China's Market Economy Status:

Is winter coming for European industries?

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Official Conference Report

Conference Summary

The recognition of market economy status to China contradicts the European Union's international trade rules: legally, China is not yet a market economy and therefore should not be entitled to *automatic* accession.

"Do we want to give China MES?", "What would our concrete interests be?"

Experts have stated that China need us more than we need them.

"Does China play by the same rules as everyone else?"

The analogy of international football competition was chosen by one of our experts to illustrate the principle of playing the "same game" and abiding by the "same rules".

The speakers stated that granting MES to China will be the equivalent to sacrificing our values in terms of social rights, environmental rights, fiscal rights and even our view of fair international trade. It will be akin to granting a "license to dump without having the efficient trade defence instruments at hand".

Often in this debate, we pin two sides against each other. For example, the industries which will be advantaged by granting MES to China, such as the automotive sectors, versus industries which will be disadvantaged, such as the base metal industries [the negative repercussions on the steel industry was the one most referenced]. This parallel threat should not justify or allow the accession of MES for China. The global balance is at stake.

"Is the European Commission trying to bargain something with China?"

The rumours of a quid-pro-quo financing of the Juncker investment plan should not be an excuse to allow this status to be given to China at any price.

As members of the European Parliament and stakeholders in different areas, we want to make our voice on this important issue heard.

Panel One: Should China be granted MES? The myth of automatism; the danger of a unilateral decision.

Gabriel Grésillon – Journalist, Les Echos

Our view on China is mistaken; we do not grasp the fragility of their economic model. We need to be more balanced in our discussion of granting MES to China. Our perception of China used to be condescending, but their achievements were overlooked (e.g. getting so many people out of poverty). Nowadays, we have the impression that China does what it wants and is the foremost power. We need to turn away from both extreme perceptions.

Three questions matter: is China a market economy? Should we grant MES to China? Do we *want* to grant MES to China? The latter is the most important one and the only one that is actually worth asking. China's bubble is bursting and its economy might be collapsing; between 2007 and 2008, due to the climate of their internal market, debt levels have almost doubled. This is despite the fact that they have billions of Yuan in reserves and their trade balance remains impressive. This is a dangerous situation.

Is China a market economy? China's money is channelled into heavy industry (steel/coal) and companies benefit from the unfair distribution of resources, money and even land, on the only basis of political decisions (state-owned groups always win!). From a technical standpoint, it is therefore hard to say that China is a market economy state.

Should we grant MES to China? From a legal standpoint, the Chinese legal process is far more flexible and malleable than the EU (e.g. China often changes the content of legally binding contracts as circumstances evolve). From a Western perspective, this is concerning; but it allows China to evolve much quicker than us. China doesn't take decisions based on obligations; its choices are driven by the political and economic context.

Do we want to grant Market economy status to China? Questioning if we *want* to grant MES to China is the only way we should evaluate this issue; and this is the way that China approaches its decisions (which is ironic considering they argue that the WTO provision as "automatic"). China thinks of MES as a long-term political strategy. We too need to think about the MES issue in this way. Recent history shows that being nice to China doesn't automatically make you happy in the long run (e.g. has France gone too far in its openness to China?). Furthermore, the perception that the EU will get extra benefits or favours from China if it grants MES before the deadline is utterly unfounded, and is demonstrated in other cases where MES was granted (e.g. Australia).

China respects the partners that it perceives to be strong-minded. It respects the U.S the most because they are interest-driven and far more unfiltered in their approach to bilateral relations. Therefore, this signals that the EU should not take a softer approach to China in order to improve relations.

When China joined the WTO in 2001, it was not such a major power, but now it is the foremost economy in the world. We assumed they would open-up some industries, but they have not done so in the way we expected. It is difficult to assess if MES should be granted - what would we get in exchange? Due to the private nature of the deliberation process on all sides, we don't know anything about the internal discussions going on.

What is crystal clear though, is that China understands the need to have relations with external markets; they need us more than we need them. We need to realise we have the upper hand in this partnership: we should think ourselves as being in the driving seat.

Salvatore Cicu – MEP

We need to evaluate the issue of granting MES to China in a balanced and careful manner. Many predictions have been flying around of what may happen if we granted MES, but we must consider that if we granted MES, China would benefit from 90% of the development, whereas the EU would benefit from only 10% development.

The issue of granting MES to China is very complex and remains unclear to all parties on which direction the deliberations are heading. There are legal, po0litical and economic complexities to the discussion, which all need to be evaluated in a cautious manner. These complexities have been prominent since China joined the WTO fifteen years ago; they are not European inventions to oppose Chinese accession, they are legitimate concerns.

