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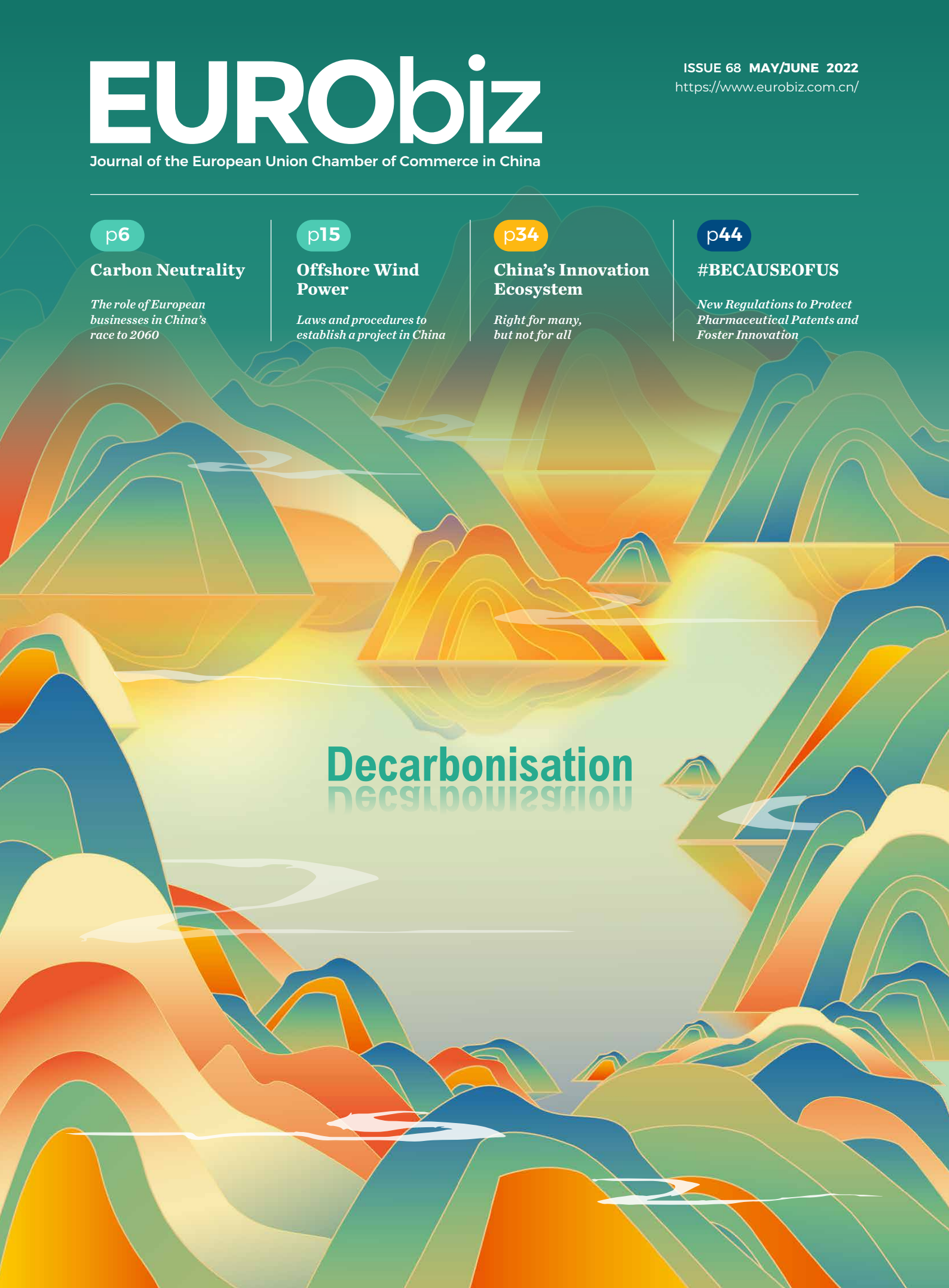

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CARBON NEUTRALITY ACTION

WORKING WITH CHINA TOWARDS 2060

Join our working groups to make your contribution

- Advocating for EU-China cooperation on decarbonisation
- Facilitating coordinated efforts among the Chamber's membership
- Working with China to achieve its 2060 carbon neutrality goal

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BEIJING
Office C412,
Beijing Lufthansa Centre,
50 Liangmaqiao Road,
Beijing, 100125, PR China
北京市朝阳区亮马桥路五十号
燕莎中心写字楼C-412室
Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
euccc@europeanchamber.com.cn

TIANJIN
41F, The Executive Centre, Tianjin World Financial Centre, 2 Dagubei Lu, Heping District, Tianjin, 300020, PR China
天津市和平区大沽北路 2 号
天津环球金融中心
41 层德事商务中心
Tel: +86 (22) 5830 7608
tianjin@europeanchamber.com.cn

SHENYANG
Room 1208, World Financial Center 2, No. 43, Beizhan Road 1, Shenhe District, Shenyang
沈阳市沈河区北站一路 43 号
环球金融中心二期
1208 室
Tel: +86 (24) 3198 4229
Fax: +86 (24) 3198 4229
shenyang@europeanchamber.com.cn

NANJING
Room 951,
World Trade Center,
2 Hanzhong Road,
Gulou District,
Nanjing, 210008,
PR China
南京市鼓楼区
汉中路 2 号
世界贸易中心 951 室
Tel: +86 (25) 83627330
Fax: +86 (25) 83627331
nanjing@europeanchamber.com.cn

SOUTHWEST CHINA CHENGDU
04-A, F16, Tower 1 Central Plaza, 8 Shuncheng Avenue, Jinjiang District, Chengdu, PR China
成都市锦江区顺城大街 8 号
中环广场 1 座 16 楼 04-A
Tel: +86 (28) 8527 6517
Fax: +86 (28) 8529 3447
chengdu@europeanchamber.com.cn

SOUTH CHINA GUANGZHOU
Unit 2817, 28/F, Tower A, China Shine Plaza, 9 Linhe Xi Road, Tianhe District, Guangzhou, 510613, PR China
广州市天河区林和西路 9 号
耀中广场 A 座 2817 室
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
southchina@europeanchamber.com.cn

SHANGHAI
Unit 2204, Shui On Plaza, 333 Huai Hai Zhong Road,
Shanghai, 200021
PR China
上海市淮海中路 333 号
瑞安广场 2204 室
Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
shanghai@europeanchamber.com.cn

SOUTHWEST CHINA CHONGQING
105, A2 Block, SinoSwiss Technopark, Jinzhou Avenue, Yubei District, Chongqing, 401147, PR China
中国重庆市渝北区金州大道平和路 5 号，中瑞产业园
A2 栋 105
Tel: +86 (23) 63085669
chongqing@europeanchamber.com.cn

SOUTH CHINA SHENZHEN
Rm 308, 3/F Chinese Overseas Scholars Venture Bld, South District, Shenzhen Hi-tech Industry Park, Shenzhen, 518057, PR China
深圳高新区南区留学生创业大厦
3 楼 308 室
Tel: +86 (755) 8632 9042
Fax: +86 (755) 8632 9785
southchina@europeanchamber.com.cn

President's Foreword

Carbon Neutrality by 2060: China Needs All the Tools at its Disposal

Jörg Wuttke

President

European Union Chamber of Commerce in China

Over the past four decades, China's economy has grown at breakneck speed. However, this growth—largely propelled by its manufacturing and export model—has come at a significant ecological cost. Since 2004, China has been the largest emitter of carbon dioxide (CO_2) emissions by absolute volume, responsible for 28.5 per cent of global CO_2 emissions in 2018 and emitting more greenhouse gases than the entire developed world combined in 2019. [1&2]

Achieving carbon neutrality is now firmly cemented in China's political agenda, following President Xi Jinping's pledge to peak carbon emissions before 2030 and achieve carbon neutrality by 2060 (30/60 Goals).[3] In this edition of *EURObiz*, we evaluate the implications of this for our membership.

The scale of the challenge means China must leverage all tools at its disposal. Its economy remains largely reliant on manufacturing and exports, and it is attempting to achieve carbon neutrality in a relatively short timeframe. China's 30-year window between peak emissions and net-zero contrasts sharply with the 71 years that the EU will have, after having peaked emissions in 1979 and aiming for carbon neutrality by 2050.[4] China is also attempting to reach its 30/60 Goals at a time when its per capita electricity consumption is still increasing, and faces the additional challenge of having to carefully balance potentially competing policy objectives, including maintaining energy security and economic growth.

Fortunately, China does not need to reinvent the wheel. European companies are extremely willing and able to assist with the 30/60 Goals. As outlined in the European Chamber's recent study, *Carbon Neutrality: The Role of European Businesses in China's Race to 2060*, our members have deployed effective decarbonisation technologies in their home markets, and want to work with China to help it quickly frontload.[5] The experience they have garnered is extremely suitable to the China context as well, having worked across European Union Member States that have varying energy, political and socio-economic needs, and varied geographical conditions, as is the case with China's provinces.

Therefore, achieving its 30/60 Goals will require China to provide European companies with increased market access and a level playing field on which to operate. It will also entail China remaining open to collaboration at a time when the government's COVID-19 containment measures risk China becoming isolated from the rest of the world, and threats of decoupling are ever present.

[1] *How is China Managing its Greenhouse Gas Emissions?*, China Power, updated 25th August 2020, viewed 8th May 2022, <https://chinapower.csis.org/china-greenhouse-gas-emissions/>

[2] *Report: China emissions exceed all developed nations combined*, *BBC*, 7th May 2021, viewed 8th April 2022, <https://www.bbc.com/news/world-asia-57018837>

[3] Farand, Chloé & Darby, Megan, *Xi Jinping: China will aim for carbon neutrality by 2060*, Climate Home News, 22nd September 2020, viewed 15th May 2022, <https://climatechangenews.com/2020/09/22/xi-jinping-china-will-achieve-carbon-neutrality-2060/>

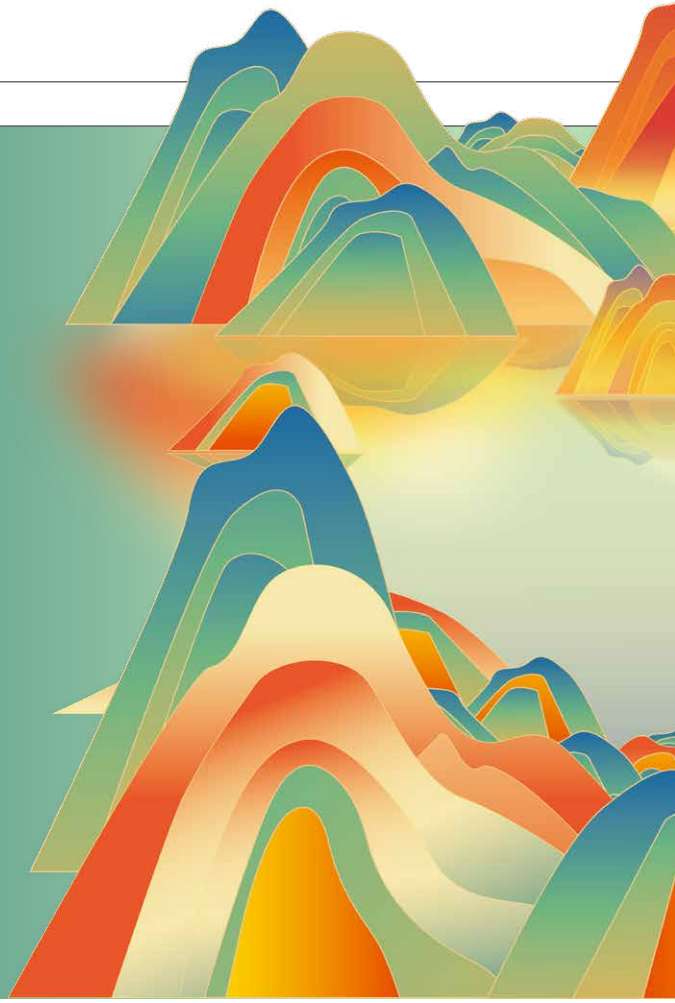
[4] Tiseo, Ian, *Carbon dioxide (CO2) emissions in the European Union from 1965 to 2020 (in million metric tons of CO2)*, Statista, July 2021, viewed 14th May 2022, <https://www.statista.com/statistics/450017/co2-emissions-europe-eurasia/#:~:text=Carbon%20dioxide%20emissions%20in%20the%20European%20Union%201965%2D2020&text=The%20highest%20level%20of%20CO2,at%203.99%20billion%20metric%20tons.>

[5] *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Union Chamber of Commerce in China, 25th May 2022, viewed 25th May 2022, <https://www.europeanchamber.com.cn/en/publications-carbon-neutrality-report>

Carbon Neutrality

The role of European businesses in China's race to 2060

by **Robert Jarvis**



European companies are well-placed to assist China with its targets of peaking its carbon emissions before 2030 and achieving carbon neutrality by 2060, yet three sets of barriers prevent them from fully contributing. **Robert Jarvis, policy and communications manager** at the European Chamber, outlines the key opportunities and barriers identified in the Chamber's recent report, *Carbon Neutrality: The Role of European Businesses in China's Race to 2060*, as China accelerates its transition to carbon neutrality.

All hands on deck: helping business accelerate China's green transition

China is aiming to achieve carbon neutrality under extremely challenging conditions. This is recognised by European companies who, by and large, report it is more difficult for them to achieve their own decarbonisation goals in China than in the European Union (EU) or the rest of the world. Key perceived challenges include reducing China's industrial dependence on cheap energy while maintaining energy security, and the fact that the state's current energy mix contains only a small proportion of renewables.

European businesses are well-placed to assist China with overcoming these challenges. The technological expertise and experience that European companies have from working on decarbonisation with government stakeholders, non-governmental organisations (NGOs) and civil society in their home markets puts them in a strong position to contribute in China.

More than two thirds of members report having global decarbonisation pledges to fulfil and are already comparatively well advanced with their strategies. European companies are also ahead of the curve in terms of proactively decarbonising their China operations: 40 per cent have established decarbonisation teams in China, many of which report directly to boards; and 67 per cent have achieved at least a basic level of preparation.

They are also highly incentivised to help China frontload its transition. Driven primarily by environmental, social and governance (ESG) factors, government policies (including stringent EU regulations), and increasingly by downstream customer demands, European companies are finding it imperative to proactively work not only to reduce their own emissions but also the emissions of their partners.

However, despite this commitment, the European Chamber's latest report identifies three key sets of barriers that are hindering European businesses from fully contributing to China's decarbonisation drive.

1. Further policy details are urgently needed, formulated with business

China's high-level goals are clear, yet members interviewed for the report unanimously voiced that a lack of policy guidance remains a key barrier. Companies view the path to 2030 as hazy, and the path to 2060 is largely unknown due to a lack of clear targets and milestones.

Despite China announcing its '1+N' policy framework—'1' being the 30/60 Goals and 'n' the relevant policies to get there—and releasing upwards of 30 sectoral 14th

Five-year Plans—many of which include buzzwords such as 'green' and 'low carbon'—tangible details are still few and far between. Two thirds of members report that a lack of clear industrial guidance and best-practice sharing from the government risks hindering their ability to achieve their decarbonisation goals in China. In the absence of a clear understanding of what tools will be adopted, businesses are unable to make well-informed investment decisions that factor China's plans into their own global corporate decarbonisation strategies.

Members were also unanimous in identifying the need for policymakers to communicate environmental policies in a more transparent manner, and to work more closely with industry to ensure they are fit for purpose. This is clearly highlighted by the adverse effects of events such as local governments' implementation of China's 'dual control' policy in autumn 2021, where 20 provincial governments curtailed businesses' energy supplies at short notice, with some doing so in a way that led to an overall increase in emissions.

2. China's power and carbon markets need reform

Utilising renewable energy is recognised as a key priority by both the Chinese Government and European businesses in China. However, a plethora of policy, economic and technological barriers has resulted in insufficient access to renewable energy sources. This is the most significant issue that risks derailing members' corporate decarbonisation plans.

Addressing factors such as China's lack of a transparent, open and flexible power market, providing more equal access to renewable energy for private companies relative to that of SOEs, and reducing barriers—including restrictions on access to foreign financing and expertise—have a role to play in ensuring that China's huge renewable capacity is fully utilised.

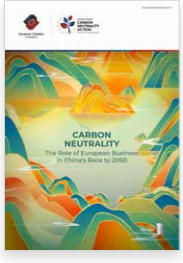
Furthermore, European business also sees much scope for China to strengthen its emissions trading system (ETS), which currently has a very limited impact on businesses' operations, by learning from the EU's own ETS experiences. As China seeks to expand its ETS to cover more sectors and strengthen monitoring, reporting and verification processes, European experiences can provide much insight, given that the EU's ETS is the world's most established.

3. Barriers hold back scaling of leading green technologies

European businesses find the speed at which existing and new solutions can be brought to market is currently too slow due to factors such as market access and regulatory barriers, nascent green value-chains and the limited availability of green financing. For instance, despite European environmental firms being world leaders in several fields, 54 per cent of members from the sector report having missed business opportunities in China due to market access barriers.

