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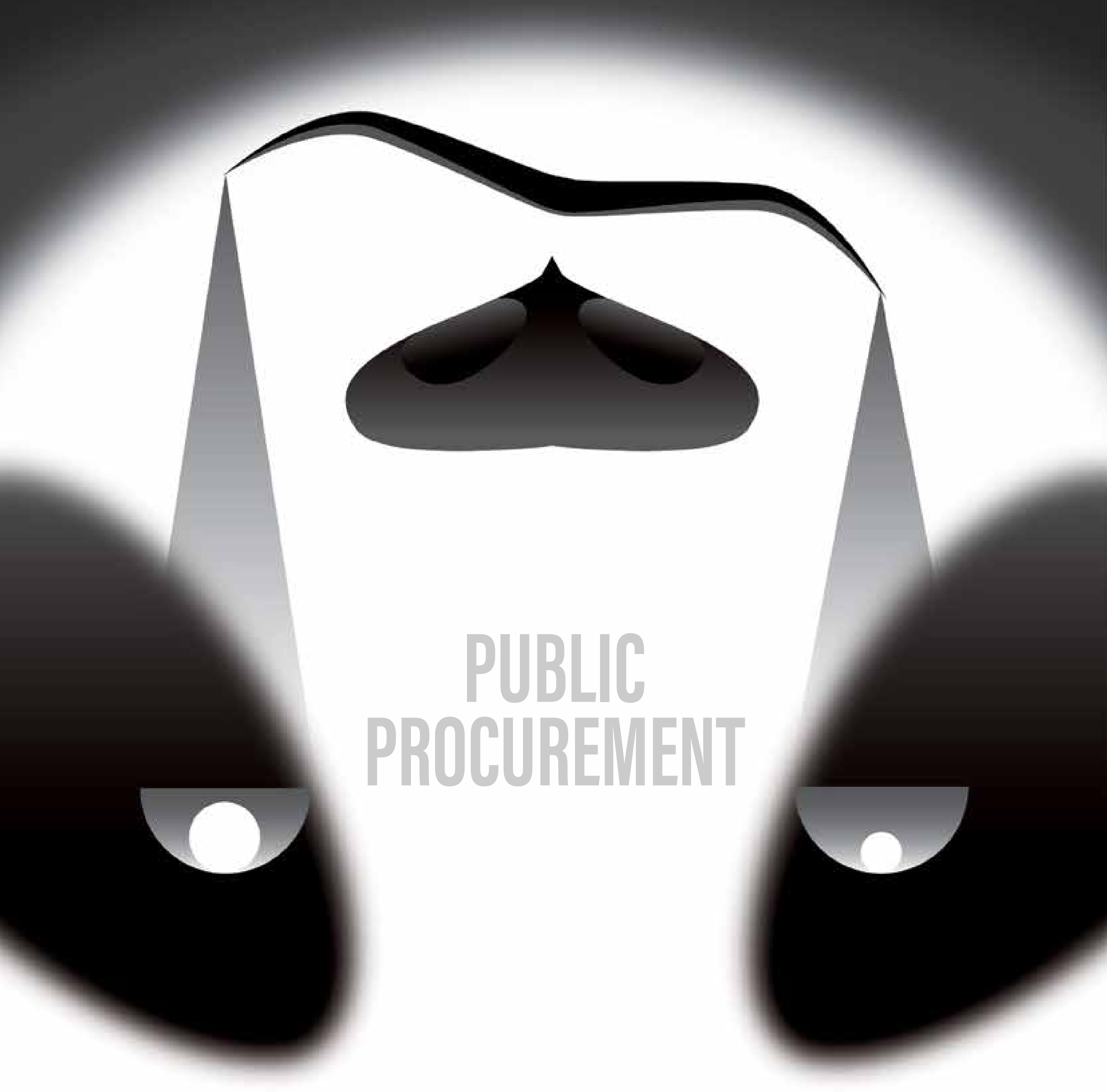