We are still awaiting the decision of the European Commission on whether China will be granted MES; and we look forward to this decision. However, in the meantime, Commissioner Cecilia Malmstrom has confirmed that China is not entitled to *automatic* accession to market economy status, thanks to questions posed to her by the Italian delegation at the European Parliament. We, in the parliament, are not looking to take over the Commission's role in these discussions; but look forward to a decision being made so that the Parliament can take part in the decision-making process at the next stage.

The United States have been cautious in how they approach China; which is a better approach to take. The European Union should be very cautious too in deciding whether to grant China MES; the deliberations should be given great attention and be discussed in a transparent manner. The European institutions must be diligent and vigilant in deliberating MES; especially in evaluating the potential repercussions on the different sectors of European industry.

For this reason, the EPP has been organising discussions with different audiences and stakeholders, in order to establish a clear, well-rounded and unbiased assessment of the situation. Europe needs to collect a panoramic view of this issue and look at how the current European climate could impact the discussions on MES. For example, what implications could MES have on European jobs and industries? What implications could a Brexit have on the decision to grant MES? What implications could granting MES have on European jobs and GDP? We need to know all of the facts and be cautious in our decision-making process. Similarly, China also needs to be cautious here; this is about one economy dominating another through the unfair dumping of overcapacity. Europe cannot be in denial that granting MES to China has the potential to completely rewrite world trade laws.

The EPP Group has reached several conclusions on the matter of granting MES to China, and it is important that every political group has the opportunity to express its own position. We do not believe that the accession to MES can be automatic and China does not fulfil the conditions to become a market economy. Furthermore, in order to ensure the equality and efficiency of the EU in the world order, the EU needs to establish a functioning anti-dumping tool which can be used against China. The EU must find compatible legal solutions with the WTO in order to allow Europe to efficiently protect itself through anti-dumping cases with China in the future.

Bernard O'Connor – Lawyer, NCTM

We can all agree that China is not a market economy state, and it has not fulfilled the promises it made in 2001 when it signed a deal with WTO. The big commitment, outlined in Article 9 of the Protocol of Accession, was that prices should be set by the market. If China had achieved this, it would be considered a market economy state and we would not be discussing it now.

China describes itself as a "socialist market economy". Legally, indeed, China is not a market economy state. Why? Firstly, because the European Commission says so (in assessment reports carried out in 2004 and 2008). Secondly, according to a 2013 assessment, China meets only one of the five EU criteria which allows MES be granted, which is the removal of Barter trade.

Chinese economic resources remain allocated by the state – through its 71 'Five Year Plans' – rather than by the market. When it comes to corporate governance, there is no proper company law nor trust law. Finally, 95% of the banks are state banks.

According to Article 15 of the Protocol of Accession, if prices are higher in the country of origin than in the country of destination, this is a case of dumping. Right now, the European Commission uses non-China prices (constructed through the concept of "normal value") to calculate Chinese dumping.

However, there are rumours emerging that the ability to use cost-adjustment when assessing dumping will become illegal in WTO rules.

The controversy of this decision is that China perceives their accession as ‘automatic’, so we must get to the bottom of what the WTO grants to all parties in this decision.

The only right granted to China in the WTO provision is the possibility to demonstrate that it is a market economy state or that some sectors function under the market rules (through the five criteria). Nothing here is automatic.

The WTO provision grants the EU the right to use Chinese prices in some cases and use non-Chinese prices (Analogue Country Method) in other cases in order to determine dumping margin. However, after the expiration of Article 15 in 2016, nothing says that China should be automatically considered a market economy state. After 2016, China should not be given the opportunity to ask the EU to base its calculations on Chinese prices only.

We also need to understand the European Commission’s position – Are they trying to bargain something? Are they trying to get market access or to unlock the negotiations of a Bilateral investment Treaty? Are they working together with our other partners, like the U.S? If the EC decides to grant MES, and the EP or/and the Council disagree(s) – this will pose a problem, as it is the Commission that will represent our interests in the WTO.

We should duly take into account other examples of countries dealing with China’s MES. Canada granted MES then took it away when it realised the repercussions. Australia granted MES, but now cannot use anti-dumping tools. In any case, anti-subsidy tools are not an equivalent, because they are designed to apply to market economy states and are not able to fully capture the intimate nexus between the Chinese government, state-owned enterprises, the Chinese Communist party, etc.

According to Adam Smith, if you want to make things happen, you have to get your hands dirty. Manufacturing and strong industrial bases are essential to a market economy that wants to innovate and create jobs. In other words, we must strive for more innovation and jobs so we can stay competitive and grow. Still, there will be a loss of lots of EU jobs if the EU cannot use anti-dumping provisions on China. That is why we need strong rules and strong protections.

