Journal of the European Union Chamber of Commerce in China

EURObiz

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November/December 2012

LIFT OFF! Where Next for Galileo?

CHAMBER ON TOUR
Presenting the Position Paper in Europe

ALL CHANGE?
China's Leadership Succession

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How to Navigate the Potential Pitfalls

EXPRESS LOGISTICS
Prudent Investors Could Reap Rewards

European Chamber
中国欧盟商会

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On the cover

12th October, 2012: Soyuz lifts off for the third time from Europe's Spaceport in French Guiana on its mission to place the second pair of Galileo In-Orbit Validation (IOV) satellites into orbit. Photo: ESA

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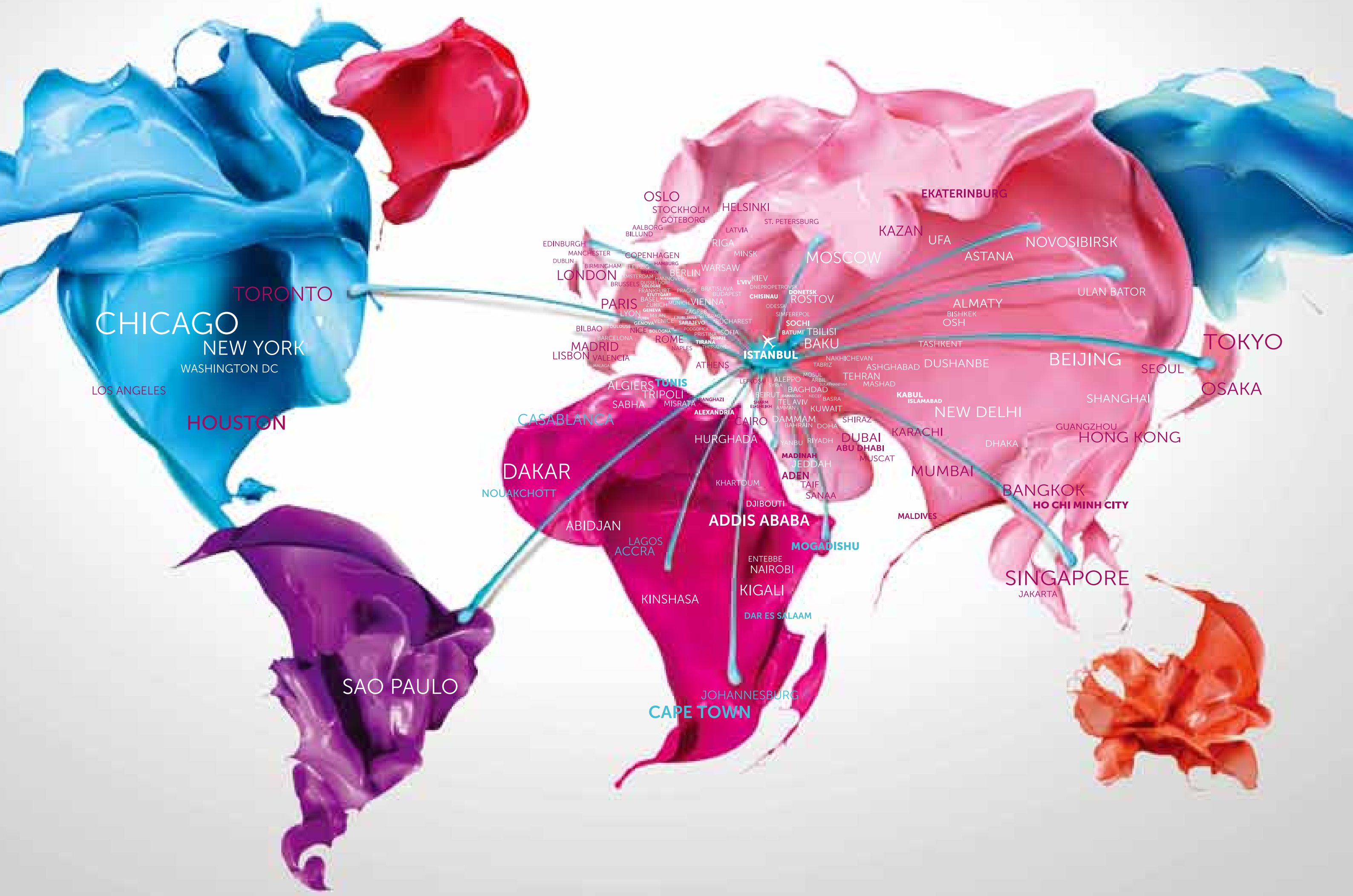

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Dialogue With a Purpose

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

One of the highlights of the recent EU-China Summit held in Brussels was the clear interest, declared by both sides, to negotiate a bilateral investment treaty.

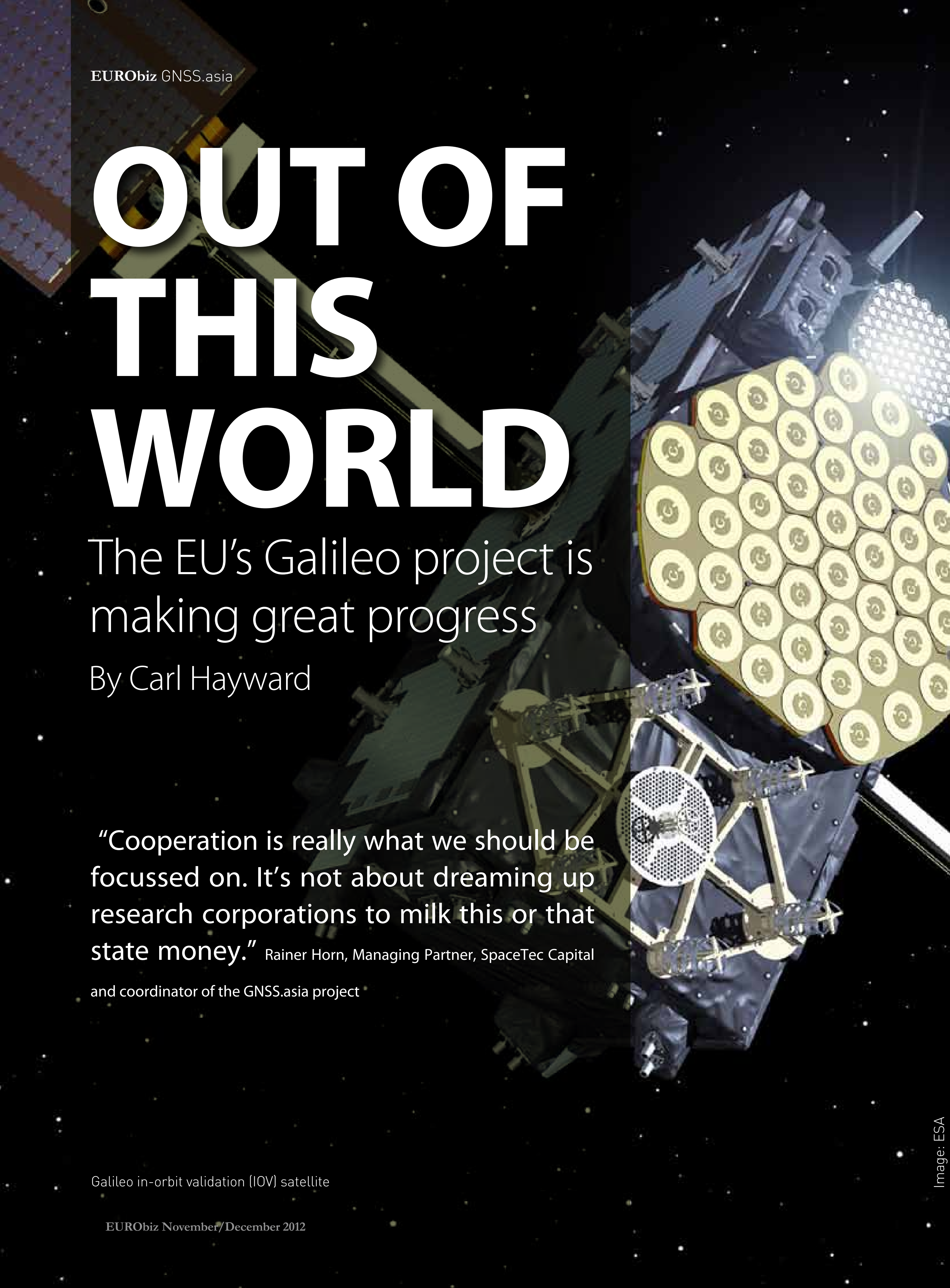
The Chamber has since had many opportunities in Brussels and in many other capitals in Europe to share our view, expressed in this year's *Position Paper*, on the need to include specific clauses on pre-establishment national treatment (i.e. market access) in such a treaty.

Chinese companies are going global and outbound investment from China to Europe is increasing rapidly. This is a positive trend and the European Chamber supports EU-wide protection of such investments. At the same time we observe a growing asymmetry in market access, with Chinese companies entering sectors in Europe that are mostly restricted in China. As a member of the WTO for more than 10 years, China should now be in a position to rescind the investment restraints imposed across a number of sectors by the Foreign Investment Catalogue.

The recent trend towards a slowdown of economic growth in China, despite continued heavy investments in infrastructure, is increasing competitive pressure in many sectors. A broad consensus seems to be emerging that there is a need for a new growth model that has less (administrative) monopolies, more room for private initiatives, a clear focus on higher value-added products and services and that is technology-driven and green. We believe that equal treatment — starting with equal market access — will unlock an untapped growth potential that is driven by private entrepreneurship, grass roots innovation and increased productivity, amongst other factors.

Let's seize the opportunity offered by the above-mentioned investment treaty negotiations, not only to improve mutual protection of investments, but also to create a comparably level playing field for all companies to compete in a fair and open manner, both in the EU and in China.

As the year draws to a close, I'd like to also take this opportunity to extend to each and every one of you my warmest season's greetings and to wish you all a joyous and relaxing time over the festive period.



OUT OF THIS WORLD

The EU's Galileo project is making great progress

By Carl Hayward

"Cooperation is really what we should be focussed on. It's not about dreaming up research corporations to milk this or that state money." Rainer Horn, Managing Partner, SpaceTec Capital and coordinator of the GNSS.asia project

Galileo in-orbit validation (IOV) satellite

Image: ESA

November 7th 2012, saw the GNSS.asia consortium reconvene in Beijing to discuss EU-China cooperation on Global Navigation Satellite System (GNSS) initiatives. The primary focus was on updating Chinese industry on the latest developments in GNSS, and exploring opportunities for industrial cooperation between European and Chinese businesses engaged in the downstream sector, which is concerned with the development of applications and multi-constellation receivers. The GNSS.asia workshop was jointly hosted by the European Union Chamber of Commerce in China and the China-Europe GNSS Technology Training and Cooperation Centre (CENC). The GNSS.asia initiative is financed by the European Commission under the EU 7th Framework Programme (FP7) for Research and Technological Development.

The GNSS.asia Workshop, held for the first time in China, was timely, closely following the signing of the *European Commission-China Cooperation on Space Elements of Consensus* earlier in the year. This agreement, between the Ministry of Science and Technology (MOST) and the European Commission, is ostensibly to help improve cooperation on general space issues between the EU and China. However, as Jean Marie Avezou, First Counsellor of the EU Delegation in China, pointed out in his opening remarks, the signing of this document would also hopefully "encourage Chinese enterprises to join FP7 with European corporations in the space and GNSS field."