However, it is not just tangible barriers that prevent companies from scaling innovative solutions; change is also needed to ensure the adoption of leading environmental solutions is prioritised. A lack of shared standards and taxonomies further curtail the pace at which foreign technologies can be brought to market in China and vice-versa. Within corporate culture and consumer society, members also see the need to increase understanding of both climate change and the adoption of common standards to ensure that 'greenwashing' does not take hold, and that green goods and solutions, which often cost more upfront, are recognised as being more economical in the long-run.

Despite these challenges, European companies still believe that by fully utilising all tools at its disposal, China can achieve its goals. But for this to be achieved, foreign firms will require increased market access and a level playing field on which to operate.
The scale of the challenge of meeting China's 30/60 Goals demands an open and collaborative approach. Fostering regular dialogue with European businesses, which have long been going through a similar transition in Europe, would be a welcome first step.



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2021 CHINA CARBON PRICING SURVEY

Majority expect national carbon market to include all key emitting sectors by 2025

by **Huw Slater**

The United Nations (UN) entity responsible for supporting the global response to climate change states that "Carbon pricing curbs greenhouse gas emissions by placing a fee on emitting and/or offering an incentive for emitting less", which helps to make "economic development compatible with climate protection". The price levels in a particular carbon market can determine the scheme's ability to deter enterprises and society from continuing to chose less expensive but more polluting options. In this article, **Huw Slater** of **ClientEarth** looks at the latest *China Carbon Pricing Survey* to assess how China's national carbon emission market is developing.

The *China Carbon Pricing Survey* provides the most in-depth and extensive summary of stakeholder views on China's carbon market development. It has been conducted regularly since 2013, the year that China began rolling out a series of pilot carbon markets at the regional level.

The survey provides valuable insights into the challenges and opportunities faced by China's significant emitters. The most recent report was conducted in November 2021 and launched in February 2022. It elicited expectations about the future of China's carbon price from a wide range of representatives from China's carbon-intensive industries that are already subject to or are soon expected to be subject to carbon pricing. This in particular includes the power generation sector, which was the first to be covered by China's national emissions trading system (ETS) since it was launched in July 2021.

The survey received 417 responses from stakeholders in a range of sectors. Of the respondents, just over three-quarters (76 per cent) identified as being from carbon-emitting enterprises, including 49 per cent from companies already covered by either a regional carbon market or the national one.

Of the emitting enterprises, the highest representation is from the power generation sector (33 per cent of all respondents), followed by building materials, including cement, (20 per cent), steel (seven per cent), chemicals (six per cent) and non-ferrous metals (five per cent) sectors. A tenth of respondents are from companies providing carbon market-related services, including consultancy, verification, offset development and trading, while three per cent came from research institutes. Other responses came from academia, the financial industry and local government.

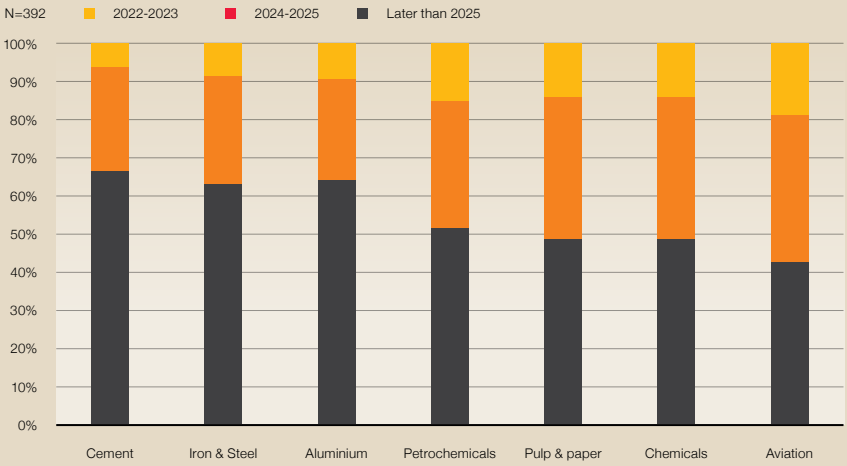
Key findings

Among the key findings of the survey, power sector respondents were asked about their company's situation during the first compliance phase of the national carbon market regarding allowance allocation. Almost half suggested that they would have allowances surplus to their compliance needs (up from 25 per cent a year prior).

After power generation, the cement, iron and steel, and aluminium sectors stand out in terms of perceived carbon market readiness, with over a third of respondents optimistic that they will be ready to join the national ETS by as early as 2022, and the weighted average of expectations being that those three sectors will have joined by 2023. The other key four emitting sectors are expected, on average, to join by 2024.

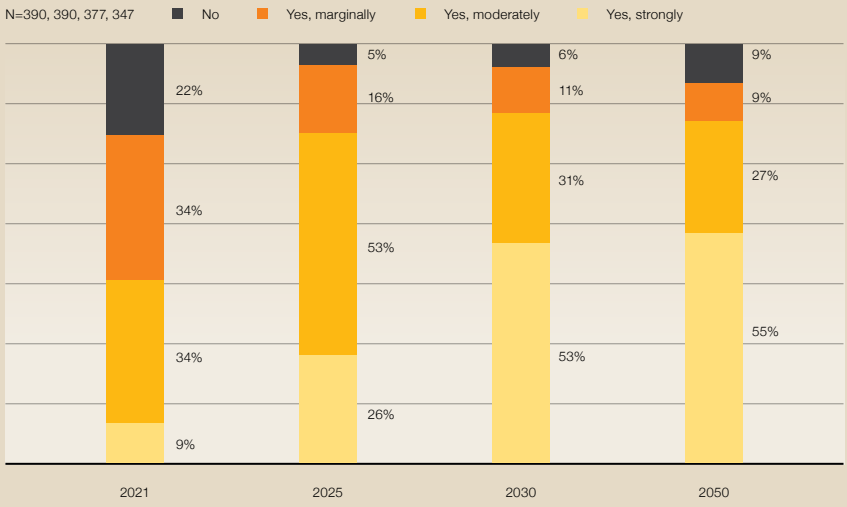
Respondents expect the effect of carbon pricing on investment

WHICH SECTORS DO YOU THINK WILL BE READY TO JOIN THE NATIONAL SYSTEM AT DIFFERENT TIMES?



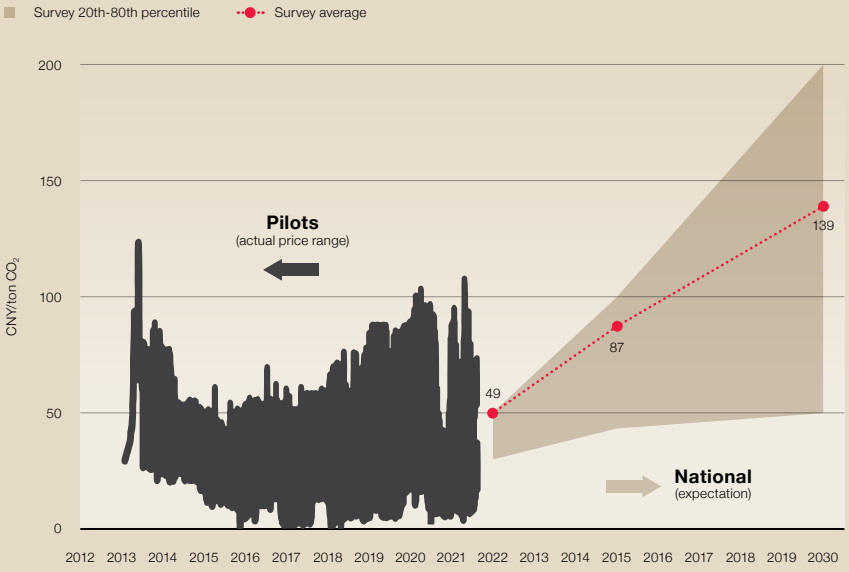
Source: *2021 China Carbon Pricing Survey*

DO YOU EXPECT THE ETS IN CHINA TO AFFECT INVESTMENT DECISIONS IN 2020, 2025, 2030, 2050?



Source: *2021 China Carbon Pricing Survey*

RANGE OF PRICES IN THE REGIONAL SYSTEMS TO DATE, AND ESTIMATED PRICES FOR THE NATIONAL SYSTEM



Source: *2021 China Carbon Pricing Survey*

decisions to greatly increase between the time of the survey and 2030. About four out of every five respondents to the question, "Do you expect the ETS in China to affect investment decisions in 2025", expect investment decisions to be at least moderately affected. Only five per cent of respondents who answered this question expect investment decisions to be unaffected by 2025.

The survey results indicate an expectation of steadily rising prices, but with significant variance over the levels. The average price expectation in the national market is again expected to be Chinese yuan (CNY) 49 per tonne of emissions (/t) in 2022, rising to CNY 87/t in 2025 and CNY 139/t by the end of the decade.

Approximately 85 per cent of respondents to the 2021 survey expect China to achieve its carbon emissions peak before, or no later than, the stated 2030 goal. Only 15 per cent expect China's emissions to peak by 2025 or earlier. This is a significant drop on the 36 per cent that indicated this expectation in the 2020 survey.

The outlook

The *China Carbon Pricing Survey* comes at a time of global interest in China's actions on climate change, given the start of trading in China's national ETS in 2021, which followed President Xi Jinping's 2020 commitment that China will strive to achieve peak carbon dioxide emissions before 2030 and carbon neutrality by 2060.

In addition, at the 2021 United Nations General Assembly, President Xi announced that China would stop building new coal power plants abroad. Then, a couple of months later at the 26th Conference of Parties (COP26) in Glasgow in November 2021, China and the United States released the Joint Glasgow Declaration on Enhancing Climate Action in the 2020s. While China was generally seen as playing a constructive role at COP26, increasing attention being paid to China's domestic efforts to reduce reliance on coal. Most analysis of long-term pathways see carbon pricing playing a key role in these efforts.

There are high expectations among stakeholders for China's carbon market due to the central government demonstrating its strong commitment to controlling carbon emissions. All key sectors are expected to be covered by 2025. In addition, as carbon prices have risen rapidly in the European Union's ETS—the most established ETS globally—the survey findings show similar price increases are expected in China too.

Mr Qian Guoqiang, deputy general manager of the environmental think tank SinoCarbon, has expressed his confidence in China's national ETS: "I am thrilled that the national carbon market has started trading in 2021. This is a positive signal. The construction of the national carbon market is a process of learning by doing and gradually improving. Under the guidance of China's carbon neutrality goal, this process will be accelerated. I believe that China will definitely build one of the most active and influential carbon markets in the world."

The survey results make clear that, as the climate transition gathers momentum in China and around the world, European companies should factor in a significant price on carbon when making investment decisions.

Huw Slater is an energy and climate policy specialist at ClientEarth in Beijing. He is also the former chair of the European Chamber's Carbon Market Working Group.

The **Carbon Market Sub-working Group** is comprised of 60 member companies representing all aspects of the carbon market, including project developers, carbon funds, investors, lawyers, auditors and consultants as well as financial institutions and companies under compliance obligations. Sub-working group activities include networking events and advocacy meetings with Chinese and European officials. For more information, please contact Susana Xu (sxu@europeanchamber.com.cn).

China's Industrial Parks

Their role in pursuing carbon neutrality

by **Guido Giacconi**

China has deployed industrial parks across the country to facilitate and encourage business development in all sectors, demonstrating their ability to guide industry in particular directions. Given the considerable share industry contributes to China's total carbon emissions, which in turn accounts for a large proportion of global carbon emissions, it is essential that China's industrial sectors transition to 'zero carbon' operations. **Guido D. Giacconi**, **vice president of the European Chamber**, argues that the industrial parks are in a position to accelerate this transition and help China realise its carbon neutrality goals.

In recent years, China has stepped up to share global leadership in reducing pollution and combatting climate change. President Xi Jinping caught the world by surprise when, at the United Nations General Assembly in September 2020, he announced that China's carbon emissions will peak by 2030 and carbon neutrality will be accomplished by 2060 (the 30/60 Goals), which delete confirmed China's strong commitment to contribute to international efforts.

Global commitments and scattered actions are increasing, but they are far from what it will take to effectively confront climate change. 'Carbon neutrality' risks remaining a buzzword in China, and even the definition of 'carbon emission' is still not clear to many stakeholders (in this article, carbon emissions refers to all greenhouse gas emissions). Therefore, taking a coordinated, holistic and pragmatic approach to carbon neutrality commitments is urgently needed: joint decarbonisation efforts will only succeed if there is full alignment on concepts and methodologies.

Domestically, China's industrial parks will play a crucial role in realising the country's carbon neutrality goals. In order to do so, they will need to develop modern economic models based on new energy, new infrastructure and green supply chains.

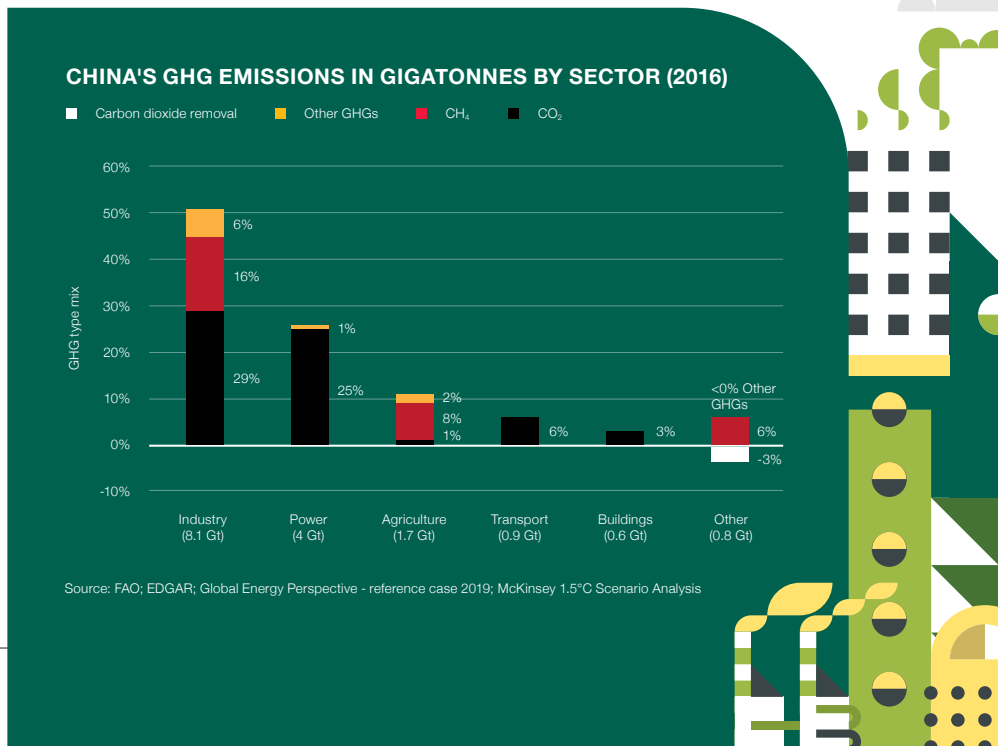
Over the past few years, China has been making great efforts to transform its energy structure. The growing need to counter the harmful effects of pollution, combined with a firm commitment to boost renewable power generation, and reduce dependency on coal as well as overall energy intensity, among other aspects, have turned China into a leading actor in the global energy transition. Nevertheless, it is still the world's biggest source of carbon emissions, responsible for around 28 per cent of the total. As one of the biggest economies and manufacturing countries, China has the highest energy and carbon intensities. Recently, and despite commitments to the contrary, it has also shown signs that its plan to reduce coal dependency has slowed down.

Roadmaps towards carbon neutrality have been already issued. The Chinese Government has established the '1+N' policy framework to realise its 30/60 Goals, which encompasses several key sectors and also outlines support initiatives. Despite the firm commitment and several policies already being in the implementation phase, China's pathway to carbon neutrality still faces significant challenges, especially the critical conflict between energy security, near-term economic development, carbon peaking/neutrality objectives and the need for clearly-defined intermediate steps.

According to the Energy Foundation's *Synthesis Report 2020 on China's Carbon Neutrality,*[1] to remain within the 2°C temperature control range laid out in the Paris Agreement, China's industrial sector needs to reduce its carbon emissions by 20–35 per cent by 2035 and 50–80 per cent by 2050, compared with 2015 levels.

The industrial sector accounts for more than 50 per cent of China's total carbon emissions, followed by power (26 per cent), agriculture (11 per cent), transportation (six per cent), and buildings (three per cent) sectors. The high proportion of manufacturing value added in gross domestic product (GDP) (27.4 per cent in 2021) makes decarbonisation more difficult for China than the EU.

