Journal of the European Union Chamber of Commerce in China

EURObiz

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January/February 2015

SMEs

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LIAONING LASER INDUSTRIAL PARK POWERS INTO NEW ERA

Liaoning Laser Industrial Park was established in 2011, with the approval of Liaoning Provincial Government. Located in the state-level Anshan High-Tech Industrial Development Zone, it is a specialised laser industrial base operating under the state torch programme, which was approved by the Ministry of Science and Technology on 16th July, 2013. It has already become an important driving force in Anshan's industrial upgrading. The industrial park focuses on developing four leading industrial sectors, including laser processing, laser communications, smart devices manufacturing and opto-mechatronics.

Overall planning

The industrial park covers an area of 37 square kilometres, which is divided into five areas – A, B, C, D and E. Areas A, B, C and D are used for laser industry research and development (R&D), traditional applications of laser technology, laser processing and manufacturing of laser devices. Area E is used for innovative applications of laser technology for the high-end service industry. Pangu Mountain sits in the industrial park and Wanshui River runs through it.

Strengths

Complete infrastructure: With convenient traffic access, the industrial park has built a wide range of facilities, including transformer substations, a wastewater treatment plant, central heating boiler houses and fire stations. To date, a total of approximately RMB 5 billion has been invested in infrastructure. Twenty-five standard workshops were constructed with a total floor area of 600,000 square metres. Enterprises in the industrial park can get access to water, gas, power, heating, telecommunications network, roads and other transportation facilities.

Low cost: Enterprises settled in the industrial park can obtain a free, three-year lease for standard workshops and a favourable discount for buying them.

Strong support for science and technology: Six prestigious universities have been attracted to set up R&D centres and research institutes in the industrial park, including Harbin Institute of Technology, Northeastern University, Dalian University of Technology and Huazhong University of Science and Technology.

Fledgling laser industrial cluster: Currently, the industrial park is home to over 180 enterprises. More than 60 projects have been put into operation, including high-power, transverse-flow lasers by Hanpeng Corporation from Shanghai; picosecond lasers by Beijing ZK Laser Ltd; a complete set of laser equipment and automated production lines from Haimuxing Corporation from Shenzhen; laser cutting machines by Ruida Corporation from Kunshan; laser welding machines by Yifei Corporation from Wuhan; and flexible laser cutting machines by Heli Corporation from Dongguan.

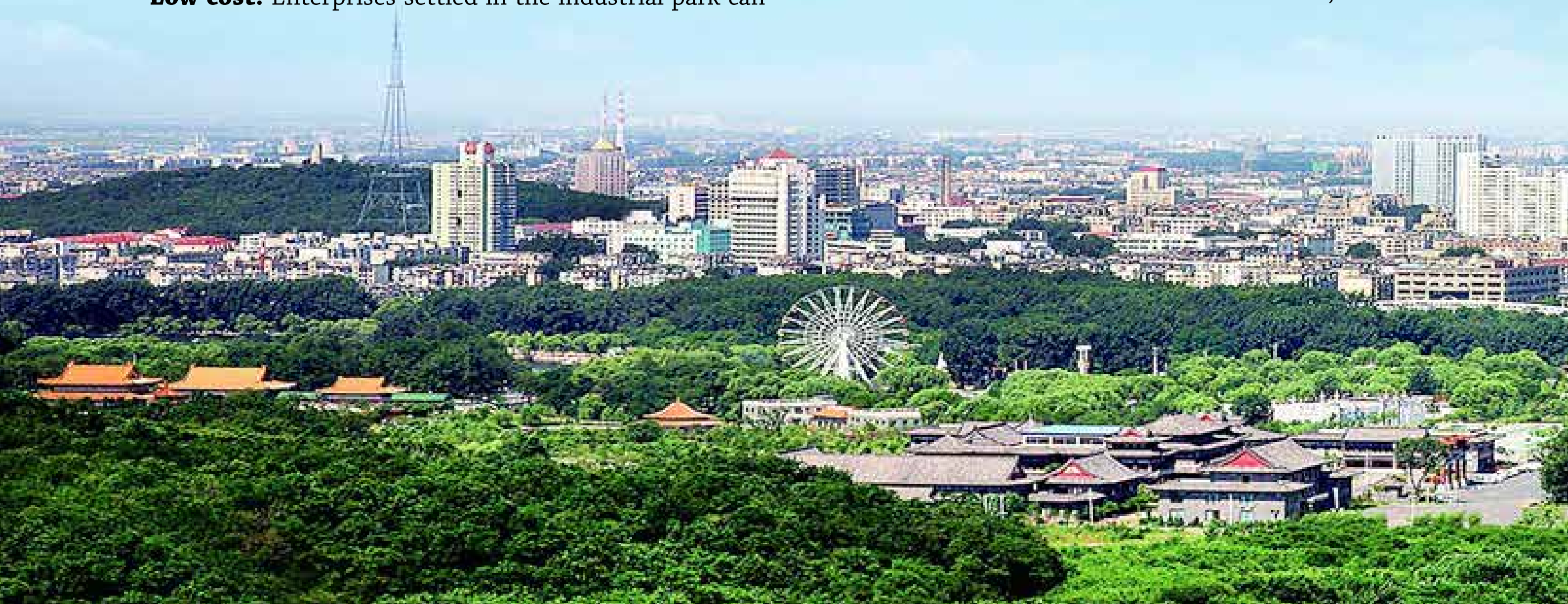
Investment Opportunities

Liaoning Laser Industrial Park is now looking to attract investment in the following sectors:

Laser Processing: Laser materials, laser components, optical masers, laser equipment, laser processing and other related projects.

Opto-Mechatronics: Numerically-controlled machines, industrial robots, industrial control systems, actuators and other electronic devices, automatic flaw detectors, shape recognition devices and CT scanning equipment, electro-hydraulic servo devices, office automation equipment, flexible manufacturing systems and other related projects.

Laser Communications: Passive devices, active



devices, optical transmitters, optical receivers, optical attenuators, optical switches, optical modules and other related projects.

Smart devices: Glass cover-plates, touch screens, LCD screens, smart phones, tablet PCs, smart wearable devices, automotive electronics, LED displays and lighting equipment and other related projects.

Overview of Anshan

Anshan, located in the mid-south of the Liaodong Peninsula and richly endowed in mineral resources, is hailed as the 'steel capital of China'. With the famous port city of Dalian to its south and the Liaoning provincial capital city of Shenyang to its north, Anshan has three counties and four urban districts under its jurisdiction. Covering a total area of 9,252 square kilometres, Anshan is home to four million people, including 2.3 million people living in the urban area which spans 800 square kilometres. The gross domestic product (GDP) of Anshan hit RMB 272.1 billion in 2014. It is the third largest city in Liaoning, and the fifth largest in Northeast China.

Anshan owns distinct geographical advantages and boasts a widespread transportation network, covering air, railway and roads. High-speed railways and highways running through Anshan include the Harbin-Dalian High-speed Railway, the Beijing-Shenyang High-speed Railway, the Beijing-Harbin Highway and the Shenyang-Haicheng Highway. Anshan is only 260 kilometres from Dalian Port, 90 kilometres from Taoxian International Airport and 90 kilometres from Bayuquan Port. Anshan airport operates daily direct flights to a range of cities including Beijing, Shanghai and Guangzhou.

Anshan has formed a solid industrial base after decades of development. A strong industrial city, Anshan houses 1,229 enterprises with annual sales revenue exceeding RMB 20 million, including 30 large enterprises whose annual sales revenue exceeds RMB 1 billion with combined assets value of RMB 375.2 billion.

Backed by the national strategy to rejuvenate Northeast China, ***Liaoning Laser Industrial Park*** *is offering huge investment opportunities for investors. With preferential policies, sound infrastructure, an excellent business environment and quality public services, we sincerely welcome investors from home and abroad to visit us and set up businesses here. Please visit our website at* ***www.asht-zone.gov.cn*** *or contact us on* ***5226985@163.com.***

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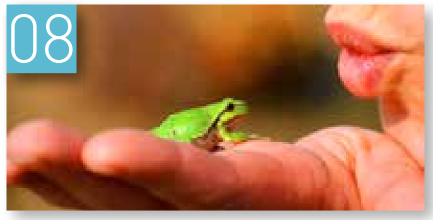

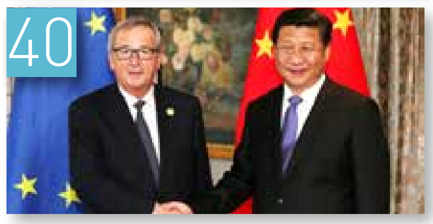

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Journal of the European Union Chamber of Commerce in China

EURObiz

www.europeanchamber.com.cn

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EURObiz is published bimonthly by the European Union Chamber of Commerce in China, and is distributed free to all Chamber members.

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NO SMALL TALK, NO SMALL TASK

Jörg Wuttke
President of The European Union Chamber of Commerce in China

Europe's small and medium-sized enterprises (SMEs) represent 99 per cent of European businesses and employ over 65 million European citizens. They play a pivotal role in the creation of wealth and economic growth, and are important drivers of innovation. As such, they are often referred to as the 'backbone' of the European economy. Yet, despite the vital support they provide, they are far from ossified. 'Lifeblood' would be a better analogy here: the more than 20 million SMEs incorporated in the EU are dynamic, quickly and efficiently delivering value-added throughout the European body. Though often invisible under the macro-economic microscope, SMEs' influence on and contribution to the health of the European economy cannot be overstated – particularly in light of the lingering economic ailments that still beset a host of EU member states.

The EU's bilateral trade with China—the second biggest trade relationship in the world—offers the prospect of alleviating some of these problems and helping European countries to recover. The opportunities that this will likely bring European SMEs are plentiful.

The Chinese economy—now the world's largest according to purchasing power parity figures—is becoming gradually more consumption-driven, as its old state-led developmental model is being abandoned in favour of greater market reforms. This bodes well for European enterprises, which will increasingly find China to be a prime export market for their products and services.

However, the prevalence of access barriers to the Chinese marketplace still looms large for European businesses. This affects SMEs particularly adversely as they, due to their size, lack the resources to effectively respond to such challenges. The Chamber's *European Business in China Position Paper 2014/2015* gives an in-depth analysis of the market access barriers European businesses encounter in China: a lack of transparency, industrial policies and non-tariff measures, a strong degree of government intervention in the economy and inadequate protection and enforcement of intellectual property rights, amongst others. According to the Chamber's *Business Confidence Survey 2014*, 45 per cent of EU companies operating in China reported missed business opportunities owing to market access and regulatory barriers.

In order to meet these challenges, continued political support from Brussels is needed. As such, it is high time that the issues SMEs face are included in any engagement the EU has with China – the EU-China Bilateral Investment Agreement (BIA), which is currently being negotiated, should be regarded as the frontline here.

Much as negotiators for the EU-US Transatlantic Trade and Investment Partnership are actively discussing the inclusion of a chapter dedicated specifically to SME issues, so should such a chapter be included in the EU-China BIA discussions – in addition to the benefits afforded to SMEs by the inclusion of an Investor State Dispute Settlement mechanism. Its inclusion could serve to strengthen existing cooperation between the European Commission and China's Ministry of Commerce and its National Development and Reform Commission, which are increasingly aware of the country's need to shift focus away from state-owned enterprises to more innovative private companies, many of which are SMEs.

Although China's economy is still growing at over seven per cent per annum, econometric studies have conclusively shown that the growth rate of China's total factor productivity—the efficiency with which it utilises capital and labour—is diminishing. In order to increase this efficiency again China needs innovation. This won't take place under prevailing government policies and through the curtailing of markets, but through open markets that provide enabling conditions for innovative companies—specifically SMEs—to come forward.

It is of utmost importance to the European Chamber that SMEs should prosper in China, not least because of our large number of SME members and our role as implementing partner of the EU SME Centre and the China IPR SME Helpdesk. We are proud to have worked with the European Commission on several initiatives, such as the highly successful Mission for Green Growth of Vice President Tajani and Commissioner Potočnik in July 2013, and Deputy Director General Peltomäki's technical Mission for Growth to Chengdu in October 2014.

We will be taking up the plight of European SMEs in China during the Chamber's European Tour this month. As a member, you can be assured that the topic of SMEs will be anything but small talk on the Brussels circuit!

THINKING SMALL

EU SME POLICY

Small and medium-sized enterprises (SMEs) are central to Europe's economy, collectively accounting for over 99 per cent of all enterprises and creating 85 per cent of all the new jobs in the last five years. However, SMEs are still held back by difficulties in getting access to finance, entering new markets outside the European Union (EU) or coping with red tape. Furthermore, the economic crisis in Europe has heaped further pressure on SMEs in recent years. How is the EU helping the more than 20 million EU SMEs to address these problems and ensure Europe's future prosperity? **Jean-Marie Avezou**, Minister Counsellor from the **Delegation of the European Union to China and Mongolia**, explains below.

From SBA to COSME

In 2008, the first Small Business Act for Europe (SBA)—presented by the European Commission and endorsed in December 2008 by the Council—put into place a comprehensive SME policy framework to support all independent companies with fewer than 250 employees. The SBA sets out a comprehensive policy programme with specific actions in ten areas with the objectives of promoting entrepreneurship, applying the 'Think Small First' principle to policy making and encouraging SMEs' growth by helping them tackle the problems which hamper economic development. An update of the SBA in 2011 shifted the focus to policies and actions most likely to help SMEs cope with the economic crisis, including facilitating access to finance, reducing bureaucracy, promoting access to new markets and stimulating entrepreneurship. The SBA implementation has led to a wide array of measures, at both national and European level. Moreover, a new programme called Competitiveness of Enterprises and SMEs (COSME) has been launched for the period 2014–2020, to provide dedicated funding and services for SMEs. The programme has a budget of EUR 2.3 billion over its seven-year lifetime, which will be allocated to four main priority areas: better access to finance; improved access to markets; support for entrepreneurs establishing new businesses; and supporting more favourable conditions for business creation and growth.

A strong focus on SMEs' internationalisation

For European companies doing business in or with China, the internationalisation dimension of EU SME policy is directly relevant. A wide range of support services and tools for SMEs going international has already been developed.

The Enterprise Europe Network (EEN) is a key resource offering free support and advice to firms across Europe to help them make the most of business opportunities in the EU and beyond. The network has 600 partners in over 50 countries, including China. Each branch of the network provides a 'one-stop shop' for European SMEs to access local or regional information and business contacts, notably via matchmaking events. The network effectively provides both practical opportunities for business growth and a mechanism for sharing and disseminating information across Europe. Under the COSME programme, a new network will be launched in 2015 to establish business cooperation centres for the EEN in international markets.

In addition to support provided by the EEN, business centres have been established in several third countries to help EU SMEs developing their commercial presence in promising but challenging external markets. Business centres provide information, market advice and practical

solutions on how to invest in a region and how to establish business activity. The majority of such centres have been located in Asian countries, including the EU SME Centre in Beijing. Since 2011, the EU SME Centre has provided a comprehensive range of free-of-charge, hands-on support services to SMEs (from practical guidelines and reports to webinars, training, hot-desking and an auto-diagnostic toolkit assessing SME readiness for the Chinese market). The centre focuses on the crucial early stages of market penetration strategy. It also acts as a platform facilitating coordination amongst EU Member States and European public and private sector service providers to EU SMEs.

To accompany SMEs in developing their presence on third country markets, a network of intellectual property rights (IPR) helpdesks is providing free advice on IPR, which is frequently cited as one of the biggest concerns to EU SMEs when considering internationalisation. Since 2008, the China IPR SME Helpdesk has played a pioneering role in supporting EU SMEs by both protecting and enforcing their IPR in or relating to China. Under the COSME programme, similar helpdesks have been established in Southeast Asian and Latin American countries. The IPR helpdesks all provide jargon-free, first-line and confidential advice on IPR issues, using innovative communication techniques to more effectively reach out to SMEs.

Online platforms, like the SME Internationalisation portal,[1] are also available to facilitate SMEs' access to general information and links to existing services such as those outlined above, offered in various regions or countries to support SME international activities.

In the coming years, the EU will continue to provide SMEs with easily accessible information on how to expand their business outside the domestic single market. This will be done without duplication of the services already provided by Member States or business organisations: an EU added value will be that developed and new services will be smoothly integrated into the various existing instruments. The challenge of SMEs' internationalisation will remain a very important dimension of EU SME policy.

2015 and beyond

The SBA has proven to be an efficient policy tool to promote a better business environment for SMEs. However, it needs to be updated and geared towards creating more opportunities for growth for European SMEs. As such the SBA will be revisited in 2015, and this has already been initiated by a public consultation, offering an opportunity for individuals, companies and other organisations to provide ideas on what a revised SBA should look like. Ongoing initiatives should be continued in five priority areas: 1) reducing administrative burdens; 2) access to finance; 3) access to markets (both within the EU Single Market and outside the EU's borders); 4) entrepreneurship promotion; and 5) skills development to overcome the shortage of skilled labour. Furthermore, in each of these five priority areas new initiatives will be put forward. An initial proposal for the new SBA should be adopted in the first half of 2015, following analysis of the public consultation. The objective of the revised SBA is to continue to deliver a strong European policy tailored for SMEs and entrepreneurs from 2015–2020. The overall driver for the new SBA will be the support for growth. The European Commission will continue to support small business, which drives economic growth, provides jobs and fosters a bright future for Europe. Eb

1 https://webgate.ec.europa.eu/smeip/

WHAT CAN YOU DO?

Challenges and Opportunities for European SMEs

There have been many changes in the Chinese economy over the past decade. After double-digit annual gross domestic product (GDP) growth in the years following China's accession to the World Trade Organisation in late 2001, 2014 is expected to be a more modest 7.4 per cent. Implied in the drop is the need for the Chinese economy to move away from export-led manufacturing, which has limitations on adding value to the economy and which is adding to China's environmental woes. The economy needs to move toward a more sustainable model based on consumption and services, and toward greater productivity.

According to the **EU SME Centre**, this is good news for European SMEs – with technologies, products and services, they will have the opportunity to play a part in China's economic transformation and restructuring, be it in China's strategic emerging industries, in innovation-led growth or in China's need to develop more productive and skilful workers. Following the launch of Phase II of the project, the EU SME Centre will continue to provide assistance to European SMEs in China for the next four years.

From research carried out by the EU SME Centre in Beijing, significant opportunities for SMEs have been identified in a wide array of market sectors. The information and communications technology (ICT) industry, for example, was considered a national priority and therefore strongly supported in the *12th Five-Year Plan*. It presents good prospects for European SMEs, especially in high-value niches such as mobile app development; information technology consultancy and outsourcing for financial and healthcare institutions seeking to upgrade their systems; and data integration and quality software, a segment that has shown recent growth rates of around 32 per cent.