Avezou went on to further underline the importance of the agreement on Space Cooperation signed in the margins of the latest EU-China Summit on 20th September, noting, "At a time when Europe and China are developing their respective satellite navigation systems — Galileo and Beidou — both sides took the commitment to propose ways to improve the compatibility and the interoperability of the two systems to provide better service for the users around the world," and concluded that this strategic cooperation would provide "mutual benefits for citizens and enterprises."

These mutual benefits are clear, and span multiple industries. Avezou revealed that the overall impact satellite navigation technology will have on the EU's economy "is estimated to be EUR 90 billion over the next 20 years", whereas a report in *China Daily* said that, according to the Ministry of Science and Technology, the value of the total output of industries connected with navigation services in China could reach "225 billion Yuan by 2012 and 400 billion Yuan by 2020".

The industrial application of GNSS technology covers aviation, fisheries, agriculture and engineering to name just a few, as well as road applications – potentially the largest area for cooperation between Europe and China. The largest area for development, however, appears to be in Location-Based Services (LBS) – services that will be available for owners of digital cameras, MP3 players, laptops and, most importantly, mobile phones. LBS will see a huge investment in indoor navigation services, which has been referred to as the 'next frontier' in GNSS.

After some initial delays in the timetable, Galileo, being built by the EU and the European Space Agency (ESA), is now back on track and making good progress. Two satellites were launched on October 12th, 2012, from Kourou in French Guiana, joining up with an existing pair that have been in orbit since October 2011. This constellation of four is the minimum required to begin the process of checking and validation of the system. If final in-orbit checks are positive a further 14 satellites will be deployed by the end of 2014, which will allow the first services to be provided.

So if the framework is in place and the technology is developing positively, what else is required to keep the project moving forward? "Cooperation is really what we should be focussed on," says Rainer Horn, "It's not about dreaming up research corporations to milk this or that state money." Horn, Managing Partner of SpaceTec Capital and Coordinator of the GNSS.asia project, has been involved "on and off" since 2001. He acted in an advisory role with his previous company, founded specifically to work in space applications in a wider sense, until five and a half years ago. By working with many institutions, start-up and innovative companies SpaceTec have managed to position themselves as one of the key European players specialised in this field.

Prior to the workshop Horn had been keen to make meaningful progress, and afterwards was pleased with the general outcome, emphasising the support and cooperation that they had received from a broad selection of partners and stakeholders, including some new associations, as positives.

Although just a start, it appears that the workshop helped to provide a solid platform for future activities. According to Horn, "We already have some proposals from these partners on what to do in the next few months together, so we will now get into deeper dialogue with them. We have had an expression of interest from some Chinese industries wanting to know more about matters, including standardisation, so it is the beginning of something that will last for two years up to the end of the project and hopefully beyond that. We appreciate the support of the European institutions in this effort, and overall I think it was a great start for the project in China."

The Soyuz VS03 rocket upper composite mating. It carried two of Europe's Galileo navigation system satellites.

The two Galileo IOV satellites were protected during their launch by a launch fairing, which was ejected once Soyuz had passed most of the way through the Earth's atmosphere.

Dave Barrett, GNSS Specialist and advisor to GNSS.asia, was similarly encouraged by the level of engagement he experienced at the workshop, but was clear to point out that this process is in need of constant attention in order to maintain the level of awareness required to keep the project moving forward. This awareness, he says, needs to penetrate all levels of the market:

"The audience here today mostly know about Galileo, so we've not been talking to the uninitiated. However, if you go around to some of the trade shows and talk to some of the lower-level, mass manufacturers, people that are doing small-level applications, they're not really aware. So these are the people that we need to bring into the sphere of awareness, so that they can look at how they can improve their applications and see whether they should upgrade their receivers as time goes on. It's a constant marketing exercise, really, to keep the awareness going."

Barrett explains that as Galileo adds to its constellation, and the services start to come online, its profile will naturally go up. However if Chinese chipset manufacturers are onboard early on – as Barrett points out, most of the receivers will be built in China for the foreseeable future – and are building multi-constellation receivers that include Galileo, as the chipsets reduce in price these receivers will become available to the mass market, "and that's when we'll see a big change," he says. Barrett was part of the Dragonfly project in 2008/2009, which was involved in looking at receiver applications in China.

Most workshop attendees were open to the possibilities for industrial cooperation between Europe and China, with some acknowledging that there is an opportunity not just to make commercial gains, but also to build mutual understanding and openness at the political level.

So what's the next step, and how do we get there? "From my perspective, how can [the] EU and the Chinese government communicate with each other more clearly and efficiently? How can EU and Chinese enterprises work more closely and find the right partner? In this case I think the GNSS workshop plays an important role between both sides," says Niomi Ding, Project Coordinator for Deutsche Telekom, and one of the panellists during the workshop.

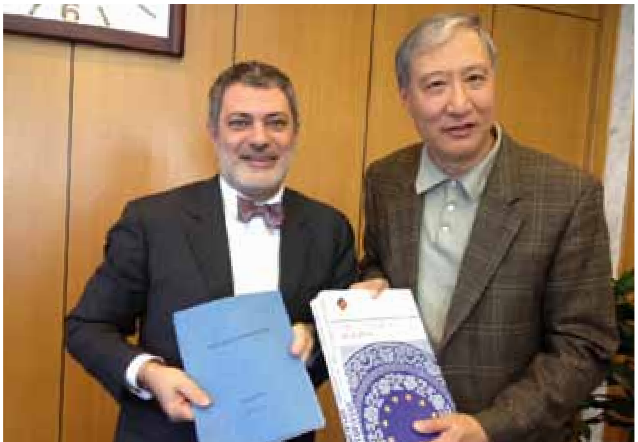
Barrett took confidence from the meeting and believes that the climate is now right for stepping things up, explaining, "There is a feeling that China needs to cooperate overseas, be it Europe or America — they're not going to be able to do it all on their own. The political environment between Europe and China seems to be coming around to a situation where that cooperation is going to be viable, so now is a good time to be pursuing it."

Horn is practical and succinct in his summary, saying, "I think what we need to get down to is, what are the tangible markets? We want to be very pragmatic: we want to achieve a few hands-on cooperations with Chinese industries at different levels, and if we can achieve this we have contributed a lot to the global GNSS initiative."

Looking towards 2013, the European Chamber will be working with CENC to adapt the GNSS.asia questionnaire, provided during the workshop, to identify areas of potential development, and to arrange matchmaking sessions between European and Chinese companies. The aim is to bring together five European and five Chinese companies to give short presentations and take part in bilateral discussions. Quarterly update meetings will also be held between CENC and GNSS.asia to ensure dialogue remains open and progressive. Eb

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Presentation of the Chamber Position Paper



European Chamber President Davide Cucino presents the *Position Paper* to Commissioner Tian Lipu

Vice Commissioner of General Administration of Customs, Mr Sun Yibiao, receives the *Position Paper*

Since the launch of the *European Business in China Position Paper 2012/2013* on 6th September (see previous issue of EURObiz), there has been a flurry of lobbying activity to present the 2012/2013 key recommendations to both European and Chinese government officials. The annual Brussels tour (see page 14) kicked off the presentations, and was followed up with presentations to the Member State Embassies in China where, to date, nineteen Member State Embassies have welcomed delegations from the European Chamber for this purpose. The *Position Paper* has also been presented to a range of Chinese government authorities, including four ministerial-level presentations and over 35 working-level presentations. To follow are some of the standout meetings:

Commissioner Tian Lipu from the State Intellectual Property Office

On 24th October, a European Chamber Delegation, led by President Davide Cucino, met with State Intellectual Property Office (SIPO) Commissioner Tian Lipu, where President Cucino presented the *Position Paper*. Together with the IPR Working Group Chair and the Rail Working Group Chair, the delegation also exchanged views with the Commissioner on the Patent Law revision, patent quality and IPR protection of SMEs in the rail industry. Both sides believed that through the establishment of a joint working group, some of the issues mentioned during the meeting could be further studied and improved.

DG Calleja of DG Enterprise and Industry

The European Chamber met with Daniel Calleja, Director-General of DG Enterprise and Industry, on 26th October, 2012. During the meeting, Mr Dirk Moens, Secretary General of the European Chamber, outlined the general business climate in China as well as specific issues covered by the *Position Paper*. Mr Calleja then explained the purpose of his visit, which was to participate in the plenary meeting of the Dialogue and Consultation Mechanism on Industrial Sectors with MIIT, and outlined various new policies and initiatives from DG Enterprise.

Vice Commissioner Sun Yibiao, General Administration of Customs

On 1st November, a European Chamber delegation, led by President Davide Cucino, met with the Vice Commissioner of General Administration of Customs (GAC), Mr Sun Yibiao. The Vice Commissioner welcomed the European Chamber and expressed support for both the constructive recommendations outlined in the *Position Paper* and the continuation of the frequent consultations between GAC and the European Chamber. Specific issues raised by the European Chamber at this meeting included creation of a separate HS code for integrated frame reefer containers, recognition of shipments transited via Hong Kong in accordance with the direct transport rule, and uniformity in implementing GAC regulations and rules.

Dinner with the Vice Mayor of Beijing


Mr Gou Zhongwen, Vice Mayor of Beijing


Vice President of the European Chamber, Mr Bruno Gensberger, addresses the Vice Mayor's dinner

On 19th November, the European Chamber and the Beijing Investment Promotion Bureau organised the annual dinner with Mr Gou Zhongwen, Vice Mayor of Beijing. Mr Bruno Gensburger, Vice-President of the European Chamber, delivered an opening speech that contained some recommendations on how to make Beijing more attractive for foreign business. Afterwards representatives from the Energy, Legal & Competition, HR, SME, Financial Services and Logistics Working Groups delivered presentations on how to improve the business environment in Beijing and how foreign business could contribute to the economic and social development of Beijing

Other Lobby Activities

The European Chamber has continued to organise content-rich events, with specialist, influential speakers, in the final quarter of the year. These events provide the opportunity for the European Chamber to engage with these speakers in pre-event meetings in order to discuss the activities and key recommendations developed through the working groups. Notable meetings of this nature included discussions with **Professor Mao Yushi**, Chairman and Co-founder of Unirule Institute of Economics, and **Mr Liu Mingkang**, the former Chairman of the China Banking Regulatory Commission.

Substantial activity has been undertaken to connect with key stakeholders in order to further disseminate the message of the study *Dulling the Cutting Edge: How Patent-Related Policies and Practices Hamper Innovation in China*, published earlier this year. Since its publication, the study has been presented to, and discussed with, various Chinese ministries including **Ministry of Science and Technology, Shanghai Intellectual Property Administration, Beijing Municipal Higher People's Court, Chinese Academy of Science, and the State Intellectual Property Office.**


Professor Mao Yushi (centre) flanked by Chamber President Davide Cucino, former Chamber Presidents Joerg Wuttke and Serge Janssens, Vice President Juan Ignacio Motiloa, Secretary General Dirk Moens and members of the Chamber's Advisory Council

European Chamber Vice President Jens Ruebbert (centre) presents at the European Commission

European Chamber of Commerce goes on tour

By Xavier Sans Powell

Each year representatives of the European Union Chamber of Commerce in China present the *European Business in China Position Paper* to European Union institutions in Brussels and cities of other member states. Europe is placing increasing importance on the *Position Paper* with each passing year and, as a result, the level of access to government officials is also improving. This time around we enjoyed our first meeting with the European Commission President, José Manuel Durão Barroso, three Vice Presidents of the Commission, and also met with the European External Action Service and the European Council for the first time.