In economic terms, those who want to grant MES are the industries who want access to the Chinese market (market access, cheap use of parts/raw materials) – for example, Siemens. Those who do not want to grant MES are the industries suffering from dumping (ceramics, chemicals, steel, and bicycles). .

On the UK’s position in this: in November/December, multiple closures of steel mills in the UK prompted a special Council meeting, during which the UK said that granting MES without the modernisation of anti-dumping instruments is not on the cards.

<u>Emmanuel Maurel - MEP</u>

We can all agree that China is not a market economy, but the problem lies with the myth of “automatic accession”. The European Parliament will have a say on the issue of MES China; therefore, the goal of MEPs, beyond political divisions, should be to break down this myth.

If only take into account the political and economic aspect, the issue becomes simplified and can be summed up in two questions: what do we, as Europeans, want and what kind of Europe do we want to build? This discussion should focus on our interests.

The EU has to take a strategic approach to this issue; but its strategy is not always very clear. Sometimes it seems we are on auto-pilot. Regarding the European Commission, it looks as though it has not done enough primary research into the ramifications of MES, and instead relies on fake legal arguments.

Granting MES to China contradicts the EU's strong-rule on international and trade rules. We cannot sacrifice EU values and our standards in the name of global competition. We must defend our global and internal interests.

Some believe that granting MES to China could encourage reform in China. We should think differently: we should hope that by refusing to grant MES, China will make steps themselves to reform their system so they meet the EU's five demands. We should avoid becoming the global *village idiot*. Japan, the U.S, Canada, and India have no intention to grant MES to China whatsoever: they prioritise defending their internal interests rather than cowering to international pressure. We should be doing the same.

We must break out of the stalemates in these negotiations and open up the discussion on the modernisation of TDIs.

There is no official position of the European Parliament, but there is a general feeling that most MEPs believe that MES should not be automatic, and are generally aware of the risks that come hand-in-hand with such a decision. In terms of the European Council; Italian Prime Minister Renzi and German Chancellor Merkel have both been vocal on their country's positions of granting MES to China, which shows a lack of unanimity in the Council.

Panel two: What if China was granted MES? Predicted negative consequences for EU industries.

Edouard Martin - MEP

When looking at the international world order, sometimes a football analogy can be quite apt; all players have to play by the same rules, which are decided by an international institution. But we must question: "does China play by the same international rules as everyone?" In my view, clearly not.

At times, the European institutions overcomplicate issues which are considered to be on opposite sides of the spectrum; and we can see this distortion with MES to China.

Many European industries are suffering and are in danger of utter collapse at the hands of Chinese dumping. These industries have already taken some emergency measures to avoid ruin: partial employment of employees (Gijon, Spain - Arcelor Mittal), a reduction of production (Fos sur Mer, France - Arcelor Mittal), closure of steel mills in the UK (Red Car and TataSteel).

"If the situation keeps going like this, we won't survive much longer".

"I am a person who believes that when we share the diagnostic, it is easier to find solutions".

Technically and legally, it is very hard to prove dumping has taken place: our instruments of trade defence are not efficient enough to withstand the scale of economic globalisation we now have. On average, a dumping inquiry is more or less nine months. The potential damages for an industry facing a dumping are very high.

We must urge institutions to resume the review of the trade defence instruments, which reached a stalemate in the Council. Furthermore, we must question why the UK is part of the blocking minority on this issue at the Council, especially since so many steel plants have closed in the UK over the past few months.

We should request a more flexible reading of European competition rules, especially in regard to temporary state aid and the acceptance of a dominant position. Let's take the particular example of the stainless steel; AST in Terni, owned by Thyssen Krupp. Initially, they wanted to sell it to Outo Kumpu because Thyssen Krupp were not able to combat the unfair competition of stainless products coming from China. However, the potential purchase by Outo Kumpu was blocked by the European Commission because it represented a risk of Outo Kumpu having an overly dominant position in the European Union. Therefore, negotiations were redirected, which left workers in a complicated situation during the six month negotiation period with Thyssen Krupp instead.

Months after, the European Commission took anti-dumping measures on Chinese stainless products. This example shows the inconsistency of the European Commission and their lack of understanding of European citizens and European policies.

Today we know that China produces fifty per cent of global steel. However, we do not exactly know the total amount of what is classified as Chinese overproduction; we estimate a level of between 300 and 400 millions of tons overproduced of steel. What would be its consequences of this amount of overproduction invading the European markets?