China has more than 15,000 industrial parks of various types—including 2,681 national and provincial industrial parks as of December 2019[2]—contributing more than half of the country's industrial output by value. Among the national/provincial parks are 219 state-level economic and technological development zones, and 168 state-level high-technology industrial development zones. The GDP of the state-level economic and technological development zones reached Chinese yuan (CNY) 7.6 trillion in 2015, accounting for 11 per cent of the national GDP that year.[3] Data from

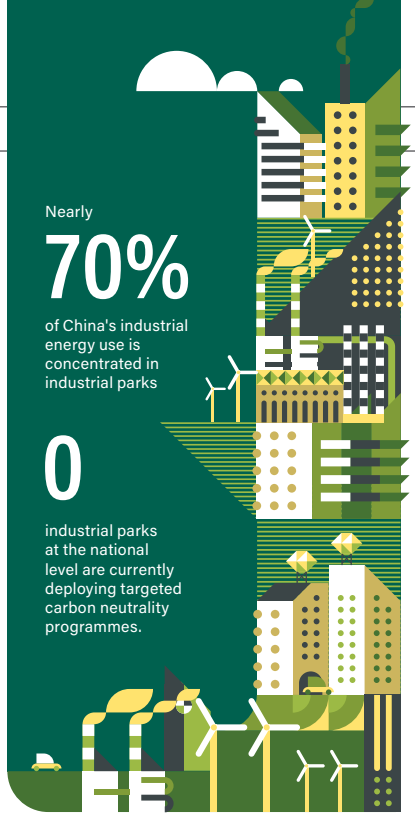


2019 shows that the combined GDP of state-level, high-technology industrial development zones reached CNY 12.1 trillion, accounting for 12.3 per cent of total GDP.[4]

Nearly 70 per cent of China's industrial energy use is concentrated in industrial parks, and accounts for about one third of the country's carbon emissions. Therefore, it is of paramount importance for China to comprehensively involve industrial parks in addressing local carbon neutrality priorities by piloting holistic solutions and deploying international assessment and certification standards transparently and openly.

Unfortunately, just a few small-scale industrial parks are currently deploying targeted carbon neutrality programmes, with none known at the national level. A handful are demonstrating well-engineered and well-addressed for example, the Goldwind Yizhuang Smart Park in Beijing and the Shandong Dezhou Economic-Technological Development Area.

Industrial parks in China could also play a crucial role in supporting companies as they face the forthcoming defense mechanisms by major economies, namely Europe, against so-called 'carbon leakage'. For example, on 10th March 2021, the European Parliament approved a resolution proposing a Carbon Border Adjustment Mechanism (CBAM). From 2023, countries that trade with the EU would be requested to comply with EU carbon emissions regulations, implying that exports to the EU might face carbon tariffs to offset the extra costs for locally-based entities to be compliant with EU carbon regulations. The sectors covered so far include cement, electricity, fertiliser, steel and aluminium, with future extensions to other energy-intensive sectors being assessed.



As China continues to act as a manufacturing powerhouse, the EU CBAM would further challenge China's competitive advantage, particularly with the COVID-19 pandemic making the Chinese economy even more dependent on exports. Policies such as the CBAM will put more pressure on China to reduce its carbon emissions and guarantee the sustainability of its exports to the EU.

The industrial parks model is one of the main forms of industrial agglomeration development in China. Therefore, China's 30/60 Goals cannot be achieved without the crucial and proactive role of these industrial parks.

Allowing industrial parks to take a decisive role in shaping effective pathways towards carbon neutrality would also create favourable conditions for attracting investments from both European multinationals and small and medium-sized enterprises, seeking transparent business and industrial environments compliant with their global environmental and social governance (ESG) commitments. This is currently impossible in China due to the lack of reliable emissions data, the absence of direct access to renewable energy sources and inadequate green infrastructure, as well as the vague definitions of 'carbon neutrality' adopted by local governments. This means European companies are operating in industrial environments that do not allow assessment and certification by qualified independent third-party certification bodies, which prevents them from being compliant with their global ESG pledges.

A 'carbon zero'-certified (through international standards) industrial park would also allow localised companies to deal with forthcoming carbon import tariffs like the CBAM. Such parks could become national benchmarks for accelerating China's pace towards carbon neutrality. However, each industrial park has its own characteristics: there are no one-size-fits-all solutions, and technologies alone cannot achieve carbon neutrality.

European companies could play a crucial role in supporting Chinese industrial parks to accelerate their transformation towards carbon neutrality. If European companies' energy transition experiences, as well as their rational and sustainable solutions, had been better utilised in China, the disruptions experienced in 2021 from inadequate management of energy shortages in many Chinese provinces could have been avoided.

Guido D. Giacconi currently serves as vice president of the European Chamber. He is co-founder and president of In3act Srl, an Italian business strategy consulting and advisory ompany with operations in China since 2006. He was also the former national chair of the Chamber's Energy Working Group, former vice chair of the China-Italy Chamber of Commerce, and consultant to the Embassy of Italy in China and Italian Trade Agency, to name but a few.

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Offshore Wind Power

Laws and procedures to establish a project in China

by **Jun Wei** and **Aldo Boni De Nobili**

As China works towards its carbon neutrality goals, wind power will account for an increasingly large share of the overall power mix, which means that offshore wind farms—particularly those in deep sea and far from the coastline—will be required. What are the opportunities for foreign entities as this market expands? What regulations need to be taken into account and what is the process for developing a Chinese offshore wind farm project? **Jun Wei** and **Aldo Boni De Nobili** of **Hogan Lovells** explain all.

Legal Framework

Laws and regulations

The Chinese legal framework governing offshore wind power projects comprises many national and local laws and regulations, often intertwined in ways that create a puzzling and incomplete picture.

The Renewable Energy Law provides the overall framework for the renewable energy sector.[1] A draft of the revised law, now called the Energy Law, was published on 3rd April 2020. When issued in its final form, it will serve as the overall framework legislation for the entire energy sector, including renewable energy.

Supplementary lower-level legislation provides details for wind power projects. In particular:

a) the *Interim Measures for the Administration of the Development and Construction of Wind Power Projects,* which regulate the development and construction of both onshore and offshore projects;[2] and

b) the *Measures for the Administration of the Development and Construction of Offshore Wind Power Projects,* which provide a framework regulation on development plans, project approval, business licences, site selection, environmental protection standards, and construction and operation.[3]

[1] The latest version of which was issued by the National People's Congress on 26th December 2009.
[2] Issued by the NEA on 25th August 2011.
[3] Issued by the NEA and the SOA on 29th December 2016.

Several other laws and regulations—which are not fully coordinated with each other—deal with additional areas such as grid operation, grid connection, purchase of electricity by the grid, selection and awarding of projects, subsidies, and use and exploration of sea areas.

Authorities

Offshore wind power projects involve many different authorities at various levels, with the following being the main stakeholders:

a) The National Energy Administration (NEA), a bureau administered by the National Development and Reform Commission (NDRC), oversees the energy sector. It issues offshore wind power development and construction plans; administers the planning, development and construction of projects and the selection of developers; and issues the project approval and business licence for electricity generation.

b) The State Oceanic Administration (SOA) provides the Sea Areas Certificate (see Use of Sea Areas), approves the installation of submarine cables, and examines navigation safety and environmental impact.

c) The NDRC determines the feed-in tariff, and the Ministry of Finance (MOF) deals with central-level subsidies.

d) The Ministry of Housing and Urban-rural Development (MOHURD) issues approvals and permits for onshore construction activities.

e) The State Administration for Market Regulation registers the project entity.

Foreign investment regime

Foreign entities are permitted to have 100 per cent ownership of wind power projects, and foreign investment in the renewable energy sector, including wind power, is encouraged.[4]

Selection of Projects and Developers

Since 2019, projects and developers are selected by local NEAs through a competitive procedure (Competitive Allocation Scheme) pursuant to the *Administrative Guidance for Competitive Allocation of Wind Power Projects (Trial)*.[5]

Projects are broadly divided in two categories:

a) Projects for which a developer signed a wind power development agreement with the local government and completed the preliminary works. They are assigned to the entity that carried out the preliminary work, and are prioritised based on an NEA scoring system.

b) Projects for which the local NEA and local government themselves carried out the preliminary work. The developer is selected through a competitive tender.

Purchase of Electricity; Subsidies

The grid companies that operate the power grids to which offshore wind power plants (OWP) are connected must purchase the entire output of the plant.[6] The grid company pays an on-grid tariff, the maximum amount of which is set and periodically adjusted by the NDRC to purchase the electricity.

The Renewable Energy Development Fund established by the MOF provides a central-level subsidy for projects which is built into the on-grid tariff as a premium.[7] The OWP receives the whole amount of the on-grid tariff (including the premium) from the grid company, which in turn applies for the reimbursement of the premium from the Renewable Energy Development Fund.

Central-level subsidies are being phased out. They are not available to projects not approved and not connected to the grid prior to 31st December 2021.[8] Local governments, however, may provide subsidies locally.

Project Construction

Deadline for commencement of construction

Before commencing construction, the developer must obtain project approval from the local NEA and certain other permits (see below). The developer must commence construction within a specified period assigned by the local authorities, (typically one or two years after obtaining project approval), otherwise the project approval and the Sea Areas Certificate may be revoked. Some provinces may grant extensions (typically a one-time one-year extension). The construction of the foundations of the first wind turbine generator marks the commencement of construction.

Approvals and permits

A developer must obtain a large number of opinions, approvals and permits before it can commence the construction. In particular, the

[4] Pursuant to the *Special Administrative Measures (Negative List) for Foreign Investment Market Access (2021 Version)* and the *Special Administrative Measures (Negative List) for Foreign Investment Market Access in Pilot Free Trade Zones (2021 Version)* jointly released by the NDRC and the MOFCOM on 27th December 2021 and effective on 1st January 2022, and the *Encouraged Foreign Investment Industry Catalogue (2020 Version)* jointly released by the NDRC and the MOFCOM on 27th December 2020 and effective on 27th January 2021.

[5] Issued by the NEA on 18th May 2018.

[6] The State Grid Corporation of China, the China Southern Power Grid, and certain local independent grid companies.

[7] Calculated as follows: (on–grid tariff – benchmark tariff for coal–fired electricity) / (1 + applicable VAT rate).

[8] See the *Several Opinions to Promote the Healthy Development of Non–Aqueous Renewable Energy Power Generation.*, and supplemental notice, issued in 2020.

following are needed, in sequence:

a) Prepare documentation (for and with the SOA, NEA and other authorities) such as: a feasibility study report; an environmental impact report; official opinions following review of submarine cables routing and use of land; a navigation safety report; safety pre-evaluation report; and official opinions following review of grid connection.

b) Obtain project approval from the local NEA.

c) Obtain from the SOA a Sea Areas Certificate and a permit of construction of submarine cables, and from the MOHURD certain permits for onshore construction work.

After construction has been completed, the developer needs to attend to inspection and acceptance procedures on the construction works and environmental protection facilities of the OWP.

Thereafter, the project entity obtains a business licence for electricity generation, which is issued by the local NEA and valid for a 20-year term (renewable). Projects with an installed capacity of less than 6 megawatts are exempted from such licence requirements.

Additional steps to connect the project to the grid include entry into a grid connection agreement, and an assessment on whether the basic conditions for grid connection have been met.

Different rules may apply locally, so it is important to verify the requirements and procedures with the local authorities.

Power Purchase Agreement

After the construction of the OWP, the grid company and the developer enter into a power purchase agreement (PPA). The purchase price is fixed during an initial period at the price set through the Competitive Allocation Scheme. If the province where the project is located sets a lower benchmark tariff, the tariff under the PPA is automatically reduced to match.

Use of Sea Areas

Sea Areas Certificate

The ownership of sea areas belongs to the state.[9] The developer of a project must obtain from the SOA the right (represented by the Sea Areas Certificate) to use the relevant sea areas, and the right to use any uninhabited islands (if necessary).

Fees

The developer must pay a fee to the local SOA to use the sea areas and any uninhabited islands. It may also need to pay compensation to the owners of any fishery facilities located at the project site.

Opportunities for Foreign Investors

No foreign investment restrictions apply to wind power projects in China. Foreign developers with a good track record on projects in deep water and far into the sea may have a significant competitive advantage compared to local players.

It is still very rare to see a foreign developer or equity investor involved in OWPs in China, but this may change as foreign participation in Chinese projects, at all levels, seems necessary for China to achieve its goal of developing more OWPs, and in a sustainable way. Foreign investors may acquire equity interests in existing projects, something that is being considered by several players who are engaging in discussions with local state-owned developers. Corporate structures can be set up in China for equity investment purposes.

Hogan Lovells is a leading global law firm with 50+ offices in six continents. Our global renewable power group supports clients on innovative and complex projects, including solar, wind (onshore and off), hydroelectric, geothermal, energy storage, biomass, biofuels, waste-to-energy, CHP plants, smart grid applications, and other advanced technologies. We are consistently recognised as having one of the premier offshore wind practices in the world, having structured many 'first of its kind' and precedent-setting transactions.

As one of the first international law firms on the ground in China, we have a leading full-service legal practice. We advise on inbound and outbound transactions, and can conduct trademark and copyright matters directly for our client through our domestic intellectual property agency.

[9] In accordance with the Law of the People's Republic of China on the Administration of Sea Areas, issued by the National People's Congress on 27th October 2001.

The Low-carbon Ship

Easing ship owners into the fuels and demands of tomorrow

by **Simon Qu**

Taking on the challenge of ship decarbonisation is a two-tier process– delivering efficiencies and sustainability benefits for today's markets, while simultaneously preparing the industry for future developments. Given the lengthy lifespans of most vessels, manufacturers of ships and ship components are attempting to divine the future to see which fuels will come out on top at the end of the transition to green energy. **Simon Qu** from **Kongsberg Maritime** argues that the shipping industry has options to spread their bets on the fuels of tomorrow.

Dual-fuel engines

A core component of ship decarbonisation is the widespread adoption of dual-fuel engines and liquified natural gas (LNG): although a fossil fuel, LNG's cleaner burning offers a quick win in comparison with magnesium oxide (MGO). With LNG, carbon dioxide (CO_2) emissions are reduced by 24 per cent, nitrogen oxide (NOx) emissions by 87 per cent and sulphur oxide (SOx) emissions by a whopping 99 per cent. In addition, particulate matter is negligible, and analysis demonstrates that the benefits are not only environmental – operators can expect expenses savings too when market forces allow.

Extra power

Adoption of power take-off (PTO) technology is another key strategy. Propulsion engines often run significantly below maximum load, so by installing a PTO this spare capacity can be converted into extra power for non-propulsion needs aboard ship at little extra cost. Any spare power a ship can get from PTO can assist in reducing the number of auxiliary generator sets required.

Future fuels

One of the foremost questions in vessel owners' minds when specifying a newbuild or refit is how they will manage the introduction of new fuels – the so-called 'fuel transition'. Several alternatives are waiting in the wings – hydrotreated vegetable oil (HVO), synthetic methane, methanol, liquefied hydrogen (LH_2), ammonia and liquid biogas (LBG), to name but a few. Some of these will grow and dominate the fuel mix in the future, but others will likely never gain enough momentum, nor build the required worldwide infrastructure,

and drop from the scene. For operators investing in future ships, it is difficult to know which horse to back.

With no conclusive answers, the logical solution is to hedge bets by equipping vessels with engines and systems which will allow as many of these fuels to be used as possible, with zero or minimal modifications.

For example, as synthetic methane and LBG are methane fuels, just like LNG, a LNG-powered vessel is ready for at least two new low-carbon or carbon-neutral fuels with no modification at all. A dual-fuel engine that can burn MGO, meanwhile, can also switch to renewable HVO with little or no upgrade required. If an LNG system is designed with fuel transitioning in mind, conversion to operation on ammonia can also be relatively simple too.

Hydrogen

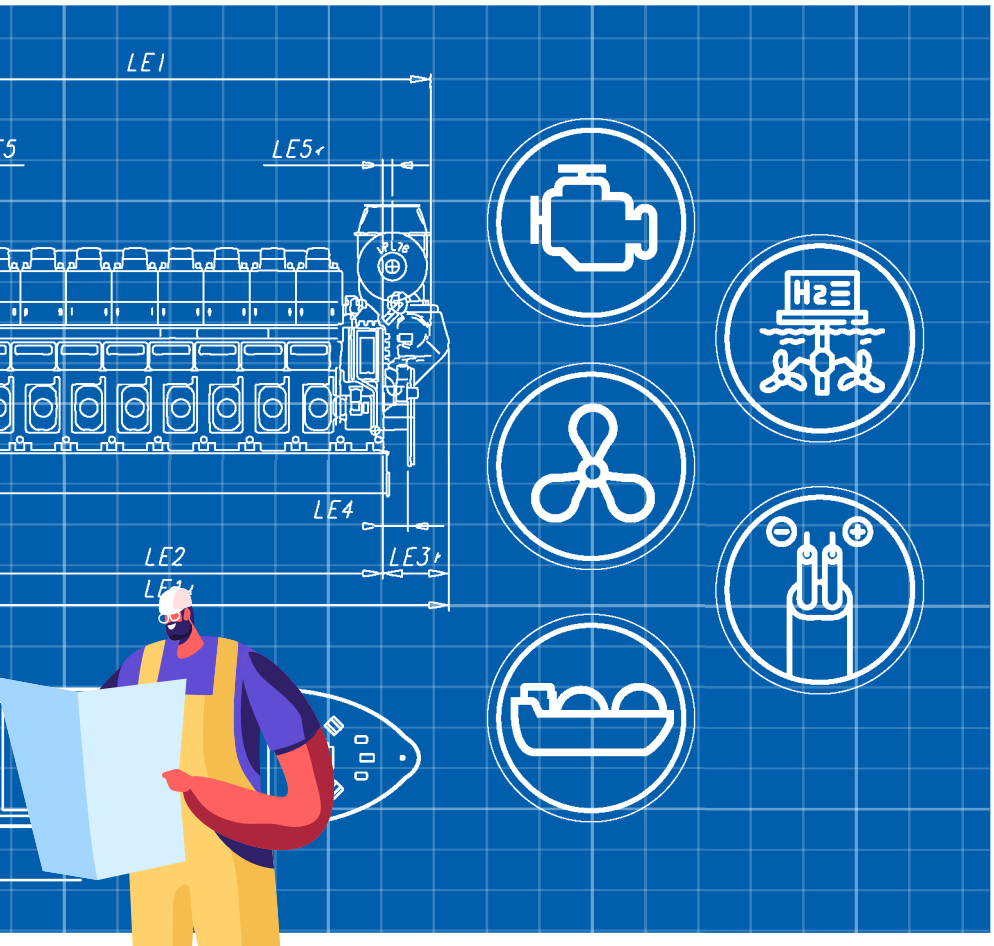
Many stakeholders are also researching the use of hydrogen, in both liquid and gas phases. Inevitably, hydrogen's flammability and explosive nature make safety a key concern, so extensive work is required before it can be approved for use. However, the cost of storage of the high volumes of hydrogen required—for example, aboard a container vessel—might rule out this technology for longer routes.