Between September and November 2012, The Chamber visited cities in 12 different Member States.

Chamber President Davide Cucino (left) meets with Vice President and Commissioner, Joaquín Almunia.

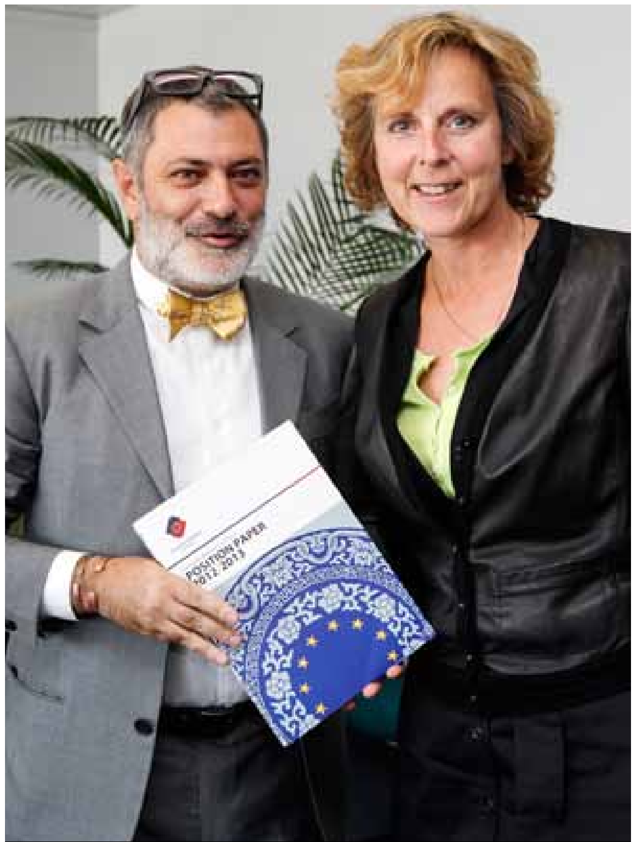
Brussels

A delegation composed of 28 people and led by President Davide Cucino went to Brussels from the 17th to the 21st September. The delegation included Vice Presidents Jens Ruebbert and Bruno Gensburger, State Representative Dr Roland Savoy, Executive Member Ninette Dodoo, Tianjin Chapter Chairman Gabriele Castaldi, Member of Shanghai Board Stefan Sack, Secretary General Dirk Moens and the General Manager of Beijing Chapter, Jaspal Channa.

During the five-day trip to the Belgian capital the delegation took part in around 45 meetings. These included high-level and working-level meetings with officials from the different EU institutions, and also with industry associations. This year the delegates had the opportunity to meet with:

- José Manuel Durão Barroso, President of the European Commission
- Joaquín Almunia, Vice-President and Commissioner for Competition

- Siim Kallas, Vice-President and Commissioner for Transportation and Mobility
- Neelie Kroes, Vice-President and Commissioner for Digital Agenda
- Karel De Gucht, Commissioner for Trade
- John Dalli, Commissioner for Health and Consumers
- Connie Hedegaard, Commissioner for Climate Action
- David O'Sullivan, Chief Operating Officer, EU Diplomatic Corps, European External Action Service
- Jean-Luc Demarty, Director-General for Trade
- Olivier Guersen, Head of Commissioner Michel Barnier's Cabinet, Director-General for Internal Markets
- Cabinets of Commissioners for Research, Technology and Development, Environment, and Enterprise and Industry
- Cabinet of President Herman Van Rompuy, European Council
- The European Parliament, Delegation for Relations with P.R. China
- Dinner with PRC Ministry of Finance and AQSIQ



Presenting the *Position Paper* to Connie Hedegaard, Commissioner for Climate Action

In addition the delegation met with the newly appointed P.R.C. Ambassador to the European Union, HE Wu Hailong. A large-scale event address to the business community in Brussels was held with the cooperation of the Flandres-China Chamber of Commerce, BusinessEurope and the EU-China Business Association. The speakers for this event were President Davide Cucino and Commissioner Karel De Gucht. They also participated in the 'Mayor's Forum Thematic Event: EU-China Sustainable Urbanisation Park - From Concept to Reality'.

On the 20th September, the European Union Chamber of Commerce in China participated in the 8th EU-China Business Summit with a speech from President Davide Cucino and a lunch meeting with Mr John Farnell, Director and Principle Advisor at the Directorate-Generale for Enterprise and Industry.

On the 21st September, the delegation of the European Chamber met the Ministry of Foreign Affairs of the Kingdom of Belgium for the first time in order to present the *Position Paper 2012/2013*, discuss the business environment in China and also the challenges and opportunities that European businesses face in the Chinese market.

HE Wu Hailong, newly appointed P.R.C. Ambassador to the European Union, receives the *Position Paper*

Luxembourg

The Executive Committee member Ninette Dodoo and Secretary General Dirk Moens presented the *European Business in China Position Paper* in Luxembourg for the first time on the 19th September. During this visit they met with the Luxembourg Chamber of Commerce, companies with operations in China, members of the Luxembourg press and with representatives from the ministries of Foreign Affairs and Foreign Trade.

Paris

Vice President Bruno Gensburger led the visit to France on 20th September. In Paris, they delivered a presentation to the Comité France-Chine of MEDEF (French Federation of Entreprises), met representatives of the Ministry of Foreign Affairs and also Mr Wu Xilin, Ministre-Conseiller in charge of trade and economic issues at the PRC Consulate.

Berlin

On 20th September a Chamber Delegation led by States Representative Roland Savoy presented the *Position Paper* to a group of companies and business associations in Berlin at the invitation of the Association of German Chambers of Industry and Commerce (DIHK) in Berlin. The delegation was welcomed by Dr Volker Treier, Deputy Chief Executive and Managing Director of International and Economic Affairs. Dr Treier introduced the events and moderated a lively discussion.

Dusseldorf

On 21st September, Shanghai Board Member Stefan Sack and Shanghai Chapter General manager Ioana Kraft visited the Düsseldorf Chamber of Commerce in Germany and met with the Deputy Executive Director and Director of the International Business Division, Mr Gerhard Eschenbaum, as well as representatives of the Düsseldorf China Competence Centre. The discussion covered some of the challenges faced by European businesses in China as well as those faced by Chinese businesses in Germany.

European Chamber Vice President Jens Ruebbert (right) meets with Lord Mandelson in London and presents the *Position Paper*

London

On the 22nd September, a European Chamber delegation, led by Vice President Jens Ruebbert, visited London. The trip included a roundtable with the United Kingdom Government, meetings with Mr Mark Boleat, Policy Chairman of the City of London and Lord Peter Mandelson.

Vienna

On 25th September, Shanghai Board Member Stefan Sack and Shanghai Chapter General Mananger Ioana Kraft presented the *Position Paper 2012-2013* to a group of Austrian companies and Business Associations in Vienna. The presentation was organised by the Austrian Chamber of Commerce (WKO). It was the first time that a European Chamber Delegation had visited the Austrian Capital to present the *Position Paper*.

Lisbon

On 28th September, Secretary General Dirk Moens presented the *Position Paper* for the first time in Portugal hosted by Associação Comercial de Lisboa (ACL) and the Ministry of Foreign Affairs. He also participated in a meeting, organised by the European Council of Foreign Relations and Fundacao Oriente, on China Strategy Group with the participation of Mark Vanheukelen and Cabinet of European Trade Commissioner Karel De Gucht.

Prague

The European Chamber visited Prague for the second time. On 1st October, President Davide Cucino met with HE Yu Qingtai, PRC Ambassador, held a press conference, met with Mr Milan Hovorka, Vice-Minister of Industry and Trade, and participated in a reception with the Czech business community. On the 2nd October, President Cucino delivered a presentation to the SMEs China Investment Forum with 150 representatives of the Czech business community in attendance.

Ljubljana

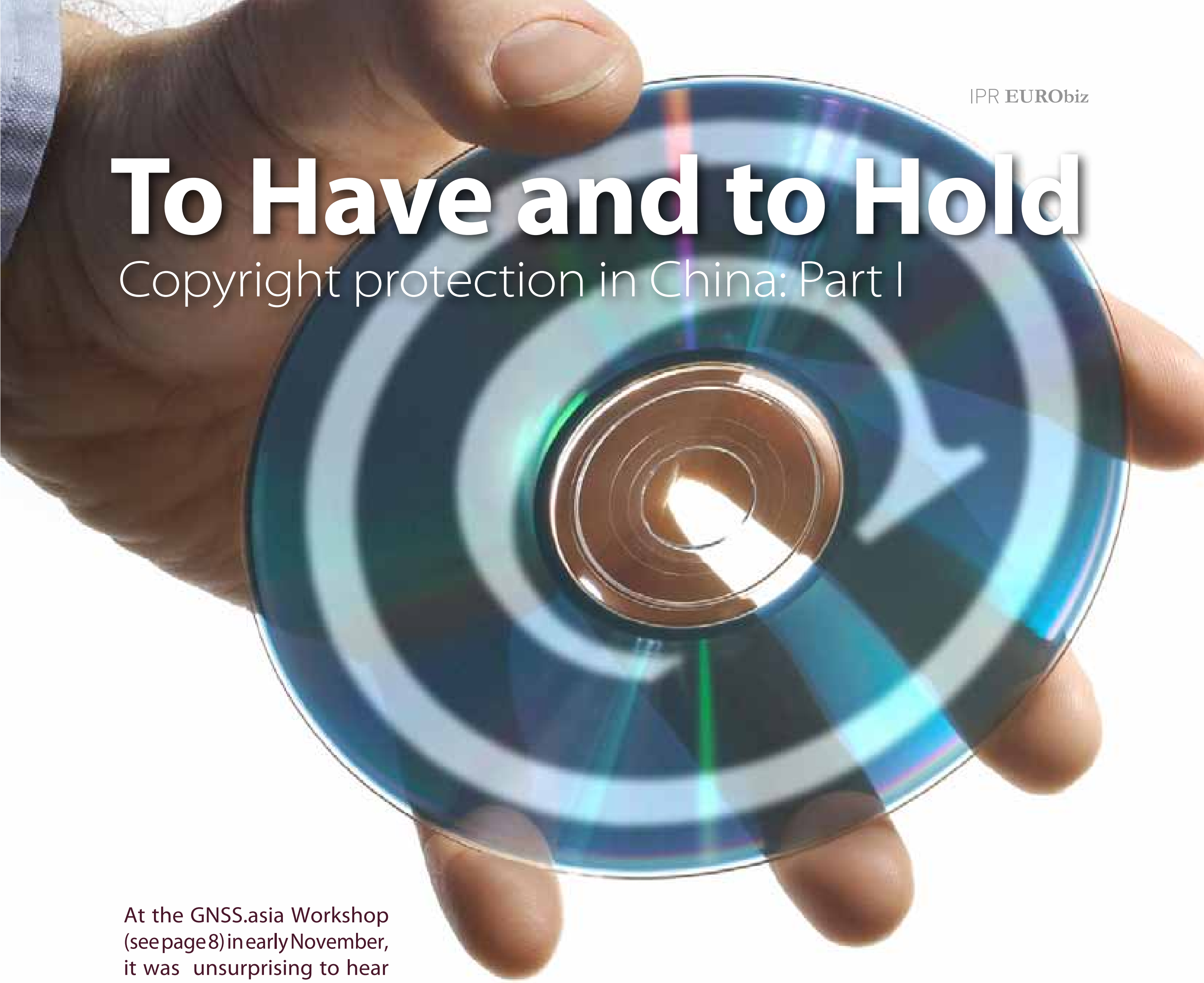
The European Chamber presented the *European Business Position Paper* for the first time in Slovenia on 3rd October. President Davide Cucino met with H.E. Mr Karel Erjavec, Minister of Foreign Affairs of the Republic of Slovenia, and also with Mr Radovan Žerjav, Minister of Economic Development and Technology of the Republic of Slovenia. He also participated in a large-scale event organised by the Chamber of Commerce and Industry of Slovenia and finally met with a group of CEOs of Slovenian companies based in China.