This overproduction is then dumped, and not explained; China needs to be held accountable for its actions. China needs to be able to explain how they can sell a ton of hot-rolled steel more cheaply than they are able to sell scrap. "It is a Chinese miracle, it makes no sense" that the manufactured product is cheaper than the raw material.

Over the past several years we have seen EU steel losing value, from 400 euros per ton to a reduced 250 euros. We need to ensure that our industries are safe.

We cannot reduce the decision to grant MES to one argument. After all, we are not dealing with one China, we are dealing with two Chinas: the wealthy coast and the impoverished inland. China could become the workshop of the world; rapidly growing and unchallenged. All European industries should be aware that high quality jobs are moving from Europe to China, otherwise other sector might also find themselves in peril.

Guido Nelissen - Trade Unionist, Industri'All

If the European Commission grants Market economy Status to China, within two decades, there will be no primary production of aluminium or steel in the EU. We must take action to avoid this "slow death" for base metal industries.

To ensure the safety of our European industries, we must hold off on granting MES to China as it is too early. "China is still on the wrong side of a market economy"; China must first honour the commitments they made when they joined the WTO in 2001.

However, China has taken an aggressive stance on this issue. We should not be hasty and take an aggressive stance too; instead, we need to think more carefully about the consequences of granting MES.

China has quadrupled its steel production between 2003 and 2013; this would have been utterly impossible if China was actually a market economy state. The rest of the world's steel production remained steady through the Chinese boom.

The EU is concerned about China sticking to its word. Chinese rules that are put in place are often not even abided by or monitored; for example, ensuring worker's rights. Moreover, we need to factor in the increased global ecological foot print if we grant MES to China.

Finally, granting MES will remove any incentive the Chinese have to spark reform and remove the state-led economy they have in place, which ultimately leads to distortions on the global trade market.

David Borrelli – MEP

For many years China has been a global player, and despite the geographical distance, the space between China and Europe is shrinking. On one hand this trend requires us, as Europeans, to cooperate with Beijing and to support its economic, political, social and environmental growth and development; on the other hand, however, the European Union should avoid unwise choices which may negatively impact our manufacturing base. The EU should work for the wealth of all its citizens, and not for just some of them.

From a political point of view, the European institutions should protect the interests of the European citizens even if the "MES China game" is being played behind closed doors and at arm's length from the Parliament. The European Union should not be against China or against the strengthening of bilateral trade and political relations, but it should ensure that these developments happen in conditions of equality and reciprocity, in the interest of workers, citizens and consumers across Europe.

The issue of granting MES to China cannot be limited to a legal quarrel, or, even worse, to just a simple mechanic "automatism" which has no legal ground; the unlikely accession of MES will have a deep impact on our European social system and industries. Therefore, it is the political responsibility of this Parliament to take a clear position on this issue, after having received the Commission's proposal.

Granting of MES would have a clear and severe impact on some of our countries and some of our sectors, while others may even benefit from granting MES to China; how can Europe face this sort of two-headed threat, which is damaging some and beneficial others?

The whole issue rests on the fact that the Chinese government will allow its industries to sell abroad what they cannot sell at home (such as steel). These areas of concern are not whimsical hypotheses thought up by European industries, but pointing back to the clear intentions of the Chinese authorities.

Therefore, the European Commission should be aware that the accession of MES for China cannot be as easy as making a speedy decision behind closed doors, especially without assessing who really gains from granting MES.

We need to ask the difficult questions. Which sectors, areas and countries in the EU will be affected by this decision? Does the Commission want to make this decision without providing adequate transparency? Does the Commission have a comprehensive impact assessment about granting MES? These reflections should be separated from the concerns of a threat of a political retaliation of China if MES is not granted.

Many jobs are at risk in Europe, and this is a scary reality; why nobody is able to tell us how many meetings there have been with the Chinese authorities, and if somebody has assessed the risk of job losses? Are there promises of Chinese investment in the so called Juncker Plan in exchange for MES?

MES China requires a strategic decision, and the Commission is avoiding its political role, boiling MES down to a wholly legal issue. Instead of focussing on the political ramifications, the Commission is assessing the risk of the EU facing actions from the WTO due to expiry of the article 15; however, even if China was to sue Europe in front of the WTO, the EU could also sue China for violating at least 10 obligations that China promised to comply with in 2001. A final concern is *individualism*: if Member States are acting without a coordinating with each other on this issue, then their behaviour will have a negative impact for us all, endangering also our long-term commitments and weakening Europe's position in the negotiating stage.

