared the latest updates on international airlines and the operational status of the Sino-Europe railway (Chengdu – Poland).

TIANJIN CHAPTER

GM Briefing: From 'Dragon' to 'Snake', what do we have in hand and ahead?
On 31st January at the GM Briefing event, Mr Gabriele Castaldi, local Chair of the European Chamber Tianjin Chapter, presented the results of the Economic Downturn survey conducted in 2012. Invited speaker Mr Eric Goujon, Lead Partner of European business for PwC China also shared his observations and insights from his 18-year experience in advising multinationals in China.

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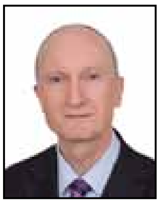
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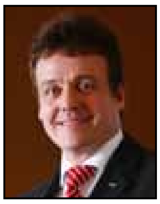
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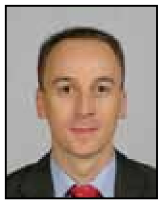
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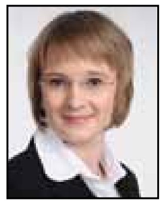
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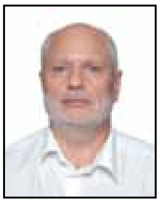
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CALENDAR

A preview of some of the European Union Chamber of Commerce in China's major events in 2013.

SHANGHAI

19th April 2013
China in Transition

This breakfast seminar with Wei Yao, China Economist for Societe Generale Corporate & Investment Banking, will take place from 8am to 10am. The price of this event is RMB 250 for members and RMB 400 for non members. The venue is yet to be confirmed.

NANJING

26th May 2013
Spring Garden Party

Celebrate the onset of spring with a barbeque, drinks and live entertainment at the Nanjing Chapter's 5th annual Spring Garden Party. More than 120 guests from the Nanjing business community are expected to attend. The event takes place at the Sofitel Golf Resort from 4pm to 6pm. Tickets cost RMB 300 for Chamber members and special guests and RMB 600 for non members.

BEIJING

24th April 2013
European Chamber AGM 2013: Election of European Chamber President, Vice Presidents and Treasurer

On 24th April, the European Union Chamber of Commerce in China will hold its Annual General Meeting at the EU Delegation in Beijing. During this meeting elections for the President, three Vice Presidents and the Treasurer of the European Chamber will be held.

9th May 2013
European Chamber Annual Conference 2013 – The Road to Reform
The European Union Chamber of Commerce in China is pleased to invite you to the European Chamber Annual Conference 2013 – The Road to Reform, starting 9am on 9th May 2013, at the China World Summit Wing.

Speakers will include leading China experts from politics, business and academia discussing the critical issues for China. It is expected to attract more than 300 attendees, including high-level officials from Chinese and EU governments, Chinese and EU executives from diverse business areas, as well prominent domestic and international media.

For information on sponsorship opportunities for this event please contact Betty Yin on (+86 10) 6462 2066 ext 23, or at byin@europeanchamber.com.cn.

THE EXECUTIVE INTERVIEW:

Roland Gerke

President and CEO, BSH Home Appliances Holding (China) Co Ltd

BSH Bosch und Siemens Hausgeräte GmbH (BSH) is Europe's largest producer of home appliances and one of the leading companies in the sector worldwide. China is currently its second largest market and will become its largest in the coming years.

Roland Gerke has been living in China for nearly 15 years and has been President and CEO of **BSH Home Appliances Holding (China) Co Ltd** (BSH China) since April 2002. In January 2011 he took responsibility for strategy formulation and execution, management of subsidiary companies, and development of the whole industrial chain for BSH China.

In what ways has the business landscape in China evolved since you've been operating here?

We experienced continuous fast development after entering into China in 1994, with extraordinary growth, for example, from 2001 to 2012 where we had, on average, a double-digit increase in turnover.

Our company has developed in a way that followed China's socioeconomic developments. In the first phase from 1994 to 2004, we concentrated on the build up of our production facilities and sales and customer service network to cover the major urban areas in all provinces. After 2004, during the second phase, we expanded our value chain to strengthen our R&D capability, develop products adapted to the Chinese market, enhance our technological lead, and structure our investments through the founding of our holding company. In 2011, our holding company was recognised as a regional headquarters and now provides services to the Asia Pacific region, such as product development and IT services. The BSH China development path mirrors the economic development of China in general and is therefore also strongly supported by the Jiangsu Provincial and the Nanjing Municipal Governments.

How important is it for you to develop products specifically for the Chinese market, and how important is innovation?

BSH pays strict attention to technology development and innovation. It is our aim to introduce the latest technology, products and lifestyle choices to consumers around the world and in this way provide better user experiences to our customers.

Our BSH Appliance Park in Nanjing has a central R&D centre that employs more than 350 highly qualified people. As one of BSH Group's most important R&D bases in the world, the R&D centre is responsible for developing innovative, high-quality home appliance products with advanced design. Our China Central R&D Centre undertakes research and development not only for the Chinese market but also for other markets worldwide.

How do you deal with the issue of counterfeiting?

We firmly oppose counterfeit products which will seriously harm consumer interests. We will actively work with the relevant government departments to support their actions to crack down on counterfeit goods and contribute to the protection of the legal interests of consumers.

What CSR initiatives has BSH China taken?

We seek to live up to our social responsibilities by extending a helping hand to people in need as well as supporting social and cultural projects. Through our products and actions we would like to make a significant contribution to sustainable development in China.

We are regarded as a major employer and customer in most aspects of our operations. Consequently, we have an impact on the local communities in China with such initiatives as the I-Green Education Program and the Creative Old Products Recycling Project. We also believe it is our responsibility to support as many charitable causes as we can, and have made donations to the John Rabe Foundation, the Foundation Project for Poverty Alleviation in Yulong and the drought areas in Yunnan to name just a few.

How important is the Chinese market to the future of BSH worldwide?

We are optimistic about the China market in the medium and long term, since, for example, the increasing levels of urbanisation, the rapidly improving living conditions and the changing lifestyles provide good opportunities for home appliance manufacturers. Our goal is to make every effort to meet our customers' requirements and to provide a satisfactory user experience for our consumers. Eb