Milan

President Davide Cucino, Tianjin Chapter Chairman Gabriele Castaldi and Shanghai Chapter Board member Stefan Sack presented the *Position Paper* at an event organised with the collaboration of Fondazione Italia-Cina and Assolombarda on 5th October. Over 120 people attended.

The Hague

Shanghai Chapter Chairman Piter De Jong presented the *Position Paper* to Director-General Simon Smits of the Ministry of Economic affairs, representatives of the Ministry of Foreign Affairs and to the Confederation of Netherlands Industry and Employers (VNO-NCW). Eb



To Have and to Hold

Copyright protection in China: Part I

At the GNSS.asia Workshop (see page 8) in early November, it was unsurprising to hear the issue of IPR raised as one of the potential obstacles that needs to be overcome in the interests of continued cooperation between Europe and China. The IPR landscape is slowly changing, and knowledge of associated issues is increasing in China as more patents and trademarks are registered every year, yet it remains a highly emotive subject when it comes to doing business here. In the first of a two-part study the **China IPR SME Helpdesk** guides us through the main points of copyright and helps to navigate the potential pitfalls.

Copyright is a form of intellectual property (IP) that protects a creator's exclusive right to control who reproduces or alters the product of their original creative effort. Copyright protects the producers of any original work, and is relevant to almost all businesses, not just those in the creative industry. Adequate copyright protection can form an important part of an IPR protection strategy. Businesses regularly create articles, photographs, drawings, designs, models, websites, computer software, to name just a few, which all enjoy copyright protection. Copyright is an automatic right that arises the moment a work is created. The first of this two-part study describes copyright protection in China and outlines what can be protected as copyright and why taking care to do so can prove beneficial to your business in China.

Once a work is created, in most cases, the creator will automatically enjoy copyright protection in all 164 member countries of the Berne Convention for the Protection of Literary and Artistic Works, including all European Union countries and China. Voluntary registration for your copyright is available in China. Though your work is automatically protected by copyright the moment it is created, voluntary registration will provide proof of ownership, which can save you time and money in case of a dispute later on. For copyrights that are particularly important to the livelihood of your business – website, software, catalogues and customer databases – you should strongly consider registering your copyright.

What kinds of works are protected by copyright?

Copyright protects original creative expressions of ideas that exist in a fixed medium such as on a piece of paper, on an artist's canvas, on an optical disc, or other forms of magnetically recordable media. Copyright protects only the expression of an idea, not the idea itself. Ideas include thoughts, feelings, procedures, methods of operation, or mathematical concepts and other products of creative and intellectual endeavors. For example, your written description in a book about Albert Einstein's Theory of Relativity is protectable by copyright as an expression, but the ideas, concepts, and principles behind Albert Einstein's Theory of Relativity are not.

Traditional types of creative works such as books, music, recordings, plays, films, paintings, sculptures and photographs, enjoy copyright protection in China. Others such as works of choreography, acrobatics, calligraphy, *quyi* (a traditional Chinese performance art form), model works, and databases also enjoy copyright protection in China. The basic principle of a copyright is that the work be original and reproducible.

Unlike Europe, where computer software is protected by patents, software is expressly protected under copyright in China. Industrial and graphic designs, applied art, architectural buildings are also protected by copyright.

How is copyright relevant to my business?

Nearly every business across all industries and sectors possess copyright. A common misconception is that copyright is only relevant to content-producing businesses such as publishing firms, music distributors and film production companies. Copyright enables you to help protect against others taking credit for your creative work and using it as their own for economic gain and unfair business advantages. Businesses in all industries should take steps to identify their existing copyrights and consider registering the most important ones as part of a holistic IPR protection strategy. The proof of ownership you obtain from registering your copyright may save you time and money later on in a case of copyright dispute.

Why should copyright be an important part of my IPR strategy?

Copyright can form an important part of IP protection strategies, both as a main protection for content, and as a supplementary tool to enforce alongside other IP rights, such as design patents or trademarks. For example, if someone has copied your logo, which happens to be a unique graphic design before your trademark registration is granted, you still have the option of trying to stop the infringer based on your ownership of the copyright protecting the logo.

However, it should be noted that enforcement through copyright is a weaker enforcement tool than a registered trademark or other rights and should be considered complementary to other tools.

If your existing design patent or trademark is also eligible for copyright protection you also have the option of a multiple protection approach by registering the design patent and/or trademark as a copyright as well. This will provide you with additional enforcement alternatives if confronted with infringement.

To start integrating copyright protection into your company's overall IP strategy, ask yourself the following questions:

• What works of mine are already protected by copyright?

• Who in my company owns those copyrights? Is it me or the creative mind that originally created it?

• Does my company's standard employee contract include a clause about copyright ownership to decrease the chances of a potential copyright disputes?

• Which of those already copyrighted works are the most important to the livelihood of my company?

• Which one(s) should I voluntarily register for?

• Should I consider hiring a monitoring service to make sure my copyrights are not being infringed?

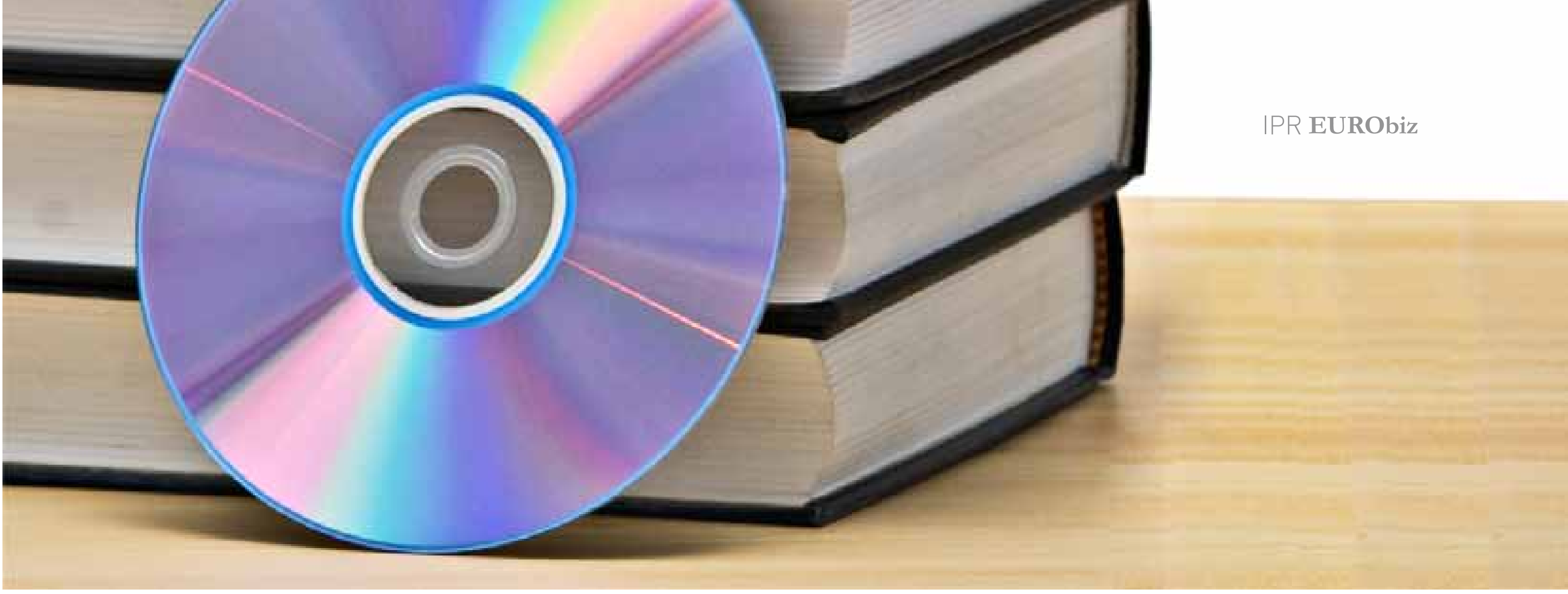
Your company may own more copyrights than you initially think. Graphic designs in your brochure or catalogue, images and photographs of your products, company website and its content, customer databases, standard operating procedure documents and even Emails are all considered creative works. Infringement of those works can result in brand dilution, lost customer loyalty and lost profits for your business.

How long does my copyright protection last?

The period of copyright protection is generally 50 years from the date of creation or publication, or in the case of individuals it lasts for the lifetime of the author plus 50 years.

Take-away message:

• Copyright defines a broad range of creations in China; particular care should be taken to protect works,



such as software, which are usually protected by other intellectual property types in Europe.

• Voluntary registration of copyright can be used not only as documentation of your creative endeavours, but also as evidence in disputes over infringement so should be considered as an important aspect of your IPR strategy; if your intellectual property is not registered in China it can be extremely difficult to protect. Eb

Pick up a copy of the next issue of EURObiz for part II, which will outline how copyright ownership is determined, how copyright can be registered and details of how you can enforce your rights in China.

CHINA IPR
SME HELPDESK

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

China's Outlook: Business, Power and Politics in 2013

The 18th Party Congress and leadership succession has been heavily scrutinised by business and political analsyts looking for clues as to what may happen next. **Alistair Nicholas** and **Qu Hong** from **Weber Shandwick** produced a recent study entitled *China at the Crossroads: Power Politics and Transition at the 18th Party Congress,* which takes a close look at the new appointments in an attempt to extrapolate indicators of future change in Chinese politics, the economy and the business landscape. What follows is an executive summary of that paper.

A once-in-a-decade leadership change meant that Xi Jinping has taken the reins of the Communist Party in a China very different to that inherited by his predecessor 10 years ago. When Hu Jintao became the Party General Secretary, China was the world's sixth largest economy; today it is the second largest. Then, it barely had a 'green water' navy capability; today it is an aspiring 'blue water' force capable of projecting its power as far as the Mediterranean. It recently put 'taikonauts' in orbit and has plans to plant the Chinese flag on the moon.

China-watchers and pundits were eager for substantive declarations during the weeklong Communist Party Congress in November, where Xi made his first remarks as General Secretary of the Communist Party. However, many failed to note that this was the first stop along a journey—a party convention before the official transition of China's presidency at the National People's Congress next March.