Similarly, in the food and beverage sector, SMEs can leverage the quality of their products to capitalise on the growing propensity for spending by the new, more health-savvy, Chinese consumer. Not to mention the burgeoning Internet and mobile commerce markets, whose contribution to GDP has already reached 5.5 per cent and is set to continue growing for the foreseeable future. Healthcare is offering good opportunities to EU SMEs, too, on account of China's ageing population and the authorities' focus on social welfare.

It is not only a question of 'what' but also 'where'. China's second- and third-tier cities, and the inland areas in general, have been the target of specific policies by the national and local authorities since the early 2000s, aimed at reducing economic imbalances and closing the wealth gap between the coastal and inland areas. Heavy investments in infrastructure and social safety have resulted in sustained growth rates and enhanced cross-regional market integration. As a result, an expanding middle class has emerged, which, together with local governments' eagerness for foreign direct investment (FDI), makes second- and third-tier cities appealing business prospects for EU SMEs.

New and remaining challenges

While the opportunities are significant, so too are the challenges.

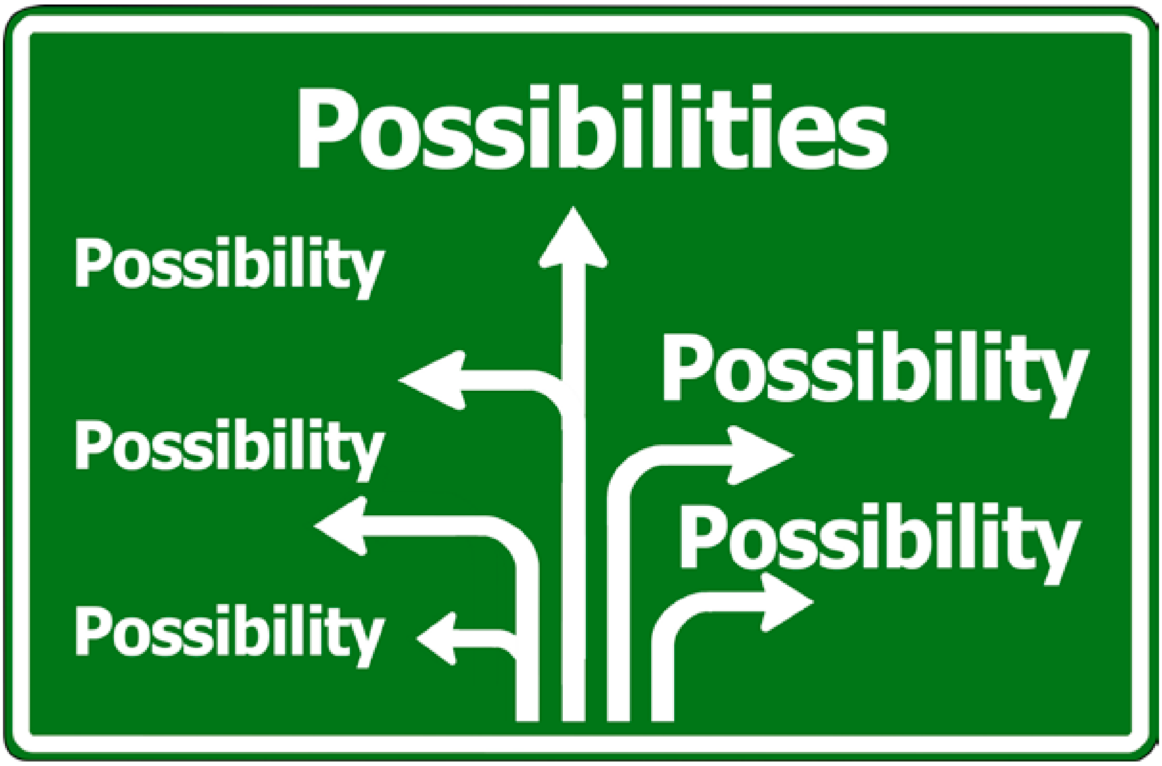
From the many business consultations that the EU SME Centre has provided, the primary challenges faced by European SMEs have evolved over time. In addition to regulation and market access barriers, and macroeconomic changes, HR issues and competition in the Chinese market have become more prominent in recent years.

Based on surveys conducted by different chambers of commerce in China, the table below summarises the top challenges in the Chinese market identified by European companies:

EU SME CENTRE *BUSINESS SERVICE SURVEY 2014*	**EU CHAMBER OF COMMERCE IN CHINA** *BUSINESS CONFIDENCE SURVEY 2014*	**GERMAN CHAMBER (AHK)** *BUSINESS CONFIDENCE SURVEY 2013*	**FRENCH CHAMBER (CCIFC)** *BUSINESS CLIMATE SURVEY 2013*	**CHINA-BRITAIN BUSINESS COUNCIL (CBBC)** *BUSINESS CLIMATE SURVEY 2012*
LANGUAGE AND CULTURE	CHINESE ECONOMIC SLOWDOWN	RISING LABOUR COSTS	CHINESE ECONOMIC SLOWDOWN	LABOUR SHORTAGES
ATTRACTING AND RETAINING TALENT	RISING LABOUR COSTS	FINDING QUALIFIED STAFF	RISING LABOUR COSTS	BUREAUCRACY
MARKET ACCESS BARRIERS	ATTRACTING AND RETAINING TALENT	RETAINING QUALIFIED STAFF	SKILLED STAFF SHORTAGE	INCREASED CHINESE COMPETITION
AMBIGUOUS RULES AND REGULATIONS	MARKET ACCESS BARRIERS	BUREAUCRACY	DELINQUENT PAYMENTS FROM CUSTOMERS	INCREASED CHINESE PROTECTIONISM
FINANCING	AMBIGUOUS RULES AND REGULATIONS	CORRUPTION	GLOBAL ECONOMIC SLOWDOWN	RISING LABOUR COSTS

HR issues: China's reputation for possessing unlimited, cheap labour is rapidly becoming a thing of the past with more and more SMEs identifying rising labour costs as a major challenge. Finding, attracting, training and retaining staff is expected to become even more difficult in the next few years as costs for local staff continue to rise. Also cited as a major challenge is the difficulty of attracting foreign experts to China – difficulties in obtaining visas, the rising cost of living and issues related to high pollution are all deterring expatriates from coming to China.

Increasing competition: It has also been recognised that competition in the Chinese market is getting stronger, with the growth of domestic Chinese companies and an increasing number of international businesses. Domestic competitors have the advantage of being able to gain a deeper understanding of local



customer behaviour, establish closer government relationships and can often adapt more quickly to the market and regulation changes than European SMEs.

Regulation and market access barriers: Bureaucracy has remained a constant challenge over the years and few companies report significant improvements. As the Chinese market has become more and more competitive, barriers to market access are increasingly noticeable to SMEs looking for new opportunities. Lack of transparency and ambiguous rules and regulations are also reported to be major challenges.

Macroeconomic changes: As China makes the transition to an economy more driven by internal demand, the legacy of the export-driven model, paired with the global economic slow-down, has been felt in China's slowing economic growth. The double digit growth rate of the 2000s is now accepted as a thing of the past as Chinese leaders are preparing for the 'new normal'.

A new era of help: EU SME Centre phase II

To continue being successful in the Chinese market European SMEs will need more support, particularly in the areas that present the biggest challenges, such as market access and HR management.

The EU SME Centre in Beijing recently launched its second phase, running from 2014 to 2018, during which it will reassess the primary needs of European SMEs and will add new services to help them deal with more complex business issues.

At the Centre's Phase II launch event in Beijing, Director Chris Cheung introduced the project's new structure to stakeholders and partners, and unveiled three core service centres—the Knowledge Centre, the Advice Centre and the Training Centre—which will deliver more in-depth business support and technical solutions to EU SMEs allowing them to make more informed business decisions.

Advocacy for SMEs: giving a voice to small businesses

In collaboration with the European Chamber of Commerce in China, the EU SME Centre is also launching an advocacy platform for European SMEs. Companies will have the opportunity to join a new inter-chamber SME Working Group to share their business challenges and voice common concerns to EU and China policy-makers on improving the trade and investment environment. Meetings will address practical business issues to ensure that SMEs are given the right channels to provide feedback in their industry sectors.

About the EU SME Centre Phase II

*The **EU SME Centre** officially launched its second phase at the EU Delegation in Beijing on 26th November, 2014, having secured funding from the European Union for another four years. The Centre's second phase is implemented by six partners – the China-Britain Business Council, the European Union Chamber of Commerce in China, the French Chamber of Commerce in China, the China-Italy Chamber of Commerce, the Benelux Chamber of Commerce and EUROCHAMBRES. To learn more about the services that will be available in the new phase, contact the Centre at info@eusmecentre.org.cn or visit www.eusmecentre.org.cn.*

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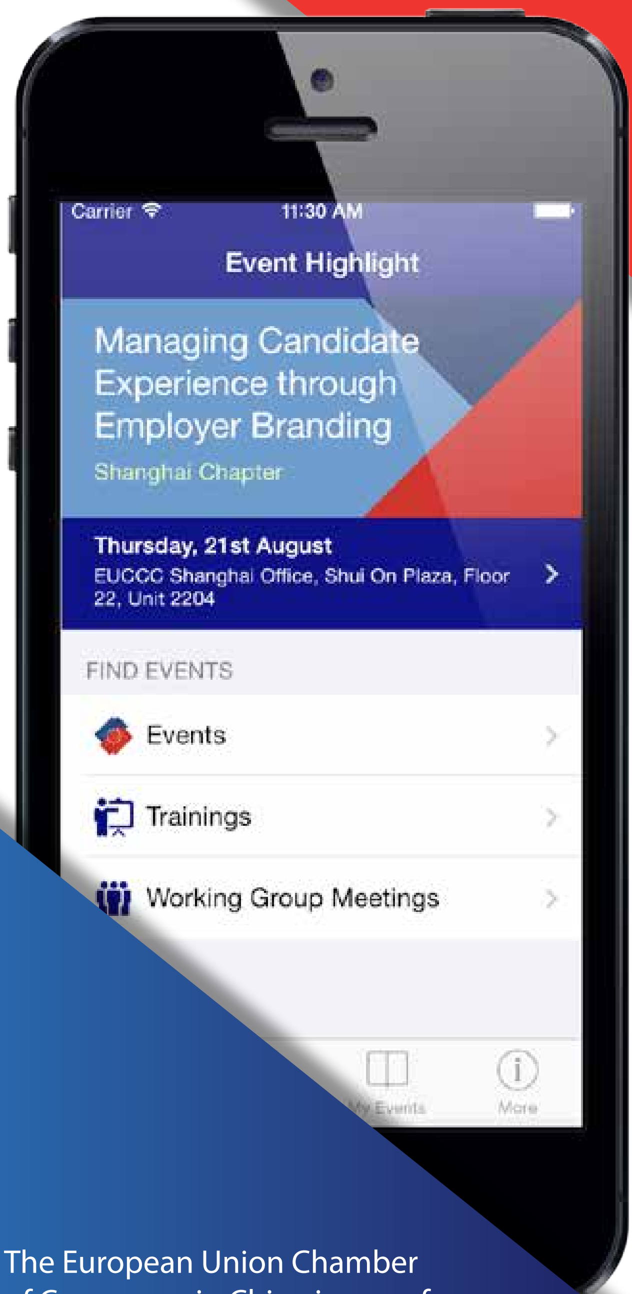

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SHOW ME THE MONEY

Financing for EU SMEs in China

A perennial challenge for SMEs is access to financing, a problem that is particularly prevalent in China according to European companies operating here. A 2013 survey conducted by the **EU SME Centre** found that 66 per cent of SMEs considered access to finance as their biggest challenge to doing business in China. The issue was further highlighted in the European Chamber's *Business Confidence Survey 2014*: on the question of who holds the greatest competitive advantage in gaining access to funding, 77 per cent of respondents selected state-owned enterprises; 11 per cent selected privately-owned enterprises do; and just three per cent selected European companies.[1] Help is at hand, though. Below, the EU SME Centre introduce the European Commission's new programme for supporting SMEs, and explain some of the funding options that are available.

1 *Business Confidence Survey 2014*, European Chamber of Commerce in China, p.19, <http://www.europeanchamber.com.cn/en/publications-archive/256/Business_Confidence_Survey_2014> (N.B. 9% responded N/A)

COSME

The European Union's (EU's) small businesses have been increasingly optimistic about their growth prospects but many were still concerned about the lack of access to finance, according to a survey published in November 2014 by the European Central Bank.[2]

In the period April – September 2014, SMEs' demands for financing were not always fulfilled and more than a third did not manage to get the full bank loan financing they needed. They also reported experiencing tightening in collateral and other requirements.

To help SMEs in this respect, the European Commission launched the new Competitiveness of Enterprises and SMEs (COSME) programme in 2014, aimed at promoting entrepreneurship and improving the business environment, including access to finance, for SMEs.

Big budget

The COSME programme runs from 2014 until 2020 with a budget of EUR 2.3 billion and will support SMEs in four areas:

2 https://www.ecb.europa.eu/press/pr/date/2014/html/pr141112.en.html

- Facilitating access to finance
- Supporting internationalisation and access to markets
- Creating an environment favourable to competitiveness
- Encouraging an entrepreneurial culture

It is expected that COSME will support 220,000–330,000 SMEs in obtaining financing for a total value of between EUR 14 and EUR 21 billion by 2020.

The programme introduced two financial instruments to help SMEs gain access to finance – the Loan Guarantee Facility and the Equity Facility for Growth.

Bank loans and guarantees

A number of financial intermediaries, such as guarantee organisations, banks and leasing companies, that receive budget from COSME are more likely to expand the range of SMEs that they can finance.

The COSME budget funds guarantees and counter-guarantees for financial intermediaries to help them provide more loans (up to EUR 150,000) and lease finance to SMEs. This will facilitate access to debt finance for many SMEs who might otherwise not be able to raise the funding they need.

Venture capital

There is also an increasing chance to take your early business to the next level with support from COSME. Another part of the programme is to invest in funds that provide venture capital and mezzanine finance to expansion and growth-stage SMEs, in particular those operating across borders.

The fund managers will operate on a commercial basis, to ensure that investments are focused on SMEs with the greatest growth potential. Local financial institutions will evaluate applications and make final decisions. The exact financing conditions—the amount, duration, interest rates and fees—also depends on the individual financial institution.

More information on COSME can be found on the European Commission's website.[3]

Obtaining financing in China

There are many financing institutions outside of China's banking system that offer funding solutions to SMEs, including financial leasing companies, credit guarantee companies, and micro loan companies. Although the financing cost of these solutions is likely to be potentially much higher, they do at least provide alternative channels to fill the funding gap.

The Chinese venture capital and private equity market is relatively challenging for foreign SMEs, as local investors tend to prefer pre-IPO cases with fast growth prospects. The disadvantage for SMEs here is that they usually do not have the required market position, contact networks and market knowledge to expand fast enough. However, in some industries such as clean technology, energy, biotechnology and pharmaceuticals/medical equipment, where the Chinese Government encourages technology transfer, opportunities are much more prevalent, and the investment scope can span into pre-revenue cases.

For European SMEs engaged in trading, some major Chinese e-commerce platforms, such as Alibaba and JD.com, have started to offer micro-loans to their existing merchandisers to help them to finance their operation needs. Typical loan size ranges from RMB 1,000 to 10 million.

Bank loans

In China, international and domestic banks are still the primary external source of funding for European SMEs. But how can SMEs obtain bank loans in China, if they do not have fixed assets in China to pledge as collateral?

First of all, we recommend that you use a licensed credit guarantee company (CGC). In China, CGCs were created to help SMEs get access to bank loans. A CGC will charge prospective borrowers a fee and, in exchange, serve as a guarantor to the bank, pledging to pay for any losses in the event of a default. In effect, the CGC sells insurance, also known as a credit default swap (CDS) to the bank for a risky loan, with the borrower forking over the premium. Talk to a credit officer from the main banks in China for references of credible CGCs that they do business with.

Being able to demonstrate that your company has fully integrated into local culture, has maintained good business relationships with well-known local companies, and employed dedicated personnel overseeing financing also boosts your chances of securing loans from the Chinese banks.

Moreover, if you would like to apply for a loan from international banks operating in China, it is worth trying to leverage on the existing banking relationship in your home country to push the bank's overseas branch in China to open credit lines for you. With support from the 'mother bank', you are likely to have an easier ride with the branch in China.

For more information on funding, contact an expert at the EU SME Centre – www.eusmecentre.org.cn/expert

EU SME Centre

3 http://ec.europa.eu/enterprise/initiatives/cosme/index_en.htm

CLEAN UP YOUR ACT

Are all companies equal in China's fight against fraud?

China's ongoing drive to clean up corruption continues to grab headlines, and companies operating in China are now more aware than ever that they need to comply with the law. Although the respective risks are not the same, both SMEs and MNCs need to prioritise putting internal control frameworks in place, says **Claire Worledge**, Expert Continuous Controls Monitoring at **Aufinia Consulting Shanghai.** The alternatives are unthinkable.

Everybody in China is talking about corruption these days following the recent USD 490 million fine given to GSK in September and the three-year prison sentence handed down to ex-CEO Mark Reilly. Foreign companies have become more wary of the possibility of the National Audit Office spotlight shining on their door; but perhaps more unnerving is the prospect of disgruntled ex-employees using China's easily accessible national whistleblowing hotline.

Is there really a risk, though? After all, everybody is 'doing deals' to get business done in what is an increasingly competitive market. If all companies in your sector suddenly started abiding by China's newly updated anti-corruption law, then perhaps you should too – but if you're the first to come in line, you might risk putting yourself out of business.

Furthermore, who is it at risk? Surely only the employee that is directly linked to the event reported?

It may surprise you to learn that all 'company officers' are actually at risk of imprisonment, if the cases of corruption are shown to be standard business practice. It is therefore highly recommended that C-level employees ensure that they implement an internal control framework in order to clearly set out the rules for employee behaviour and business transactions.

If you are running an SME, you might not have an internal control framework in place. The first steps for you will be to: (i) clearly document corporate rules; (ii) include a mention of them in employee contracts; and (iii) conduct training.

Once the internal control framework is in place you can go to step (iv), which is the monitoring of these controls. However, you may not have the independent resources necessary to monitor your controls. In fact, you don't need them.

It is more cost-effective to monitor compliance automatically using data analysis. Furthermore, data analysis not only enables you to have a high level of transparency throughout your business, it also helps you to pick up on all types of fraud, not just corruption, thus helping you to save money in the process.