Electrification

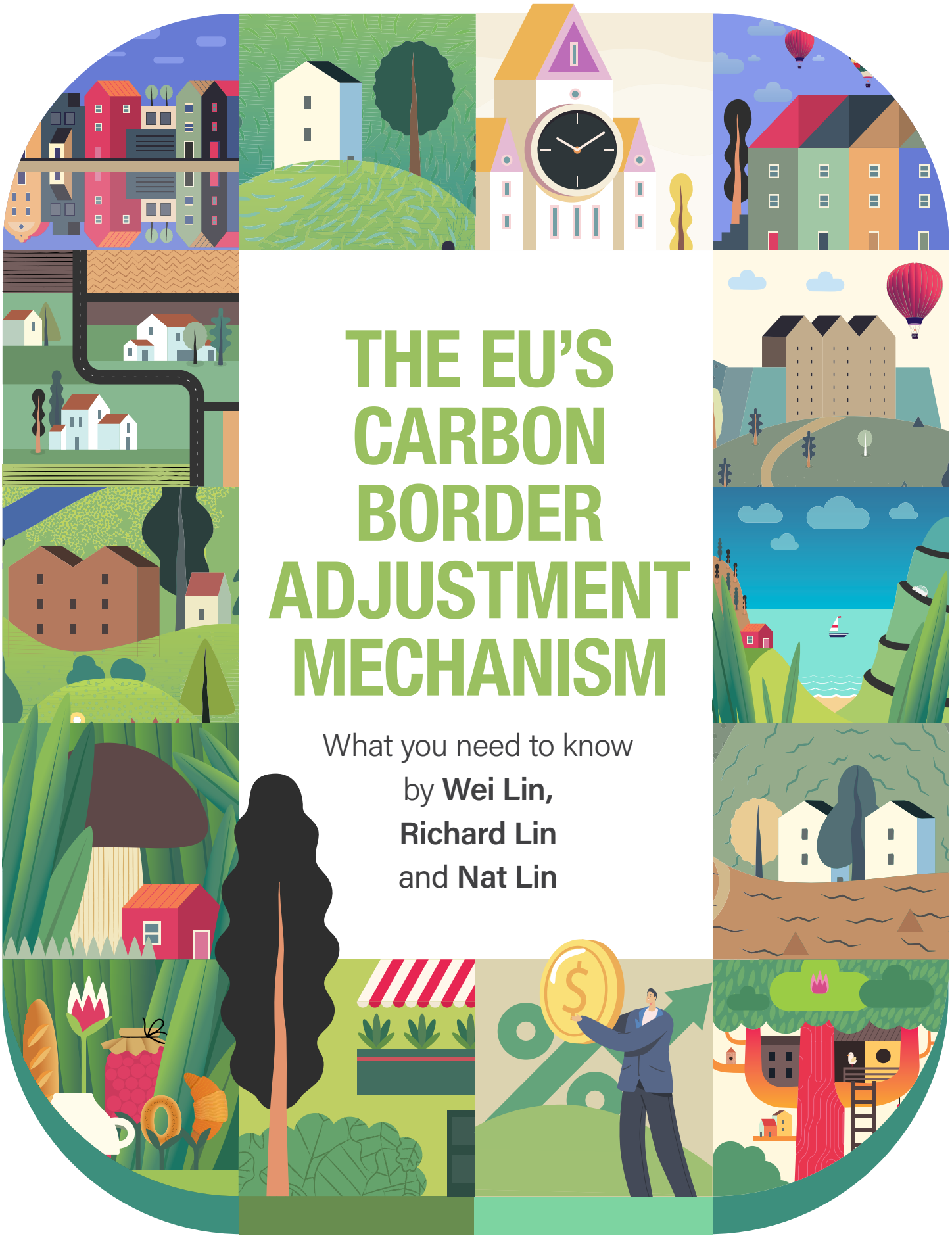
Current battery technologies mean that fully-electrified vessels are only suitable for shorter routes between locations with charging infrastructure. As an example of efforts to expand this range, Norway is preparing fixed facilities on the Oslofjord that will be equipped with the necessary charging infrastructure required by cargo carriers. Power will come from Norway's national grid, which currently derives 98 per cent of its energy from renewable sources, mostly hydro power.

Vessels making longer voyages between multiple ports have more problems to solve. Full battery operation for ocean passages is currently impracticable, owing to the size and cost of the required energy storage, but there is the potential to use hybrid systems with stored energy to allow battery operation for parts of the passage, such as entering and leaving port.

Plus, not everywhere in the world currently derives its electricity as cleanly as Norway. Even if charging infrastructure improves, the provenance of the power must also be reliable. A great deal depends on how dirty the electricity is on land. From a CO_2 emissions perspective, if vessels charge from shore, they must be assured that the shore connection has clean energy going to it. For such integrated solutions for instilling lean and green operational efficiencies to succeed in the long-term, they will need input and support not only from the shipping industry, but also from governments, power companies and society.



Kongsberg Maritime is a global marine technology company providing innovative and reliable 'Full Picture' technology solutions for all marine industry sectors including merchant, offshore, cruise, subsea and naval. Headquartered in Kongsberg, Norway, Kongsberg Maritime has manufacturing, sales and service facilities in 34 countries. Kongsberg Maritime is part of Kongsberg Gruppen (KONGSBERG), an international, knowledge-based group that celebrated 200 years in business during 2014. KONGSBERG supplies high-technology systems and solutions to customers in the oil and gas industry, the merchant marine, and the defence and aerospace industries.



THE EU'S CARBON BORDER ADJUSTMENT MECHANISM

What you need to know

by **Wei Lin, Richard Lin** and **Nat Lin**

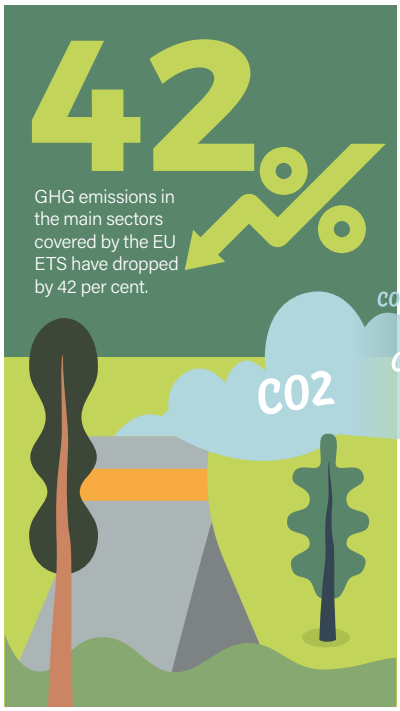
Due to the looming climate crisis, governments around the world have taken actions to encourage greenhouse gas (GHG) emissions reduction. However, the rate at which steps are being taken varies across economies. In order to protect European companies that comply with strict European Union (EU) carbon neutrality measures, the bloc has introduced a Carbon Border Adjustment Mechanism (CBAM). In this article, **Wei Lin, Richard Lin** and **Nat Lin** of **KPMG China** provides an overview of how the mechanism will affect companies exporting from China to the EU.

Launched in 2005, the EU's Emissions Trading System (EU ETS) has been the cornerstone of the bloc's policy on addressing climate change. Operating under a 'cap and trade' scheme, the EU ETS sets a cap on emissions for obligated emitters each year, who are required to purchase and remit emission allowances.

Since then, GHG emissions in the main sectors covered—which include power and heat generation, as well as energy-intensive industries—have dropped by 42 per cent.

In its Green Deal, approved in 2020, the EU announced its ambitious target to halve net emissions by 2030 compared to 1990 levels, and for Europe to become the first climate-neutral continent by 2050. In 2021, as part of the Green Deal, the European Commission adopted a package of legislative proposals called 'Fit for 55', to facilitate the necessary acceleration of GHG emissions reduction in the next decade.

However, while the EU is successfully reducing GHG emissions, many other countries have not yet made reductions or are increasing emissions. The EU hopes to exert global influence on combatting climate change with its Carbon Border Adjustment Mechanism (CBAM), an essential part of the Fit for 55 package. The CBAM is aimed at preventing 'carbon leakage' by imposing an emissions-based levy on imports of certain products, thereby maintaining the competitiveness of EU production in carbon-intensive sectors.



Scope and timeline

The European Commission's proposed CBAM focusses on five sectors, referred to as the 'Covered Sectors': iron and steel; aluminium; cement; chemical fertilisers; and electricity. It is expected to come into force from 1st January 2023, with a three-year transitional period until 31st December 2025.

On 15th March 2022, the European Council reached consensus on the CBAM and started negotiations with the European Parliament, including on expanding the scope to cover further carbon-intensive sectors, such as chemicals, and shortening the transition period to two years. Once implemented, the CBAM will gradually expand its coverage to other products that fall within the scope of the EU ETS.

CBAM requirements

Obligations under the CBAM are threefold:

1. Companies need to declare carbon emissions embedded in imported products.

   Though the importer in the EU is responsible for making the declarations, the manufacturer must provide the carbon emissions data of the imported products. Manufacturers that do not provide adequate carbon data may encounter 'push-back' from EU buyers and subsequently lose market share in the EU.

2. An independent and accredited verifier must verify the embedded emission quantity.

   This is one of the key ways the CBAM differs from ordinary taxes. Companies must ensure that the declared emissions embedded in the imported goods be verified by an independent and accredited verifier. Otherwise, emissions subject to 'taxes' will be determined using default and unfavourable values for that type of good, such as the average emission intensity of the top 10 per cent worst-performing EU entities.

3. Companies need to purchase and surrender CBAM certificates according to these emissions (after the transition period).

   The CBAM certificate is priced according to the weekly average auction price of the EU ETS allowances. For indicative purposes, the EU Allowances (EU ETS) Futures Price on 6th May 2022 was euro (EUR) 91.54 per tonne.

Potential impacts in China and across the globe

The following example illustrates the potential carbon 'tax' impact:

An importer in the EU imports 100 tonnes of section steel from a manufacturer in China. The embedded carbon emissions are at 4.35 tonnes CO_2 equivalent per tonne (tCO_2-e/t).[1]

At a carbon price of EUR 91.54 per tonne, and disregarding any possible offsets or allowances, the importer would need to surrender CBAM certificates at a price of almost

EUR 40,000

A key question is who will absorb the cost: the importer, the manufacturer or both? While the market will ultimately tell, it seems likely that consumers will bear the brunt of the costs.

On the bright side, the ETS and the CBAM are tax systems for which 'taxpayers' are encouraged to take proactive actions to mitigate their tax burden. With the ETS and the CBAM in place, the value of a low-carbon product or project would extend beyond branding and risk management. It would also mean price advantages and a bigger market share; tradeable assets and potential trading gains in secondary markets; and lower financing costs and higher market value in capital markets.

If we take as another example a scenario outlined by the World Steel Association of imports of low-carbon section steel with carbon emission intensity at 0.762 tCO_2-e/t,[2] the carbon tax would be approximately EUR 7,000, less than one fifth of the 'original' high carbon intensity product.

Considering that the volume of steel exported from China to the EU and the United Kingdom hit just under 3.2 million tonnes in 2021,[3] a carbon tax could have a heavy impact on companies' profit margins unless actions are taken.

Not just about money

Ensuring emissions and reductions are measurable, traceable and accurate—i.e., a reliable monitoring, reporting and verification system—will be the cornerstone of carbon management systems. While most businesses in the EU already have a certain level of GHG management systems in place, many companies in China do not yet have even a minimum set-up. For businesses operating in the Covered Sectors as well as the supply chains of the Covered Sectors, it is critical to improve management's environmental awareness as well as to understand and enhance corporate CBAM readiness. A good starting point would be to conduct an initial GHG management baseline assessment, including a product-level GHG emissions quantification exercise for CBAM purposes.

Vendor engagement, rather than vendor management

In relation to supply chains, businesses normally use the term 'vendor management'. However, when it comes to environmental management, the term 'vendor engagement' seems more appropriate. With the CBAM, vendors and customers will need to cooperate and help each other.

Vendor engagement for the CBAM will entail a lot of work – including checking data quality against CBAM compliance requirements; getting the GHG data and management verified; as well as juggling timelines and multifaceted coordination among internal and external stakeholders.

Digital applications such as software-as-a-service or blockchain solutions can enable automated processes, big data analytics and dashboarding, and transparency across the globe, making vendor engagement programmes easier and more reliable. These systems are flexible enough to meet individual organisations' business needs, and are becoming increasingly affordable. Another option is to outsource vendor engagement to agents, even if just on a temporary basis.

Summary

There are many things to consider when commencing CBAM and other GHG management work, and it is a complex process. This article has identified some key points to take into account when starting this process. The aim is for this article to also inspire companies to take action in preparing for the CBAM, which will be an important step in moving towards more sustainable supply chains and a greener world.

NOTE: This article was prepared in May 2022. Please note that on 8th June 2022, the draft legislation on the EU CBAM was referred back to committee by the Parliament. It is believed that the Committee on Environment, Public Health and Food Safety will revisit the CBAM legislation for the Parliament's first reading in the near future.

KPMG China has developed a leading practice in the field of GHG Emissions and Reduction. Most importantly, we do not see ourselves as mere consultants. KPMG professionals want to work collaboratively with clients on the journey to a low carbon future. Wei Lin is partner and head of KPMG China's Strategy & Operations practice and the Environment, Social & Governance (ESG) practice. He is a member of KPMG China's Board of Directors, as well as KPMG Global ESG Steering Committee. Richard Lin is partner of KPMG China's Supply Chain Practice, responsible for GHG emissions and reduction related services. Nat Lin is associate director of KPMG China's Supply Chain Practice.

[1] Source: China Products Carbon Footprint Factors Database 2022

[2] Source: <https://www.galvanizing.org.uk/sustainable--construction/steel--is--sustainable/steel--embodied--carbon/>; please note that this carbon emission intensity is for indicative purposes only.

[3] Source: China Iron and Steel Association; <http://www.chinaisa.org.cn/>; please note that the EU CBAM does not apply to the United Kingdom.

Intellectual Property

How can it help promote carbon neutrality?

by **Xiaojun Xu** and **Peter Li**

China released 11.5 billion metric tonnes of carbon emissions in 2019 alone, 40 per cent of which was from power generation and another 29 per cent from industry. Reducing carbon emissions is vital to ensure the country's sustainable economic and social development.[1] Therefore, when Chinese President Xi Jinping announced at the United Nations General Assembly in 2020 that, "China will strive to peak its carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060", it showed that China was aware of the importance of the issue. However, carbon neutrality and sustainable development can only be achieved through innovation in science and technology, green and low-carbon development, and a revolution in energy. In this article, **Xiaojun Xu** and **Peter Li** of **Jiaquan IP Law** examine how intellectual property (IP) protection, as an industrial weapon, could help promote the green industrial revolution.

[1] *Sumec: Opportunities arising from 'carbon neutrality'–driven industrial development is expected to promote further development of the photovoltaic industry*, jrj.com, 11th March 2021, viewed 19th May 2022, <https://baijiahao.baidu.com/s?id=1693906156219901167&wfr=spider&for=pc>.

Table 1: China CO_2 Inventory 2019 (IPCC Sectoral Emissions) Unit: Metric Tonne

IPCC Sectoral	CO_2 Emissions
Farming, Forestry, Animal Husbandry, Fishery and Water Conservancy	91.45
Petroleum Processing and Coking	171.61
Raw Chemical Materials and Chemical Products	163.75
Nonmetal Mineral Products	1111.84
Smelting and Pressing of Ferrous Metals	1853.10
Production and Supply of Electric Power, Steam and Hot Water	4641.96
Transportation, Storage, Post and Telecommunication Services	732.48
Others	153.30
Urban	271.69
Rural	154.48

Patent mapping for green industry

Although power generation and industry are the major sources of China's emissions, almost all sectors consume energies and emit carbon dioxide (CO_2). Table 1 lists the 2019 CO_2 emissions of 10 of China's major industries, showing how various types contribute to the total amount.[2]

Therefore, in order to conserve energy and reduce emissions, technological innovation needs to take place across all industries. However, if this happens successfully, it will result in a vast amount of projects and initiatives tackling the issues from all angles, which will make it difficult to track and capitalise on the solutions most suitable for individual circumstances.