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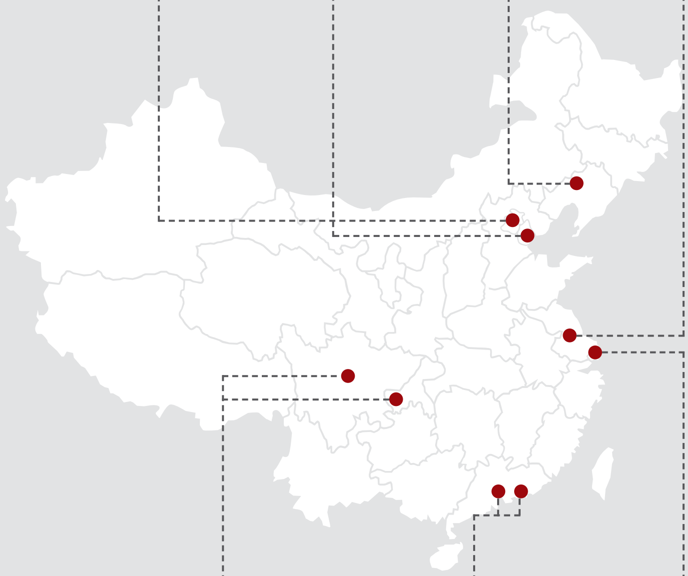

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President's Foreword

Spirit of reform needed more than ever

At first glance, all seems well in the Middle Kingdom, with a significant number of European Chamber members having posted record figures for revenue and profit in 2020. After China's impressive recovery amid the unprecedented challenges thrown up by the COVID-19 pandemic, many European firms' China operations found themselves in a position to help stabilise their headquarters and make up for losses incurred in other markets. The Chinese economy looks set to remain strong for decades to come, and the near-term outlook for European companies operating in China is positive overall.

Yet there are troubling signs that China is increasingly turning inwards, as can be seen in its 14th Five-year Plan, and this tendency is casting considerable doubts over the country's future growth trajectory.

China's current level of per capita gross domestic product is comparable to that of the economies of Japan, Korea and Taiwan 40 years after they embarked upon their respective reform and market-opening programmes. However, data show that, over the last five years, China's growth has already fallen slightly behind where it should be, a trend that could continue if Beijing chooses to dispense with bold market reforms in favour of a more insular approach. China's ambition to cement itself as a global economic superpower is by no means certain.

Of greater concern to European Chamber members is the extent to which they will be able to contribute to China's future economic growth.

The programme of reforms launched under Deng Xiaoping's leadership in the late 1970s initially propelled China forward at breath-taking speed. However, over the intervening four decades, reforms have vacillated as Beijing sought to balance growth with its conflicting need to maintain economic control. A key aspect of maintaining control appears to be the continued favouring of state-owned enterprises, despite the fact that they lag the private sector in terms of efficiency and productivity. In the meantime, it seems China is employing methods to increase control over its vibrant private sector in order to achieve its policy goals, while finding ways to exclude foreign companies from the market, in particular from strategic sectors. Although the potential costs of such an approach may not be felt for several years, they are considerable and should not be overlooked.

Building more resilient supply chains makes sense in order to counter the kind of challenges that saw production disrupted across multiple industries during the COVID-19 pandemic, but less diversification will ultimately result in more expensive, yet suboptimal, solutions. Reducing international engagement will necessitate a steady flow of domestic subsidies and the maintenance of tariffs. The corresponding decrease in market competition will also dent China's ambition to become a leader in high-technology sectors and compromise its 2060 carbon neutrality target, while resulting in a less dynamic and innovative market overall.

To that end, we have just launched our *Position Paper 2021/2022*, containing 930 constructive recommendations made by our 35 working groups and sub-working groups, and will be using this 'advocacy bible' to engage with the Chinese authorities at all levels over the coming months. We hope that this will allow us to continue moving the needle on behalf of our member companies, while convincing China that it is only through the development of an open, fair and competitive market economy, underpinned by strong insitutions, that it will be able to achieve the high-quality, sustainable economic growth it seeks.