A recent study by PwC (February 2014)[1] showed that one in two survey respondents declared they were subject to fraud. The number of identified frauds between 2009 and 2014 has nearly doubled, and the study shows that more than 60 per cent of cases are committed from within an organisation, i.e. by its own staff.

Although these figures indicate an increase in attention to this issue, the phenomenon is still not fully understood by corporate managers – both in its nature and as to the risks it implies. Fighting fraud should become a priority for at least two reasons: to be compliant with laws, and also to promote the proper way to manage a profitable and sustainable business.

While definitions of fraud may vary according to different legal systems, it is broadly acknowledged to be a major threat to the financial health of a company, not only damaging profit and loss but also image and reputation.

According to the Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud organisation, "Occupational frauds are those in which an employee, manager, officer, or owner of an organisation commits fraud to the detriment of that organisation". The three major types of occupational fraud are corruption, asset misappropriation and fraudulent statements.

Like some other countries that have enacted specific laws on the subject, China has also incorporated new tools into its legal system to fight fraud, especially into the PRC Criminal Law.

One of the key aspects is that corporates can be held liable for the acts of their employees, directors and officers under criminal, administrative and civil regulations. Any entity may be an offender and be held criminally liable accordingly. It is important to understand that directors and officers are also at risk of incurring personal liability for bribery offences or fraudulent activities committed by the companies in which they serve.

If ignorance of the law is no defence for anybody, all companies are not equal when it comes to compliance. Fraud scenarios in SMEs and MNCs are of a various nature; the amounts at stake are different (proportionally, a small embezzled amount may have a huge impact on a small company); SMEs may lack experienced (or even simply dedicated) staff to implement internal controls; and fraud schemes might be far more sophisticated in larger corporations, thus quite difficult to discover.

For a large corporation, fraud risk relating to corruption is especially important, not only because of the personal liability of the company officers, but also because cases that come to light in China may highlight issues to be prosecuted under the UK Bribery Act or the Foreign Corrupt Practices Act.

So don't fall off the edge, take action and get your internal control framework set up and monitored as soon as you can in order to ensure that you don't end up battling it out in an unheated, drafty courtroom.

Aufinia *was created in 2010, in order to meet the needs of its clients that are currently reviewing different opportunities for the automation of internal audit tests and internal controls. Through collaboration with different software providers, Aufinia supports clients in the choice of tools and strategy concerning the automation of controls. Short-term solutions can be deployed that prepare the way for future fully integrated ERP solutions.*

1 http://www.pwc.com/gx/en/economic-crime-survey/index.jhtml

BIO-POTENTIAL

EU SMEs in China's biomass sector

China is a country rich in biomass resources which have a variety of applications for electricity, heating, liquid bio-fuel and solid fuels. This presents a real opportunity for China to introduce and promote biomass as a clean and dependable source of energy, which can help to support the new Chinese urbanisation plan (converting municipal waste into energy/heating and co-generation plants) and rural development (supporting strategic emerging industries). Although this is an area where companies from the European Union (EU) have a great deal of expertise, an opaque regulatory landscape is currently preventing them from fully contributing in this sector. Below, **Gianluca Ghiara**, Managing Director of **Geapower** outlines the challenges and says that despite difficult market conditions there are still opportunities for European SMEs.

Challenges to EU SMEs

In order to maintain the incredible economic growth of the last 15 years, the Chinese Government has pushed to develop the role of large state-owned enterprises along with the launch of huge public programmes. Within this framework, despite the government issuing a series of laws aimed at improving the internal market mechanism, European SMEs remain particularly vulnerable in China due to a number of factors.

Focussing specifically on the biomass sector, we can see that there are multiple ministries responsible for issuing laws, standards and regulations; provincial and municipal governments have a voice in drafting regulations, as well as managing local bids; and the sector itself is controlled by numerous public and private stakeholders, all with their own goals and agendas.

The budget and resource constraints that EU SMEs work under are exacerbated by the total absence of access to credit in China. These financial limitations can prevent them from being able to plan any stable growth in their business.

There is also the issue of branding – Chinese players are naturally drawn to big brands, even in the engineering sector. This poses a challenge for SMEs who are trying to promote themselves in order to find a reliable business partner: the fact that there are no resources that define the Chinese companies officially authorised to work in this sector means that European SMEs are in danger of bouncing from one conference to another, or from city to city, without ever identifying a suitable partner.

Moreover, SMEs have huge problems accessing raw materials in China due to property regimes, investment rules and laws on the control of material goods that still exist in China.

The combination of these challenges makes the planning of any investment extremely difficult for SMEs operating in China's biomass sector.

The Chinese biomass sector status

With each passing year the Chinese Government launch large, public programmes that forces development of the biomass sector. Unfortunately, so far, Chinese companies have been mostly focussed on either introducing relatively stable technology—which is particularly useful in the development of multiple, standardised projects—or using imported 'total solutions', with no clear understanding of the technology itself. Consequently the biomass sector is suffering from a lack of technology introduction. This, coupled with strict land policies and inefficient power generation, is adversely affecting the speed at which this sector could develop.

Support

In recent years much has been done to support EU SMEs. Thanks to the work of the European Chamber, the EU SME Centre and other national representative bodies, a fruitful dialogue now exists with Chinese authorities. For example, the European Chamber's working groups write the concerns, assessments and recommendations that form their annual *Position Paper*. This publication provides the basis for lobby meetings, where these messages can be effectively delivered to the Chinese Government.

Still, in order to have more transparency and fairer market access and competition amongst different players, much more needs to be done. This could include amending the subsidy framework, enlarging the investment scale, setting up efficient supervision and monitoring mechanisms, and promoting the involvement of European SMEs in the sector.

To witness a real improvement in the expansion of the biomass sector, European companies need to be more involved in drafting standards as well as project development, planning, implementation and operation; specific financial mechanisms should be created that attract both European and Chinese enterprises; and, ultimately, the utilisation of alternative fuels, advanced technical solutions and quality-driven equipment—which provide a better cost-performance ratio over the whole project life cycle—should be more consistently supported.

Opportunities for EU SMEs

All the above issues emphasise a greater point: there needs to be gradual change in the Chinese Government's approach to and development of the whole biomass sector.

In order for China to be recognised as a dominant world power they must do more than simply acquire the 'best' technology, or be seen merely as a manufacturing base. It needs to aspire, through development of long-term technological/commercial cooperation, to gradually become a key industrial player on the world stage.

Here, EU SMEs can play a key role. They have the experience, the knowledge and, above all, the willingness to cooperate with Chinese enterprises to develop a real and stable technology transfer in every aspect related the development of a project – technology, manufacturing and capacity building.

European SMEs represent the core of EU business with over 90 per cent of market share, consequently they have all the necessary expertise to support the growth of the biomass sector in China, and to help Chinese companies introduce the tailor made technology solutions that are so vitally important to the Chinese market. In doing so they can help China to believe more in the biomass sector and move away from the conservative approach that has prevailed so far. Eb

Gianluca Ghiara *is Managing Director of* ***Geapower,*** *an engineering consulting company active in the environmental protection and renewable energy fields. Geapower provides professional consultancy mostly in the bio-energy sector (biogas, biomass and solid waste management), but also in the waste water management and air pollution control sectors. Ghiara has lived and worked in China since 2005, developing huge professional and practical experience of the Chinese market, having being constantly involved in the promotion of European technology and support of EU SMEs active in Chinese territory. For further information: ghiara@geapower.com.*

TAILOR MADE

China market entry options for SMEs

Small and medium-sized enterprises (SMEs) cannot afford to ignore China with its vast market, expanding middle-class consumer base and plentiful suppliers. **Julia Güsten**, founder of **Sharehouse,** says that recent reforms, such as lowered investment barriers in certain sectors, have opened up new horizons for smaller investors. Customer demand for extremely short delivery times is making it impossible to be competitive on the Chinese market while operating remotely from Europe, so setting up shop in China is the best solution. Below, Güsten discusses some of the models available.

When even big corporate players struggle on the Chinese market, what chance do SMEs stand? Actually their chances are quite good, provided they choose a suitable model for entering the market.

Once a company decides it wants to enter the Chinese market it would do well to first study the experiences of those that have gone before, by attending China seminars and workshops and/or reaching out to service providers.

Much thought should be given to the location of the future investment, without automatically reverting to one of the megacities, whose names are already familiar to many in Europe. The focus should be on identifying the optimal investment form, be it representative offices, wholly foreign-owned enterprises (WFOEs) or joint ventures (JVs).

Although there is a wealth of information available on investments in China, few offer insights into models that cater specifically to SMEs entering the Chinese market. Help is at hand though: as the market has matured and more SMEs invest, their needs for assistance are being filled by a wealth of business support models.

These range from opportunities to test the waters to setting up a subsidiary under the umbrella of a service provider. Such options are available in many cities around China, and it is possible to graduate from one model to the next as the business grows, with a fully independent company as the final goal.

Virtual offices

For companies just starting out, but not wanting to commit capital investment or support a payroll, a virtual office can be a good way to explore the market. Numerous providers in China's major cities offer prestigious addresses with a receptionist and telephone services to provide a foreign SME with a business identity and point of contact for customers in China.

Company pools

A more advanced option, providing dedicated staff but no legal registration of an entity, and therefore no capital investment, are company pools. Such associations of companies keep costs low by sharing office space and administration.

Most company pools will hire qualified professionals on behalf of its member companies. These employees represent member companies in China, enabling them to analyse and engage with customers, distributors and the target market. In effect, they offer all the possibilities afforded by a representative office – providing the company with a presence in China—which is highly valued by customers—and initiating business, while not actually doing direct business.

FICEs

Once a company has established a customer base for sales in China, it will begin to find these basic models restrictive. The demand for billing in local currency, rapid delivery times and direct sales can only be fulfilled with a registration and business licence in China. When an international company has reached a certain level of success in selling to or trading with China and needs an on-the-ground presence in the country, a trading company can be established in the form of a foreign-invested commercial enterprise (FICE).

A FICE is easier to set up than a full manufacturing WFOE, as the capitalisation requirements are lower and no environmental impact study needs to be submitted. It offers more possibilities and is more cost effective than a representative office. But establishing and running a FICE requires administrative local knowledge, due to legal, tax and accounting requirements.

In taking this step, the foreign investor is faced with the need to build up a large back office. Paired with the challenge of maintaining control from afar, market entry through their own trading company becomes a step too big for many SMEs.

Shared service

To meet this challenge, shared service models for sales, warehousing and even production are becoming more common in China. Shared administrative tasks such as finance book keeping, human resources and logistics ensure a lean structure for the foreign investor and enable them to focus on their core competence. A shared foreign management provides investors with an extended arm and eyes on site.

A major advantage of all these models, whether company pools or shared services, lies in the calculable finance planning from the outset. Services are clearly defined and quoted in advance, so that the annual cost of the China investment can be budgeted accurately. Eb

Julia Güsten *has worked in China since 1994. She is the founder of Sharehouse, a company launched in 2013 and based on her experience supporting SMEs in their market entry to China. Sharehouse offers its members office and warehouse space combined with services in finance, book-keeping, human resources, logistics and warehouse management. Shared facilities, Sharehouse services and the resulting synergies allow SMEs an easy and cost-effective entry into the Chinese market.*

SME INTERVIEW SPECIAL

Over the following pages we meet representatives from SMEs based in each of the Chamber's seven chapters – Beijing, Nanjing, Shanghai, Shenyang, South China, Southwest China and Tianjin. They reveal what brought them to China in the first place and share their thoughts on the challenges that they, and SMEs in general, face here.

Name: Russell Brown

Position: Managing Partner

Company: LehmanBrown International Accountants

Location: Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hong Kong and Macau

Company size (no. of employees): 200–250

Sector: Professional services

Core business: Accounting, tax and consulting

When did you come to China?

I moved to live in Beijing in 2001, but was in Hong Kong for seven years, moving there in 1990. My first trip to the mainland was to Shenzhen, also in 1990.

Why did you come to China?

I saw that there was a gap in the market for an accounting firm offering an alternative to the 'big four' and local firms. The aim was to build an international firm with both Chinese and foreign characteristics, that could aid foreign companies doing business in and with China, and Chinese companies seeking to venture abroad.

Why did you choose Beijing as your primary location?

I liked Beijing as a city—its people and culture—and also had family and a lot of friends in Beijing. It is also where the government is based, making it a natural choice.

What is the biggest challenge for SMEs in China?

With the constant shift in policy and regulatory requirements for setting up and doing business in China, compliance is always an issue, so it's key to work with the right partners for handling matters such as setting up your China entity, structuring it appropriately and making sure it's both tax compliant and efficient, meeting the mandatory accounting and statutory audit requirements and adhering to HR/social security stipulations. China is very bureaucratic, and whilst the central leadership talk about reducing red tape, at local level this has unfortunately only increased in the past decade. Some jurisdictions are streamlining filings, but paper wise, there is a lot. The question to an SME therefore is, do you wish your China GM focusing on the business or on compliance?

There is also the challenge of sourcing and retaining good people in a very fluid labour market. It is therefore important when hiring to try and understand what the career objectives of the person are and also understand their personal situation better so as to be able to accommodate where possible.

What is the biggest challenge for SMEs in your particular sector?

The continually changing regulatory environment, and uneven playing field between local and foreign firms, in terms of application of regulations and related practices. The audit side of practices is highly restricted to foreign firms, something that I think needs to change, ultimately. There are also larger registered capital requirements for certain licences, so running costs for a foreign firm are generally higher than for local firms.

The market is not yet mature, so when an SME is reviewing proposals they need to ensure they are reviewing like with like. Some firms might charge a very low fee for a specific service but then not give any advice without charging on a time basis. Others might bundle. An SME needs to understand what they are paying for and what they wish to achieve by using a service provider.

Are you aware of EU-funded support projects for SMEs and have you ever used any?

I am aware of the outstanding EU SME centre which offers world class facilities to SMEs entering the China market. Some very exciting businesses have grown out of the incubator and through funding have thrived in the market. Because everything changes so quickly in China, it is important for SMEs to have access to knowledge and to share experiences as well, and so becoming involved in country chambers of commerce is important. Eb

***LehmanBrown** is a China-focussed accounting, taxation and business advisory firm operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. The firm also manages an extensive affiliate network, providing services throughout China. All of its professionals speak English and assist both foreign companies coming into China and Chinese companies going out, hand holding the whole way and adapting service lines as companies grow.*

Name: Bernd Wagner

Position: General Manager

Company name: MENNEKES Industrial Electric (Nanjing) Co Ltd

Location: Nanjing

Company size (no. of employees): 60

Sector: Electrical industry

Core business: Power supply solutions – industrial plugs and sockets

When did you come to China?

I first came to China in 2002, and joined ABB Automation Technologies Division. In 2012, I was appointed by Walter Mennekes to take charge of his newly-established WFOE in Nanjing as General Manager.

Why did you come to China?

China is an environment where things are developing at a breath-taking speed. I embrace challenges and transformation, and I like the Chinese working style. My family and I like our second home very much. I'm glad to see that my two kids are growing up happily and healthily in a multilingual environment and the intercultural exchange will be a great asset to them in the future.

Why did Mennekes choose Nanjing as its primary location?

Nanjing possesses clusters of industrial, logistics, financial and high-tech zones, which benefit foreign and local companies in many ways. Nanjing's well-developed infrastructure, such as its railway, highway and underground systems, interconnects the cities along the Yangtze River, and it has the geographical advantage of being just 70 minutes away from Shanghai on the high-speed train – this is important for foreign investors.

Our headquarters is in the German state North Rhine-Westphalia (NRW), which has enjoyed friendly relations and cooperation with Jiangsu Province for more than two decades. Mr Mennekes joined a NRW trade and investment delegation to Nanjing in 1994. The similarity of Nanjing's scenery to his hometown attracted him to set up a joint venture here.

What is the biggest challenge for SMEs in China?

The biggest challenges for foreign SMEs in China is no doubt intellectual property infringement, local competitors and challenging expectations from the market and customers.

What is the biggest challenge for SMEs in your particular sector?

As a renowned German brand, which has gained brand recognition among Chinese in the last 20 years, a big challenge comes from intellectual property infringement. We arrived in China in 1995, and as an early bird in this sector we set the benchmark. Followers have been extremely active and we have had to put great efforts into filing lawsuits against local copycats over the years. Thankfully we have won every lawsuit and we are confident that our position as a market leader is unshakeable.

Our goal is to deliver excellent customer service, including improving our logistics, increasing product applications and providing better customer support. To maintain our market position, we have already raised our stock and are developing strategies to deliver a better service to our local customers, by providing them with more customised, quality products and solutions to satisfy their needs.

In such a fast-changing market, we need to be more innovative to keep pace with changes. Innovation is reflected in our products and technology, but also in our marketing and the way we approach and engage customers. Therefore we are always keen on developing our marketing tools, such as using social media to promote our brand and bring customers into closer contact with us

Are you aware of EU-funded support projects for SMEs and have you ever used any?

We have frequently participated in seminars and workshop activities, especially those organised by the European Chamber of Commerce, where we can socialise, exchange good ideas and experiences with like-minded people. Eb

***MENNEKES Industrial Electric (Nanjing) Co Ltd** is a WFOE, established in 2012 by MENNEKES Elektrotechnik GmbH & Co KG, a leading German manufacturer of industrial plugs and sockets. Possessing a professional team and a well-developed distributor network, we have gained broad brand recognition in China over the past 20 years, together with the contribution from our joint venture. Our high quality, reliable products have been widely and successfully applied in various industries in China where power is supplied.*

Name: Sebastian Wegener

Position: Executive Director Operations

Company: EunaCon HR Solutions and Services

Location: Shanghai

Company size (no. of employees): 13

Sector: Consulting (human resources)

Core business: Executive search and organisational development

When did you come to China?

I came to China (Shanghai) at the beginning of 2007.

Why did you come to China?

During that time, I was still obtaining my bachelor degree and an internship abroad was one of the criteria we had to fulfil. China was already a rising star with sustainable growth rates and the potential not only to be a production area, but a huge market to sell the products as well.

Where is your company located?

Compared to other consulting companies we have quite a special location in Shanghai. We are close to the German Centre in the Zhangjiang High-Tech Park (Long Dong Avenue 3000).

Why did you choose that location?

We experienced that a huge percentage of our clients from Europe arrive at Pudong airport and it's quite convenient for them to come and see us here when they arrive in Shanghai or before they leave.

What is the biggest challenge for SMEs in China?

There is a lot of research into and evaluation of the biggest challenges – there are some that I think top the list, but they're not necessarily applicable to all companies.