Patent mapping can collect, analyse and visualise considerable amounts of data on individual industries. It can provide patent analytics information, match the innovation demand of an industry with its innovation capabilities, provide scientific and technological information for research and development, and set the direction for future energy conservation and emission reduction strategies. Patent mapping can also play an important role in the development of green industry by guiding and supporting independent, controllable and scientific advancements.

Fostering high-value patents and promoting green technology innovation

Efforts should be made to develop and foster high-value patents for key innovations in low-carbon technologies in different sectors. The market value of these patent assets can be raised by subsequent operations, including licensing, transferring, trading and pledging for financing. These practices will ensure the commercial value of high-value patents, and thereby accelerate the development and growth of green industries.

To promote low-carbon green industrial technological innovation, it is important to cultivate high-value patents that can lead avenues of development. High-value patents are the key driving forces of industrial development and enterprises' core competitiveness. Invention patents in strategic emerging industries have been clearly defined as high-value patents in China.[3] Of the top seven strategic emerging industries, energy conservation and environmental protection, new energy, new materials, and new energy vehicles are closely related to carbon neutrality.[4] Therefore, cultivating high-value patents and promoting technological innovation in low-carbon green industries will

[2] For the full list, please see: *China CO_2 Inventory 1997–2019 (IPCC Sectoral Emissions)*, CEAD, <https://www.ceads.net/user/index.php?id=284&lang=en>

[3] *Address by Ge Shu, Director General of the State Intellectual Property Office at the 2nd Quarterly Press Conference in 2021*, State Council Information Office, <http://www.scio.gov.cn/xwfbh/gbwxwfbh/xwfbh/zscqj/Document/1703127/1703127.htm>

[4] The top–seven strategic emerging industries are: energy conservation and environmental protection, a new generation of information technology, biology, high–end equipment manufacturing, new energy, new materials, and new energy vehicles. See: <http://www.gov.cn/zhengce/content/2010–10/18/content_1274.htm>

be of great significance in realising carbon neutrality.

Improving the system for technology transfer and patent commercialisation

Achieving carbon neutrality requires innovation across multiple industrial sectors, as well as the participation of an extremely large number of enterprises. Patent commercialisation can be improved by enhancing university-industry collaboration, establishing IP trading platforms and organising events that will facilitate the creation of partnerships. These strategies could be adopted by clusters in different industries, with cluster development accelerating green technology exchanges and boosting growth potential.

Providing green finance services and introducing funds for green development

Financial institutions are generally enthusiastic about developing 'green finance'.[5] According to the People's Bank of China, in pre-pandemic times at the end of 2018, the green credit balance of China's banking institutions was Chinese yuan (CNY) 8.23 trillion (United States dollars (USD) 1.24 trillion), a year-on-year increase of 16 per cent; with an annual increase of CNY 1.13 trillion (USD 0.17 trillion), accounting for a 14.2 per cent increase in loans to enterprises and other units during the same period. Financing and refinancing by green enterprises reached a total of CNY 22.42 billion (USD 3.38 billion), but the percentage of green finance related to IP and carbon neutrality was still very low.[6]

Despite this enthusiasm among financial stakeholders, it was not until August 2021 that the first carbon-neutral IP-pledged innovation and entrepreneurship bond was successfully issued in China, with the funds raised on 20 green patents.[7] According to reports, 70 per cent of the funds were used for a steel carbon neutrality project that utilises waste heat for high-quality steel production, which cuts the operating company's CO_2 emissions by 81,200 tonnes and standard coal use by 34,200 tonnes a year.

Pledging green IP rights for financing and using the funds raised to decarbonise will especially benefit manufacturing enterprises that have more advanced technologies and technological innovations. Such enterprises will be able to explore green and low-carbon development and promote the reduction of carbon emissions.

China's deadline to peak carbon emission is fast approaching. Over the next eight years, IP practitioners should dedicate themselves to promoting the alignment of IP protection with the goal of carbon neutrality, exploring the best approaches to low-carbon development, and protecting the planet's beautiful clear waters and green mountains.

[5] Green finance refers to economic activities supporting environmental improvement, response to climate change, resources conservation and efficient utilisation. It includes financial services such as investment and financing for projects, project operation and risk management for sectors including environmental protection, energy conservation, clean energy, green traffic and green building. See: *Guidelines for establishing the green financials system*, *China Daily*, 4th September 2016, viewed 19th May 2022, <https://www.chinadaily.com.cn/business/2016hangzhoug20/2016–09/04/content_26692931.htm>

[6] *Report of Green Finance Development in China (2018)*, People's Bank of China, <http://www.gov.cn/xinwen/2019–11/20/5453843/files/b61d608674b04494b3ae1aef76dd7b13.pdf>

[7] *20 patents in exchange for CNY 72 million of funds: Jin Tong Ling successfully issued the first carbon neutral intellectual property–pledged innovation and entrepreneurship bond in China*, ntjoy.com, 19th August 2021, viewed 19th May 2022, <https://www.ntjoy.com/html/tuijian/2021/0819/296506.shtml>

Innovation and Sustainable Finance

Options to fund the path to carbon neutrality

by **Clement Lecroart**

According to the Climate Policy Initiative, in order to meet the Paris Agreement targets, investments of between United States dollars (USD) 1.6–3.8 trillion will be required annually until 2050. Following China's declaration of its commitment to fighting climate change and achieving carbon neutrality by 2060, sustainability has become a consensus and a major objective. **Clement Lecroart** of **Crédit Agricole CIB China Limited** looks at the innovation capabilities developed by the finance industry.

China's critical role in a growing ESG bond market

A strong worldwide trend towards supporting sustainable and social initiatives emerged in 2021. The volume of green, social, sustainability and sustainability-linked bond issuances in 2021 was approximately USD 927 billion, up 117 per cent year-on-year. In addition, this volume represents 8.4 per cent of 2021's total global bond issuance, compared to 4.1 per cent in 2019, highlighting how environmental, social and governance (ESG) demands are becoming ever-more relevant for both issuers and investors. While the market is still driven by green bonds (accounting for around 55 per cent), the social and sustainable bonds markets have seen significant growth globally amid COVID-19.

China has an essential role to play in the evolving ESG bond market. As of mid-2022, China ranks as the world's second largest market for sustainable finance, representing 13.4 per cent of total worldwide issuances (vs. 9.2 per cent in 2021).[1] In addition, China was the first country to launch governmental guidelines for green bond issuances, alongside an official catalogue on the taxonomies of eligible projects to be financed by the government.

Sustainability requires long-term planning, contributions by various stakeholders

For many banks, ESG has long been part of their strategy. Banks have been deeply engaged in major international climate finance and sustainable initiatives, including the Equator Principles, which provides a social and environmental risk management platform for financial institutions,[2] the Climate Principles code of conduct,[3] and the Net Zero Banking Association, as well as in defining the Green Bond and Sustainability Principles. The aim behind the banks' cooperation is to actively contribute to a more sustainable world and support the energy transition by cooperating and engaging with regulators and public authorities, leveraging their expertise to promote ESG solutions.

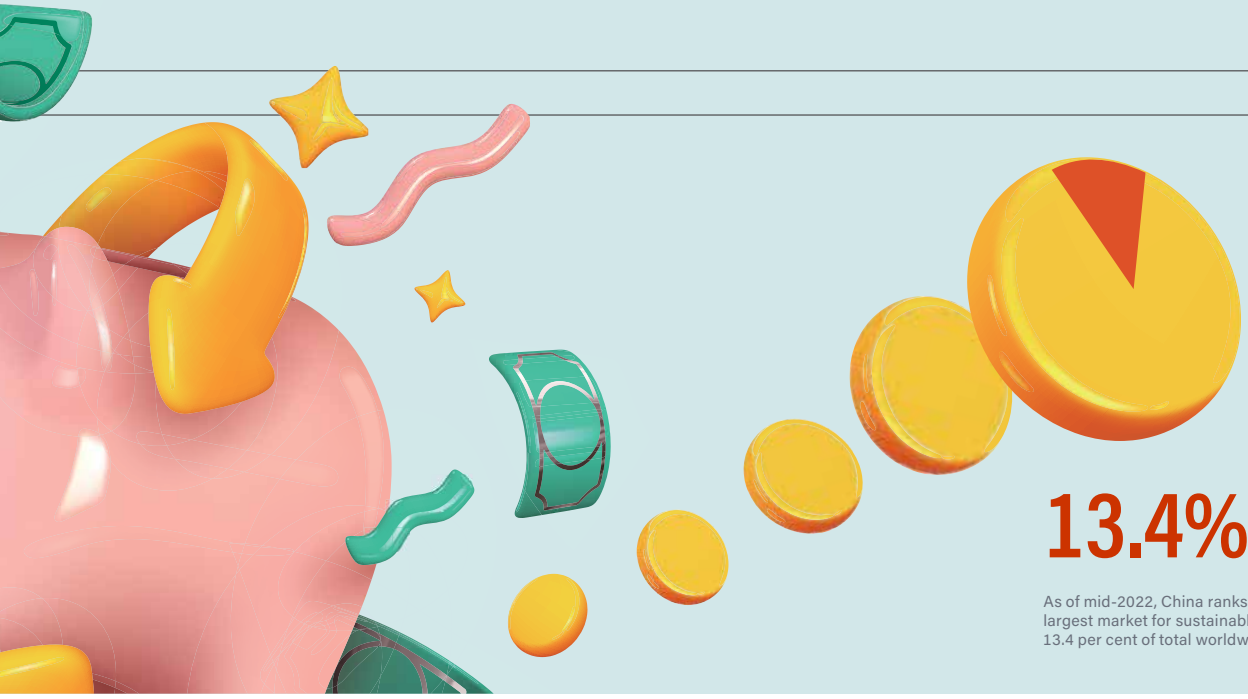
In China, the regulators have made a lot of progress in promoting sustainability. For instance, in 2021, the People's Bank of China (PBOC) published a new set of measures for assessing financial institutions' performance in developing and promoting green finance. The PBOC also launched a carbon emissions reduction facility in November 2021, providing a means for low-cost loans to Chinese financial institutions through a carbon reduction support tool, while setting guidelines for lenders to focus on when dealing with borrowers from fields targeted for carbon reduction.

Several other initiatives have been taken by the banking industry, such

[1] Data extracted from Dealogic, Crédit Agricole CIB (As of May 5th 2022)

[2] The Equator Principles website, <https://equator-principles.com/>

[3] Launched in 2008, the Climate Principles is a code of best practice designed for the financial industry and coordinated by The Climate Group. The industry is thus confirming its commitment to tackling climate change and reducing emissions of greenhouse gases (GHG).



13.4%

As of mid-2022, China ranks as the world's second largest market for sustainable finance, representing 13.4 per cent of total worldwide issuances.

as the Green Investment Principles for the Belt and Road Initiative, which promote sustainable finance and ensure that those projects are aligned with ESG principles and the climate goals of the Paris Agreement.

Continuous innovation a catalyst for driving sustainable development

Innovation is key to integrating ESG elements into banking products and is fostered thanks to the implementation of new practices, favourable policy support from the authorities and keen investors appetite.

The trend started with green bonds, which enable specified green projects to be funded. A green bond shows a commitment to exclusively use the funds raised to finance sustainable projects, assets or business activities. Other thematic labels, such as COVID-19 bonds and blue bonds, have emerged to illustrate the sustainability focus of corporations and transactions.

Green loans have followed the same innovative principles. The finance industry has been widening and enriching its sustainable product offerings, such as sustainability-linked derivatives, green deposits, green guarantees and green securitisation.

A sustainable future requires joint collaboration

The European and Chinese finance industries should continue to cooperate in order to harmonise the EU Taxonomy and the PBOC Principles. With robust involvement and cooperation by regulators, issuers, investors and banking partners, a sustainable future that provides a collective green footprint for the industry can be built.

In Europe, the EU *Taxonomy Regulation* is one of the most significant developments in sustainable finance. It creates an acknowledged system for economic activities and providing clarity on what should be defined as 'green' and 'sustainable'. Meanwhile, China unified domestic standards for green bonds by adopting more scientific and precise definitions relating to green projects.[4]

In July 2020, the EU and China initiated a working group on taxonomies, with the objective of undertaking a comprehensive assessment of the two sides' existing taxonomies for sustainable investments, including identifying any commonalities and differences. The Common Ground Taxonomy (CGT) was released in November 2021, serving as an important cornerstone in the journey to develop a common language for green and sustainable financing markets between Europe and China.

Banks and investors play a crucial role in funding green projects and supporting corporates' energy transition and sustainable development ambitions. Proactive cooperation and dialogues between all stakeholders are fundamental for securing a more sustainable future.

[4] The *Green Bond Endorsed Projects Catalogue (2021 Edition)*, released in April 2021.

Crédit Agricole Group is one of the largest banking groups in the world (#12 worldwide bank measured by Tier One Capital - *The Banker*, July 2021). Crédit Agricole CIB is the Corporate and Investment Banking arm of the Crédit Agricole Group focusing on financing the real economy and is committed to building a sustainable future together with its clients through its sustainable finance solutions. Crédit Agricole CIB is co-chair of the Green Investment Principles of the Belt and Road initiative, a member of the Asia Pacific Loan Market Association, Hong Kong Green Bond Working Group, China Green Finance Committee, and the ICBC's Belt and Road Bankers Roundtable.

Decarbonisation Roadmap

From building to operations

by **William Chan**

In recent years, extreme weather conditions have been observed around the world, with 'once-in-a-lifetime' natural disasters becoming yearly occurrences. The destruction of our planet as a consequence of serious carbon emissions has become an urgent issue globally. Therefore, accelerating the decarbonisation process is the top priority for everybody everywhere, in order to save the planet for future generations. **William Chan** of **Arup** looks at how climate neutrality can be built into our industries from the ground up.

Government policy on carbon emissions

Over the past 30 years, extreme weather events leading to natural disasters have been taking place more frequently than before. This growing evidence of climate change, which is threatening human survival, is alarming many in society. To overcome this challenge, companies at all stages—from building construction to manufacturing—need to develop an effective carbon neutrality roadmap.

On the governmental side, more than 190 countries have promised to achieve the goal of net zero emissions by mid-century to limit global warming in this century within 1.5°C. China has announced its national target of reaching carbon peak at 2030 and carbon neutrality at 2060. The Renewable Energy Law has been published, which promotes utilisation of renewable energy and is aimed at increasing energy supplies, improving energy infrastructure, monitoring the safety of energy generation, and protecting environment – all of which are to realise sustainable economic and social development. The European Union (EU) has published its Green Deal and enacted a Climate Law targeting a reduction in net greenhouse gas emissions of at least 55 per cent by 2030 compared to 1990 levels, carbon neutrality across the EU by 2050 and negative emissions beyond 2050.

According to research done by the International Energy Agency, 38 per cent of total global carbon emissions comes from building sector operations and materials while 32 per cent comes from the industrial sector. Therefore, developing net zero carbon buildings and green factories can contribute up to 70 per cent of global decarbonisation actions.

Net zero carbon building

To understand net zero carbon buildings, the concept of 'whole life cycle' carbon emissions must be comprehended. Whole life cycle carbon emissions are comprised of embodied carbon and operational carbon. Embodied carbon is generated during the extraction, transport and production of raw materials; and the use of materials during construction, maintenance and renovation as well as demolition at the end of the building's life. Operational carbon is generated during the energy consumption, renovation, maintenance and waste disposal that take place while the building is in operation. When the whole life cycle total carbon emission of a building can be balanced against the renewable energy consumed by the site, it is defined as net zero carbon.

Green factory

Similar to building construction and operation, in order to be green, a factory should also consider decarbonisation from a whole life cycle perspective, starting from site construction to daily manufacturing streamlines.

As it remains uncertain in many ways how government carbon policies will be implemented, each corporate should select the most efficient decarbonisation roadmap for their individual situation. The roadmap should integrate their business model, development strategy and investment plan with changes to local laws and regulations, cost trends in carbon trade, availability of a local renewable energy grid, the green finance market, and so on. It should not only cover current market conditions, but, more importantly, it should be able to forecast long-term developments, ideally up until 2060.

Particularly for the manufacturing sector, the costs generated by the decarbonisation process every year will greatly influence a corporate's annual profit, so a precise tailor-made roadmap with foresight on future carbon policies, energy costs and carbon trade is essential.

A green factory development roadmap can be worked out by incorporating the below elements:

1. Adopt a decarbonised energy strategy that is integrated with the corporate business model assessment.
2. Apply a circular economy approach to reduce material use during (a) product manufacturing; and (b) construction, operation and demolition of building assets.
3. Adopt energy-efficient equipment, such as heat recovery, energy storage and digital energy monitoring tools.
4. Adopt big data, artificial intelligence machine learning tools and an Internet of Things platform to optimise manufacturing streamlines, and to facilitate building automation and digital asset management.
5. Utilise low-carbon transportation throughout supply chains to decarbonise and improve the corporate environmental impact footprint.
6. Adopt low-energy landscaping on-site and the surrounding area to incorporate the available natural ventilation and lighting features.
7. Create and contribute to an inclusive, equitable and just society.