Jörg Wuttke

President

European Union Chamber of Commerce in China

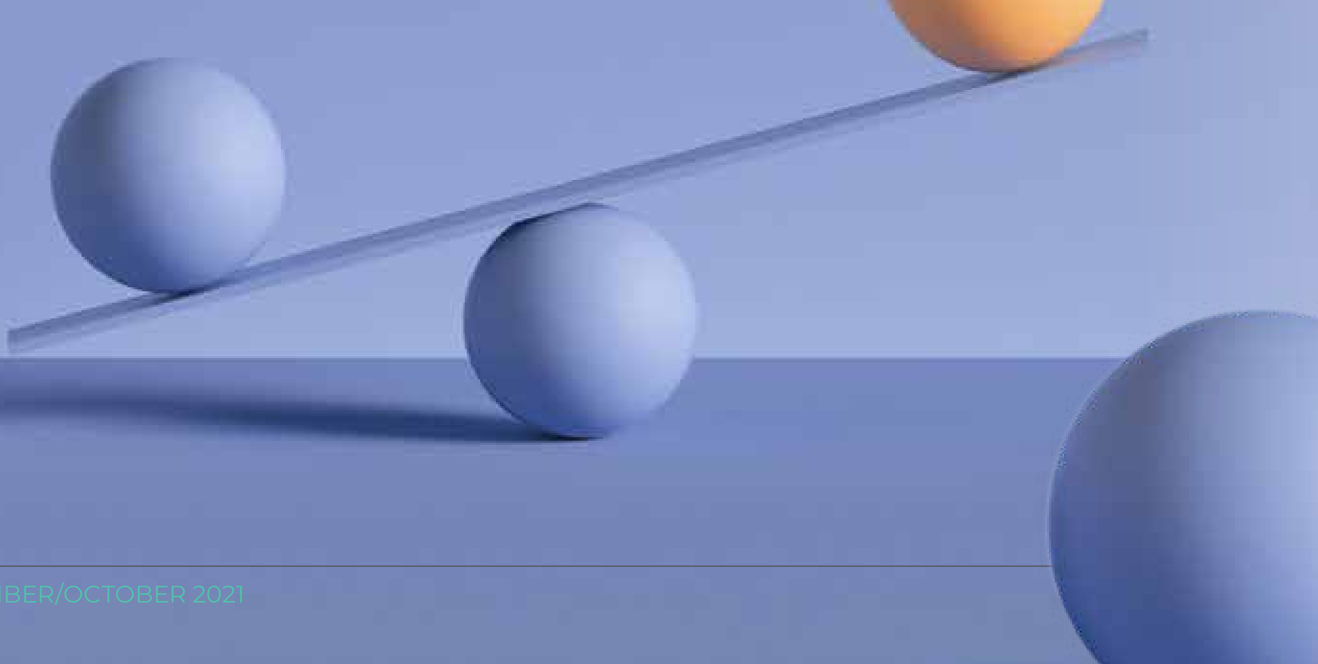
Scan the QR code to download the *Position Paper 2021/2022*.

Government Procurement Law Revision

How will it help China comply with World Trade Organization requirements?

by **Johannes Weilharter**

On 8th December 2020, China's Ministry of Finance solicited public comments on the draft revision of the Government Procurement Law (GPL). The GPL is one of two major Chinese pieces of legislation that deal with public procurement, and was implemented at the beginning of 2003, one year after China's accession to the World Trade Organization (WTO). The proposed revision would be the first major overhaul of the law, apart from some minor streamlining in 2014. The proposal intends, amongst other things, to align China's government procurement system with international best practices; an effort which has to be seen in connection with China's negotiations to join the WTO Government Procurement Agreement (GPA). During negotiations, member states will have to confirm that China's procurement system complies with the requirements of the GPA. This article by **Johannes Weilharter** of **Schulz Noack Bärwinkel** will introduce several highlights of the proposed revision to the GPL and shed some light on their compliance with GPA requirements.



Scope of application

Under the GPL revision, 'government procurement' refers to the purchase of goods, projects or services as defined in the 'centralised procurement catalogue', provided that they are procured by governmental authorities, public service institutions and group organisations for the pursuit of governmental and public purposes, by using budgetary means or public funds and that exceed certain thresholds. 'Government authorities', according to the GPL, include central, judicial and prosecution authorities. 'Public service institutions' are defined as nonprofit entities established by government authorities, using state-owned assets, to engage in education, science, culture or similar activities; and 'group organisations' refer to political parties or non-profit groups approved by the government.

While nominally covered by the draft revision, construction and planning services are exempt from the GPL insofar as they fall under the Bidding Law (BL). This, strongly simplified, would be the case for construction and design services performed under infrastructure projects, projects in the public interest, and projects financed by the state (such as those involving state-owned enterprises (SOEs) or joint venture (JV) projects in which SOEs hold a controlling stake) that exceed certain thresholds (which are slightly higher than under the GPL). This dichotomy between the GPL and the BL is probably particular to the Chinese public procurement regime; examining the compliance of such dichotomy with the requirements of the GPA would certainly exceed the scope of this article. On a positive note, however, one can observe that SOE projects, while not covered by the GPL, fall under the BL and are thus subject to a public bidding regime.