One of the biggest challenges currently is to find—and afterwards retain—the right employees (both, commercial and technical-related staff). Even though China's GDP rates are not as high as in previous years, we are still talking about a candidate-driven market.

Compared with large multinationals, SMEs have to be more innovative in finding ways to retain their employees rather than just increasing their salaries. Being close to and understanding the needs of your employees and also understanding and evaluating their reasons for leaving is very important. It can help you to be proactive and take the right actions to avoid this happening in the future. The process should start with identifying the right employees and making sure that they really have the intention of pursuing sustainable development within your organisation.

What is the biggest challenge for SMEs in your particular sector?

The service sector in general still faces difficulties in China, as the people here are still not accustomed to spending money on services, as the output is not as easy to measure as with products they can see.

So even though human resource issues, like finding the right employees, is one of the biggest challenges for foreign SMEs here in China, our biggest sectoral challenge is demonstrating the value of consultancy services to Chinese clients.

There is a general trend here for finding quick solutions with little or almost no consulting approach. This makes it complicated for SMEs in our industry to show potential clients our value.

Are you aware of EU-funded support services for SMEs and have you ever used any?

Yes, we are aware and we inform/advise clients in this area. For us, we never actually considered using them, one of the reasons is the bureaucracy which is quite time consuming. Eb

EunaCon HR Solutions & Services Ltd *is a member of EunaCon Consulting Group, established in 2002, and is an officially licensed German HR consultancy with a focus on executive search and organisational development.*

For more than ten years, we have been dedicated to identifying key employees, from senior managers to executive level, for our German speaking clients. In conjunction with our colleagues from EunaCon Finance and EunaCon Business Consulting, we are able to find and evaluate candidates for a wide range of industries.

Name: Frank J. Adick

Position: Founder & Managing Director

Company: Dew-Point International Ltd

Location: Hong Kong and Shenzhen

Company size (no. of employees): 15

Sector: Management training and management consulting

Core business: Training and development

When did you come to China?

I came to Hong Kong, China, in 1972. I started Dew-Point International Ltd In 1973. I started doing business in Mainland China in the mid-1980s.

Why did you come to China?

My purpose for coming to Hong Kong, was to start my own business in the management training and management consulting field. I came by invitation from my Hong Kong-based clients who were operating in China.

Why did you choose Shenzhen as your Mainland China location?

Its close proximity to Hong Kong made it a good base for us to start our operations under the Close Economic Partnership Arrangement (CEPA) scheme between Hong Kong and China. Dew-Point was, in fact, the first company in our industry to be registered in China under the CEPA scheme.

What is the biggest challenge for SMEs in China?

Securing qualified personnel with integrity, and retaining them. Talent retention is a significant challenge that even large multinational companies face. When employee turnover is high, expenses increase and it has a negative effect on staff morale. We have to remember that people are an 'appreciating asset': the longer we stay with an organisation the more productive we become – we learn the systems, we learn the products and we learn how to work together more effectively.

Most business owners and managers think retention is based on monetary compensation issues. In reality the driving factors go deeper into the human psyche, to the actions and attitudes that make employees feel successful, secure, appreciated and fulfilled.

This means that monetary incentives are not enough. Sufficient non-monetary rewards to recognise the contributions and accomplishments of employees should also be a part of a successful management culture. An organisation's retention strategy should also provide opportunities for employees to develop new skills and to advance in the organisation as their performance and desire dictates.

Research has identified these, and other fundamental characteristics, in companies with low turnover and high employee engagement and productivity. Another characteristic is a work environment that allows and encourages open and honest communication – from management to employees and vice versa, and across the different work units of the organisation.

Organisations whose policies, practices and work culture affirmatively help employees achieve a work/life balance also promotes stronger staff loyalty and retention.

What is the biggest challenge for SMEs in your particular sector?

The biggest challenge for SMEs in our sector is developing experienced people to become effective management trainers and consultants. This requires extensive exposure to different organisational and people issues where the upfront investment in time and resources is significant. Local people in Mainland China are very ambitious and will try to do things for themselves after they have received their training, and will often not respect contractual agreements. This is the reason why we rely extensively on our own pool of trainers and consultants from Hong Kong and the international market.

Are you aware of EU-funded support projects for SMEs and have you ever used any?

No, I am not aware of the EU-funded support projects and therefore I have never used any. Eb

__Dew-Point International Ltd__ is a recognised provider of training and organisational development consulting services in Hong Kong, China and the Asia-Pacific region. Founded in Hong Kong in 1973, Dew-Point specialises in developing the effectiveness of companies and their people, and has worked for many well-known local and global organisations. Dew-Point's network of trainers and consultants are practitioners with industry knowledge and experiences drawn from around Asia and other parts of the world.

Name: Arvid Egeland

Position: Representative

Company: SenseAir Chengdu Gas Sensors Co Ltd

Location: Chengdu

Company size (no. of employees): 120 globally

Sector: Manufacturing

Core business: Infrared gas sensing technology, CO_2 sensor production and research

When did you come to China?

I first came to Beijing for a business trip in 1999, and the experience enriched my whole business career.

Why did you come to China?

After having visited some customers in China, I realised that there is a big potential for our products here. With increasing global greenhouse gas emissions and the problem of heavy air pollution, the Chinese Government has been looking for better solutions from outside China. As a Swedish company with 20 years' experiences in infrared gas sensors, we believe that we can provide our technology to help alleviate part of this problem. In recent years, the issue of air pollution has drawn more and more attention, and the dangers that PM2.5 poses to human health are now acknowedged.

The improvement of indoor air quality helps to create better living and working conditions for people, and CO_2 is a very important measurement of indoor air quality. It is important to maintain good ventilation based on CO_2 levels inside a room in order to achieve an optimum healthy environment. A high concentration of CO_2 in a room is unhealthy for anyone working inside for long periods. However, these days people tend to avoid opening windows because they don't want to increase levels of PM2.5. This can lead to levels of CO_2 gradually increasing. Our job is to help people to understand how to create a better, more balanced indoor air climate to help them stay healthy.

Where is your company located?

We have one headquarter in Delsbo Sweden. In 2009, we opened a wholly foreign-owned enterprise in Chengdu, China. That same year, we established an office in the USA, and we are planning to open one more office in Japan. Currently, the USA is our biggest market and Japan is the second. China only represents a small share of our whole turnover, but the potential is high: China has a large population with rich resources.

We believe the Chinese market will become more important to our field, and we would like to share our experiences with Chinese companies. We are fully confident in our services and technology in our market, but although we are already biggest CO_2 sensor producer in the world, we are not thriving here.

Why did you choose Chengdu as your China location?

Chengdu is a very attractive city in which to reside: it has a nice climate, friendly people and tasty food. The local government gave a lot of assistance in the beginning, helping us with the setting up of our office. They took me around all the city's districts and showed many potential locations and tried to help us understand more about this city. Finally, we found a place met our expectations.

What is the biggest challenge for SMEs in China?

I think the biggest challenge is finding loyal employees. It is very difficult to find the right people who are willing to do a good job. We have experienced many situations where our employees have left too easily. I don't think this is good for our long-term operation in China, so we are trying find different solutions to hold on to our staff. Our hope is that everyone that joins us will feel like they are growing up with our company.

What is the biggest challenge for SMEs in your particular sector?

Being able to offer the best products at the right prices.

Are you aware of EU-funded support projects for SMEs and have you ever used any?

I'm afraid I don't have any knowledge about this. Eb

***SenseAir** is an innovation-based sensor company and a world-leading manufacturer of infrared carbon dioxide (CO_2) sensors and controllers. One of our major markets is building automation where SenseAir sensors control individual fans, dampers, valves etc. In addition, complete air-handling and air-conditioning units help us create a better indoor environment and energy savings.*

Name: Kemal Yener

Position: Head of Marketing

Company: Star Mall Group

Location: Shenyang

Company size (no. of employees): 120

Sector: Real estate

Core business: Commercial real estate

When did you come to China?

Our story in China began in 2007.

Why did you come to China?

There were several things that we considered when we decided to invest in China. First, the fast growing economy was a factor: China grew an average of 11.7 per cent between 2003 and 2007, and many economists project that China will grow around seven per cent from 2015 to 2019. Second, the pragmatism of China's government – China's enormous economic progress is due to the courage of its leaders and the people who have undertaken bold reforms. Third, the sheer number of opportunities in China – due to the size of the country and homogenous distribution of the population, China will continue to be a promising investment region for the foreseeable future, so we will be keeping our eyes and ears open for opportunities.

We have observed that commercial real estate investments are mainly occurring in second-tier cities due to scarce land opportunities in China's bigger cities, so this is where we have focused our efforts, too. We will be continuing to focus on second-tier cities, while at the same time evaluating potential partnerships offered by different global enterprises.

Where is your company located?

We're located in Shenyang, Northeast China, but our holding company is FIBA Group, with headquarters located in Istanbul, Turkey. FIBA Group is a respected and well-known player in international markets. It controls an investment portfolio of high-value brand names in both financial and non-financial lines of business. The group's investments in the financial services industry are in banking, leasing, factoring, insurance, NPL management and private equity. Its non-financial investments are in aviation, retailing, real estate, energy, shipbuilding and port management.

Why did you choose Shenyang as your China location?

We had looked at five potential cities in China to invest in. Shenyang was the one where we observed that the city met our expectations in terms of economic development and future growth.

We had great support from the local government in Shenyang. We saw that the government had a clear vision of how to develop the area, where before there had been production factories.

Now we can proudly say that the investment decision was right for us when we see the new developments and the huge improvements that are taking place in Shenyang.

What is the biggest challenge for SMEs in China?

The general business culture: you cannot simply import your business model into China. You need to be flexible and adjust to a country that practices business according to 'Chinese characteristics'. Without a presence and close supervision in China, it will be difficult for your company to ensure its best interests are being advanced by its agents and employees.

What is the biggest challenge for SMEs in your particular sector?

Human resources. Our companies typically have flexible lines of authority, which often runs up against Chinese workers accustomed to a hierarchical structure where each person has a 'clearly-defined role'. These differences sometimes lead to tensions between Western managers who are used to employees who take their own initiative and Chinese staff who have been trained from a young age to always follow instructions from the top.

Are you aware of EU-funded support projects for SMEs and have you ever used any?

We haven't used any EU support so far. Eb

***Star Mall Real Estate Development Company** is a foreign-funded enterprise invested by the well-known Turkish conglomerate Fiba Group, operating in the commercial real estate development sector in China. Established in 2007, it engaged in the development of its first project in China – Star Mall Shenyang Plaza.*

Name: Gabriele Castaldi

Position: Chairman

Company: Globetech

Location: Tianjin

Company size (no. of employees): 35

Sector: Packaging

Core business: Providing packaging and environmentally-friendly solutions for the food, micro-biology and chemical industry.

When did you come to China?

I came to China in 2004.

Why did you come to China?

I came to China as Operations Manager for Goglio Spa, to set up a new greenfield factory in Tianjin to serve as a pillar for the Asian continent. I am Italian and have worked in Europe, Japan and now China. My background is technical and I have spent many years dealing with technology transfer management from European to Asian countries. I have worked with a number of multinational companies including Swiss Sulzer AG, EMS AG, Toyota KK and Goglio Spa.

Globetech at present employs 35 people and has ambitious growth plans, in fact more than one company in China has approached us with a view to close cooperation. Our new product, currently under development, will promote a more efficient operation of the cold supply chain, especially in what we call the last KM deliveries – deliveries in the down-town area.

Why was Tianjin chosen as the location?

When I was working for Goglio Spa, the selection of the location was mostly related to logistical convenience. Our Chinese customers and suppliers were mostly located in that area and the presence of a prominent port presented remarkable advantages. Finally, the arrangements made by the local government made the decision more attractive. The company owner was very impressed and was smart enough to immediately recognise the excellent opportunity offered by this location.

What is the biggest challenge for SMEs in China?

As a young, foreign SME operating in China, financing represents a major challenge. As a result a capital injection by a local company may be a suitable solution for us. At present we are assessing the offers we have received and the management team will make a decision based mostly on the new investor role in supporting the core business and creating useful synergies. In fact we need to increase the working capital, which allowed us the go through a smooth start-up, in order to leverage our growth and to provide added-value to the Chinese stakeholders. In international markets we will explore partnerships in a similar way, but will try to adapt the business model to the continent in which we are going to operate. For example, in Europe we shall have the United Kingdom and Italy as key pillars, where our partners act as distributors.

Marketing in China is also a challenge, because the various configurations and approaches we select depend on the different regions we operate in. We have agents and distributors and, depending on their background, and also due to our internal resources constraints, we have to establish different cooperation conditions, which is not necessarily ideal for us.

Human resources management represents a significant challenge as well. We were lucky enough to have created a core team of people who share the vision I had when setting up this company, and they are strongly motivated to achieve the targets we set out.

What is the biggest challenge for SMEs in your particular sector?

China's plastics production capacity is impressive and most grades are available. However a few of the most sophisticated and functional thermo-plastics are not made in China; yet they can be found in the market, so it takes considerable efforts to ensure that the available grades are genuine.

Are you aware of EU-funded support projects for SMEs and have you ever used any?

We took advantage of the EU-funded project, the China IPR SME Helpdesk, and the support we received was extremely relevant to ensuring that our business can sustainably develop. Eb

Globetech's *patented product enables us to package any kind of product, liquid or solid, in a way that protects it from any contamination, while adding barriers from atmospheric agents such as humidity and oxygen and providing temperature control in a wide range from -25C to 100C. The solutions we provide enable a significant reduction of carbon foot-print, while reducing energy and labour costs.*

NO EXCUSES

Spaceframe is a privately-owned design and construction company focused on delivering every project in line with structured timelines and established project methodologies. Through superior customer service and a genuine commitment to 'on time, on budget' project delivery, Spaceframe works collaboratively with a core group of our trusted partners to achieve consistent quality outcomes.

Spaceframe initially established a formidable reputation as a leader in the China construction market pioneering the use of pre-engineered buildings during the early 1980's before stepping up to offer our clients full design build solutions in the mid-1990's. We later graduated to more sophisticated LEED GOLD compliant energy and environmentally-sustainable solutions in keeping with the demands of the current international and Chinese markets during the past few years.

Our company provides an all-encompassing solution for industrial building owners and operators. Whatever the scale, Spaceframe China has the expertise and network of resources to quite literally 'provide it all' as a single source design build, EPC or general contractor serving both state-owned enterprises (SOEs) and foreign-invested enterprises (FIEs) in China and Asia over the past 30 years.

We pride ourselves on our 'Can Do - No Excuses' attitude, always working to fully understand the needs of our clients and converting these requirements into functional, efficient and cost effective facilities. We Listen – We Understand – We Deliver!

Every project is unique and we work with our clients to carefully plan projects from start to finish ensuring that the final result fully meets their requirements as owners and operators, as well as complying with national design and local codes. Our 3D design capability in REVIT and XSTEEL allows us to provide detailed clash planning, thereby resolving many of the design issues not normally identified until a project is in the construction phase. This has the potential to reduce construction delays and reduce unnecessary costs.

As well as offering our clients a full EPC/design build solution under our Class II Construction Qualification, we are also able to offer stand-alone specialist services for project planning, pre-engineered steel buildings, refrigerated cold stores and passive ventilation systems.

Project planning: At Spaceframe we know that experience and innovation, combined with transparency and collaboration, delivers the best results.

Preconstruction planning is where we believe the magic happens. This is the critical phase to ensure the project is accurately defined and the objectives can be fully realised within the time and budget constraints:

- We work with our clients to determine the most suitable building footprint based on their process and then help determine their minimum land requirements.
- Based on our experience we can investigate and advise on the suitability of potential project locations based on a wide range of factors and also assist in negotiations, if required, with local authorities.
- We can provide accurate cost estimates and time schedules at a very early stage to assist clients in making key decisions for the future project.
- Planning facilitates control, and we encourage our clients' involvement with our '3 Cs' principles of cooperation, communication and consultation through this key planning phase of the project.

General contracting: Since 1996, Spaceframe has provided EPC/general contracting services successfully across China, completing several hundred projects across a wide range of challenging industry sectors and locations. With a solution-driven approach supported by a 'no excuses' attitude to safety and performance, Spaceframe consistently delivers sustainable projects to the highest quality. Our Class II General Contracting qualification allows us to contract single projects to the value of RMB 200 million, for FIEs, SOEs and local Chinese clients. Contracting methods include guaranteed maximum price or lump sum, with Spaceframe taking full responsibility for design as well as construction.

Pre-engineered: We offer specialist pre-engineered steel building packages to clients in China and also overseas to locations such as Malaysia, Australia, Mongolia, Papua New Guinea and Europe. Our product is a quality international product offering our clients long-term reliability. This global experience ensures that our local, pre-engineered, metal buildings in China meet the highest available international standards for design, product quality and installation quality.

Refrigeration: Spaceframe is an industry leader in the design and delivery of industrial refrigerated facilities and freezing systems. In 1984, we built our first China-based storage facility in the coastal city of Dalian. We design, install, build, operate, monitor and/or maintain, state-of-the-art, energy-efficient, natural industrial refrigeration systems throughout Asia. Led by a team of dedicated industry specialists from around the world, Spaceframe serves as a genuine one-stop service provider, able to build and commission your entire cold storage facility to the highest international standards.

Ventilation: Spaceframe can design a range of passive ventilation systems to enhance the internal air quality and temperature of your facility, improve natural lighting and save energy costs.

Our systems can either be incorporated into the design of a new project or retrofitted into existing buildings, normally without the need for structural modifications or interruption to your production.

Our solutions are designed and fabricated in our own factory and professionally installed by our own teams to ensure the long-term quality and reliability of the system. System benefits include:

- A 2-3 year return on investment;
- Zero operating costs;
- Increased air changes;
- Increased natural lighting;
- Reduced heat gain;
- Improved indoor air quality;
- LEED friendly; and
- GB Fire Code smoke release compliance.