Unlike the West, in which political power is amassed by newly elected leaders publically, who spend it in haste, in China it is accumulated slowly behind closed doors over a lifetime. That helps explain how 86-year-old former President Jiang Zemin secured important posts for his protégés this year.

In this light, media expectations were arguably unrealistic for insights from a single Party gathering. Foreign publications asked bold questions about what China's new leadership would do with their hands now on the levers. But sudden sweeping reforms are unlikely in a Party that rules more by sometimes mysterious and very tentative consensus and power-brokering. This was even more apparent than usual given recent embarrassments, notably the fall from grace of one of its senior *apparatchiks*, Bo Xilai, now expelled from the Party and possibly facing charges of corruption, in the wake of his wife's conviction for murdering her British business partner.

In a country where action is much more meaningful than words, writing off the likelihood of reform in the first week of a ten -year administration betrays a fundamental misunderstanding of how things work in China.

While many questions remain unanswered, a few suggestions did emerge:

Xi appeared confident and collected, with the six other members of the newly-appointed Politburo Standing Committee alongside him. Two reformers touted as possible choices for the Committee were not present, which may suggest the Party's reluctance to promote too obvious brands of change within its ranks, or at least to do so in the first year of a new administration.

In the meantime, the seven-member Standing Committee of the Politburo will take key ministerial positions when the National People's Congress convenes in March, with quite a major task ahead of them.

Mr Xi's Inbox

Xi will formally be installed as the country's president, and is expected to address issues such as intellectual property and food safety, energy policies and lending practices of state banks. The economy will top the agenda, given the global economy, slumping foreign investment in China and the slowing of the country's manufacturing exports.

China's maturing economy will need to rebalance to a consumer-based economy, requiring significant reforms of the state owned enterprises (SOEs) and the banking system. Some observers believe that monopolies need to be broken for the private sector to move forward and the power of consumer savings to be unleashed.

Leaders will also need to address economic disparities: there appears to be a widening gap between the rich and poor. To that end, outgoing Party Chairman Hu Jintao called for a doubling of GDP and per capita income by 2020 – no mean challenge for Chairman Xi. Hu didn't provide plans on how to achieve these goals (at least not publicly), or how to do so in a way that will achieve a more equitable distribution of national wealth.

Hu's contribution to the Party's theoretical framework was enshrined as 'Scientific Development', following in the tradition of successive generational themes: Marxist-Leninist Thought, Mao Zedong Thought, Deng Xiaoping Thought, and Jiang Zemin's 'Three Represents'. For Xi, 'Hu Thought' will require balancing developmental needs with sustainable growth and equitable wealth distribution to achieve Hu's objective of a 'harmonious society'.

Despite calls for political reform by outgoing Premier Wen Jiabao, Hu, in his report to the Party Congress, focused more narrowly with a call to address corruption which, it is feared, might undermine the Party's authority. This theme was echoed by Xi in his speech to delegates. But neither Hu nor Xi addressed the judicial reforms, which some believe are needed to bring corrupt officials to book. The question of broadening democracy within the Party was also not addressed yet, although there was a proposal to allow delegates to table motions collectively.

Of growing importance is how China can progress foreign policy objectives, from asserting the rights of the developing world on environmental issues to securing resources and protecting important sea-lanes, to territorial disputes. China's rise, compounded by nationalist sentiment, means Xi will likely be pressured to be more assertive internationally.

State of Play

Much of what happens will depend on private deals and behind-the-scenes political discussion. Party members compete for power, influence and control. They do not necessarily share a uniform ideology, political association, socio-economic background or policy preference any more than their counterparts in the West. This can foster lively debate behind the scenes.

Much will depend on how Xi persuades and marshals support. But one important sign came with the transfer of the Chairmanship of the Central Military Commission to him by Hu Jintao. By relinquishing this position now, Hu has established Xi as China's paramount leader and earned himself credit for what may be seen as a selfless action on behalf of the Party. This may ease tensions between the factions and establish an environment for Xi to push forward important reforms. It now remains to be seen whether, and how, Xi will rise to the challenge. Eb

Alistair Nicholas *is Executive Vice President Asia at* ***Weber Shandwick*** *and heads up the Corporate & Public Affairs Practice of the firm for the region.* ***Qu Hong*** *is Chief Government Affairs Consultant for the firm in China. This article is based on the firm's analysis of the leadership transition at the 18th Communist Party of China Congress held in Beijing in November. To receive a copy of Weber Shandwick's full report please contact aruan@webershandwick.com.*

Trends in China's HR Service Industry Beyond 2012

Gu Jiadong originally trained as a marine specialist for the PLA before working in various HR roles in Shanghai's Ship Building Bureau. He started working at FESCO in 1982, rising to become CEO in 1993, a position that he held for 15 years. Gu is now the Honorary Chairman of Shanghai Human Resources Consulting Association (SHRCA), Vice Chairman of the Shanghai Service Federation and Senior Researcher of Peking University's HR Centre. He also holds an EMBA from Shanghai CEIBS. Prior to the European Chamber's HR Conference, **Dan ZHU**, Chair of the Shanghai HR Working Group, asked this industry veteran to share his insights into what he thinks will be the future trends in the HR industry beyond 2012.

Dan ZHU (DZ): Most of our members will be familiar with FESCO's employee outsourcing services, can you tell us a bit more about the corporation and your role there?

Gu Jiadong(GJD): I have been in the HR industry for my entire career. Thanks to FESCO, I have served more than 200 MNCs from fortune 500 companies, many of them with European origins. As one of the founders and managers of FESCO, we relied on government policy rather than investment. By promoting service delivery, we became the largest player in China with an annual income of RMB 38 billion, with 15 branch offices in China serving 20,000 companies. I was also the key negotiator for the FESCO Adecco Joint Venture [announced in 2010, began operations from 1st January 2011]. For the negotiations, I visited Belgium and Switzerland seven times. I'm sure many people know how successful FESCO Adecco has been since its inception.

DZ: 2012 has been a tough year. Many of our member companies are experiencing difficult times either with hiring freezes, stagnating growth, or downsizing. What is the situation in the HR service industry as a whole?

GJD: It is difficult time for everyone. Most of the search firms stopped receiving contracts from November due to a wide spread hiring freeze and downsizing. Outsourcing has also been affected due to companies' cutting down their manufacturing capacity and shifting to inland provinces. Following years of growth within the industry, most players are now offering similar services with neither clear differentiation in service standard nor in product innovation. Now is one of the most difficult times to be recruiting workers, clerks, professionals, managers and executives. Also, government policies are now under scrutiny from people within the industry who feel that their needs are not being adequately met.

DZ: In your view, with changes to the economic growth model and the slow recovery around the world, what will be the future trends in the HR service industry?

GJD: There are nine emerging trends in the industry: 1) With new HR outsourcing regulations, the focus is on building better relationships between the employer, employee and HR service providers. 2) There will be negotiation between all three parties for service delivery. Employees' salary will be based on their tenure and the employers' overall business performance. 3) We will see new growth in total solutions for employee relationship management and outsourcing of compensation and benefits on top of the existing HRO services. 4) Employees' social benefits will rise. There will be a growing demand for vocational training and graduates from vocational schools. 5) Outsourcing contracts will be more standardised, with an emphasis on greater clarity when detailing each party's risks & responsibilities. 6) There will be more demand in flexible workforce solutions due to head count control. Such solutions can be project based. 7) There will also be talent leasing, brokering or agent contracts for certain talents. 8) In order to avoid unfair competition, Industry Associations will publish a standard, minimum charge rate based on industry and job grades. 9) Branding, quality and professionalism will be the driving force in value-added services.

DZ: How will CEOs need to change their HR mindset?

GJD: There is something known as the limescale effect in HR. If you use the kettle for a long time, eventually there will be a build up of limescale on the inside. Today in HR we are facing constant changes in areas such as policy, knowledge, information, team synergy and people's mindset. These changes build up like limescale and cause blockages and a lack of efficiency. HR has evolved from its traditional administrative role into a strategic partner, which means it is not only a cost centre but also a profit centre with an enabling effect. With such changes, HR will need to develop an overall understanding of macro and industry trends, a mastery of latest technology and methodology, and be able to work out an efficient system to improve organisational productivity. Eb

5th Film Festival
EUROPEAN UNION
欧 盟 电 影 展

Close-up on EUFF

"The European Union Chamber of Commerce in China is pleased to be cooperating once again with the Delegation of the European Union in China and Mongolia, this time on the European Union Film Festival. I hope the EUFF gives Chinese audiences a broader view of Europe, and demonstrates what a wonderful place it is to live, to do business, and to invest, and become a bridge for both the Chinese and European companies' film industries in developing co-productions."

Davide Cucino, President of the European Union Chamber of Commerce in China

The magic of European cinema returned to China as the European Union Film Festival (EUFF) unspooled in four Chinese cities throughout the month of November, thanks to the joint effort of the Delegation of the European Union to China and the European Union Chamber of Commerce in China. Featuring 26 feature films and 18 short films from all over Europe, the EUFF was held in four of the eight chapters of the European Chamber: Beijing, Chengdu and Shenzhen and Tianjin. The organisation of the festival was an important undertaking. The cultural and creative industries are important drivers of economic and social innovation in other sectors, and 'cultural prosperity' is one of the priorities of both China's 12th five year plan and EU 2020 Strategy. It was also a good opportunity to raise the profile of European film in a climate that currently favours foreign imports from Hollywood. We take a look back at a memorable month of European film.

The Chinese cultural industry is booming. *China Daily* reported that the turnover in 2011 for cultural and creative industries was more than RMB 900 billion (EUR 112 billion) in Beijing alone. According to the Beijing Cultural and Creative Industry Promotion Centre this was an increase of 21.1 percent on the previous year[1].

The 5th EUFF was officially launched to the media on 1st November at the Sanlitun Megabox, with representatives from more than 100 local and international media attending the press conference. The panel included Ms Jaspal Channa, General Manger of European Chamber; Ms Carmen Cano de la Sala, Deputy Head of the Delegation of the European Union to China; and Mr Andreas Panayiotou, Deputy Head of Mission, Embassy of the Republic of Cyprus, who shared their views on the festival and European film as a whole, and answered questions from the media. It was followed by a launch reception and the *premiere* of the Cypriot film, *Fish 'n Chips*.

On the second night, German director Sebastian Grobler attended the screening of his film *Lessons of a Dream*, and answered audience questions afterwards. In an interview with the European Chamber he spoke of the ability of films to help audiences understand different cultures through the use of universal themes such as "childhood, authority, schools and parents" and cited the struggle for independence as an issue "that everyone can relate to". He explained, "Films allow you to learn a lot emotionally, and they're like windows into other cultures. They can give you deep insight and understanding, and help to open your mind." However, on the subject of cross-cultural collaboration in film, he feels that there needs to be a sound reason for embarking on such projects. "There was a recent German-Russian collaboration that did not work well. Real stories of people who live in each other's culture can work, but it helps if they're based around books or stories that are popular in the [collaborating] countries."

Carmen Cano de Sala addresses guests at Red Carpet Night in Beijing

Vice Presidents Juan Ignacio Motiloa, Bruno Gensburger and Jens Reubbert cut some moves with President Davide Cucino

Sebastian Grobler, director of the film *Lessons of a Dream*

[1] http://usa.chinadaily.com.cn/2012-09/15/content_15760630.htm

Press conference in Beijing

Press conference in Chengdu

Guests celebrating the EUFF at Tianjin's Night of Stars

Beijing

The European Chamber in Beijing celebrated with a Gala Party at 798 Art Space on 3rd November. Despite cruel weather conditions it was well attended by the members of the Chamber's Executive Committee, influential Chamber members, EU and Chinese officials. In total more than 300 guests walked down the red carpet and enjoyed over 20 performances based on famous and classical European films.