'Buy China' policy

The proposed GPL draft continues to set forth a 'Buy China' policy, which requires agencies and procuring entities to purchase—with certain exceptions—domestic goods and services. The exceptions are narrowly drafted and provide for cases where the relevant goods and services are not available in China, cannot be obtained in China at reasonable prices, or are designated for use abroad.

The definition of a 'local' product or service is therefore of paramount importance, and is to be provided in regulations to be issued by the State Council. Subject to further indications, one may expect the definition to be made in accordance with rules and regulations on the origin of goods (as in the *Regulation of the People's Republic of China on the Place of Origin of Import and Export Goods*), which would open procurement markets to wholly foreign-owned enterprises and JV products. Obviously, the suggested 'Buy China' policy finds itself in a sensitive relationship with the GPA's requirement for national treatment. As the 'Buy China' policy appears in the draft legislation as well as in the current GPL, it is fair to expect that it will be retained, but may be waived for procurement covered by the GPA. A similar approach has been adopted by the United States Government in order to uphold its 1933 Buy American Act.

National security reviews

Of potential concern may be a new requirement for a national security review for any procurement that "may affect national security". The draft stipulates that the GPL shall not be applicable in such cases. At first glance, this may seem contradictory to the GPA, which allows exemptions based on security concerns only insofar as they relate to the procurement of arms, ammunition or war materials; or to that indispensable for national security or national defense purposes. Given the above, the term 'national interest' requires further clarification, which is expected to be provided in GPL implementing regulations or other side legislation.

Procurement methods

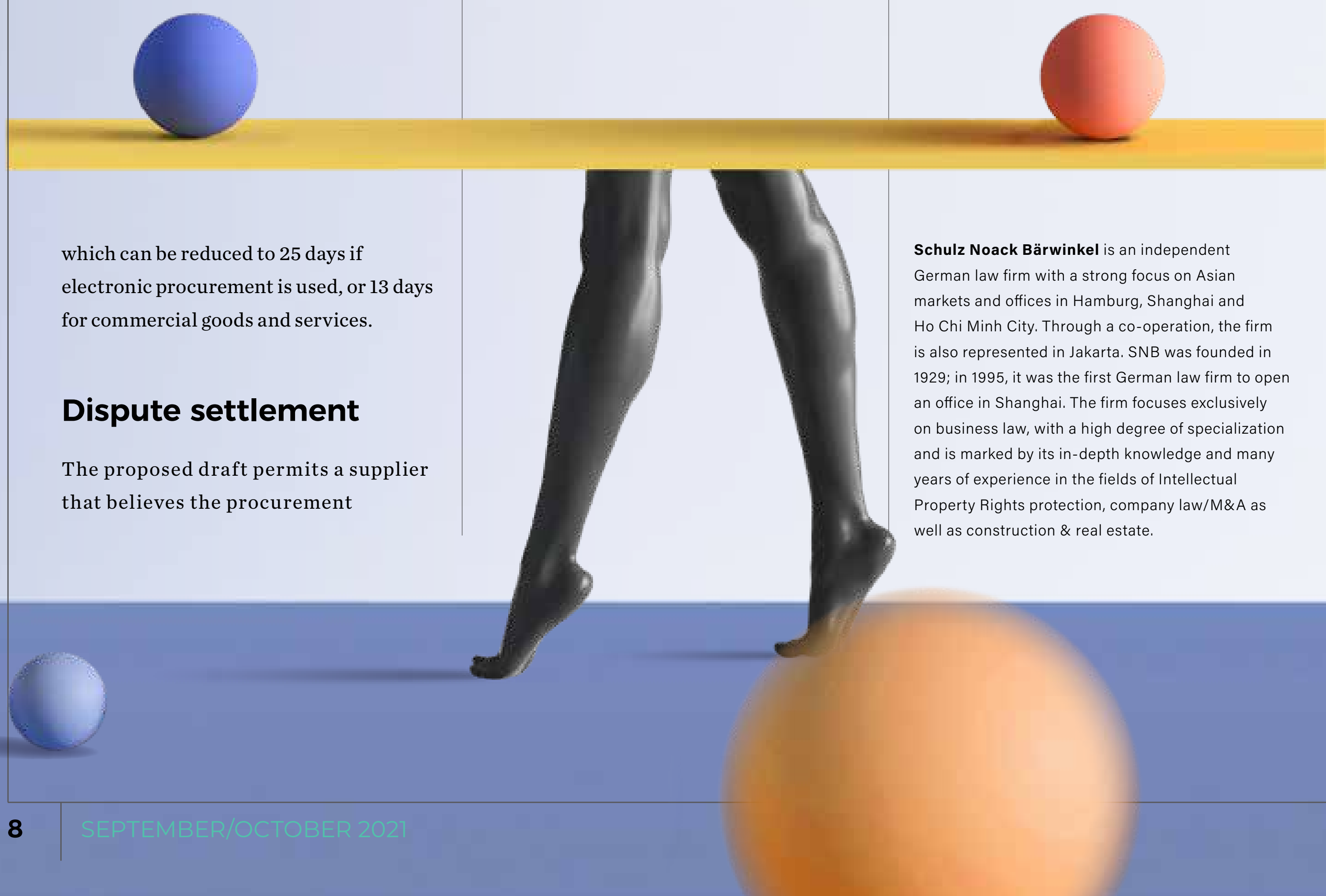
One of the stated goals of the draft GPL is to improve the reglementary framework for the different methods of procurement, such as open tendering, selective tendering, competitive negotiation, single-source procurement and framework agreements. In light of this goal, the revision prohibits the use of any procurement method likely to prevent or restrict suppliers from entering a certain procurement market. This requirement is highly commendable and serves to realise the principles of openness and transparency, fair competition, justice, honesty and trustworthiness – which are likewise inherent to the new draft. Given the aforementioned 'Buy China' policy, the economic effect of such prohibition must, however, be taken *cum grano salis*.