We have a reputation for delivering buildings of an ***international quality, on time and on budget.***

Spaceframe is a large enough to provide in-depth strategic capability while small enough to still be aware of the importance of high quality service and reliability. We provide accountability and cost effective solutions. We do this because we are clear about what's important:

- **Safety First**
- **Performance**
- **Speed to market**
- **Value**
- **Quality**

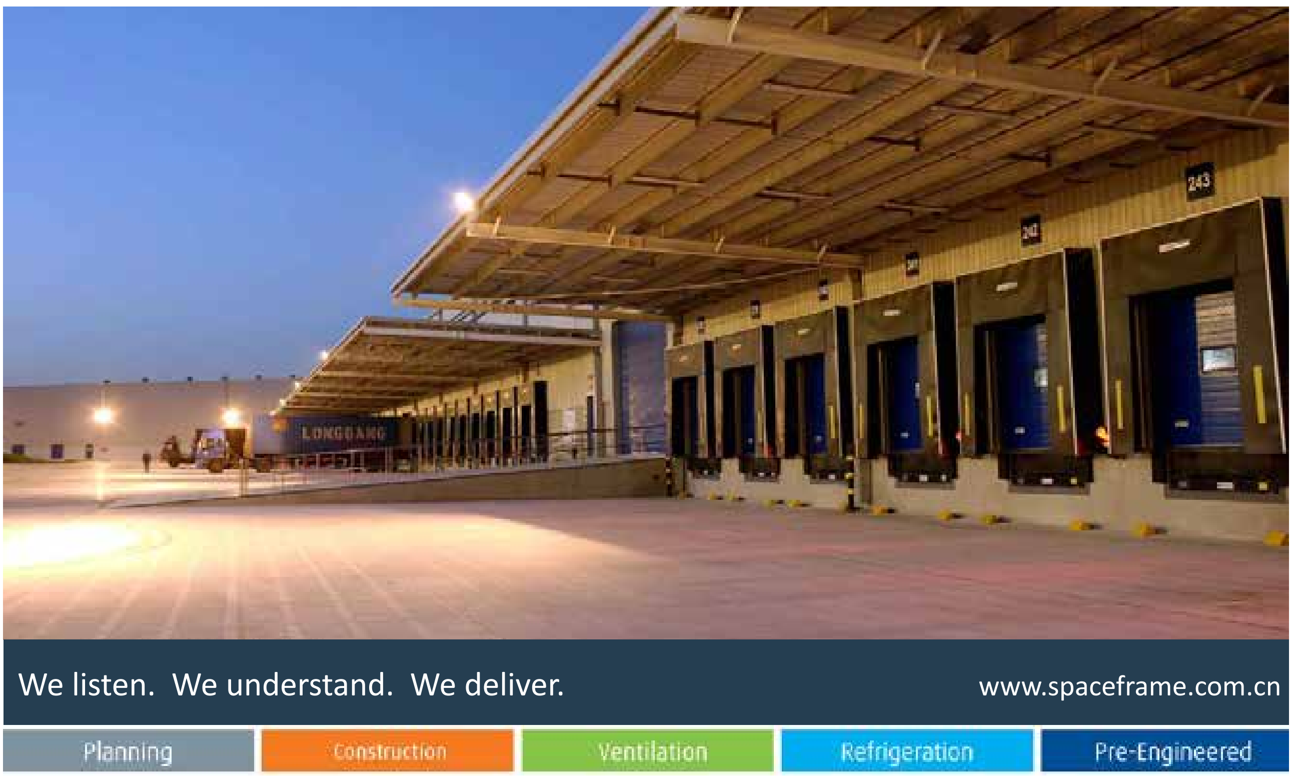
We always aim to establish outcomes for our customers that exceed expectations.

Considering undertaking your first project or thinking on expanding in China?

Talk to us:

Daniel Wen: danielwen@spaceframe.com.cn /+86 139 1851 6289;

Max Feng: fengtao@spaceframe.com.cn /+86 139 1126 2787



EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with MOFCOM Assistant Minister

President Wuttke with Assistant Minister Wang Shouwen, MOFCOM

On 28th November, 2014, European Chamber President Jörg Wuttke and a group of European Chamber Vice Presidents met with Assistant Minister Wang Shouwen of the Ministry of Commerce (MOFCOM) and presented the *Position Paper 2014/2015*. The meeting took place in response to the recent revision of the *Catalogue for the Guidance of Foreign Investment Industries*. The Chamber delegation presented key messages from the *Position Paper 2014/2015* and highlighted a number of market access concerns with regard to the automotive, financial services and petrochemical industries. The delegation also expressed the need for enhanced IPR protection and SOE reforms and voiced their recommendations for a further lifting of ownership caps and a speedy nationwide roll-out of the *Negative List*. President Wuttke went on to stress the importance of an early settlement of the EU-China Bilateral Investment Agreement.

Meeting with Minister Li Wei, Development Research Centre of the State Council

Minister Li Wei of the State Council DRC addressing European Chamber members at the Annual Conference 2014

On 16th December, 2014, Minister Li Wei of the Development Research Centre of the State Council delivered a keynote speech at the Chamber's *Annual Conference 2014: Saddling up for Reforms*. European Chamber President Jörg Wuttke engaged in a discussion with Minister Li Wei on the sidelines of the conference where both parties discussed the current economic and investment climate in China. President Wuttke relayed some of Chamber's key recommendations from the *Position Paper 2014/2015* to the minister.

Position Paper Presentations to Ambassadors in China

From L-R: Francois Bernard, HE Maurice Gourdault-Montagne and Bertrand de la Noue

French Ambassador HE Maurice Gourdault-Montagne

On 16th December, 2014, European Chamber Vice President Bertrand de la Noue and European Chamber Treasurer Francois Bernard presented the *Position Paper 2014/2015* to HE Maurice Gourdault-Montagne, French Ambassador to China. The meeting developed in a very cordial fashion and both sides exchanged their thoughts on the current business climate in China.

Swedish Ambassador HE Lars Fredén

On 4th December, 2014, European Chamber Vice President Mats Harborn presented the *Position Paper 2014/2015* to HE Lars Fredén, Swedish Ambassador to China.

Belgian Ambassador HE Michel Malherbe

On 27th November, 2014, Vice President Bertrand de la Noue presented the *Position Paper 2014/2015* to HE Michel Malherbe, Belgian Ambassador to China.

Other Lobby Activities:

President Wuttke and the Chamber delegation meet Director General Xu Kunlin

Meeting with Director General Xu Kunlin, Price Supervision and Anti-Monopoly Bureau of the NDRC

On 28th November, 2014, a European Chamber delegation led by President Jörg Wuttke met with Director General Xu Kunlin of the National Development and Reform Commission (NDRC). The two parties held discussions in relation to anti-monopoly enforcement and pharmaceutical pricing reforms and agreed to increase cooperation in the future. As an initial step, the NDRC and the European Chamber have agreed to hold a joint seminar on the Anti-Monopoly Law for European member companies.

NDRC Seminar on Foreign Investment Catalogue

On 21st November, 2014, a European Chamber delegation led by Beijing Chapter General Manager Maggie Xie met with the Deputy Director General Mr Wang Dong of the NDRC's Foreign Investment Department. The delegation provided the NDRC with feedback from European investors regarding the current revision to China's *Catalogue for the Guidance of Foreign Investment Industries* (*Catalogue*). The meeting was part of a seminar that was also attended by AmCham, USCBC, JETRO and more than 10 foreign company representatives.

During the seminar, Maggie expressed the Chamber's appreciation of the NDRC's and the MOFCOM's efforts to reduce market access barriers for foreign investors, while reiterating the Chamber's suggestions and recommendations as detailed in the *Position Paper 2014/2015*. Deputy Director General Wang stated that the revised *Catalogue* represented the Chinese Government's biggest achievement to date in terms of reducing restricted foreign investment items in the manufacturing sector. Both sides agreed to increase the bilateral dialogue in 2015.

Chamber News - new working groups created

The Chamber's Executive Committee approved the creation of a **Compliance and Business Ethics Working Group** on 17th December, 2014. Its purpose is to foster learning and development of its members to enhance the quality of their compliance in China. The working group also intends to lobby the Chinese Government on a range of compliance-related issues that affect European Chamber members. There will be two working groups with two leads: Xavier Sans-Powell in Beijing and Remei Lluch-Pont in Shanghai.

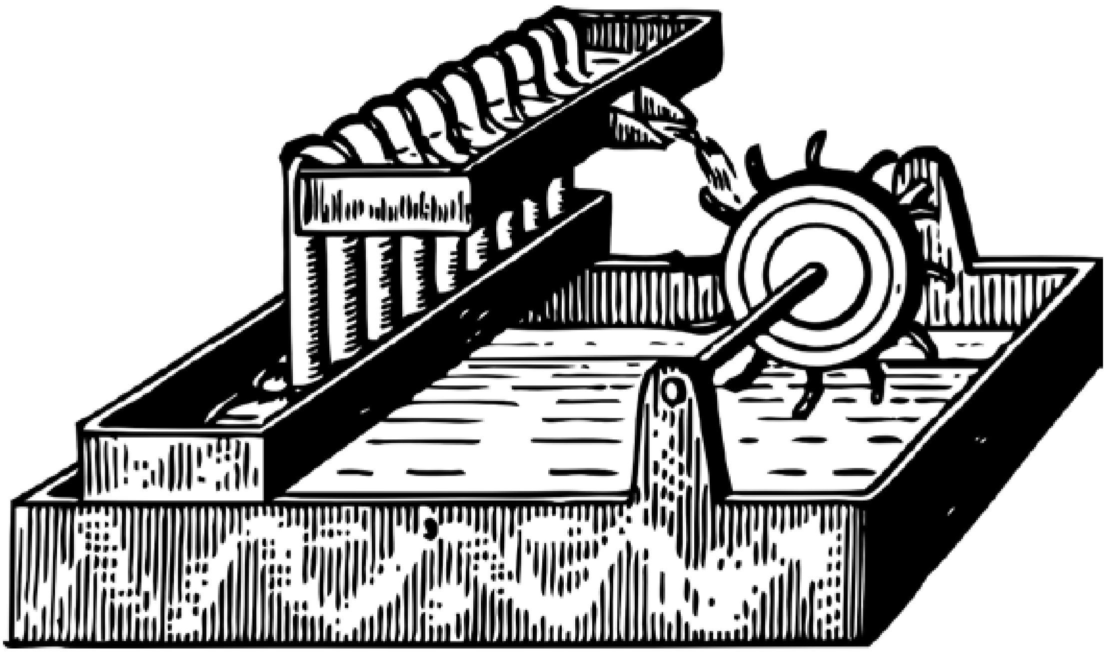
The Executive Committee has also approved the creation of an **Energy and Environment Working Group** in the Nanjing Chapter focusing on energy policies and sustainable practices, advocating on best practice and strengthening the links between the government, academia and the business community to further the commitment to energy and the environment.

CLEANTECH IN CHINA

IP STRATEGIES FOR A RAPIDLY EXPANDING MARKET, PART II

China is investing heavily in alternative, renewable means to address its continually expanding energy needs. With a growing cleantech market, and strong government support for the development and adoption of new clean and energy-efficient technologies, China holds considerable opportunities for European SMEs. However, European cleantech companies need to be proactive in understanding and taking measures to minimise intellectual property (IP) risk when doing business here, in order to secure lasting success.

In the last issue of *EURObiz* the **China IPR SME Helpdesk** discussed considerations for building a cleantech IP portfolio and the importance of utility models. In this concluding part, the licensing and sale of IP are explored, with a case study of a European cleantech SME in China.



Licensing and Sale

Licensing and sale of IP can be a potentially lucrative source of cash flow for cleantech businesses with high-value IP. However, the decision to monetise IP through licensing or sale is one that must be taken only after careful consideration of a number of important factors. In terms of patent licensing, arrangements broadly fall into two categories – 'carrot' and 'stick' licensing.

'Carrot'-licensing

This refers to a licence taken on voluntarily by the target licensee without the need for the patent owner to sue. A large part of bringing potential licensees to the negotiating table is to be able to demonstrate strong rights to a credible technology that requires specific know-how to fully realise. A cleantech business can be successful with this approach when a patent licence is coupled with a licence to the cleantech business' know-how related to implementing or practicing the technology. Once interest is secured, licensing negotiations should be conducted under a non-disclosure agreement (NDA) that contains a promise by the target licensee not to file for a declaratory judgement (a lawsuit brought by the target licensee to declare that the IP holder is not using and is infringing rights to the technology) during the negotiations.

'Stick'-licensing

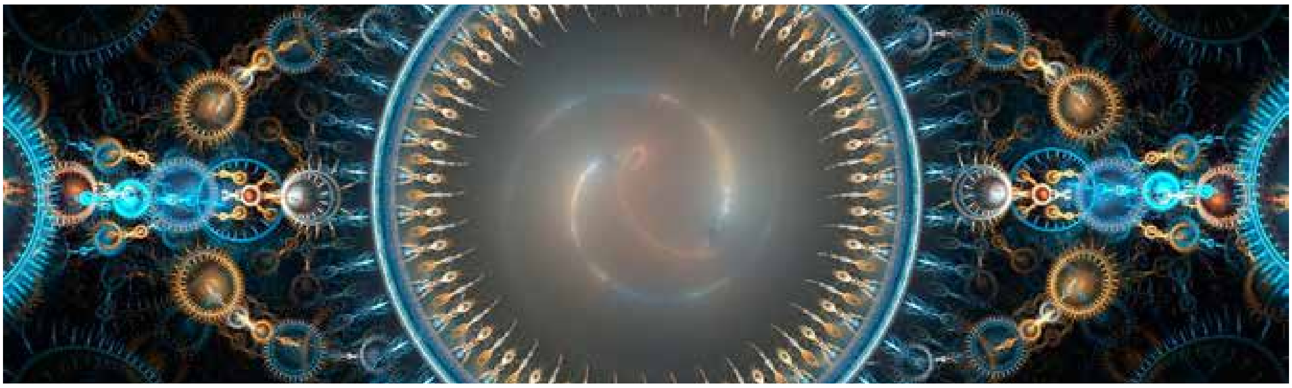
'Stick'-licensing is a necessary option when a third party is already using a technology without a licence from the owner of the IP, thereby infringing the owner's rights. A business may pursue litigation to compel the payment of royalties by demonstrating that: 1) the technology is covered by their own IP; 2) the IP is valid; and 3) the business is willing to sue and enforce its IP rights. Often target licensees will not seriously consider paying royalties until this can be demonstrated; however, putting IP to the test in litigation can be risky. In all cases the validity of the IP will be challenged, and may be lost and invalidated. For this reason, many businesses do not choose to license their core IP unless they are confident of the strength of their innovations. Additionally, although a business should expect to go the distance if it intends to file a lawsuit, communicating with the potential target licensee early and frequently can be a good way to increase the chances of a settlement.

Sale of IP

When certain IP is no longer attached to a product or a core aspect of a business, it may be worthwhile to sell the technology through an IP assignment to avoid the carrying costs associated with keeping it in the portfolio. A major benefit of a sale is that a business can obtain an immediate cash flow, whereas license royalties typically take two to three years to materialise once a product hits the market. When trying to decide whether to sell IP, it can be a good idea to engage an outside consultant to determine the value of the IP, as potential purchasers may estimate different values. One way to mitigate the risk of miscalculated value is to couple a sale with a grant-back licence. In this arrangement, the buying party grants a licence to the selling party to use the technology after the sale. It is also best to try to negotiate the right to sub-license as part of the grant-back, in order to keep as many options available as possible.

SME Case study

Perpetual Motion is a small German company specialising in the manufacture of intelligent drives that reduce energy usage of industrial machinery by more than 80 per cent. The company owns several patents covering drive designs in China, but most of the precise engineering processes needed to economically manufacture the drives are in the form of know-how – potential trade se-



crets. In addition, Perpetual Motion uses special software to control and improve the efficiency of the intelligent drives.

Looking to quickly obtain cash flow to cover upcoming financing needs, Perpetual Motion chooses to explore licensing the technology to industrial machinery manufacturers in China. After meeting with several manufacturers, Guangdong Green Machinery Co Ltd (GGM) expresses an interest in obtaining an exclusive licence. Perpetual Motion agrees and the parties sign a non-disclosure agreement (NDA). As part of the arrangement, Perpetual Motion proposes to grant an exclusive licence to GGM for Perpetual Motion's patents and know-how in China. During negotiations, GGM conducts due diligence on Perpetual Motion's patents. However, negotiations stall when the parties cannot agree on royalties.

Undeterred, Perpetual Motion then decides to seek a Chinese partner to sell its products in China. They find Mr Liang, who owns Zhejiang Components Co Ltd (ZCC), a small components manufacturing company that also owns some patents for certain manufacturing processes. Perpetual Motion and ZCC enter into a NDA and a manufacturing services agreement. Mr Liang agrees to manufacture the intelligent drives to customer specifications. Perpetual Motion decides to keep design-to-fit work in Germany, and Mr Liang agrees to set up a secure area in his factory. As part of the arrangement, Perpetual Motion sets up secure file servers from which Mr Liang can access sensitive documents related to the precise engineering processes needed to manufacture the intelligent drives. Perpetual Motion also seconds several technical managers to the factory to train authorised employees on the manufacturing processes. Each of the employees signs a confidentiality agreement and an agreement not to compete, and are provided with training only on the specific processes that they will work on.

After a successful six months of operations, Mr Liang informs Perpetual Motion that GGM is offering similar lower-priced intelligent drives but which do not achieve the same energy savings as Perpetual Motion's intelligent drives. After further investigations, Perpetual Motion suspects GGM is infringing its drive design patents. Although Perpetual Motion has the resources to engage in litigation, Perpetual Motion decides not to sue GGM and risk having its patents invalidated. Instead, the company uses the resources which would have been used in the litigation to reinvest in research and development. Six months later, Perpetual Motion has developed a new manufacturing process that reduces the cost of manufacturing the intelligent drives and new software, which further improves the efficiency of the intelligent drives.

IP Lessons

- Develop an IP strategy for the medium to long term, and determine how IP will fit into the overall business strategy in China.
- It can be difficult to secure a licence and royalties from a potential licensee unless it can be clearly demonstrated that non-patented know-how is essential to making the product commercially viable.
- The decision to sue and enforce IP involves considering the strength of the patents, the resources necessary to pursue litigation through to its conclusion and defend likely invalidation actions against the patents, and protecting the core aspects of the business' competitive advantage.
- Document and use specific policies and procedures, including NDAs, when disclosing sensitive proprietary information.
- Look for good partners that do not have direct conflicting interests and who are likely to respect IP.

CHINA IPR SME HELPDESK

*The **China IPR SME Helpdesk** is a European Union co-funded project that provides free, practical business advice relating to China IPR to European SMEs. To learn about any aspect of IPR 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 three working days. The China IPR SME Helpdesk is jointly implemented by DEVELOPMENT Solutions and the European Union Chamber of Commerce in China.*

Photo © European Union, 2014.

WHO'S WHO IN THE EUROPEAN COMMISSION?

In the second of this 'Who's who?' series, **Jules Meunier**, Business Manager in the Chamber's Shanghai Chapter, gives us the low down on three more figures from the new European Commission: Frans Timmermans, Cecilia Malmström and Elżbieta Bieńkowska.