As an example, a food manufacturing giant promises to achieve carbon neutral by 2035, and implements a sustainable food production line. The factory facilitates circular economy in the production process, and equips itself with on-site wind turbines and solar farms to generate renewable energy, in order to achieve a whole life cycle net zero carbon footprint.

A wish for the future

Society should not only to aim for net zero carbon, but move even further towards negative carbon. By catching future developments in carbon technology and the digitalised world, we can install carbon-sequestering materials to absorb carbon from the atmosphere, plant green spaces in all living environments, use powerful IoT platforms to precisely control emissions, connect to fully renewable national power grids, and adopt the highest ratio of recycled and recyclable materials possible. Eventually, we will build our negative carbon world together.

Dedicated to sustainable development, **Arup** is a collective of 16,000 designers, advisors and experts working across 140 countries. Founded to be both humane and excellent, we collaborate with our clients and partners using imagination, technology and rigour to shape a better world.

William Chan is associate director, East Asia Science, Industry and Technology leader and Chongqing Office leader at Arup. He has extensive experience in design, site supervision and project management in the commercial sector in Hong Kong and Mainland China. He has dedicated much effort in recent years to integrate skills relating to building sustainability and digitalisation.

Exploring the Road to Carbon Neutrality

From a Chinese industrial perspective by **TÜV Rheinland Greater China**

China is committed to hitting peak emissions by 2030 and carbon neutrality by 2060. In order to do so and address the responsibilities it faces as the world's largest carbon emitter, it will need to mobilise all its resources. China's carbon emissions should start declining seven years from now in 2030, and reach net zero in the next 30 years. **TÜV Rheinland Greater China** recently conducted a survey across several industries in China on the theme of carbon neutrality to understand how local enterprises are preparing to reduce their carbon footprint.

Around three quarters of the 650 respondents from the industrial, automobile, electronic and electrical products, and consumer goods sectors in Mainland China say they are aware of the sources, scale and nature of corporate greenhouse gas emissions. Of that three quarters, half have either set up a carbon asset management department or are engaging with third-party institutions in this area.

Although 73 per cent of respondents say that China's goal to become carbon neutral by 2060 has had an impact on their businesses, only 40 per cent have defined or are working on specific net-zero emission targets or timetables. Approximately 45 per cent of the companies surveyed have not determined a time limit for achieving carbon neutrality.

Many enterprises are carrying out measures to curb their carbon footprint, but face multiple challenges, mirroring the need for a governing framework on how China will accomplish its ambitious 2060 objective. Moreover, the inevitable time-lag between becoming mindful of the issue and investing the time and resources to take action is a concern.

Embracing the carbon reduction opportunity

Enterprises need time to design systems and build teams to get clarity on the implications of carbon neutrality, as well as to set targets, screen pathways and build capacity. Many enterprises are quite concerned about the reputational risks of publishing a decarbonisation roadmap.

In response to the proposed 'dual carbon' goals, 17 per cent of surveyed enterprises indicate that they aspire to become "pioneers in carbon reduction", while 42 per cent and 32 per cent say they intend to reach the industry's average level in the carbon peaking and carbon neutrality categories respectively.

Uncertainty about policies and market trends, a lack of expertise and ability, and identifying cost-effective solutions are some of the biggest challenges cited by respondents. The lack of management support and complex execution procedures within enterprises are also highlighted as difficulties by many.

Surveyed enterprises cite carbon reduction, energy conservation, consumption reduction and efficiency improvement as preferred methods for achieving China's 30/60 Goals. In addition, energy substitution, saving or replacing raw materials, and creating a long-term plan for a sustainable energy management system are also favoured approaches to reduce carbon emissions.

In terms of funding their carbon reduction efforts, 60 per cent of surveyed enterprises plan to invest one to five per cent of net profits in the next decade to achieve carbon neutrality, 20 per cent plan to invest six to 10 per cent of net profits, and 10 per cent plan to invest more than 10 per cent of net profits. Participants cite gear upgrading, investments in

renewable energy, and investments in research and development, supply chains, materials, and so on, as the most important aspects.

In July 2021, the European Commission released its 'Fit for 55' comprehensive roadmap for realising the European Union's (EU's) ambitious target of reducing its net greenhouse gas emissions by at least 55 per cent from 1990 levels by 2030, and to become carbon-neutral by 2050. The EU is working on the revision of its climate, energy and transport-related legislation under Fit for 55, in order to align current laws with its 2030 and 2050 ambitions. A number of new initiatives are also included in the package.

Chinese enterprises should similarly start planning their targets and pathways for carbon neutrality, to give themselves more time for a smooth transition. It will take time for decarbonisation methods to be decided upon, put in place and implemented properly before any results will be seen. Enterprises should take a top-down approach for the road-mapping of their net-zero ambitions: the commitment of top management will be critical to their carbon neutrality strategy development and implementation.

Steps to corporate carbon management

Companies must adopt a multi-step solution for carbon neutrality, in which the company sets its target and chooses a path before implementing its decarbonisation action plan. Neglecting to set goals and timetables may result in the company going in the wrong direction and wasting valuable time and resources. In addition, the training of professional talent in carbon management is essential for effective corporate carbon reduction and low-carbon transformation.

In 2022, **TÜV Rheinland Group** celebrates its 150th anniversary in delivering safety and quality in virtually all areas of business and life. Since 1872, TÜV Rheinland has been a world leader in developing solutions to ensure safety and quality in the interaction between humans, technology and the environment, and the company remains committed to a sustainable future.

TÜV Rheinland boasts many years of experience in helping companies calculate their carbon footprint. It is accredited by the American National Standards Institutes (ANSI) and the Deutsche Akkreditierungsstelle GmbH (DAkkS), and is a greenhouse gas emission verifier accredited or authorised by DakkS, the German Emissions Trading Authority (DEHSt), and the EU Emissions Trading System (ETS). Its experts perform certifications and verification in accordance with all internationally recognised standards.

45%

of the companies surveyed have not determined a time limit for achieving carbon neutrality

17%

of surveyed enterprises indicate that they aspire to become "pioneers in carbon reduction"

60%

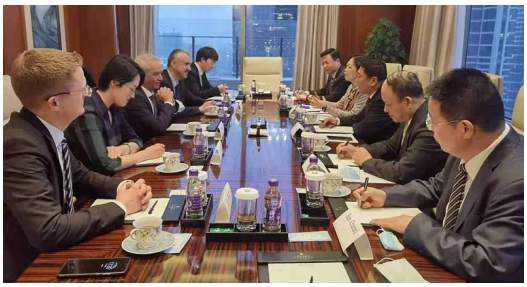
of surveyed enterprises plan to invest 1–5% of net profits in the next decade to achieve carbon neutrality

55%

The EU is aiming to reduce its net greenhouse gas emissions by at least 55% from 1990 levels by 2030, and to become climate-neutral by 2050

18TH FEB.
SHENYANG

Shenyang Chapter vice chair participates in government dialogue on cooperation with Europe



Harald Kumpfert, vice chair of the European Chamber Shenyang Chapter, participated in a meeting with Director Chen Shuangwei of the FAO of the Shenyang Municipal Government.
Photo: European Chamber

On 18th February, Harald Kumpfert, vice chair of the European Chamber Shenyang Chapter, participated in a meeting with Mr Chen Shuangwei, director of the Foreign Affairs Office (FAO) of the Shenyang Municipal Government. Discussion topics covered optimising the local business environment, and means to strengthen Europe-Shenyang cooperation in various fields. All agreed to follow up on decarbonisation, the impact of the pandemic on international talent recruitment, and green energy, among other topics. The German Consulate General in Shenyang and the German Chamber of Commerce in China also joined the meeting.

8TH MAR.
XUZHOU

Nanjing Chapter chair sounds out support for local businesses with Xuzhou officials

Dr Andreas Risch, chair of the European Chamber Nanjing Chapter, met with Mr Wang Lianyun, second–level inspector of Xuzhou FAO, and VP of Xuzhou People's Association for Friendship with Foreign Countries.
Photo: European Chamber

On 8th March, Dr Andreas Risch, chair of the European Chamber Nanjing Chapter, met with Mr Wang Lianyun, second-level inspector of Xuzhou FAO, and vice president (VP) of Xuzhou People's Association for Friendship with Foreign Countries. Mr Wang outlined the local government's work in supporting local European business, and improving the living environment for foreigners. Dr Risch expressed the Chamber's gratitude for the FAO's support, and proposed options for collaboration in 2022, such as a government dialogue.

28TH MAR.
ONLINE

Chamber conveys members' concerns to China Securities Regulatory Commission

President Wuttke and VP Weill led representatives from the Chamber's Banking and Securities Working Group in an online meeting with the CSRC Vice Chair Fang Xinghai.
Photo: European Chamber

On 28th March, European Chamber President Jörg Wuttke and VP Bruno Weill led representatives from the Chamber's Banking and Securities Working Group in an online meeting with the China Securities Regulatory Commission (CSRC) Vice Chair Fang Xinghai. President Wuttke conveyed the Chamber's concern over restrictions associated with China's zero-COVID policy and its negative impact on the business environment. VP Weill outlined challenges faced by European banks in China, such as stringent capital requirements, onshored growth, technology localisation and hindrances to building economic scale. Vice Chair Fang stressed that China is constantly assessing COVID controls in other countries where looser policies are adopted. He also stated that the CSRC will continue to unremittingly improve the domestic system and regulations.

14TH APR.
BEIJING

President leads Advisory Council delegation to meet with DRC Party Secretary Ma

Advisory Council delegation meets with Ma Jiantang, party secretary of the Beijing DRC.
Photo: European Chamber

On 14th April, President Wuttke led an Advisory Council delegation to meet with Ma Jiantang, party secretary of the Development Research Centre of the State Council (DRC) in Beijing. Party Secretary Ma stressed that China is steadfast in maintaining opening-up and reform as the basic state policy, despite the ever-changing international landscape. He added that China attaches great importance to foreign investment and European business. The two sides exchanged views on China's COVID-19 prevention measures, supply chain challenges, the Russia-Ukraine conflict and its impact on European Union (EU)-China trade, government procurement and the energy transition.

30TH MAR.
ONLINE

Chamber briefs Cabinet of Executive VP Dombrovskis ahead of EU-China Summit

President Wuttke met Michael Hager, head of Cabinet of EVP Dombrovskis, ahead of the EU–China Summit.
Photo: European Chamber

On 30th March, President Wuttke met Michael Hager, head of Cabinet of Executive Vice President (VP) of the European Commission Valdis Dombrovskis, ahead of the high-level bilateral exchanges between the EU and China. President Wuttke shared an overview of key priorities for European businesses operating in China.

21ST MAR.
ONLINE

President Wuttke leads financial services working groups to meet with DG FISMA

A group of senior representatives from the Chamber's financial services working groups, led by President Wuttke and VP Weill, met with John Berrigan, director general of DG FISMA.
Photo: European Chamber

On 21st March, a group of senior representatives from the European Chamber's financial services working groups, led by President Wuttke, met with John Berrigan, director general of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) at the European Commission. The discussion centred on the key issues facing members of the Banking and Securities, Insurance, and Non-banking Financial Institutions working groups. Current affairs topics, such as Russia's invasion of Ukraine and its impact on European financial institutions, were also raised.

China's Innovation Ecosystem

Right for many, but not for all

As technology becomes an increasingly central point of friction between the European Union (EU) and China, it is imperative to hone a sharp understanding of the role that European companies play in China's innovation ecosystem. For this reason, the European Chamber in collaboration with the Mercator Institute for Chinese Studies (MERICS) carried out a survey among Chamber member companies that engage in research and development (R&D) in China on the opportunities and difficulties they encounter.[1]

[1] Please note: The survey and interviews were conducted throughout winter 2021/2022, and may not reflect changes in sentiment following the outbreak of the Russian war in Ukraine or the COVID lockdowns in Shanghai. The European Chamber's *Flash Survey: COVID-19 and the War in Ukraine: Impact on European Business in China* may provides more insights on these issues.

European companies recognise that China's R&D ecosystem is increasingly vibrant and has many advantages over the rest of the world. Among the advantages most commonly cited by Chamber members during interviews for the report was the number and variety of collaboration partners, which range from established national champions to companies that are part of China's vibrant start-up ecosystem and inventive scientists and researchers. Survey respondents also widely praised the size of the market (68%) and the fast pace of commercial application of R&D results (68%). For many, this kind of R&D environment allows them to develop products in China that can then be rolled out globally.

Respondents report increasingly high integration between their China-based innovation work with their global efforts. Participating companies also noted the mature nature of their China-based R&D activities, with a majority using their local innovation capacity to refine existing products, as well as to create new goods and services alongside new business models and operational improvements. This stands in contrast to the early days of European companies doing innovation in China almost exclusively for localisation of products developed in home markets. In fact, some companies reported that they 'scout' for new innovative products/services in the Chinese market in order to develop similar products in their home country before the Chinese product expands overseas.

While positive factors were considerably more common among respondents, some negative aspects emerged as well, including: weak intellectual property rights (IPR) protection systems (32%); an unlevel playing field for foreign companies (27%); negative sentiment in companies' home markets towards R&D in China (23%); and insufficient local talent (18%), which specifically referred to challenges with hardware engineers, as reported by many of the interviewees.

Those that reported unequal access to government support (82% of respondents) noted several causes, including: opaque or unclear application information/processes for accessing grants and subsidies (58%); administrative challenges not faced by local companies (42%); support schemes that are not publicly announced, but communicated only to local companies (37%); and explicit rules preventing foreign companies from accessing support (26%).

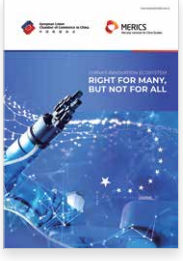
However, while participants in both the survey and interviews held positive overall views on doing innovation work in China, the benefits that European companies can derive from it very much depend on the sector they are in. Therefore, the potential opportunities and rewards of participation must be soberly weighed against the associated risks. In other words, China's R&D environment is a microcosm of its overall market – it is not for everyone.

In that sense, the generally positive findings of the surveys and interviews must be viewed in the context of the industries that are the most represented in this study's limited sample size, which are chemicals (29% of total respondents), machinery (16%) and automotive (13%). These industries are ones in which European companies have experienced considerable success in the China market and enjoyed improved market access and increasingly favourable conditions in recent years.

In fact, these same industries were identified in the 2021 joint report by the European Chamber and MERICS, *Decoupling: Severed Ties and Patchwork Globalisation*, as falling into 'business class' and 'economy class' in China – i.e., those that receive the red-carpet treatment or are at least welcomed to contribute to China's economy. Meanwhile, industries languishing in the 'cargo hold'—like information and communication technology (ICT), telecommunications and all things digital—find themselves increasingly squeezed out of the market, and are struggling with local R&D as a result. Companies from the 'cargo hold' are disproportionately underrepresented in this latest survey on innovation in China. One ICT member company explicitly refused to take part in the survey for fear it would attract negative government attention at a time they are attempting to negotiate on sensitive issues.

Conclusion

It is important that the complete findings of this report be understood in a broader context. Companies, especially MNCs, in business and economy classes are likely to be as optimistic about the R&D ecosystem as they are about the China's business environment in general. Meanwhile, those stuck in the cargo hold, or soon to be jettisoned mid-flight, are likely to be as pessimistic about the R&D ecosystem as they are about their overall prospects in a political economy that no longer wants them competing for market share against indigenous national champions.



To download the report, *China's Innovation Ecosystem: Right for Many, But Not for All*, please scan the QR code.

Russia Sanctions and China's Anti-sanctions Rules

What multinationals' subsidiaries in China need to know

by **Lester Ross** and **Kenneth Zhou**

In response to Russia's invasion of Ukraine, the European Union (EU), the United States (US), the United Kingdom and their allies and partners have imposed extensive financial, sectoral, import and export, and trade sanctions against Russia (Russia Sanctions). As China opposes and is not participating in these sanctions, concerns arose among European businesses in China about the potential consequences, due to the international nature of their business and operations. **Lester Ross** and **Kenneth Zhou** of **WilmerHale LPP** look at the legislation and regulations that apply to sanctions in both the EU and China, and the potential implications for EU businesses.

The Russia Sanctions are unprecedented in many respects, both in terms of their application to one of the world's largest economies, as well as the complexity, depth and breadth of the underlying measures.

The Russia Sanctions apply not only to EU-incorporated companies but also arguably to their controlled subsidiaries around the globe, including their controlled subsidiaries in China. This is pursuant to anti-circumvention provisions set out in EU sanction regulations, which prohibit an entity incorporated in an EU Member State from using a company that it controls as a tool to circumvent a prohibition.[1]

On the other hand, Chinese subsidiaries of EU companies also need to comply with Chinese domestic law, including China's Anti-foreign Sanctions Law (ASL)[2] and the *Rules on Blocking Unjustified Extraterritorial Application of Foreign Legislation and Other Measures* (*Blocking Rules*).[3] As China has not joined—and in fact has openly criticised—the Russia Sanctions, there is an inherent risk of conflict of law between EU sanctions and Chinese domestic law. It is therefore important for EU companies to understand China's ASL and *Blocking Rules* and their enforcement, and take these into consideration in risk assessments.