Conditions for participation

Consistent with the GPA, the revised GPL would require suppliers participating in a government procurement bid to have the ability to undertake the relevant project. The procuring entity can stipulate the requirements and conditions that all suppliers must meet in order to qualify to bid for a project, but must "not subject the supplier to differential or discriminatory treatment" based on unreasonable conditions such as location and ownership. The proposed GPL revision's conditions for excluding a supplier from a procurement, such as failure to pay taxes or illegal acts, correspond to the GPA.

Tendering period

The draft revision sets a minimum 20-day bidding period (between issuance of bidding documents and bid deadline), allowing for a reduction to 10 days in certain cases. This contrasts with the GPA's 40-day minimum requirement, which can be reduced to 25 days if electronic procurement is used, or 13 days for commercial goods and services.



Dispute settlement

The proposed draft permits a supplier that believes the procurement documents, shortlisting, selection of the winning supplier or other parts of the process, have harmed its rights and interests to raise its concerns with the procuring entity or bidding agency, which must answer within seven business days. If the bidder is unsatisfied with this reply, it can file a complaint within 15 business days with the supervising agency, which shall then decide on the matter within a further 30 business days. The supervising agency may suspend the ongoing procurement procedures during this time. Complainants may file a lawsuit at the competent People's Court to appeal the decision of the agency. In this respect, it is noteworthy that, during conclusion of the contract, a lawsuit may also be directly filed at the People's Court. The claimant should inform the supervising agency of its suit, upon which notice the agency will stop handling the complaint.

The relevant provisions seem to suggest that complainants are not obliged to wait for the decision of the supervising agency before applying for judicial help, or may even do so in circumvention of the supervising agency. The said provisions will require further clarification in the implementing regulations; subject to the promulgation of such legislation, it is, however, imaginable that such direct access to the Courts shall enable the issuance of injunctions and other interim measures.

Conclusion

Overall, the proposed revision would create a modern law which brings China's procurement system close to overall compliance with GPA requirements. This process could be further enhanced with implementing regulations that clarify many of the aforementioned aspects. Whether the GPL opens a new chapter in the book of international trade of goods and services will depend on the further talks regarding China's current offer for accession to the GPA. Eb

Schulz Noack Bärwinkel is an independent German law firm with a strong focus on Asian markets and offices in Hamburg, Shanghai and Ho Chi Minh City. Through a co-operation, the firm is also represented in Jakarta. SNB was founded in 1929; in 1995, it was the first German law firm to open an office in Shanghai. The firm focuses exclusively on business law, with a high degree of specialization and is marked by its in-depth knowledge and many years of experience in the fields of Intellectual Property Rights protection, company law/M&A as well as construction & real estate.