Frans Timmermans

Position: First Vice President, in charge of Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights

Age: 53

Nationality: Dutch

Party: S&D – Socialists & Democrats (centre-left)

Photo © European Union, 2014.

Frans Timmermans is the first ever first vice president of the European Commission – a brand new position created by President Juncker. Although in charge of Better Regulation, Interinstitutional Relations, the Rule of Law and the Charter of Fundamental Rights, it is mostly as Juncker's official 'right arm' that he is already playing a central role in the new Commission.

Timmermans' vast experience and well-respected credentials saw him gain smooth confirmation by the European Parliament. A fluent speaker of French, English, German, Italian and Russian, in addition to his mother tongue, he was already well acquainted with the 'Brussels bubble' having previously served as a member of the private office of former Dutch Commissioner Hans Van den Broeck. He served as a Member of the Dutch Parliament (Labour Party – centre left) from 1998–2007 and again as Dutch foreign minister from 2010–2012, until his designation as EU Commissioner.

His first task is to cut red tape and deliver better regulation.[1] As such he is championing a new round of subsidiarity: transferring back to the member states powers related to technical issues or topics that are not of major importance for the EU as a whole, which should focus on the 'big things' earmarked by President Juncker. He has already taken action with the draft *Programme of the European Commission for 2015* – he is planning to cancel or postpone about 80 legislative proposals that were in preparation, including a number related to environmental issues. He will also be reviewing existing European legislation and amending it in a 'Better Regulation' package proposal before the end of 2015, ensuring that from now on, every Commission proposal or initiative complies with the Charter of Fundamental Rights.

He will also be in charge of transparency and relations, setting a new framework for the Commission to work with lobbies. The first significant step is the creation of a mandatory lobby register covering the Commission, the European Parliament and the Council.

Even though, due to his portfolio, he is expected to focus efforts within the EU, Timmermans is not new to China. As Dutch Foreign Minister his last trip to Beijing was in June 2013. He has been tasked by President Juncker to review and approve the compatibility of any possible special regimes for investor-state disputes (ISDS) in future EU trade agreements, which will be part of the ongoing negotiations for an EU-China Bilateral Investment Agreement (BIA).

Creating the role of first vice president was one of the major innovations of Juncker's Commission, and Timmermans will be an essential part of this new organisation.

1 http://ec.europa.eu/commission/sites/cwt/files/commissioner_mission_letters/timmermans_en.pdf

Cecilia Malmström

Position: Commissioner for Trade

Age: 46

Nationality: Swedish

Party: ALDE - Alliance of Liberals and Democrats for Europe (centre)

Photo © European Union, 2014.

Cecilia Malmström is one of the seven returning Commissioners from the Barroso II Commission, where she had been in charge of internal affairs. She has was selected by President Juncker to be in charge of the Trade Portfolio, a role which she had requested. She has very strong European experience and reaction to the nomination of this pro-trade, consensus-building Swede was positive. She lived in France, Germany and Spain before being elected as a Member of the European Parliament (ALDE) from 1996–2006, where she was involved in the committees for Foreign Affairs, Human Rights and Union Enlargement.

As the functional head of the Commission's trade portfolio, Malmström succeeded Karel De Gucht as de facto leader of the Transatlantic Trade and Investment Partnership (TTIP), which is one of the Commission's 10 priorities defined by President Juncker.[1] Her first challenge was to save the Comprehensive Trade and Economic Agreement (CETA) between the EU and Canada – although negotiations were already concluded the ISDS mechanism had drawn some criticism.

The ISDS mechanism is now the most prominent obstacle to advancing negotiations with the United States on the TTIP, and it will certainly be her top priority. During her confirmation hearing in front of the European Parliament, she committed to ensuring the transparency of the negotiations and the disclosure of documents and the negotiating mandate. This should become the standard procedure for negotiations of all trade or investment negotiations the Commission is conducting with third countries, including China.

Timmermans has been tasked by Juncker to oversee and approve any ISDS mechanism to be included in all future trade negotiations led by the Commission. Malmström will present the results of the European consultation on ISDS to all Commissioners in January 2015, and it will be on the agenda of the next meeting of European Trade Ministers in May 2015.

Malmström will work in particular on projects steered and coordinated by Jyrki Katainen, Vice President for Jobs, Growth, Investment and Competitiveness, and Vice President Federica Mogherini, High Representative of the Union for Foreign Affairs and Security Affairs.

EU-China diplomatic relations celebrate their 40th anniversary in 2015, and Malmström will play a key role. She will first be representing the EU at the World Trade Organisation—where her predecessor was known for taking a strong stance against China on trade disputes—and the issue of granting China Market Economy status will be raised inevitably. In terms of a free-trade agreement with China, she clarified that it will be a long way down the line – completing negotiations on the BIA is her priority where China is concerned.

1 http://ec.europa.eu/priorities/eu-us-free-trade/index_en.htm

The Juncker Commission

Elżbieta Bieńkowska

Position: Commissioner for Internal Market, Industry, Entrepreneurship and SMEs

Age: 50

Nationality: Polish

Party: EPP – European Popular Party (centre-right)

Before being designated as Commissioner, Elżbieta Bieńkowska was Deputy Prime Minister and Minister for Infrastructure and Regional Development of Poland. Even though she defines herself as a technocrat and not a politician, she is a prominent face of Polish politics and was in charge of managing the European funds in her country, which is the biggest recipient in Europe. She used to teach at the Polytechnic School of Silesia.

Her nomination was perceived as a strong signal of the key role given to Eastern European countries in the new Commission. Even though she does not have the title of Vice President and will mostly work under the supervision of Jyrki Katainen, Vice President for Jobs, Growth, Investment and Competitiveness, she is expected to be at the frontline of the Commission's work being in charge of the most powerful tool of the EU: the internal market.

Compared with the previous Commission, her portfolio has lost the responsibility for financial services, but she will oversee an office that is born from the merging of two powerful Directorate Generals – Internal Market and Services (DG MARKT) and Enterprise and Industry (DG ENTR). Furthermore, the Office for Harmonisation of the Internal Market, in charge of trademark and designs, will also report to her.

Bieńkowska will be tasked with "extending the principle of mutual recognition in the single market, designing new policy measures to address remaining obstacles to a fully functioning single market for goods and services," as well as "raising the profile and importance of industry in the economy from less than 16 per cent today to 20 per cent in 2020."[1]

She already announced her top priorities, which will be health industries, digital agenda, energy union—also top of the agenda of the new Latvian Presidency for the first half of 2015—and SMEs. She will ensure that all the areas under her responsibility are treated in an integrated way as they all overlap, and she has committed to accelerate and simplify future and existing legislation.

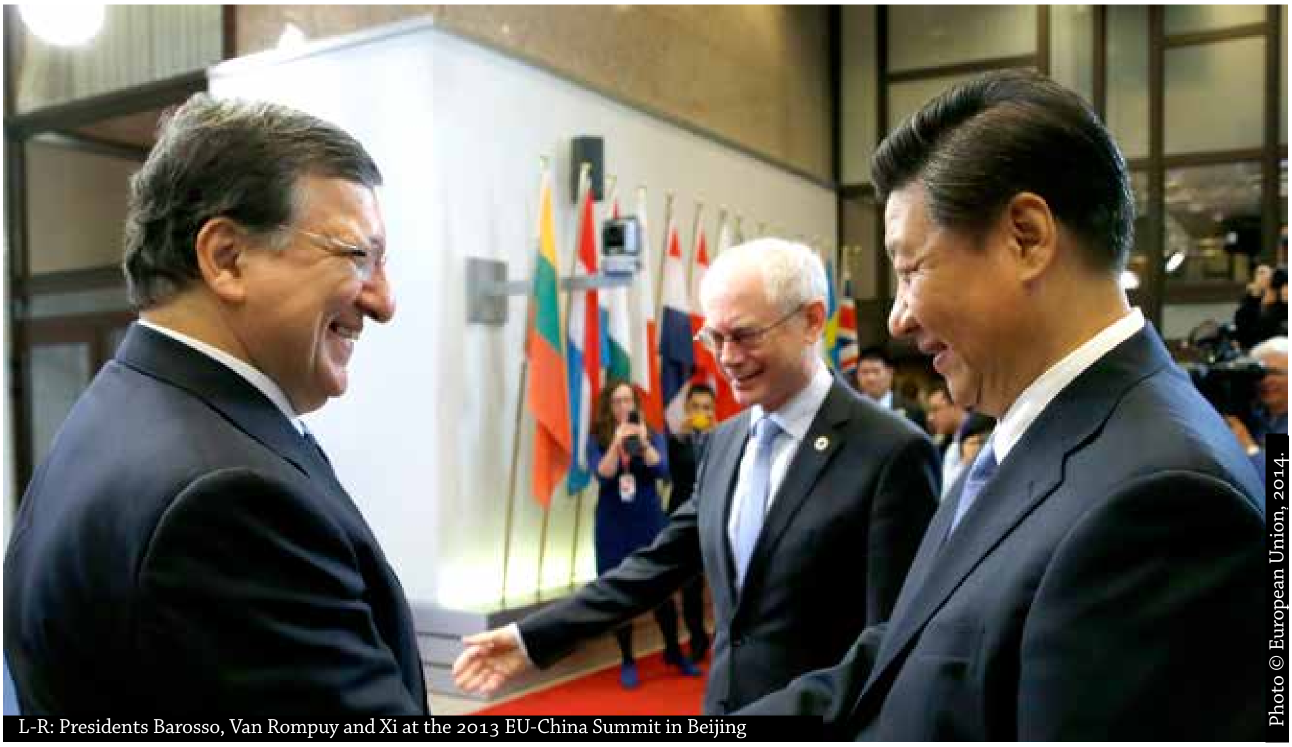
Bieńkowska's motto is "let's get Europe to work", and in early 2015 she will be proposing a roadmap to support the competitiveness of European industry, as well as a revised Small Business Act for Europe, including an integrated European strategy for SME internationalisation. Her staff is currently analysing the list of the top 10 most burdensome legislative acts for SMEs to decide on acts that should be abolished as priority, to address the fact that only 13 per cent of SMEs are effectively exporting outside of the EU. Eb

1 http://wc.europa.eu/commission/sites/cwt/files/commissioner_mission_letters/bienkowska_en.pdf

WHERE DO WE GO FROM HERE?

THE FUTURE OF EU-CHINA RELATIONS

It's time for a re-set of the European Union's (EU's) messy and frequently mismanaged relations with China. The arrival of a new top team in Brussels provides the opportunity. Recent developments in Beijing make seizing it both an imperative and a test of the EU's capacity to wield influence beyond its own borders, says **Guy de Jonquières,** Senior Fellow at the **European Centre for International Political Economy.**



L-R: Presidents Barosso, Van Rompuy and Xi at the 2013 EU-China Summit in Beijing

After three decades of studiously keeping a low international profile, China has emerged since 2009 as a steadily more forceful, ambitious—and sometimes disruptive—player on the global stage. That shift has sharply accelerated since Xi Jinping became president. Rapidly accumulating more personal power than any leader since Deng Xiaoping, in barely two years he has stamped his imprint deeply on both foreign and domestic policy.

Vowing to engineer the "great rejuvenation of the Chinese nation", Mr Xi has set out to restore the country's past glory and match its economic weight with diplomatic muscle. He has launched a flurry of initiatives, including a strategically important energy deal with Russia, a development bank for Asia and a 'New Silk Road' project to integrate China economically with central Asia and, ultimately, Europe, while simultaneously stepping up Beijing's controversial claims to supremacy in the South China Sea.

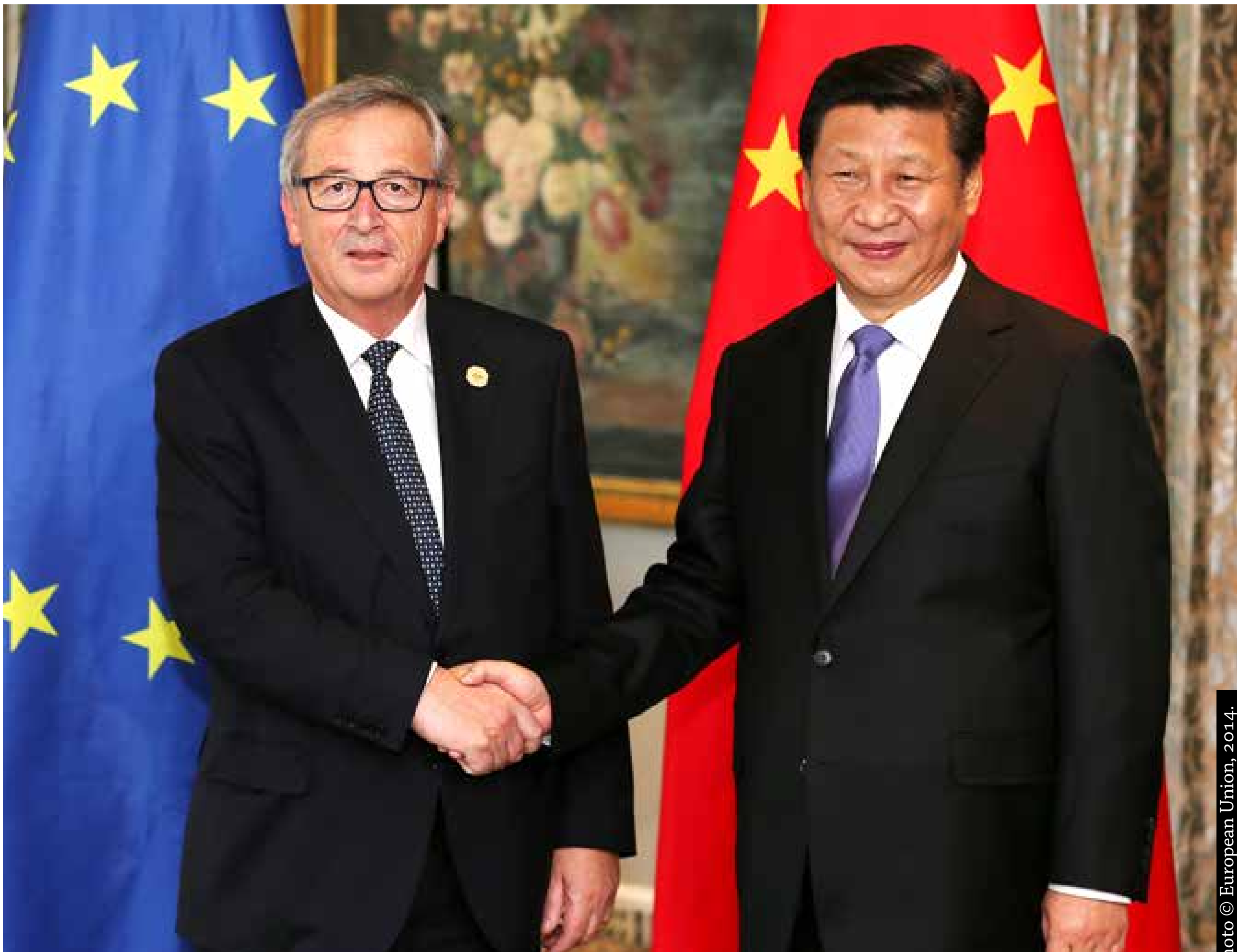
He has coupled those expansionary moves with a pragmatic instinct for tactical compromise and cooperation, exemplified by his and United States (US) president Barack Obama's surprise joint declaration on climate change at November's APEC summit in Beijing. He has also sought to ease, at least temporarily, strained relations with China's anxious and mistrustful neighbours through talks with Shinzo Abe, Japan's prime minister, and a charm offensive in South and Southeast Asia.

Mr Xi, then, gives every appearance of a man who means business, with a bold agenda to match. But how should the EU, or, indeed, the rest of the world, seek to do business with him? China's political and policy-making system, equalling the EU's in complexity and surpassing it in opacity, its sometimes unpredictable behaviour and its acute sense of national exceptionalism have long made dealing with it a challenge. But never has doing so been more important than now.

The EU should start by holding up a mirror to itself. China is well practised at sizing up partners and adversaries, assessing their strengths and adeptly exploiting their weaknesses to its advantage. It also prizes nothing in international relations so as much as power and strength and those who possess them. Its attitude was captured in the bald statement by Yang Jiechi, its last foreign minister, that, "China is a big country and other countries are small countries, and that's just a fact."

By that measure, Europe does not cut an impressive figure. Not only does it lack the hard power, unified foreign policy, entrepreneurial dynamism and strategic presence in Asia that have earned the US respect—albeit grudging and fast dwindling—in Beijing. Today, Europe also presents an image to the world of an economically stagnant region, beset by internal divisions and lacking confidence, drive and coherent direction – Pope Francis's comparison with a haggard and barren grandmother stung because it was so painfully close to the truth.

If the EU is to persuade China to take it seriously, it needs quickly to set about getting its own house in order. That means, first of all, acting decisively to clean up the Eurozone mess (in which China, as a large investor in Europe, has a substantial stake), regaining economic vitality and generating sustained growth. Unless it



Shake on it: President Xi Jinping and President Jean-Claude Juncker at the G20 in Brisbane, Australia, November, 2014

does so, its efforts to look outwards will be constantly overshadowed and side-tracked by preoccupations at home, steadily diminishing its international political relevance.

Equally important, the EU must learn to speak to China with one voice. It has never found that easy. Time and again—over the post-Tiananamen arms embargo, the textiles imports 'bra wars', and the ill-starred anti-dumping case against Chinese solar panels—the EU's efforts to forge a united front towards Beijing have stumbled or foundered on petty rivalries and squabbles in its own ranks.

These stem, in large part, from member governments' efforts to achieve an edge over each other by competing for favours from Beijing, usually in the form of commercial or financial gain. That may earn them rewards in the short term, such as Chinese export orders or promises of inward investment, which win vote-hungry politicians popularity at home. But longer term, such toadying mercantilism undermines both the moral authority of their foreign policies and their standing in Beijing by showing how easily and cheaply they can be bought off.

The willingness, indeed eagerness, of even the most powerful European governments to play that game has not only muted their once outspoken criticism of Chinese policies on issues such as human rights and Tibet; it has been an open invitation to Beijing to pursue divide-and-rule tactics and get its way by bypassing the EU's institutions and dealing with its members bilaterally, like so many tributary states.

If that is to change the EU needs to define its priorities carefully and focus its energy where it can exert maximum leverage. The most obvious area is trade and investment policy. That is the foreign policy field in which the treaties endow it with the greatest muscle. It is also the one in which China has the keenest interest and is currently, in several respects, demandeur.