The film festival offered two screenings for each of the 26 films, along with three short film programmes, across six venues (Mega Box Sanlitun, UCCA, French, Italian and Spanish Cultural Institutes and the Polish Embassy) attracting more than six thousand people.

Tianjin

The EUFF in Tianjin kicked off in grand style at Drei Kronen 1308 Brauhaus on 8th November. Almost 100 guests attended the event, including invited officials from Tianjin Affairs Office, Tianjin Commission of Commerce, Municipal Bureau of Culture, Tianjin Investment Promotion Centre, Tianjin Foreign Enterprise Association, and 16 media partners. Mr William Fingleton, Head of Press and Information Section at the EU Delegation and Mr Gabriele Castaldi, Chair of the Tianjin Board, spoke about the importance of exchange through culture and the opportunities in terms of business and investments that the growing city of Tianjin can offer. Guests were treated to a buffet featuring food from all EU nations.

The screenings in Tianjin were held from 8th to 18th November in two venues: the Imax Tianjin, in Jinwan Plaza, and the Wellington College International Tianjin.

Chengdu

EUFF Chengdu was inaugurated on 14th November by Ms Carmen Cano; Mr Deng Gongli, Deputy Secretary General of the Chengdu Municipal Government; Ms Wu Wenjia, Deputy Head of the Chengdu Publication, Radio and Television Bureau; Mr Fernando Cutanda, National Event Manager & Senior Membership and Sponsorship Manager of the European Union Chamber of Commerce in China, and other officials from the city. One hundred guests and 20 media partners attended the press conference and opening ceremony, which was followed by a full-house screening of *Fish n' Chips* at Stellar Cinema, Yingdu.

Shenzhen

This marked the second time that Shenzhen had hosted the festival. The Opening Ceremony was held on the 23rd November, with a press conference attended by over 40 reporters representing 20 media from Shenzhen and other near-by cities.

Following the press conference, the cocktail reception and *premiere* of *Fish'n Chips* was attended by over 150 people, including Ms Carmen Cano, PRD government officials and representatives of EU Chamber member companies and EU Business communities.

The 12 films approved by SARFT were each screened twice from 23rd to 30th November at Imax Shenzhen. Eb

Delivering Successful Investments in Express Logistics

Although the Express Logistics industry in China is going through a period of change and rapid growth, it has not been easy for foreign players to operate due to restrictive government regulations. However, the regulations are loosening creating new opportunities for growth, and there are some reasonable investment opportunities for foreign companies, provided they take the necessary precautions. **Michel Brekelmans** and **Stephen Sunderland** of **L.E.K. Consulting** have provided the following report, which should give foreign businesses looking to invest in this sector some optimism.

Introduction

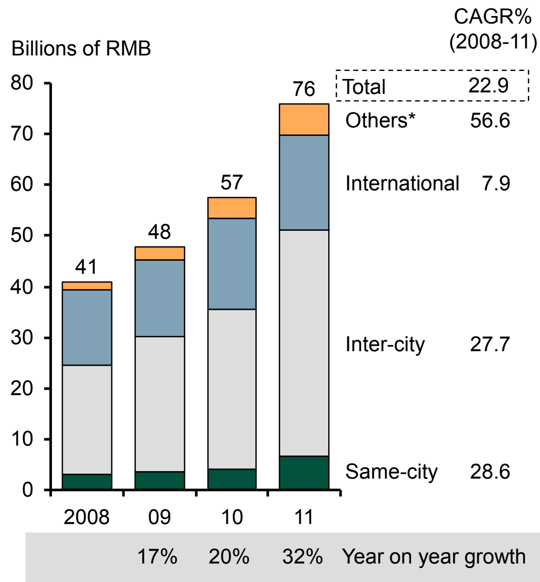
China's express logistics industry has enjoyed exciting growth of 20% – 30% p.a. in recent years. As China's logistics market liberalises and consolidates, investment opportunities are arising for new investors, particularly those who can help China's emerging titans develop better technological platforms, enhance service quality and/or expand their geographic reach.

Trade buyers remain keen to expand their businesses through inorganic growth – a trend that is also expected to pull in both private, third party investment and expertise as government sector lending plays a smaller role.

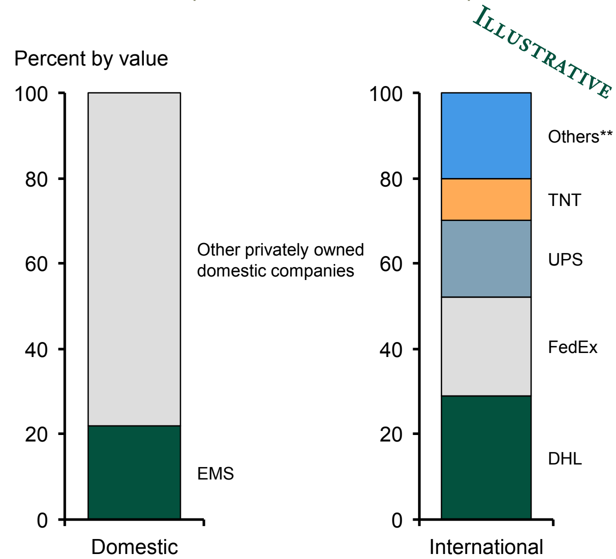
Explosive growth and local participants achieving scale

The growth experienced by China's logistics industry has been underpinned by rapidly rising domestic demand for goods, and government policies supporting better and more efficient logistics services. With annual revenues valued at c.RMB 80 billion in 2011, the express logistics market has seen compound annual growth of c.23% between 2008 and 2011. However, the express logistics industry in China is characterised by two broad segments (domestic and international), which have very different competitive dynamics.

China express delivery market (2008-11)



Competitive landscape (2010)



Note: * Uncategorized revenue, ** Mainly EMS
Source: China State Post Bureau, L.E.K. analysis

The domestic segment has been experiencing substantially faster growth than the international segment (28% p.a. vs. 8% p.a. respectively), and whereas the international delivery segment is dominated by four global express logistics service giants, the domestic segment is served almost entirely by local players. Historically a key driver of this dynamic has been the form of PRC Government regulation, which, for example:

- Permitted foreign enterprises to deliver only from companies within China but not from individuals
- Required foreign enterprises to either obtain a license to operate in China, or form joint ventures with Chinese entities, in order to gain more access to operate in the market

Although regulatory restrictions and local protection have been easing, foreign players' higher cost services have been unable to compete effectively in the domestic delivery segment.

Local firms have rushed in to service rapidly developing needs and a few domestic players have come to prominence on the national stage. Domestic companies are building scale and starting to extend feelers on an international basis. For example:

- EMS, the largest domestic express company and a state-owned enterprise, now has a fleet of c.10 aircraft and 10,000 land vehicles and has entered the international express delivery market
- SF-Express, the number two player in the domestic express segment and the largest privately owned express logistics business, has led the way in investing in its own aircraft (other private-owned companies utilise charter flights from airlines)

Whilst there are a number of well known players in the industry, just four providers (EMS, SF-Express, Shentong Express and Yuantong Express) now make up almost two thirds of the domestic express delivery market. However, whilst consolidating, China's express logistics industry can still be characterised as a fragmented market. There are hundreds of small-scale (sometimes unlicensed) delivery businesses operating across the country. Smaller firms focus on regional offerings, often focusing on servicing one province or one district with business expansion limited by capital.

The domestic industry is facing disruptive change

We see six major trends affecting the market dynamics of China's express delivery logistics industry:

1. Increasing customer dissatisfaction with quality of domestic services is providing scope for investment that can deliver differentiation

The express logistics industry has problems with theft, delays, lack of quality talent and advanced technology, all of which culminates in poor perceptions of service levels. Complaint rates have increased massively (by 200% during 2011) as the industry as a whole has struggled to deliver on service expectations. To improve the logistics industry, Chinese officials have issued the 2009 *Plan to Adjust and Rejuvenate the Logistics Industry* pushing for higher standards of service, innovation and

Date		Buyer	Target / acquired asset	Country of acquired asset	Deal nature	Stake (%)	Deal value (RMB mn)
2011	Jul	Singapore Post Limited	Shenzhen 4PX Express Co Ltd	China	Stake acquisition	20%	60
	Jun	Uni-top Industry Co.	Sinotrans-Apex	China	Acquisition	100%	N.A.
2010	Jul	Best Logistics	Hui Tong	China	Stake acquisition	70%	N.A.
	June	DHL-Sinotrans	A Plus Express Co.	China	Acquisition	100%	300
	June	HNA Group	YuanZhiJieCheng Express	China	JV	51%	N.A.
	May	HNA Group	TTK Express	China	Stake acquisition	60%	120
	March	Alibaba Group	Stars Express	China	Stake acquisition	30%	50
2007	March	TNT Holding	Hoau Logistics Group	China	Acquisition	100%	878
2006	January	FedEx Corporation	DTW Group's 50% share in FedEx-DTW JV for Intl Express + DTW Group's domestic express assets	China	Stake and asset acquisition	50%, 100%	3200

Foreign buyers

Local buyers

efficiency.

However, a fundamental driver for the dearth of quality service is lack of capital; smaller firms particularly do not have access to adequate capital for the development of technology and personnel needed to consistently deliver a higher standard of service.

2. Consolidation pressures are increasing

The logistics industry will continue to see more M&A activity driven by a combination of regulation, calling for integration of resources of large and small firms, and a competitive environment where larger firms are squeezing out smaller players and bringing innovation to the industry.

3. Ongoing organic investment is providing capacity for growth

The industry is seeing substantial organic investment. These investments range from aircraft and vehicles to the geographic expansion of the warehouse footprint.

4. Experienced new competitors are gaining access to the domestic logistics industry

The express logistics market is seeing signs of liberalisation, bringing more competitors to the market. The Vice President and Secretary General of China Express Association indicated at the 2011 China Express Forum that the China State Post Bureau plans to further liberalise the market by allowing foreign enterprises to enter the domestic delivery segment of services. In September 2012, UPS and Federal Express were granted licenses for domestic delivery.

5. Emergence of online retailing has increased demand for better logistics services

More and more Chinese consumers are shopping online or by mail order. It is thought that c.40% of China's express delivery volume comes from e-commerce delivery, with further strong growth expected.

The emergence of online e-commerce firms such as Alibaba, Taobao and 360.com at scale has also transformed the need for reliable fulfilment. E-commerce firms are now entering the express logistics market directly by developing in-house logistics platforms seeking to ensure consistency and reliability in fulfilment. For example:

- Alibaba announced in January 2011 that it planned to invest RMB 30 billion in building a nationwide chain of warehouses to accelerate delivery of products. Alibaba has subsequently taken an equity stake in Stars Express in 2010, a move that will allow Alibaba to develop an in-house logistics arm
- Liu Qiangdong, CEO of 360buy, also stated in 2011 that the company planned to invest more than RMB 10 billion in building logistics centres over three years

6. Ownership structure of domestic players are shifting from franchise model to corporate-owned model

Franchising is currently the dominant operating model in China, and is widely used by top domestic players with 60-80% of companies in the industry operating a franchise model. The model reduces risks borne by the company and the capital required for expansion and therefore supports rapid network expansion.