Claude Turmes - MEP

The European Commission is not acting on the China/MES issue because the UK, Germany and France have not positioned themselves in the debate - these "hidden elephants" are torn between defending (rhetorically) their steel or other manufacturing industry and protecting their own interest to accommodate the Chinese leadership (Germany for the car industry, France for the nuclear industry, UK as remaining an investment hub for China).

How sincere are the owners (les "patrons") of the EU steel and other energy intensive industries about the fight around granting MES to China? Are Mittal, Tata, Thyssen Krupp championing their European assets or are they global multinationals who optimise their global assets (e.g. buying cheap Chinese semi-finished products to transform them in Europe)?

If you want to win, you have to prioritise and not to run secondary and non-substantial battles. It has been for years that the actors from the steel industry (the owners but partially also the trade unions) have spotted that caring about the planet was the biggest enemy of the EU steel industry and undertaken fierce lobbying campaigns to destroy the EU climate and energy policy instruments promoted as the most substantial threat to steel industry. This is a non-fact based "fear mongering" tactics which is using wrong figures and assessments. For example, electricity prices in Germany and France are not substantially higher than the ones of US or Chinese competitors due to low wholesale market prices and tax and grid charges generous exemptions given to energy intensive industry. Most steel companies have earned money from EU carbon trading (and certainly did not pay huge sums as often wrongly claimed). The European steel industry has two problems: (i) lack of domestic steel demand caused by overstretched austerity policies after Lehmann brother's crash in 2008 and which can be redressed by a re-investment strategy (a Juncker plan +) financed from fresh revenues from a carbon floor price to be introduced in the EU ETS market; (ii) massive dumping steel imports from China, after years of growing export (which also prove that EU steel industry was competitive). For these reasons, MES shall not be granted to China.

Renaud Batier – AEGIS Europe

The issue of granting MES to China has become a "crucial EU trade issue"; the media is reporting statistics and potential repercussions daily, and all over Europe. Despite this global discussion, the issue is still marred with confusion and complexity; there needs to be some clarity about what MES is all about and whether it is an automatic accession.

Simplified, granting *"automatic"* MES to China would make EU anti-dumping measures ineffective, leading to unlimited dumping of Chinese products on EU market, while the EU watches at the side-lines. If the EU did not have the power of TDIs against China, EU jobs would be at risk, as well as the potential collapse of EU industries. In order to avoid this kind of unfair competition and safeguard millions of jobs, Europe must maintain the effectiveness of its trade defence instruments.

But why do we care about dumping? We care because illegally dumped imports from China represent a significant share of EU trade with China, and dumped products from China have been drastically increasing over recent years.

Furthermore, beyond the technical issues of MES, Europe cannot ignore the fact that China has a state-run economy, not market led. A recent study from THINK!DESK China Research & Consulting, concludes that state interventions have increased as the Chinese economy begins to slow and that weak domestic demand in China has led to a massive overcapacity, then dumped on the world market. So, how can Europe consider granting MES when many actors conclude that China is not a market-economy and we can see the repercussions occurring?

The complexity of this issue merits horizontal EU discussions and detailed research into the impacts. The Commission is meant to be discussing this issue; however, we have not heard any indication of their position yet. The ongoing silence of the Commission in the face of crippling trade repercussions at the hands of Chinese dumping is sending the message that the Commission is leaving European industries to their own devices.

What we need, is for the Commission to come out of hiding and explain to people what is at risk; the loss of between 1.7 and 3.5 million European jobs, a 1-2% reduction of European GDP, and €142.5 billion extra EU imports of manufactured goods. We need to be objective about this, and ensure that Europe is equipped to deal with dumping from China, otherwise "MES will be devastating" for the EU.

In the ceramic tableware sector for example, in the absence of anti-dumping measures being in place between 2004 and 2011, China's market share increased from 20% to almost 70%, and the EU sector lost over 33,000 direct jobs. If the EU was to grant MES to China, a further 25,000 (approx.) direct jobs would be at risk in this sector.

This case study is just one example of the devastating effects on EU industry if MES was granted. Furthermore, there is evidence to suggest that granting MES may jeopardise the TTIP negotiations, as TTIP would create a loophole for China to redirect dumped goods to the US market,. The U.S has been very stern on not supporting giving China MES.

The Commission needs to assess the realities of Europe's situation and be objective. This is not just a political decision, but an economic one. We cannot overlook the fact that China makes up 50% of all EU anti-dumping cases, and in the world, 80% of all anti-dumping and anti-subsidy investigations are against China. What's more, global anti-dumping and anti-subsidy actions against China have increased by 60% since 2010; our industries cannot take any more of an increase. We need to ensure that our industries are protected from dumping, and granting MES to China is like "granting a licence to dump".