Last spring, Mr Xi became the first Chinese president to visit the European Commission, spending three whole days in Brussels. Though the trip yielded little of substance, it was evidently intended to send diplomatic signals. Perhaps the most important was to telegraph China's unease and suspicions about its dealings with the US, triggered in part by the 2008 financial crisis, and to show Washington that, in the new multipolar world, Beijing had alternatives to simply complying with a US-centric international order.

That impression was reinforced by the extraordinary effort expended by Mr Xi's team to persuade his reluctant hosts to agree to mention in the joint communiqué the possibility of a future EU-China free trade agreement (FTA). Beijing's thinking appears to have been influenced by the worldwide growth of preferential trade deals and particularly by the US-led Trans-Pacific Partnership, from which China is excluded and which it fears is intended to 'contain' it.

An EU-China FTA is, at best, a long-term prospect. The more pressing priority is to conclude recently-launched negotiations on a bilateral investment agreement (BIA). Here, too, China has a stake in its success. Its companies are increasingly looking overseas to acquire the technology, management know-how, marketing expertise and brands that they need to grow profitably. At the same time, Beijing is keen to diversify its roughly USD 4 trillion of foreign exchange reserves away from low-yielding paper securities and natural resources into more productive industrial and commercial assets.

On both scores Europe has much to offer, especially as China's investments there encounter a warmer welcome and arouse less political suspicion than in the US. Nonetheless, Beijing is nervous. It worries about triggering, sooner or later, a political backlash that could prompt Europe to follow the US example by subjecting planned Chinese investments to official screening and controls.

Although no serious moves are afoot in the EU to do so, Beijing wants insurance in the form of statutory investment protection backed by investor-state dispute settlement (ISDS) procedures. These are still controversial in the EU. However, Beijing's demand gives Brussels leverage in pressing for provisions in the BIA that would guarantee better access for and fairer treatment of European companies in China, which increasingly complain that they are victims of capricious regulation and discrimination there.

To negotiate effectively, the EU needs something else as well. Beijing's diplomacy is highly transactional in nature and the respect it accords foreign counterparts and adversaries depends heavily on their ability to bargain hard and get results. The EU can best establish its credentials by concluding swiftly its pending negotiations with Canada on an FTA and with the US on the Transatlantic Trade and Investment Partnership. Failure to clinch those deals with close allies would be a major setback that would risk seriously undermining the credibility of EU efforts to forge new relations with China.

There is also scope for beneficial Sino-European cooperation beyond the sphere of trade and investment. However, efforts need to be much more sharply focused than in the past. The EU and China have more than 70 'sectoral dialogues' on a diverse array of issues ranging from agriculture to textiles trade. But it is hard to say what, if anything, of substance these talking shops have produced: many seem to be more successful at conference-building than confidence-building.

To engage effectively with China, the rest of the world has to be able to offer things that China values and wants. Only then will China be disposed to listen and to reciprocate seriously. And China's wants are dictated primarily by its most pressing national needs and those of its ruling Communist Party. In few other countries does foreign policy grow so directly out of domestic politics.

As a result foreign attempts to pressure China into acting against its will face an uphill struggle that may ultimately be counter-productive. But it also means that progress can be made on those issues that China has identified as clearly serving its own interests. Those are where the EU should concentrate its attention.

There are several promising avenues for mutually beneficial cooperation. One is in combating the spread of the ebola virus, which is causing Beijing increasing alarm; another is containing Islamic insurgency, a constant threat in China's border regions that deeply troubles its stability-fixated rulers; a third is the environment and climate change – rising popular anger about chronic pollution has rapidly propelled these concerns up China's political agenda.

In all these areas both sides have potentially much to gain. The EU should be ready to take the lead in exploring the opportunities for working more closely with Beijing. However, it needs to do so with its eyes open. China often talks of 'win-win' outcomes. In practice, other countries have often found that that means big wins for China and much smaller wins, or even losses, for everyone else. That is not the basis for balanced and sustainable international relationships.

China is a tough customer. It can also be a difficult and disruptive one. Mr Xi's vision for its future development is not one the rest of the world will necessarily find easy to accept or live with. Though he appears, at least for the moment, to be firmly in charge, China is still struggling to define a smooth path for integrating itself with the global order. Meanwhile, the tethering of its foreign policy to domestic politics—at a time when it faces mounting economic and social challenges at home—means that any domestic upheavals will send tremors reverberating through its international relations, as they have done repeatedly in the past.

None of these factors should deter the EU from seeking to engage more deeply and constructively with China. On the contrary, China's rise compels it to do so. But while talking softly, Europe would do well to ensure that it is listened to by speaking coherently with one voice and carrying at least a medium-sized stick. Eb

*The **European Centre for International Political Economy (ECIPE)** is a world-economy think tank based in Brussels, www.ecipe.org.*

This article was previously published as an ECIPE Policy Brief.

DUTY OF CARE

LOOKING AFTER THE NEW MOBILE WORKFORCE IN CHINA

The global nature of business today has resulted in an increased demand for mobility from employees across all sectors. While companies have a responsibility to provide duty of care solutions for this new mobile workforce, this should be extended to all staff, says **Harold Pradal**, general manager of **International SOS** in China. It isn't just the responsible thing to do, he says, it also helps companies to retain staff, build a solid corporate reputation and avoid costly outlays.

I recently had the pleasure of participating in the European Chamber's 2014 Human Capital Conference in Beijing, where one of the major topics was global mobility. Interest in this topic is not limited to the human resources (HR) community, though: the changing, more complex face of global mobility, and its ramifications on corporations, makes it of interest to the wider business world. A 2006 study[1] found that at that time, the overall, average annual investment in international assignments was USD 311,000, so it's easy to understand why companies take mobility policies so seriously.

A separate 2014 report by PwC[2] found that international assignees have increased by 25 per cent over the last decade, and will continue to grow by a further 50 per cent by 2020. Additionally, 71 per cent of the millennial generation say they want and expect an overseas assignment during their career, indicating that there will be a further acceleration in growth of international assignees around the globe in the future. But is it fair to say that mobility is diversifying?

Most global companies will say they have experienced a change in the make-up of their mobile workforce and PwC's 2014 report supports this insight. Expats and the mobile workforce are no longer made up of middle-aged men from the developed world. The number of female assignees across the globe has doubled over the last decade, and expats now come from a huge variety of backgrounds and nations. Mobile talent from emerging markets is in increasing demand from multinational corporations, both in their domestic markets and across the globe. This factor is driving both the diversity of mobility and the localisation that has been apparent in some markets in China. Companies and organisations are being compelled to align their HR policies with these changes.

One of the most crucial areas within any organisation's policies are those related to health and safety as they are essential in building trust and maintaining reputation. The issue of health and safety of the mobile workforce is becoming an increasing concern as organisations increasingly send their people to places of higher risk where the business opportunities lie. Although China is not the most risky place on earth—especially when compared to places in Africa where the nearest medical help of any standard could be hours away—risks are present, especially for the mobile workforce. Just crossing the road can be a challenge for someone new or inexperienced in China – the Global Road Safety Partnership, an organisation that International SOS works closely with, has stated that China, along with India, has the world's most dangerous roads. One report from the *China Daily* even suggested that there were as many as 300 deaths per day on China's roads – a staggering and terrifying statistic for both expats and locals alike.

Additionally, with PM2.5 levels regularly exceeding 500 in Beijing over the winter period, companies are faced with the challenge of how to make their workforce feel comfortable and safe when on assignment. Having solid duty of care practices is the essential component in this, and this point is especially salient in China – an InterNations survey found that only 14 per cent of China expats are happy with their life abroad compared to the global average of 21 per cent. It is not too much of a stretch to imagine that air pollution and traffic issues are big contributors to this. You are most vulnerable when away from your home and in a different environment, especially one where the language is totally different, you are unaccustomed to the culture and in the event of an emergency you have no idea how to respond. Therefore, it is critical that companies take responsibility for employees on assignments abroad, as well as their dependents. Only by applying a stringent health and safety net is this possible.

Should these safety nets only be reserved for expatriates and business travellers, though? What about local staff? After all, they have to walk on the same roads and breathe the same air. Duty of care principles need to go beyond the mobile workforce and include all employees. Excellent practical examples of this are annual health checks and first aid training – simple measures that can go a long way to making staff feel assured that their company is taking responsibility for their wellbeing.

Historically, duty of care has been taken seriously by energy companies—oil and gas—simply because of the challenging environments that they operate in. International SOS has been privileged to drive this agenda alongside these companies for the last 30 years across the globe. We are delighted that over the last decade these initiatives have trickled down to other corporations and Chinese companies who increasingly see the need for a wide-reaching duty of care policy.

Why is duty of care important, and what are the implications? First, it is part of organisations' corporate social responsibility to take care of their people. But beyond this, applying a duty of care solution for a more diverse and localised workforce is a sure-fire way of retaining staff. It also helps to build and maintain the kind of employer reputation that all companies strive for. A firm duty of care policy can also have a major financial impact on a company. The costs of a failed assignment can be significant – the most recent estimates are between USD 570,000 and USD 950,000, a figure that would not slip under the carpet at any company. Eb

Operating in China since 1989, ***International SOS*** *provides both international and Chinese organisations with a range of services and solutions to help mitigate medical and travel security risks to their people. Our 24/7 assistance services, clinics, on-the-ground medical services and managed healthcare solutions are linked to our global network to assist our clients in achieving their duty of care.*

1 Measuring the value of international assignments, PriceWaterhouseCoopers & Cranfield School of Management, 2006, <http://www.pwc.fi/fi_FI/fi/palvelut/tiedostot/pwc_measuring_the_value.pdf>.

2 Talent mobility: 2020 and beyond, PriceWaterhouseCoopers, 2014, <http://www.pwc.com/en_GX/gx/managing-tomorrows-people/future-of-work/pdf/pwc-talent-mobility-2020.pdf>.

ZHUHAI: AN EMERGING FORCE IN SOUTH CHINA

Located in the centre of the Pearl River Delta (PRD), Zhuhai is one of China's four original Special Economic Zones (SEZs) established in 1980. Over the past three decades, Zhuhai has experienced strong economic growth due to its geographical proximity to Hong Kong and Macau, and is the only deep-water port on the western side of the Pearl River. In this article, **Rainy Yao** from **Dezan Shira & Associates** takes a closer look at this emerging force in South China.

Economic overview

In 2013, Zhuhai's gross domestic product (GDP) reached RMB 166.2 billion, up 10.5 per cent from the previous year. Zhuhai was originally planned as a high-tech research area, with the establishment of heavy industry prohibited. Nonetheless, Zhuhai's economy is largely based on light industries, such as textiles and electronics. In 2013, the city's primary industry contributed RMB 4.3 billion of its total GDP, and its secondary industry RMB 84.9 billion, accounting for more than 51 per cent of the economy. The remaining RMB 77 billion came from the service sector, among which the modern service sector brought in RMB 44.2 billion (10.3 per cent growth).[1]

1 http://www.stats-zh.gov.cn/tjzl/tjgb/201412/t20141222_192447.htm

Now a major manufacturing base for electronics, Zhuhai is making an effort to promote the growth of a wide range of hi-tech and high value-added industries, such as its software, petrochemical and ocean-based industries. The six major industries of the city are electronic information, bio-pharmaceuticals, petrochemicals, electrical appliances, precision machinery manufacturing and energy.

Transportation network

Zhuhai's transport network has greatly improved in recent years, and the Hong Kong-Zhuhai-Macau Bridge, currently under construction, is expected to be completed in 2015. Improved connectivity between the three cities will undoubtedly give a boost to Zhuhai's economic presence in the region. The bridge will connect the west of Hong Kong with Macau and Zhuhai.[2] The city is already connected to the other major metropolitan centres in the Pearl River Delta via the Guangzhou-Shenzhen-Zhuhai superhighway. Zhuhai Airport services more than 30 flights a day to major cities in China.

Development zones

Zhuhai's main development zones include:

Zhuhai Economic and Technological Development Zone (ETDZ)

The Zhuhai ETDZ, previously known as the Gaolan Port Economic Development Zone, was promoted to become the first national economic and technology development zone west of the PRD in 2012. It is one of the most important large-scale comprehensive harbour industry zones in South China, with a focus on equipment manufacturing, petrochemicals and energy.

Hengqin New Area

Hengqin New Area, located in the Zhuhai Special Economic Zone, is only a stone's throw from Macau. As part of the 'One Country, Two Systems' policy, the central government is trying to integrate the economies of Hong Kong, Macau and Mainland China. Hengqin is directly across the water from Macau, and as such is a pilot zone for integration.[3]

It has already attracted over RMB 226.3 billion (USD 36.4 billion) in total investment. With professional zone management, as well as the most preferential investment policies in South China, Hengqin New Area offers appealing incentives to investors.

Zhuhai National Hi-tech Industrial Development Zone

Established in 1992, the zone mainly features industrial clusters such as food processing, pharmaceuticals and electronics. It is home to several research and development (R&D) centres and focuses on the commercialisation of newly-developed technology. The zone houses branch offices of major government bureaus to facilitate administrative processes. It has been rapidly expanding and now encompasses the industry parks of Nanping, Sanzao, Xinqing and Baijiao.

Zhuhai-Macau Cross-border Industrial Park

The Zhuhai-Macau Cross-border Zone spans the jurisdictions of Macau and Zhuhai, with each government managing its own section. It is a bonded zone, with reduced export duties and 24-hour port clearance.

Investment opportunities

In 2014, the Zhuhai Government released a slew of administrative measures to promote the development of its bio-pharmaceutical, ocean-related and high-tech industries. For example, enterprises regarded as national high-tech enterprises can benefit from a reduced corporate income tax (CIT) rate of 15 per cent.

Companies investing in R&D are eligible for financial support and subsidies of up to RMB 2 million per company.[4] The city is home to over 50 financial institutions including Morgan Stanley, Bank of East Asia and Standard Chartered. Compared with other coastal cities labour costs are lower in Zhuhai, with a monthly minimum wage of RMB 1,380.[5]

Tax incentives

In March 2014, China issued a *Preferential Corporate Income Tax Catalogue* for Hengqin New Area, which identified five industries and 72 business categories, such as ocean-sourced pharmaceuticals and healthcare, for preferential tax treatment.

While China's standard rate of corporate income tax is 25 per cent, eligible enterprises listed in the catalogue will be taxed at a reduced 15 per cent rate – closer to corporate income tax levels in Hong Kong and Macau.

Future FTZ

The Chinese Government has recently announced plans to soon establish a free trade zone (FTZ) in Guangdong Province, following the model of the China (Shanghai) Pilot Free Trade Zone. The new FTZ will cover three development zones in Guangdong Province including the Hengqin New Area in Zhuhai, which will make it one of the city's most attractive destinations for foreign investment.

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. Since its establishment in 1992, the firm has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam as well as liaison offices in Italy and the United States.*

For further details or to contact the firm, please email china@dezshira.com or visit www.dezshira.com.

2 http://www.china-briefing.com/news/2008/07/31/hong-kong-macau-zhuhai-bridge-financing-to-be-government-backed.html

3 http://epaper.xkb.com.cn/view/733255

4 http://www.zhuhai.gov.cn/tzzh/tzzc/201401/t20140121_5133335.html

5 http://www.lawtime.cn/ask/exp/13755.html

A CLIMATE OF CHANGE

On the eve of the launch of their Beijing office, **Interel**'s global CEO **Fredrik Lofthagen** briefed the Chamber's Energy Working Group on the changing energy policy in the new European Commission and parliament. Prior to this meeting he sat down with *EURObiz* to discuss environmental issues and the potential for increasing EU-China investment opportunities.

Why is Interel launching in Beijing now?

We were a European agency, and didn't realise that we were going to take this step and become global, but that was more to do with necessity that anything else. This is not empire building, our clients expect us to be here.

So will you be assisting Chinese clients investing abroad as well as foreign clients investing in China?

Helping our existing clients, wherever they may come from, in China is our number one concern. But it's really come to the fore that outbound business is also really starting to happen. There was also a realisation on the part of Chinese companies, particularly SOEs, that you really need good advisors for the markets in which you are going to invest. You don't just invest in a company when you make an investment decision, you also become part of that community. If you don't engage with stakeholders in the environment in which you're investing, the chances are your business isn't going to be particularly successful.

How much impact will the EU-China bilateral investment agreement have on your business?

I am hoping it will have a large impact. There is currently a huge imbalance in the relative flows of trade between the EU and China, so it is well within the EU's interests to get its act together.

Do you think that the EU is placing as much importance on China as it should?

My assessment is that, as important China is, TTIP [Transatlantic Trade and Investment Partnership] is an even higher priority and therefore attracts some of the focus that might otherwise be placed on China.

Do you think the recent APEC commitment on climate objectives between the US and China has pushed the EU further down the pecking order in terms of setting the global agenda for climate action?

If you look at what they've agreed, I think the EU certainly remains more ambitious. Whether they will be the ones leading the debate and holding the moral high ground, I don't know. It could depend on who is actually going to be negotiating this in Paris. Who's going to represent Europe? Is it going to be Šefčovič, Vice President for Energy Union, or any of the seven commissioners who have an energy responsibility? The environment certainly seems to have been downgraded as an EU concern. Without wanting to poo-poo the Maltese commissioner, it's now nestling alongside maritime and fisheries and other stuff, so it doesn't seem to have the same priority that it did. I think energy and climate change does go hand in hand, so I think the argument that Šefčovič would make, is that if we make the right 'smart' investments from an energy standpoint, it's going to not only help from a climate change standpoint, it's also going to create jobs and growth and opportunities.

Why did you say the EU's 2030 climate targets will be the new coalition's greatest test?

In part it's to do with complexity of the situation. The European People's Party (EPP) lost out to the tune of 50 something seats; the socialists were more or less the same, and together with the liberals did not have enough for an absolute majority in parliament, hence the formation of the grand coalition. The socialists have a lot more say now than may have been expected, with the addition that you have a socialist president of the European Parliament in Martin Schulz. The socialist group, along with the greens—who form a coalition in and of themselves—wanted Europe to be more ambitious than the heads of member states had come to agree. So there is going to be a bit of banter back and forth on this subject, and that's going to be challenging. Also, in terms of this being a 'smart strategy', it needs to be reconciled with a lot of other things—jobs, growth and competition, the TTIP—so it will be difficult to navigate.

What impact do you think Juncker's ambition to make the EU a world leader in renewable energy could have on EU-China investment relations?

With the EUR 300 billion investment package that Juncker has earmarked—there are questions about where that money is going to come from—if you have a target for renewables, new technology, SMEs, all of that kind of thing on the one side, and you have a wad of cash on the other, there is going to be a connect. So that is going to generate companies, new technologies and new opportunities, so that is absolutely an opportunity for EU-China.