However, poor control over franchisees results in duplication of resources as each franchisee grows its own business independently and delivers inconsistent levels of service. Some companies are now seeing the challenge of managing franchisees across the country and are considering taking back direct control. Notably, SF-Express, Shengtong, Yuantong, TTK and Yunda started out using the franchise model but have since been buying back franchisees.

M&A being used as a route to scale

Most recent deal activity has been by trade buyers intent on expanding their footprint and service offer. Foreign players have been attempting to gain some access to the highly regulated and fast growing domestic segment. Domestic players, on the other hand, purchase other domestic firms to expand their geographic capabilities and improve technology and service levels.

However, on closer inspection this set of deals poses a number of intriguing questions, including:

- Why are there so few deals for a sector that is expanding and consolidating so fast? There is believed to be significant interest and capital to fund transformational transactions
- Why are the recent acquisitions mainly done by strategic buyers and not by financial investors?
- Why is there no outbound investment from China?

We see a number of reasons for the limited number of deals in this sector:

1. With the government injection of funds and loans, the largest domestic firms have been able to access relatively cheap capital through government and bank loans. As the market continues to develop and the role of government loans declines, the role of capital markets and private equity as sources of capital will increase.

2. Smaller firms without large geographic reach are often funded by individual owners or franchisees who have yet to prove to financial investors the scalability/strategic defensibility of their business.

3. The franchisee ownership model creates difficulties in driving post-M&A integration and expansion. The major domestic, private express companies developed from small start-ups and expanded via franchising or sub-contracting. Depending on the terms of the franchise agreement and structure of incentives, acquirers may not gain a good level of control of the business via acquisition. Moreover, management quality of franchisees or sub-contractors has made negotiations and plans for control and operations post acquisition difficult. Anecdotal evidence suggests this has contributed to the failure of several deals.

4. Finally, the express logistics industry can be a capital intensive industry which requires large upfront investment and yet the accounts receivable cycle is long. With a lengthened cash cycle, any loss of continual injection of investments would cause liquidity issues, creating a high risk of default.

The logistics industry may seem on the surface a highly protected and capital intensive industry. However, the industry also offers investment opportunities as better quality logistics services will remain much in demand

in China and there is room for both financial and trade investors to add value.

How might financial investors add value?

As well as the trade deals, many express companies are reportedly also in discussions with financial investors keen on investing in the sector. We see significant potential for financial buyers to add value and achieve mutual benefits from the deal:

- Contribute to a clear strategy for conquering a distinctive segment whether it be via organic growth, bolt-on acquisitions or transformational deals
- Create a more efficiently run corporate structure to enable an effective sale to trade buyers
- Participate in consolidation negotiation process involving under-valued assets
- Provide expertise and financial tools to mitigate the asset and growth investment cycle
- Invest in and develop an asset in a compelling niche (e.g. new technology and processes, IT systems, cold chain, medical and pharmaceutical delivery, etc) likely to be of interest to a scale buyer expanding its service offer
- Facilitate overseas expansion, as in other sectors in China

What should investors consider before investing in a logistics company?

There are a wide range of issues to consider before committing to an investment in a Chinese express logistics company, including:

- What are the regulatory restrictions for investors, particularly foreign buyers?
- What is the growth potential of the target, both domestically and internationally?
- What is the fastest and most effective way to expand the network?
- Who are the logical partners for the investee?
- Specifically, are there good potential bolt-on targets from within this fragmented industry? What are the risks in pursuing further bolt-on acquisitions? How can these risks be mitigated?
- How will the rapidly changing competitive landscape of the logistics industry affect the target's performance in the future?
- What will be the winning business model(s) in the medium/long term? Can the investee credibly transition to a winning model? Eb

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Emergence of a Megalopolis

Following decades of progress Shenzhen is revealing itself as a major player in the ongoing development of China's economy

Often referred to as the 'Silicon Valley' of Southern China, Shenzhen is a high-technology production hub that rose to prominence under Deng Xiaoping's Special Economic Zone designations in 1980. To date, the key to Shenzhen's success has been the city's strong logistics industry and its proximity to Hong Kong. So strong are the city's business ties to its neighbour that the National Development and Reform Commission grouped Shenzhen and Hong Kong together into a 'super-metropolitan area' in its *Plan for the Reform and Development of the Pearl River Delta (2008-2020)*, and there has been discussion of creating a 'joint international shipping hub.' **Dezan Shira & Associates** take a look at the factors that are driving Shenzhen's growth.

The electrically powered BYD E6 (above) is set to replace all taxis in Shenzhen

Shenzhen's logistics industry, which provides the glue that binds it to Hong Kong, has particular strengths in the areas of air and water transport. The city's main airport is the second largest in the region and its port ranks among the top ports nationally in terms of container throughput. Its 12th Five-year Plan (FYP) explicitly states the goal of transforming the city into a global logistics hub. The Shenzhen government ambitiously aims to overtake Shanghai's port facilities in the coming years by promoting transportation integration on the Pearl River Delta and furthering links with other inland cities such as Yunnan, Guizhou, Sichuan and the municipality of Chongqing. The plan expects the added value of the logistics industry to account for more than 10 percent of the city's GDP in 2015.

Shenzhen is also a financial hub, largely because it is home to the Shenzhen Stock Exchange, and the national 12th FYP stated plans to develop Shenzhen as a national finance centre by 2015. By that year, the added value of the financial industry is expected to account for about 15 percent of the city's GDP. To accomplish this goal the city plans to build three financial centres, namely, Caiwuwei in Luohu District, the Central Business District (CBD) in Futian and the Qianhai-Houhai area in Nanshan District. These centres will focus mainly on the capital market, wealth management and business investment of the city.

Just as Shenzhen played an integral role in China's economic experimentation in previous decades as a special economic zone, the central government today still sees the city as a national role model. One key example of this is how the central government is leveraging Shenzhen's close business ties to Hong Kong, Asia's reigning financial hub, to experiment with new economic policies in the

newly approved Qianhai Zone.

A Hong Kong-Shenzhen joint venture, supported by the State Council, Qianhai Zone was approved in June 2012 as an experimental business zone for better interaction between Mainland China and Hong Kong in the financial, logistics, and IT services sectors. It covers less than 20 square kilometres on the western side of Shenzhen, and is expected to achieve a GDP of RMB 150 billion by 2020.[1]

Among its many goals, Qianhai Area's financial zone will serve as an experimental opening-up for China's financial sector as a whole, including preferential policies such as:

• Allowing the Qianhai area to explore the expansion of offshore RMB fund flow-back channels, and establish an innovative, experimental zone for cross-border RMB business

• Supporting the granting of RMB loans by banking institutions established in Qianhai for offshore projects

• Under the CEPA framework, conducting studies on the granting of RMB loans by Hong Kong-based banking institutions for enterprises and projects established in Qianhai

• Supporting qualified enterprises and financial institutions registered in Qianhai to issue RMB bonds in Hong Kong within the quotas approved by the State Council to support the development of Qianhai

• Supporting the innovative development of foreign-invested equity investment funds, and actively exploring new modes of foreign exchange settlement of capital funds, investment and fund management

• Supporting the establishment of international or national management headquarters or business operation headquarters by Hong Kong and other onshore and offshore financial institutions.[2]

Furthermore, qualifying enterprises will be entitled to a reduced corporate income tax rate of 15 percent and, to increase investor confidence in the area, the government has stated plans to explore the establishment of branches of Hong Kong arbitration institutions in Qianhai.[3]

Qianhai Zone has also been called "an area for spearheading industrial restructuring in the Pearl River Delta region". In the near future the incentives provided in the zone will likely extend to the other areas under remodeling in Guangdong Province to extract the 'next wave' of FDI, such as Hengqing Island near Zhuhai and Nansha Port near Guangzhou, before some are implemented in zones across the nation.[4] Eb

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

[1] http://www.china-briefing.com/news/2012/07/19/new-hong-kong-shenzhen-qianhai-zone-signs-deals-worth-us35-billion.html

[2] http://www.china-briefing.com/news/2012/07/06/china-approves-policies-for-the-qianhai-shenzhen-hong-kong-modern-services-zone.html

[3] http://www.china-briefing.com/news/2012/07/06/china-approves-policies-for-the-qianhai-shenzhen-hong-kong-modern-services-zone.html

[4] http://www.china-briefing.com/news/2012/07/06/china-approves-policies-for-the-qianhai-shenzhen-hong-kong-modern-services-zone.html

Spotlight on Shenzhen Government Innovation

In the Pearl River Delta (PRD) Local Focus section of the European Chamber's *European Business in China Position Paper 2012/2013*, one of the Key Recommendations titled 'Brand the PRD as a Fully Integrated Region with Transformed Economic Growth', declares concern for the fact that many European investors overlook cities in Guangdong in favour of Beijing, Hong Kong and Shanghai. The assessment notes that the government is keen to change the perception of the PRD being "internationally recognised as a hub for low-end production", and that, "To facilitate a change in focus and to attract high-tech and service companies, it is necessary to provide facilities and incentives to channel the transformation." Its recommendation is for provincial and municipal governments to work on "developing competitive incentive policies and establishing a benchmark with other first-tier cities."

Many Chinese cities lay claim to innovative local government policies; below we look at some of the recent evidence that lends credence to Shenzhen's claims in this area. In recent years, the Shenzhen government has taken the lead on a number of new initiatives, including equity investment incentives, e-commerce promotion and the introduction of electric vehicles.

Equity Investment Incentives

As private equity (PE) investment has emerged as one of the most important capital-raising avenues for SMEs, Shenzhen has been one of several local governments of coastal cities to offer further incentives to equity investment enterprises. Shenzhen has established a PE Development Fund (PEDF) and recently clarified the operation procedures for PE funds that intend to apply for the financial support extracted from the PEDF. Incentives offered include reward for local financial contributions, office purchase subsidy, office rent subsidy, one-time settlement rewards, and one-time rewards for investment withdrawal.

E-Commerce Promotion

Shenzhen was approved by China's NDRC and the Ministry of Commerce (MOFCOM) to be the first e-commerce model city in September 2009. In addition to changes in the registration of e-commerce companies, Shenzhen has made other efforts to promote its e-commerce development. One example is the building of e-commerce industrial parks, such as Futian International e-commerce Industrial Park, which now houses 150 Internet and e-commerce companies.

Introduction of Electric Vehicles

Shenzhen has already begun integrating electric vehicles into its public transport system, evidenced by the recent commercial introduction of local auto maker BYD's vehicles, which are appearing on the city streets. An initial fleet of some 300 e-taxis are plying the roads, as of December 2011. Named the E6, the vehicle offers enough space for five passengers and has a range of some 160 kilometres. Plans are currently being put into place to convert all of Shenzhen's public vehicular transport – including buses and all taxis – to electric over the next five years.

BYDhas also entered into agreements with Daimler to further continue research and development into electric vehicles, with a factory in Los Angeles set to open in 2012 to manufacture and sell the E6 to the U.S. market.