Anti-foreign Sanctions Law (ASL)

The ASL authorises the Chinese Government to take countermeasures against foreign countries (including foreign individuals/organisations) that sanction or impose discriminatory restrictive measures against China (or Chinese individuals/organisations).

Article 3(2) of the ASL specifically provides: "If any foreign country violates international law and the basic principles of international relations, contains or suppresses China based on various pretexts or its own laws, takes discriminatory restrictive measures against Chinese citizens or organisations, or interferes with China's internal affairs, China is entitled to take corresponding countermeasures."

Accordingly, China has sanctioned a dozen or more former Trump Administration officials responsible for US sanctions toward China and restricted them, their family members and companies with which they are associated from doing business with China. In addition, China has also sanctioned several EU officials and other foreign government officials and entities for sanctions against China on sensitive political matters involving Hong Kong, Xinjiang or Taiwan.

However, enforcement of the ASL so far has focussed on foreign government officials, legislators and other relevant parties who actively solicit or participate in formulating or imposing sanctions against China, rather than foreign business entities, which have no option but to comply with such sanctions imposed in accordance with applicable law of their home countries.

There are no known precedents in which significant foreign business entities (or their executives) have been sanctioned in China for simply complying with foreign sanctions. The ASL is therefore less likely to apply in such cases. If it does, China's countermeasures are likely to primarily target foreign government officials and other parties who actively seek to impose sanctions against China, rather than foreign commercial entities.

For example, in May 2019, the Ministry of Commerce (MOFCOM) introduced an *Unreliable Entity List* regime, and in September 2020 promulgated supplementary formal rules.[4] The regime is intended to identify and penalise foreign persons that boycott or cut off supplies to Chinese companies for "non-commercial" reasons, thereby seriously damaging Chinese companies and industries. The list was announced after the US Government added Huawei and several other leading Chinese technology companies to the *Entity List* published by the US Bureau of Industry and Security.

However, MOFCOM has yet to publish its *Unreliable Entity List*, which indicates that the Chinese Government has been cautious with respect to initiating enforcement actions against significant foreign commercial entities.

Blocking Rules

China's *Blocking Rules* separately authorise the Chinese Government to block the extraterritorial effect of laws and measures unilaterally imposed by foreign countries or regions—as

[1] Please see paragraphs 55 of the *EU Guidelines on Implementation and Evaluation of Restrictive Measures in the framework of the EU Common Foreign and Security Policy* (4th May 2018, the "EU Sanctions Guidelines").

[2] Anti–Foreign Sanctions Law, National People Congress, 10th June 2021, <http://www.npc.gov.cn/npc/c30834/202106/d4a714d5813c4ad2ac54a5f0f78a5270.shtml>

[3] *The Rules on Blocking Unjustified Extraterritorial Application of Foreign Legislation and Other Measures*, Ministry of Commerce, 9th January 2021, <http://www.mofcom.gov.cn/article/b/c/202101/20210103029710.shtml>

[4] *Regulations on Unreliable Entity List*, MOFCOM, 19th September 2021, <http://www.mofcom.gov.cn/article/b/fwzl/202009/20200903002593.shtml>

opposed to measures approved by the United Nations, where China has veto power, and international treaties to which China is a party—banning or restricting Chinese business operators (including Chinese citizens, legal persons and other organisations) from transacting with business operators in third countries or regions. China does, however, have a history of imposing broad informal trade restrictions against other countries—for example, Norway and Lithuania—which function like sanctions.

Art. 1 provides that the *Blocking Rules* are formulated to block the unjustified extraterritorial effect of foreign legislation and measures affecting China; to preserve national sovereignty, security and development; and to protect the legal interests of Chinese individuals, legal persons and other organisations. As such, the primary purpose of the *Blocking Rules* is to protect China's national interests and/or the legal interests of Chinese persons and legal entities, not the interests of persons or entities in third countries.

Art. 5 creates a reporting obligation on Chinese persons and entities when they are prohibited or restricted by foreign legislation and other measures from engaging in normal economic, trade and related activities with a third country (or region) or its citizens, legal persons or other organisations. This reporting requirement applies to all Chinese persons and entities, arguably including Chinese subsidiaries of EU and other foreign-incorporated companies.

The *Blocking Rules* constitute an important consideration for EU companies when assessing potential legal risks in relation to compliance by their China subsidiaries with the Russia Sanctions. However, the *Blocking Rules* consist only of general principles and appear to lack detailed procedures for enforcement. Moreover, it does not appear that the Chinese Government has actively enforced the *Blocking Rules*.

The Russia/Ukraine conflict presents a major diplomatic challenge to China due to its good diplomatic relationships with both countries. While the Chinese Government has repeatedly criticised the Russia Sanctions and made clear that it will not join them, at the time of writing, it appears not to have issued any rules or orders prohibiting Chinese companies from complying with them.[5]

In fact, a large number of China's leading state-owned and privately-owned companies and China-led international organisations, in financial services, energy, technology and other sectors with worldwide business operations, have quietly suspended business relating to Russia and its ally Belarus following the outbreak of conflict in Ukraine, based on such euphemistic rationales as uncertainty in the global business, economic and trade environment.

The actions of these Chinese companies perhaps appear to indicate that, while the Chinese Government does not openly recognise the extraterritorial effect of the Russia Sanctions, domestically-invested Chinese companies with significant international operations are in practice allowed to take actions to suspend business with Russia. By contrast, smaller and less internationally-orientated domestically-invested companies, including oil refiners, are quietly allowed to expand their business with Russia.[6]

[5] E.g., https://www.wsj.com/articles/chinese-tech-giants-quietly-stop-doing-business-with-russia-11651845795?mod=hp_lead_pos4.

[6] E.g., https://www.reuters.com/business/energy/exclusive-china-state-refiners-shun-new-russian-oil-trades-teapots-fly-under-2022-04-06/.

Conclusion

In sum, it is important for EU companies to consider the potential impact of Chinese domestic law in applying Russia Sanctions to their China-based subsidiaries. On the one hand, EU companies have clear obligations to comply with the Russia Sanctions and engage in relevant due diligence exercises to ensure that there is no circumvention of the prohibition through their controlled subsidiaries outside the EU Member States. On the other hand, whether the Russia Sanctions can be applied to China subsidiaries of EU companies is a question of both EU and Chinese law and needs to be carefully assessed.

At the time of writing, the likelihood of enforcement of the ASL by China appears to be relatively low because of China's concern regarding the risk of secondary sanctions being imposed against any of its companies doing business with Russia. Even if the Chinese Government were no longer to allow companies to suspend business with Russia, such decision would be more likely to apply to domestic rather than foreign-invested companies like controlled subsidiaries of EU corporations. In this regard, it is important to note that while EU sanctions law is harmonised at the EU level, actual enforcement is the responsibility of EU Member States.

Lester Ross is a partner at **WilmerHale LLP**, and chief representative of its Beijing Office in China. Mr Ross concentrates his practice on M&A and regulatory matters, has represented both foreign and local companies and has particular experience advising foreign companies on competition law and regulatory compliance in China.

Kenneth Zhou is partner at WilmerHale LLP. His practice focusses on foreign direct investment, cross-border M&A, regulatory matters and commercial matters. He has advised both foreign and leading Chinese companies in varies industries including high-tech, media and entertainment, manufacturing, telecommunications, pharmaceuticals, banking and financial services, and consumer product and services industries.

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European Chamber Annual General Meeting 2022

A year of advocacy successes, high-level meetings and growth

The European Union (EU) Chamber of Commerce in China's Annual General Meeting (AGM) 2022 took place online on Thursday, 26th May. A by-election was also held for members to elect a new treasurer to serve on the Chamber's Executive Committee.

Ms Xiaobo Zhang from TotalEnergies was elected as treasurer and will serve until the close of the term in 2023. In her acceptance speech, she said she plans to "seamlessly connect and integrate into the existing committee team".

As the Chamber's AGM was being held completely online this year due to COVID-19 restrictions, a 'Meet the Candidates' event—also online—was held the previous week on 20th May so members could hear directly from the treasurer candidates on their motivations for running, and ask them questions directly.

EU Ambassador to China and the Honourary President of the Chamber HE Nicolas Chapuis delivered a keynote speech on the latest EU-China developments. Ambassador Chapuis said, "That is why the voice of the European Chamber, its advocacy role, its remarkable network across the country, reaching out on a regular basis with local and central Chinese officials, are a core asset of the EU-China relationship. In one year, the Chamber will have to take up the challenge to elect a new leadership. I call on you all, companies and member states alike, to put forward candidates that can fulfil this role, which is more vital now than ever."

HE Chapuis also addressed the impact of the Shanghai lockdowns on business sentiment, as well as other concerns. As his term is shortly coming to an end, he said "I did not expect to end my mission in Beijing on such gloomy, dreary notes", adding that he would like to thank the Chamber for seconding the EU Delegation's work and activities over the years. Chamber President Jörg Wuttke expressed his gratitude for the ambassador's engagement with the Chamber over the last three years, including with each individual chapter. Chamber Secretary General Adam Dunnett seconded this, saying HE Chapuis "spoke truth to power" during his term.

European Commission Executive Vice President (EVP) Valdis Dombrovskis sent his greetings to the Chamber's AGM video speech. Notably, EVP Dombrovskis said that "not engaging with China is not an option". He also spoke about "the departure of foreign business leaders from China [as] a worrying trend", and highlighted "the important role of international business leaders as a bridge [between

Europe and China]". He also recognised the important role played by the European Chamber, saying, "Your *Position Paper* from last year, as well as the recently released survey on COVID-19 and the war in Ukraine, provide valuable insights."

EVP Dombrovskis' full video address is available to view on the Chamber's website.

President Wuttke presented the *Annual Report 2021* and outlined the priorities that lie ahead. In 2021, the Chamber reached a record number of 38 Advisory Council members and over 1,800 members, and continued to provide strong advocacy on behalf of European business in China. President Wuttke noted that the Chamber was selected as the only foreign business delegation to meet with China's Minister of Commerce Wang Wentao in person.

The chairs from the Chamber's six local chapters also participated in the AGM, and presented the key achievements of their respective chapters in 2021. Common highlights across all chapters were increases in membership, which the local chairs cited as evidence the chapters' activities are valued by European businesses in China; and the number of government dialogues and high-level meetings in 2021, showing that Chinese government officials also consider the Chamber a voice to be listened to.

The Chamber thanked outgoing treasurer, Marko Tulus, for his commitment and engagement as a member of the Executive Committee, also noting his participation as a mentor in the Chamber's Cross-industry Mentor Initiative and taking over the Chamber's Chief Financial Officer Roundtable events from his predecessor.

Mr Tulus joined the AGM online from Finland in order to perform his final task of delivering the financial report for 2021. He noted that despite the disruptions to normal operations caused by COVID-19 in 2021, and the loss of some EU projects, the Chamber maintained a steady balance sheet due to its increase in membership. Mr Tulus said this financial stability will ensure the Chamber is able to continue in its role as the representative of European business in China.

Please click here to download the *Annual Report 2021* to review the Chamber's work.

Cross-industry Mentor Initiative

Feedback from Mentors:

My mentoring with my mentee has been an opportunity for shared learning across cultures and across the automotive and aerospace industries. We come out from it enriched with new perspectives on how to lead in a dynamic and changing environment!

Michel Tran Van
Chief Operating Officer, Airbus China

It is like a journey, taking the time to truly 'see' your mentee, understanding, and accepting, both their authentic real selves and their ideal selves and imagined career destinations. This takes time and patience. A mentor must earn trust, be accessible, and listen generously. It is every time a joy to honour the mentee's ideal self and career dream, and not to dwell on the present career point she is invested in, let alone the one that mirrors my own career. It is all about the art of patient listening, questioning, unconditional acceptance, and generous affirmation to help draw forth the dream, name it out loud, and then set about championing mentees' efforts to get there. It's an exciting journey.

Jörg Wuttke
Vice President (VP) and Chief Representative, BASF China

When my mentee told me she managed to work out a solution with our aligned idea from our previous session and it worked so well, I could feel her joy across the screen. It's a pity that I could only give her an emoji smile through the computer instead of a warm hug at that moment. I am so happy that something we worked on together helped me. It is funny that both of us felt time was not sufficient when we had to call an end to our sessions and wish each other staying healthy and all the best every time.

Holly Lei
President, Covestro China

It has been an outstanding experience and pleasure to go through this programme with my mentee. We had interesting and often very challenging discussions and I could observe how my mentee was changing perspectives, developing new ideas and setting new targets for her future career. I am happy and grateful to be part of this programme, a learning journey for both mentee and mentor.

Unfortunately, we had to conduct all our sessions virtually. Now, a final target for both of us is to meet in person, hopefully it will happen soon.

Bettina Schoen
Regional Representative Asia, Freudenberg

I think the CIMI is a valuable programme. The cross-industry experiences of mentor and mentee bring diversity to the mentoring relationship, enrich the conversations and inspire the exchange and mutual learning. I would encourage the Chamber to continue this programme.

Christine Zhou
Senior VP, President of China Region, Novo Nordisk Pharmaceuticals

I'm very grateful to be part of this mentoring programme. I see the programme really as a two-way learning journey where mentor and mentee are continuously changing roles. Being able to do that across industries is incredible, as it opens up new spaces of experience and learning, and we can appreciate the differences in the progress of diversity and gender balance.

Pius S. Hornstein
Country Chair, Sanofi China

From Mentees:

It is truly a rewarding experience to get inspiration from high-level executives on how they make their career path a beautiful journey. Thanks to the CIMI programme for the unique initiative!

Maggie Wang
Airbus China

The CIMI programme gave me lot of opportunities to experience deeper reflection on myself and get valuable advice from C-level mentors, based on which some 'Aha moments' popped up automatically, which made me feel really happy and encouraged. Also, it's truly a fantastic platform for network-building and learning from other excellent talents.

Judy Gao
Volkswagen China

The CIMI is such a great platform to provide cross-industry, cross-hierarchy, cross-culture communication. Great journey with great mentors that can benefit not only career but also life.

Chang Liu
Volkswagen China

It's an exceptional learning journey in a time of extraordinary changes. I am privileged to enjoy the wisdom of a most experienced business leader to get problems spotted fast and tailor-made inspirations on career development, cross-cultural communication and leading changes. It's not only one-on-one mentoring but also a platform to get insight from a group of senior leaders.

Fan Zong
Covestro China

I'm honoured to join this fantastic programmes with so many amazing ladies from famous European companies and Christine is a wonderful mentor as well. By her mentoring, I get to know the basic leadership characteristics, understand different concerns and accept different point of views. I find my career path much clearer and think in a more positive and responsible way. I'm fearless of changes, and all these changes happened during the programme and will continuously affect my future thoughts and acting modes. Thanks to the organisers, mentors and all mentees who devote themselves to making the programme glorious and colourful!

Yikong Zhang
Nokia China

Appreciate the European Chamber initiating the CIMI programme, It is quite a precious opportunity for me to learn from the elite from across industries. Big thanks to my mentor, who is an outstanding leader and advised lots of insights on my career development.

Linda Zhang
Stora Enso China

#BECAUSE OFUS

New Regulations to Protect Pharmaceutical Patents and Foster Innovation

As the independent voice of European business in China since 2000, the European Chamber actively participates in China's legislative process and our advocacy activities are widely recognised by the Chinese authorities.

In 2019, we launched our #becauseofus campaign to show our gratitude for the joint advocacy efforts of all stakeholders: governments, think tanks, member companies and our own working group and desk managers. In *EUROBiz* in 2022, we will present four examples of our successful advocacy work.

In this edition, we look at **how new regulations to protect pharmaceutical patents and foster innovation were introduced.**

The development of innovative pharmaceutical products is a high-risk venture, characterised by a lengthy and costly research and development (R&D) process. But the results, i.e. new drugs, can be easily copied. Therefore, the protection and enforcement of intellectual property (IP) rights is critical for protecting and incentivising pharmaceutical innovation in order to continuously bring new medicines to patients and society.

Patent Term Extension (PTE)

The term for the patents of originator drugs is limited – 20 years in the European Union (EU), China and the United States (US). By contrast, the patent registration and drug regulatory processes are often lengthy and can take several years to complete, often eating into the originator drug's patent term. The loss of patent life due to regulatory delays means originator drugs' 'lifespan' in the market is cut short. This also reduces the return on investment for developers of the originator drug, which on average takes up to 12 years and costs more than euro (EUR) 2 billion.

Patent term extension/restoration measures serve to supplement any loss of drugs' patent terms due to long regulatory approval processes. For instance, the EU, Japan and US provide up to five years of restoration.

Advocacy efforts

As early as 2001, in the European Chamber's first *Position Paper*, the Pharmaceutical Working Group had called on China to set up patent term restoration rules. For the next two decades, the Pharmaceutical Working Group raised the issue in each of its annual position papers; and collected and submitted comments from member companies on Chinese laws and regulations regarding patent term.

Success

The new Patent Law, issued by China's National People's Congress (NPC) and enacted on 1st June 2021, stipulates that an extension can be granted to the patent for invention related to new drugs whose marketing approval is obtained in China, for up to five years.