What do you think is the most effective way for EU companies to engage with China on their air quality crisis?

I don't know to what degree China is investing in solving the problem, but I do understand that it is one of the priorities for the Chinese Government. If you put that next to investment in clean air technology, that seems like an opportunity waiting to happen.

My impression is that the Chinese are being quite pragmatic about it, because there is a desire on the part of the Chinese, from the government all the way down, that they will really invest in Europe and buy up technology to import.

Do you think that China can learn a lot from the EU emissions trading system (ETS)?

With the economic downturn Europe now has a surplus, so in reality the trading mechanism isn't working, it's become distorted. The starting point was simply not correct. In terms of the European experience, I'm pretty sure that China, and any other country or region that elects to introduce an ETS can learn from the European experience, because mistakes have been made along the way, so there is an opportunity to learn from them.

Commissioner Cañete seemed quite a controversial appointment at the time didn't he?

From a parliament standpoint he certainly was, but he survived, where one or two didn't. Any previous experience he had I'm sure was useful, and having it connect between business and politics is never a bad thing, I suppose.

Is there a lingering perception that he isn't squeaky clean?

I don't think so. First of all he passed, and the European parliament has been very clear about their requirements and the standards that they expect. There were a few that weren't able to get through. I have absolutely no doubt that we have a college of commissioners that have a huge amount of integrity. Eb

Interel*'s China office offers international companies, industry associations and professional societies a window to understanding the mysterious maze that comprises public affairs in China. Our bilingual, multi-cultural teams enable us to deliver solutions that pair extensive local expertise with international understanding that are communicated effectively with your teams, whether they are local public affairs/government relations functions working in Chinese or head offices based abroad.*

ANNUAL CONFERENCE 2014: SADDLING UP FOR REFORMS

On 16th December, 2014, the European Chamber of Commerce in China hosted our second annual conference, attended by distinguished guests and featuring a diverse collection of expert panellists from government, industry and academia.

Panellists provided thought-provoking, incisive commentary on China's reforms, its ability to innovate, the quality of life of its citizens and the economic outlook for 2015.

And we're off...

The conference was opened by Chamber President Jörg Wuttke, who identified the underlying theme – where China is heading. President Wuttke spoke of how China "unnerves" people from the outside, because it has redrawn the economic and political map and redefined the rules.

China's development model has achieved a lot over the last few years, creating jobs and lifting millions out of poverty, but it has come at a cost, he said. China's challenge now is to channel prosperity to all households. "China spent decades building an economy for the people," President Wuttke said, "now it must build an economy *of* the people."

He also stated how EU-China interdependence is now an undeniable fact, and that barriers to foreign investment in China must be viewed as a collective failure. Both sides need to work at overcoming differences in the interests of mutual benefits.

"The one thing more frightening than China's exponential growth, is the prospect of China's economy stalling," he said. "We must help China to succeed."

Words from the Ambassador

The European Union Ambassador to China and Mongolia, HE Hans Dietmar Schweisgut, addressed the European business community in Beijing for the first time since his appointment in September 2014.

Among the many points he raised was that trade remains the backbone of the EU-China relationship. The EU-China Summit in November 2013, where the 2020 blueprint was defined, sent a strong message to the rest of the world, he said, and could be viewed as one of the most important meetings between the EU and China. He was also effusive in his praise for both sides overcoming recent trade frictions through dialogue.

Ambassador Schweisgut went on to say that President Xi Jinping's visit to EU institutions in early 2013 emphasised the importance of the relationship, and noted the significance of European Commission President Jean-Claude Juncker's meeting with President Xi at the G20, following the formation of the new Commission. He expressed his wishes for continued momentum leading to another EU-China Summit in 2015.

Of China's reform agenda he said that the market must play a decisive role, in a non-discriminatory atmosphere, which will lead to more competitive, stronger and innovative businesses. "Openness breeds openness," he said, "A more open China will help to allay some of the fears in Europe."

DRC Minister Li Wei

A keynote speech was delivered by Minister Li Wei of the State Council's Development Research Council. He spoke of the issues that China faces as it embarks on its broad programme of reforms. Many of the challenges, he said, are due to the fact that China is dealing with issues that it hasn't dealt with before, like climate change, cyber security and terrorism. Global scrutiny of China's reforms has been so intense due to its increasing influence in the world.

Minister Li denied that China is currently at a crossroads, though. "We have found our direction through the Third Plenum," he said.

When reviewing China's reform measures, it is notable that Minister Li emphasised the importance of a level playing field for China's credibility, which is currently

lacking among Chinese companies operating outside of China. "Fairness must be at the centre of the system, and there should be equal protection for foreign and domestic companies," he said.

Other required reform measures he highlighted included improved resource efficiency, more equal distribution of wealth, human-centred urbanisation, *hukou* reform, reducing the urban/rural gap in public services and better market regulation based on the rule of law.

Echoing the words of Ambassador Schweisgut, Minister Li said that EU-China bilateral investment is currently disproportionate to the importance of the relationship, and that the Bilateral Investment Agreement should be pushed towards a successful conclusion.

Panel 1 – China's transitions and reforms: one year after the Third Plenum

Bert Hofman – Country Director China, Korea, Mongolia, World Bank Group

Qiu Aijun – Deputy Director General, China Centre for Urban Development

Yu Lifeng – Researcher, State-owned Assets Supervision and Administration Commission

Charles-Edouard Bouée – Global CEO, Roland Berger

Moderator: Tian Wei – CCTV Anchor

Panel 2: Can China innovate?

Markus Borchert – President Greater China, Nokia Networks

Kong Yu – Vice President of Public Affairs and Government Department, Huawei

Massimo Bagnasco – Managing Partner, Progetto CMR

Rob Hulme – Country Head, Bayer Crop Science

Jerome Ma – Vice President, JD.com

Moderator: Tom Mitchell – Beijing Correspondent, *Financial Times*

Panel 3 – Quality of life: the impact of reforms on China's citizens

Laurence Barron – Chairman, Airbus Group China

Peter Fung – Global Chair, Global China Practice, KPMG

Calvin Quek – Head of Sustainable Finance Programme, Greenpeace East Asia

Moderator: Qian Liu – Economist Intelligence Unit

Panel 4 – Business environment in the EU and China economic outlook 2015-2020

Zhang Jianping – Director, Department of International Economic Cooperation, NDRC

Andrew Polk – Senior Economist, China Centre for Economics and Business, The Conference Board

Zhou Li'an – Professor of Economics, Peking University

Ji Min – Deputy Director General, Research Bureau, People's Bank of China

Moderator: William Kazer, Senior Correspondent, *The Wall Street Journal*

We would like to extend our thanks to the conference sponsors: Diamond Sponsors – Airbus, Bayer, KPMG, Nokia, Progetto CMR and Roland Berger; Silver Sponsor – SK; Academy Support – Guanghua School of Management; Media Partner – FT Chinese; Vehicle Sponsors – Maserati and JCDecaux; and Lucky Draw Sponsor – Emirates.

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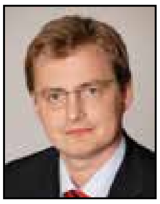
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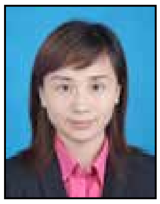
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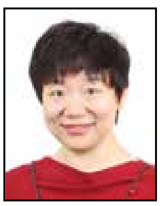
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BEIJING CHAPTER


1


2


3

Capital Beat: China's Fourth Plenary Session (1)

On 25th November, the European Chamber held 2014's second edition of Capital Beat, discussing the results of Fourth Plenum. The event was sponsored by SK China, Aurora Events and SINODIS.

2014 Human Capital Conference (2)

On 27th November, more than 100 people attended the European Chamber's Human Capital Conference. The event was sponsored by Cornerstone, International SOS, Peking University Guanghua Management School, Yew Chung International School and MRIC. The lucky draw was sponsored by Four Seasons Hotel, Club Med, and Hong Kong Airlines.

Annual Conference 2014: Saddling up for Reforms

On 16th December, 200 people attended the European Chamber's Annual Conference. It was sponsored by Airbus, Bayer, NOKIA, Progetto CMR, Roland Berger, KPMG, SK China, Peking University Guanghua Management School, FT Chinese.com, Maserati, JCDecaux, and Emirates Airlines.

NANJING CHAPTER


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2

Nanjing Government Dialogue (1&2)

On 10th December the European Chamber organised the annual dialogue event between its members and the Nanjing Municipal Government in cooperation with the Nanjing Investment Promotion Bureau.

SHANGHAI CHAPTER


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4

Shanghai Advisory Council Dinner (1)

On 26th November, the Shanghai Chapter hosted an Advisory Council dinner to discuss latest economic and political developments in China and Europe. The dinner was hosted by Vice President and Chairman of the Shanghai Board, Stefan Sack.

Outcome of the 4th Plenum (2)

James McGregor, Chairman of APCO Greater China, gave a presentation about the outcome of the 4th Plenum on 30th October.

Financial Services Conference 2014: Updates on the Internationalisation of the RMB (3)

The Chamber held its annual Financial Services conference on 20th November with over 100 attendees. We would like to thank HSBC for sponsoring this event.

Dawn Raids in China (4)

Mike Goldammer, TaylorWessing, Russell Worth, Country Director Greater China, PSA, and Grace Xie, Tax Partner, KPMG Shanghai, presented practical steps and actions to reduce business risks in China on 18th November.

SOUTH CHINA CHAPTER


1


2

Huawei Tour (1)
The European Chamber South China Chapter visited the headquarters of Huawei Technologies in Shenzhen on 28th November, 2014.

Andritz Factory Tour(2)
On 12th December members of the European Chamber attended a factory tour of Andritz (China) Co Ltd in Foshan.

SOUTHWEST CHAPTER


1


2

Chongqing Speed Business Meeting (1)
The second edition of the Chongqing Speed Business Meeting was held on 18th November, jointly organised with the Chongqing Association of Enterprises with Foreign Investment (CQAEFI).

Chongqing seminar: How does an eco-smart airline tailor your travel in all dimensions? (2)
This seminar, held on the 4th December and co-organised by Finnair, drew more than 40 attendees.

TIANJIN CHAPTER


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4

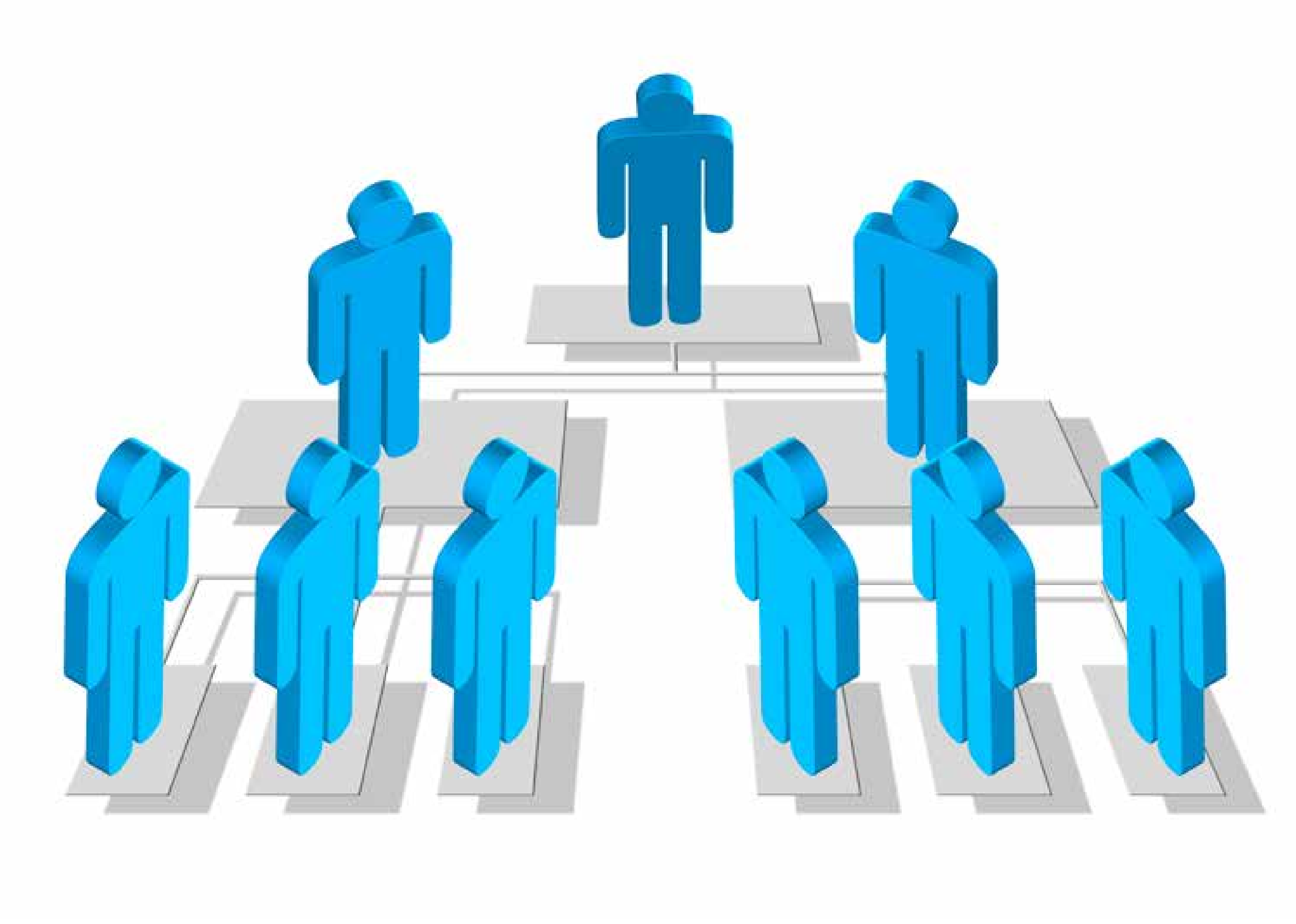
2014 Annual Cocktail Reception: direct dialogue with new EU Ambassador (1,2,3 & 4)

HE Hans Dietmar Schweisgut, the newly-appointed EU Ambassador to China, and a group of officials from the EU Delegation attended the European Chamber Tianjin Chapter's annual cocktail reception on 3rd December, 2014, along with members in Tianjin. Ambassador Schweisgut delivered an important speech and discussed hot topics with representatives from leading European companies in a private meeting before the event.

IN THE KNOW

LABOUR & EMPLOYMENT LAW IN CHINA

Are you aware of your tax and social insurance obligations? Do you know if you have to pay overtime to your staff? And how should you deal with a labour dispute? If you're an employer in China, these are just some of the things you need to know. In the following article **Matthew Durham**, Partner at **Winston & Strawn LLP**, provides the answers to these and other questions about labour and employment law in China.



Written contract and governing law: Full-time employees (more than 24 hours per week) hired by an entity in China must have a written employment contract governed by Chinese law. Employees can claim double salary if their employer does not produce one within one month of commencing work.

National-level law and local regulations: It is not possible to contract out of mandatory provisions of Chinese employment law. In addition to national-level laws and regulations, local regulations also apply (mainly provincial and municipal). In principle, national-level law prevails, although local regulations and practice sometimes contradict national-level law.

No at-will employment: There is no concept of at-will employment in China. Employers may only terminate employees on specific (and limited) grounds prescribed by law. For example, incompetence is valid grounds, but under-performance is not. Redundancy also is not grounds except in the case of a mass lay-off (20 employees or more).

Fixed and open-term contracts: Employment contracts can be for a specific duration or be indefinite in duration. The limited scope for employers to unilaterally terminate means that a fixed term gives more flexibility to employers. If grounds to terminate exist during a fixed-term contract, the employer does not need to wait until the expiry of the fixed term. After two fixed terms, employees are entitled to an open-term contract.

Probation periods: Probation periods can be used. The maximum permitted probation period depends on the duration of the employment contract: one month for a contract of less than one year; two months for a contract of one year or more but less than three years; and six months for contracts of three years or more or open-term contracts.

Working hours and overtime: Employees are entitled to be paid overtime (or in some cases time off in lieu) after 40 hours per week. Exemption schemes can apply for specific categories of employee, such as management staff, travelling sales staff and security personnel. Such schemes normally need to be registered with the local labour bureau.

Handbooks, rules and policies: Implementation of other employment documentation such as handbooks, rules and policies is subject to a consultation process with employees.

Non-competition: Non-compete restrictions of up to two years are possible for employees that hold confidential information, but the employer must pay compensation to the employee on a monthly basis during the restricted period.

Discrimination: There is no statutory definition of what constitutes discrimination, but discrimination on the grounds of nationality, race, sex, religious belief, disability and infectious disease is recognised and prohibited. Sexual harassment of women is also prohibited.

Disputes and labour arbitration: A legal claim relating to labour and employment issues generally must be heard in the first instance by a labour arbitration commission, but may be appealed to the local People's Court. It is important to note that there is no system of binding case law precedent in China and the outcome of proceedings can be unpredictable. One of the available remedies for unlawful termination is reinstatement of the employee to his/her position.

Labour unions: Employees can require their employer to establish a labour union within the company or branch. Unions must be registered with the All China Federation of Trade Unions. Union representatives are entitled to attend board meetings on human resources-related matters and to represent employees generally.

M&A business transfer: There is no automatic transfer of employees with a transfer of business or assets. For employees to move with the assets, they must consent to terminate their employment with the seller and enter into a new contract with the buyer.

Hiring foreign nationals: Foreign nationals can be employed directly by an entity established in China (under a contract governed by Chinese law) or employed overseas and assigned to the entity in China. The international assignment structure has potential China tax consequences for the overseas employer. In either scenario, the foreign national requires a China work permit and residence visa and will be subject to Chinese individual income tax and, in most cases, social insurance contributions.

Tax and social insurance funds: Employees have an obligation to pay individual income tax on their remuneration on a monthly basis. Employers have a separate independent obligation to withhold and pay employees tax to the tax authorities, so in practice this is normally done by the employer. Employers and employees have a statutory obligation to make contributions to mandatory social insurance funds. The exact funds and calculation of contributions varies by location, but typically include: housing, medical, pension, unemployment, work-injury and maternity.

Whistleblowers: Employees have a right and obligation to report unlawful activities to the relevant Chinese authorities. Eb

*For more than 160 years, **Winston & Strawn LLP** has served as a trusted adviser and advocate for clients across virtually every industry. With 18 offices in key financial centres across the world, we bring an understanding of the global legal issues our clients face to both transactional and dispute-related matters.*