The Sky's the Limit

Turkish Airlines set their sights on becoming the world's number one airline

Turkish Airlines opened their first route from Istanbul to Beijing in 1999, and has since added direct flights to Shanghai, Guangzhou and Hong Kong. **Veysel Tas** says he has "grown up" with Turkish Airlines, after taking his first job with them in 2004 following his graduation from university in Business Administration. He became the General Manager of the Beijing office in November 2010, following stints in Istanbul and Greece. After living here for two years he counts China as one of his favourite countries in the world. **Carl Hayward** caught up with him to discuss doing business in China and their ambitious plans for the future.

What are your general impressions of conducting business here?

Chinese people's travelling and consumption habits are quite different from those in Europe. There, people tend to plan perhaps three to six months ahead of their vacation, and they usually buy tickets from airlines. Here, due to the visa restrictions or other issues, people seldom plan vacations ahead of time, and they tend to buy tickets from agents. Relationship building is a very important element of doing business here, and once you begin to understand the people it becomes easier to understand their needs and then to answer those needs. Also, the negotiations can often be very difficult, but the rewards outweigh the effort. It is not so difficult to work here provided you are prepared to take everything step by step.

What helps you to maintain a competitive advantage?

I think being voted Best Airline in Europe two years in a row helped. Last month we became number one in the world for most destinations covered by an airline – 90 countries and 202 destinations in total. We have a geographical advantage too in that, being based close to Europe, Africa and the Middle East, we can cover more than 100 destinations within three hours, making us a natural transfer hub. For the flights from Beijing, Shanghai and Hong Kong, we offer our Comfort Class, which is between the economy class and business class tiers. This class has been voted number one in the world for the last two years. Almost 70 other carriers offer something similar, so it is a very competitive area for airlines.

We work with Turkish DO&CO, to supply passengers with fresh, world cuisine. Skytrax awarded us 'Best Food' in economy class in 2010, and Skyscanner awarded us 'Best Onboard Food' in 2011. We're also one of the first airlines offering a Flying Chef service on long-haul flights, where business class passengers can choose their own menu. We also possess one of Europe's youngest fleets with an average age of six years.

What are some of the main day-to-day challenges that you face?

I have to remind myself every day that to continue our rapid growth and development worldwide I have to improve myself in every field. Different culture, different clients and a different market also provide many challenges, but after being here for two years I feel more

comfortable in this respect. Other carriers are always improving their services too, so it is not possible to just sit back.

So it's not enough just to try and compete on price?

No, that is impossible. We really have to understand the market here, and how the people think. There are lots of carriers that *do* focus on lower prices, but we prefer to emphasise our quality.

I understand that you are planning to add some new flights; can you tell us about those?

We are currently negotiating, so it is not a good time to announce our plans, but suffice to say we're looking to increase the number of destinations and increase the frequency of our flights. It is difficult to be awarded a [new] slot, because the airways are already very congested. So we have made our applications, and will await their response.

How do you go about selecting your sponsorship partners, and do you have a specific strategy to help promote brand awareness in China?

Turkish Airlines aims to be the best airline in the world. FC Barcelona and Manchester United have demonstrated themselves to be two of the best football clubs in the world. By associating ourselves with champions, we hope to demonstrate our commitment to excellence. Building a global brand is one of our key strategic goals as a company. The global recognition and respect for these football clubs allows us to reach a great number of people worldwide with our positive brand message.

With Christmas and the new year just around the corner, do you have any promotions for European travellers?

This winter we have a promotion for an economy class round trip to Europe starting from RMB 2,770, which will last until the end of March 2013. You can check on our website, go to an agent or even drop into our office.

What are your plans going forward?

India and China will be our primary market focus, and our overall aim is to become the number one airline in the world. China is growing so quickly, and the majority of our investment is here. We are very ambitious, if we can become the number one airline in terms of service in Europe, it is not a huge leap to imagine that we can become number one in the world. We know what our challenges are and we're motivated to the meet them head on. Eb

InsightChina

European Chamber Quarterly Macroeconomic Seminar

Insight China in Beijing and Shanghai:

CHINA'S INFLUENTIAL ECONOMIC MINDS

At a special edition of Insight China on October 12th, Professor Mao Yushi, Chairman and Co-founder of Unirule Institute of Economics, China's first independent think-tank, gave a speech on 'The Social-Economic Threat of China'. Professor Mao outlined his views on China's key economic and political challenges, including abuse of government power (with Chongqing as an example), a broadening income gap, and a distorted economic structure. Mao also emphasised the need for privatisation and large-scale restructuring of the state-owned economy, which will be a huge challenge for the new leadership. Mao stressed the necessity to continue on the path of Reform and Opening Up, since this is what has driven economic growth during the past three decades. Thanks to CRIF (Beijing) Information Technology Services for sponsoring this event.

Former CBRC Chairman, Mr. Liu Mingkang, addressed more than 100 European Chamber members in Shanghai on the afternoon of Tuesday 30th November. Mr Liu shared his views on what is needed for China's continued development and answered questions from the audience. Thanks to Credit Agricole CIB for sponsoring this event.

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING

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Capital Beat (1-3)
The latest instalment of Capital Beat on 16th November was one of the outstanding events in the Beijing Chamber's calendar this year, attended by more than 100 people. Moderated by The Economist's China correspondent, James Miles, the topic focussed on the The 18th Party Congress. Presentations were given by John Garnaut, *Syndey Morning Herald's* China correspondent and author of *The Fall of the House of Bo*, Jonanthan Fenby, China Research Director for Trusted Sources and former editor of *The South China Morning Post* and Dr David Ellis, Political Counsellor from the British Embassy in Beijing. The discussion that followed was engaging and insightful.

SME Conference 2012 (4&5)
The 'SME Conference 2012: Practical Solutions to Help You Think Big' was held on 25th October 2012 at the Marriott Northeast in Beijing. The conference, jointly organised by the European Union Chamber of Commerce in China, the China IPR SME Helpdesk and the EU SME Centre, attracted over 150 participants. The key note speech was delivered by Daniel Calleja, SME Envoy and Director General of DG Enterprise and Industry, European Commission who highlighted the key role SMEs have to play in developing the European economy.

CHENGDU


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EMBA Management Forum (1&2)
On November 15th 2012, the European Chamber, in cooperation with CEIBS, held the EMBA Management Forum, 'Resource Strategy for Company Development' at the Shangri-La Hotel Chengdu. Professor Katherine Xin from CEIBS shared some outstanding human resource strategies for company development.

TIANJIN


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A Night with Stars - 2012 European Business Gala Dinner (1-6)
The 7th annual European Business Gala Dinner was held at St. Regis on 12th October, with 300 guests in attendance. This gala theme was "A Night with Stars" to celebrate the 5th EU Film Festival in Tianjin. Guests enjoyed a memorable evening with delicious food and drinks from various European countries. Attendees had their photograph taken on the red carpet and were entertained by European songs, the EU Film Quiz and cocktail making competitions, as well as a lucky draw. We would like to thank for all the sponsors for their generous support.

SHANGHAI


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M&A Confererence (1&2)
Current trends and developments in M&A were discussed at the M&A Conference, held at the Sofitel Hyland, Shanghai on 13th November, 2012. Taking part was Marco Marazzi, Partner, Baker & McKenzie; Elaine Wu, General Counsel and Head of Legal Services, Evonik Degussa; Anne Daentzer, Director Legal Affairs (Asia/Pacific), SCHOTT (Shanghai); and Linda Chen, Partner, KPMG.

NANJING

1

2

Government Dialogue (1&2)
On 22nd November, the European Chamber in Nanjing and the Nanjing Municipal Investment Promotion Commission co-organised a Government Dialogue event. Mr Kong Qiuyun, Director of the Nanjing Municipal Investment Promotion Commission welcomed Mr Dirk Moens, Secretary General of the European Chamber. Officials from different government departments joined the round table discussion separated by three working groups. More than 90 participants attended the event.

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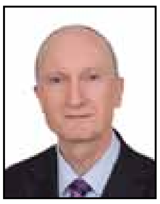
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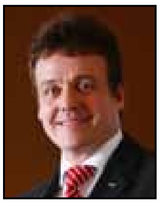
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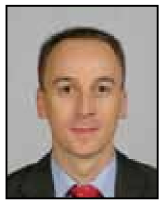
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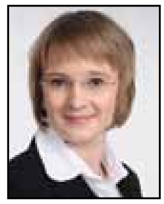
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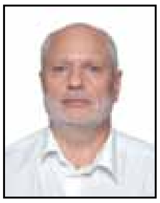
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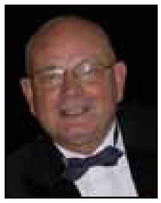
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THE EXECUTIVE INTERVIEW: Eric Apode

CEO, Chang 'An PSA Automobiles Company (CAPSA)

Eric Apode has been working for PSA Peugeot Citroën (PSA) since 1988. When a joint venture agreement was signed between PSA and China Chang 'An Automobile Group (CAPSA) in July 2010, Apode became a management member of the preparatory team.

CAPSA has two plants in Shenzhen, one devoted to engines and the other to producing cars, with a current annual output of 200,000 vehicles

What were the main challenges you faced when working on the joint venture here in China?

First of all I should say that PSA has a very reliable partner in Chang 'An, and the cooperation between us is very progressive and productive. Personally the main challenge here has been the language. Ideally we'd like to have direct communication between us without the need for translation or interpretation. That's why I am studying Chinese and my partner is learning English very hard. Secondly we're improving the merging of cultures and innovation in CAPSA to ensure that each employee, wherever they come from, has the sense of belonging to CAPSA.

With the creation of the PSA China Tech Centre (CTC), you started creating products that are developed specifically for the local market. How important is it for you to focus on this?

Adapting products to the local market is absolutely critical, and has been proved to be successful in many cases. China's market is ever-growing and is fast becoming the second largest market for PSA. Our strategy at PSA is to become a global corporation, dedicated to upgrading the Asian market.

Can you tell us a little about CAPSA's clean vehicle strategy?

Part of our strategy is to develop and sell the most up-to-date technologies coming from Europe to China from our DS series. The new generation of DS engines, that we have already started to sell in China, are extremely powerful, but at the same time very efficient on fuel consumption by using state-of-the-art technologies. These Turbo High Pressure (THP) engines, jointly developed with BMW, have won several 'Engine of the Year' awards in recent years, and are going to be produced in our Shenzhen plant.

The DS series has also become a clear leader in hybrid technology vehicles in Europe. Just looking at the DS5 for example, more than 25% of its European sales are hybrid cars. We are going to build on this success and are planning to import these models to China. We are looking to introduce hybrid technology into CAPSA in 2013.

In addition we are also working towards production of Battery Electric Vehicles (BEVs) at our Shenzhen plant. These vehicles are 100% driven by battery power and do not utilise combustion engines at all.

All of these exciting developments demonstrate that we are making really positive steps forward with our clean vehicle strategy.

What is the significance of the cooperations you have forged with some of the top engineering universities here in China?

CAPSA has just embarked on this cooperation with some of China's best engineering universities. On the one hand these projects are aimed at cultivating qualified engineers on campus, and on the other they are there to encourage collaborations between top universities to research and develop new products.

What are your goals for the future?

Our partner, Chang 'An, is currently the fourth largest player in the Chinese automobile industry, and PSA the second largest in the European market, so CAPSA is an alliance between two giants. I want CAPSA to excel in the global auto industry, this is a vision shared by both myself and my Chinese partner. We aim to make CAPSA the best joint venture in China.

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