Looking forward

The Pharmaceutical Working Group commends the Chinese

authorities for the positive steps they have taken to provide PTE, and continues to advocate for the effective implementation of PTE measures. Looking forward, the working group hopes to see:

- further clarification of the type of drugs and patents eligible for PTE, the scope of protection provided, and PTE calculation methods; and
- a clear definition of "new drug" that is consistent with international standards, i.e., newly marketed in China as opposed to "first approved outside of China", which is key for an adequate PTE calculation.

Patent linkage

Patent linkage is another mechanism to enforce drugs' patent – it links drugs registration to patents, so that the authorities do not approve the registration of a drug that would infringe on an existing patent. Patent linkage originated in the US, from the 1984 Hatch-Waxman Act.[1] Patent linkage also exists in emerging markets like South Korea and Mexico.

Situation in China

In China, drug innovators have been deeply concerned about the continuous approvals of generic drugs before the expiration of the respective compound patents.

The *Administrative Measures for Drug Registration*, released in 2002, provide for the protection of drug patent rights. Attempts were made in 2005 and 2007 to include patent linkage provisions, but it was not until October 2017 that the Chinese Government called for exploring drug patent linkage and reducing patent infringement risks from generic drugs.[2]

From 2019 until early 2021, the working group noted over 10 generic drugs being approved even though the originators' patents were still in force. Some of the approved generics attempted business-related activities that would harm the originator's profits, such as listing in provincial procurement, participation in centralised procurement and inclusion as candidates for the National Reimbursement Drug List.

The lack of a patent linkage mechanism impeded the establishment of a level playing field between pharmaceutical companies as well as the building of a pro-innovation ecosystem.

Advocacy efforts

The European Chamber's Pharmaceutical Working Group has been advocating on this issue in its annual *Position Paper* since 2002. In addition, and most extensively since 2019, the working group:

- collected and submitted comments from member companies to multiple Chinese government organisations, including the NPC, National Medical Product Administration (NMPA), Supreme People's Court (SPC), and the China National Intellectual Property Administration (CNIPA);
- submitted advocacy letters to the authorities on patent infringement and its impact on the pharmaceutical industry; and
- hosted regular discussions on the topic among member companies.

Success

With the release of three relevant regulations on 'early resolution mechanism on pharmaceutical patent disputes' in July 2021,[3] China's pharmaceutical patent linkage mechanism was introduced. An administrative system linking drug registration to patents is now being created. Based on these regulations, originator pharmaceutical companies can prevent a generic product that infringes their IP from registering and entering the market.

This is an important step forward in China's pharmaceutical IP protection. By establishing a mechanism for early patent disputes prior to the marketing of generic products, patent linkage promotes fair competition and a more pro-innovation pharmaceutical market, two business environment conditions that lie at the core of the European Chamber's values.

Looking forward

While the introduction of patent linkage in China is a positive move, further improvements can be made so as to effectively protect both chemical and biologic originator drugs.

Looking forward, the working group hopes to work together with the relevant authorities to seek more clarity on the linkage rules; ensure stay periods against registration of generics are provided to fully enable early patent dispute resolution; and improve the mechanism to further balance the interests of both originators and follow-on products.

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[1] Pang, Dongcheng and Li, Dongxiu, *Comparing drug patent linkage in China and the US*, *China Business Law Journal*, 13th December 2021, viewed 31st May 2022, <https://law.asia/comparing-drug-patent-linkage-in-china-and-the-us/>

[2] Raju, K.D., *Patent Linkages and Its Impact on Access to Medicines: Challenges, Opportunities for Developing Countries*, 28th October 2021, viewed 31st May 2022, <https://link.springer.com/chapter/10.1007/978-3-030-83114-1_12>

[3] On 4th July 2021, *the Measures for the Implementation of Early Resolution Mechanisms for Pharmaceutical Patent Disputes (Interim)*, issued and enacted by the CNIPA and the NMPA; on 5th July 2021, the *Provisions on Several Issues Concerning the Application of Law in the Trial of Civil Cases of Patent Disputes Related to Pharmaceutical Registration Application and Registration*, issued by the SPC; and on 5th July 2021, the *Administrative Adjudication Measures for Drug Patent Dispute Early Resolution Mechanism*, issued by the CNIPA

Media Watch

President Wuttke comments on the Beijing Winter Olympics

On 13th February, the *People's Daily* published an article on the development of winter sports in China. The piece also quoted European Chamber President Jörg Wuttke as stating that "more and more Chinese are beginning to enjoy snow sports such as skiing. This not only provides more fitness options for the public, but also fully drives and creates seasonal employment."

Article by *People's Daily* on the development of winter sports in China.
Media: *People's Daily*
Date: 13th February 2021

President Wuttke discusses EU-China Summit with international and domestic media

On 1st April, as the 23rd European Union (EU)-China Summit took place, President Wuttke spoke live with *Bloomberg* about the impact of Russia's invasion of Ukraine on EU-China relations. He asserted, "It is important to note that headquarters in Europe are very diligent about Ukraine and that translates into a question of how China is going to position itself – it has business ramifications."

President Wuttke also took part in an interview with *CGTN*, in which he said, "There has to be good communication that actually makes China understand where the problem is, but also that appreciates that China is following the sanctions." He added that "we want to see how China helps to ease/stop the war [...] We are in there together, it is a Chinese business request as well."

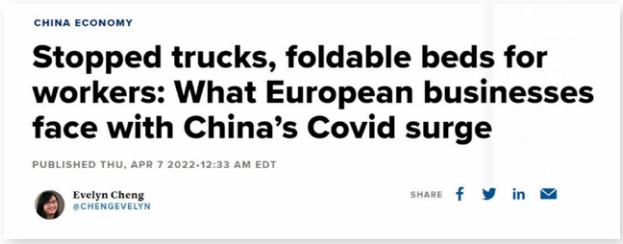
In addition, a *People's Daily* article highlighted how the Chinese market has become an important pillar of the global business operations of many European multinational companies, while the *Global Times* noted that that the EU currently exports five times more services to the US than it does to China, which shows that trade with China can grow in this sector.

President Wuttke spoke live on *Bloomberg* on about the impact of Russia's invasion of Ukraine on EU–China relations
Media: *Bloomberg*
Date: 1st April 2022

President Wuttke is interviewed by *CGTN*, discussing EU–China relations
Media: *CGTN*
Date: 1st April 2022

Chamber VP and Shanghai Chapter Chair Bettina Schoen–Behanzin was interviewed live by *Bloomberg* on the lockdown situation in Shanghai
Media: *Bloomberg*
Date: 8th April 2022

Article by *South China Morning Post* following media roundtable
Media: *South China Morning Post*
Date: 7th April 2022



Article by *CNBC* following media roundtable
Media: *CNBC*
Date: 7th April 2022

Article by *Caixin* following media roundtable
Media: *Caixin*
Date: 7th April 2022

Chamber spokespersons lay out lockdown concerns for global media

Following a spike in Omicron cases since the end of March, several cities across China have been put under lockdown. Top-tier international media contacted the Chamber for input to better understand the situation on the ground. Several original articles were published by some of the most influential outlets, including *Bloomberg*, *Reuters* and *The Wall Street Journal*. Many articles were also published by various EU member states' national media, and a few by Chinese media.

On 8th April, Chamber VP Bettina Schoen-Behanzin joined a live interview with *Bloomberg*. She stated that "business confidence is clearly fading" and that "Shanghai is losing its attractiveness".

On 15th April, President Wuttke spoke to *CNN* regarding recent advocacy actions by the Chamber, stating that "officials took the recommendations surprisingly 'well', and appeared open to further discussion," further noting that Chinese officials "see the damage it [China's zero-COVID approach] does."

Chamber holds nationwide roundtable on lockdowns

On 6th April, the Chamber held a media roundtable on the impact of city-wide lockdowns and China's COVID policy on businesses, featuring President Wuttke and all local chapter chairs. Over 45 journalists attended the roundtable, which generated widespread media coverage with 47 mentions, including five by top-tier media, from 6th to 13th April.

Events Gallery

BEIJING, 22ND MARCH 2022

Closed-door Roundtable with Dean Yao Yang, National School of Development, Peking University

- Prof. Yao said China's economic growth faces three major challenges: infrastructure investment is losing momentum; monetary expansion is becoming less effective; and consumption is decelerating.
- He emphasised that consumption is the key to jump-start the economy, and effective measures are needed to boost consumption.
- Ways to promote consumption could include distributing digital currency to people and adjusting the COVID policy, such as targeted quarantine, no lockdowns, and removal of domestic travel bans.

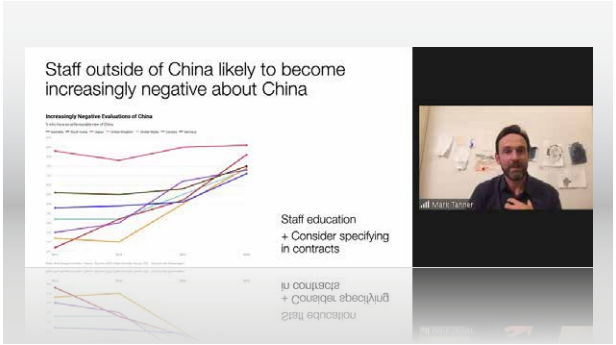
BEIJING, 24TH MARCH 2022

European Chamber Third Medical Device Forum

- The focus of the forum was for government and industry experts to discuss how to standardise merging new smart technology with healthcare systems.
- 'Medical device licence ownership' allows medical device companies to relocate tasks like development or manufacturing to their different sites worldwide, or to outsource tasks.
- Government officials stressed that procurement agencies are making efforts to further improve tender procedures, and balance cost control and high-quality treatment.

SHANGHAI, 28TH APRIL 2022

Risks Management in Corporate Communication



- Apologise swiftly and humbly, and set up a 'war room' to ride out the storm.
- Staff outside of China—marketing and internal—need to understand Chinese sensitivities.
- Public opinion crises don't just depend on public relations (PR): PR also needs legal support and protection.

SHANGHAI, 10TH MAY 2022

Working From Home During the Lockdown: IT & Legal Solutions

- An updated and strong wireless router is a must-have at home to ensure quality and safety of the home network.
- The employer remains responsible as a data handler for any personal data processed on the employee's device for work-related purposes.
- To avoid problems when it is possible to resume normal work, establish a clear agreement on remote working from the start, specifying the return to office notice and terms.

TIANJIN, 12TH MAY 2022

GM Dinner - COVID Control Measures Impact on Q1 Performance of EU Business in Tianjin

- Most business faced quite negative financial performance, which was rare in previous years, while a small number of companies are seeing their profits rising.
- Business operations in Tianjin gradually recovered from local waves of COVID in February 2022.
- Many manufacturing firms are encouraging staff to prepare 'home offices' for future possible tightening of COVID-containment measures.

CHENGDU, 23RD FEBRUARY 2022

Compliance and Planning: Tax Concerns Related to Repatriation of Profit Made in China to Overseas Entities

- Income tax on dividend payments is the highest, though compliance and 'commercial substance' requirements are low.
- Interest can only be paid if an existing loan is in place, and will attract value-added tax (VAT) of six per cent.
- The compliance requirements for transferring tangible goods are complicated from a customs and indirect tax point of view, and there will be VAT/duty fees.

CHONGQING, 20TH APRIL 2021

Launch of Southwest China Position Paper

- Though European companies are eager to participate in the Chengdu-Chongqing Economic Circle, no clear role for foreign enterprises has been outlined.
- The lack of suitable education and healthcare facilities in the area makes it less attractive for foreign nationals to live and work there long-term.
- Dialogues between government and the foreign business community have become very infrequent in recent years.

NANJING, 19TH MAY 2022

Annual General Meeting (AGM) and Board Election

- A new Nanjing Chapter board was elected at the AGM.
- Nanjing Chapter membership grew to 115 in 2021, and has been growing for the past three years.
- The Nanjing Chapter held two government dialogues in 2021, and participated in over 10 meetings with the local government and authorities.

Advisory Council News

Boehringer Ingelheim launches new stem cell therapy for tendon/ suspensory ligament injuries in horses

21st April 2022 – Boehringer Ingelheim has now received approval in Europe for RenuTend, the first product licensed to improve healing of tendon and suspensory ligament injuries in horses. RenuTend is administered by intralesional injection and complements Boehringer Ingelheim's other equine stem cell product Arti-Cell FORTE, which is authorised to treat mild to moderate recurrent lameness associated with non-septic joint inflammation in horses.

Photo: www.boehringer–ingelheim.com

Renewable Energy: ENGIE launches its pioneering label in France with Bureau Veritas

5th May 2022 – ENGIE launched a pioneering initiative to speed up the acceptance of renewable energies, with the creation of a label jointly designed with Bureau Veritas. Named 'TED' for Transition Energétique Durable (Sustainable Energy Transition), the label is founded on meaningful commitments in favour of the development and operation of renewable activities, a pillar of the Group's energy project. It aims to provide citizens, as well as regions, guarantees of rigour and transparency.

Sanofi: New Nirsevimab data analyses reinforce efficacy against RSV

11th May 2022 – Results from a prespecified pooled analysis of the pivotal Phase 3 MELODY and Phase 2b trials of the antibody nirsevimab demonstrated an efficacy (relative risk reduction versus placebo) of 79.5 per cent against lower respiratory tract infections, such as bronchiolitis or pneumonia, caused by respiratory viruses (RSV) in infants born at term or preterm entering their first RSV season.

In a separate pooled post-hoc analysis of the trials, blood samples taken from infants dosed with nirsevimab exhibited RSV-neutralising antibodies that were approximately 50-fold higher than baseline at Day 151 post-dose. Antibody levels remained 19-fold higher than placebo recipients after one year, suggesting protection may extend beyond Day 151.

Snam among companies most committed to involving suppliers in combating climate change

10th February 2022 – Snam has been recognised by CDP (formerly the Carbon Disclosure Project) as a leading global company for its commitment to involving its suppliers in the fight against climate change. The company has been awarded the title of 'Supplier Engagement Leader', reserved for the most reliable companies in measuring the climate risk of the activities of their supply chains and in the actions to counter it. The result achieved by Snam recognises the company's efforts to reduce climate-changing emissions. After committing to achieve zero net greenhouse gas emissions (Scope 1 and Scope 2) by 2040, Snam set targets for 2030 also on indirect Scope 3 emissions, mainly attributable to suppliers and subsidiaries, becoming the first energy infrastructure operator in the European Union to set targets for the reduction of Scope 3 emissions related also to its supply chain.

TotalEnergies pursues floating offshore wind development with construction of first farm in France

10th May 2022 – TotalEnergies is pleased to announce the start of construction of the Eolmed project, operated by Qair and in which TotalEnergies has a 20 per cent stake. This 30 megawatt (MW) project is located more than 18 kilometres off the coast of Gruissan and Port la Nouvelle (Occitan region). Production is expected to commence by 2024. The wind farm will consist of three 10 MW wind turbines mounted on steel floats and connected to the French Electricity Transmission Network (RTE) by an underwater cable. This project is part of TotalEnergies' strategy to develop floating wind energy that allows access to sites further from the coast, and to take advantage of greater wind resources.

Photo: www.se.com

Schneider Electric welcomes EU proposal to meet environmental targets faster by updating SF6 greenhouse gas policy

6th April 2022 – Schneider Electric, the global leader in the digital transformation of energy management and automation, has shared its strong support for the European Commission's recent announcement regarding future use of the world's strongest greenhouse gas, SF6, a gas that for decades has been widely used in electrical equipment due its unique suitability and lack of competitive alternatives.

Delivering on its promise of building a full portfolio of SF6-free offers, Schneider Electric continues to deliver a breakthrough suite of environmentally superior and digital technologies to market that avoid the use of SF6, replacing it with pure air. The availability and reliable high-performance of these long-awaited clean technologies make the EU's policy revision effort both timely and achievable.

Photo: totalenergies.com

Tell Us Your Big News

European Chamber members are welcome to add news items on their own activities to our website, and share it with all our other 1,800 members.

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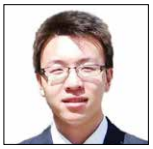

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Office Manager

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Adam Dunnett

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WORKING GROUP CHAIRS

The Chairs and Vice Chairs are responsible for carrying out the working group's overall leadership through hosting working group meetings, leading advocacy meetings, co–leading on the annual *Position Paper*, recruiting new members and representing the group in front of media.

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Auto Components National Chair
Felix Koo

Automotive National Chair
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of the European Chamber

The members of the European Chamber's Advisory Council are active in representing and advising the Chamber, and make an enhanced contribution to the Chamber's funding.

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DANCING YAK HANDICRAFTS

ABOUT US

Coming from Switzerland, Katja Forrer founded Dancing Yak Handicrafts as a training center for Tibetan women in Chengdu.

After completing the 2 year training program, the women can choose to continue working with Dancing Yak, or take a sewing machine back to their village to start their own shop.

OUR PRODUCTS

Our products are made of yak hair, sheep wool, felt, and the beautiful Tibetan brocade fabrics.

FIND US AT:

- Web: https://dancingyakhandicrafts.com
- Instagram: dancing_yak_tibetan_crafts
- WeChat Store: Dancing Yak Handicrafts
- Shop location: Chengdu, Wuhouci