BULK SHOPPING

Challenges of volume-based procurement in the medical device industry

by **Volker Müller**

Until recently, 'to see a doctor is both difficult and expensive' (看病难, 看病贵) was a familiar catchphrase to describe the Chinese healthcare system.

Steps are being taken by the Chinese Government to improve community hospitals and rural healthcare facilities with volume-based procurement (VBP) being one of the tactics used to cut costs. However, bulk buying the cheapest product is not always the most economical option in the long-run, particularly when it comes to medical devices. **Volker Müller**, senior government affairs desk manager at the **European Chamber**, tells us more.

Finance the healthcare system of a developed country with the monetary resources of a third-world country.

This is, condensed into one sentence, the challenge Chinese healthcare authorities are facing. In 2020, China spent euro (EUR) 665 per capita for healthcare. In comparison, in Germany—the biggest European healthcare market—per capita spending (2019) was EUR 4,944, 7.5 times as much. Standing at a rate of 30.5 per cent, government subsidies of the healthcare sector in China are high (in comparison: Germany is 12.8 per cent). A further increase in social security contributions of the workforce would harm the competitiveness of the Chinese industry. In the five years from 2015 to 2020, overall healthcare expenses in China grew by an unsustainable

average of 13.3 per cent per year,[1] almost 2.5 times as fast as the average gross domestic product (GDP) growth of 5.7 per cent.[2] Hence, the only option for China's health authorities is to limit the growth of expenses.

Facing this bleak monetary perspective, health authorities, especially the National Healthcare Security Administration (NHSA), need to control expenses while at the same time maintain or even expand (especially in rural areas) the level of care.

China uses different approaches in parallel to achieve this goal, including:

- Diagnosis-related Group (DRG); paying a lump sum to a hospital for a specific disease, encouraging hospitals to use resources economically.[3]
- Tiered care; a collaboration of community clinics and hospitals of different levels shall relieve expensive top-end hospitals of patients who can be treated close to their homes with less expensive treatment methods.

One of the newest tools of the NHSA to control expenses, by reducing purchasing prices of medicines, disposable and consumable medical devices, is volume-based procurement (VBP). The basic idea is to bundle the demands of many hospitals in order to buy products in high quantities and ask the manufacturer for price reductions.

The idea of VBP or bulk-buying is not new. In the 19th century, European citizens organised themselves in consumer cooperatives to negotiate better prices for food and other daily necessities. In the field of healthcare, the United Kingdom is a pioneer of state-controlled procurement, encouraging local National Health Service organisations to work together in a regional purchasing arrangement that enables them to bulk buy and benefit from the economies of scale.[4] Though the term VBP was not used, the idea of bulk buying healthcare products became most prominent in late 2020, when the European Commission used its bargaining power to negotiate prices and terms of delivery with manufacturers of COVID-19 vaccines for all its 27 member states.

In China, VBP of medicines started in late 2018 in 11 trial cities. On 7th December 2018, the tender results of 25 different medicines were announced, leading to their prices subsequently dropping by as much as 96 per cent, with an average decrease of 52 per cent.[5] This was mainly achieved by replacing originator medicines (medicines manufactured by the inventor) by generics (medicines 'copied' after the patent has expired). Encouraged by the substantial savings of the pilot, the NHSA started VBP-tendering on a national level in 2019.

The first two VBP tenders for high-value medical devices were organised by the provincial Healthcare Security Administrations of Anhui and Jiangsu provinces in July 2019. The use of VBP for medical devices is much more complex than that of medicines: one type of medicine is defined by one or a few active ingredients, therefore originator medicines and generics have in principle the same pharmacologic effect. Complex medical devices have hundreds or thousands of parameters; the devices of different manufacturers are never completely identical, giving the doctor many choices from which to select the most suitable option for a patient's condition. However, the diversity of medical devices makes it difficult to define the scope of a tender and limits procurement volume.

Despite this difficulty, in 2020, prospective cost savings led to a 'rush' in VBP tenders. With a few exceptions, procurement of medical devices is organised at provincial level or below. Each procurement entity decided the scope of products to be purchased by VBP tenders and created its own set of regulations and requirements. Many regular procurement activities were re-organised as VBP tenders, often on third- and fourth-tier municipality levels that have just one or two class III (top-end) hospitals, and thereby not creating substantial procurement volume to justify major price cuts. The hasty call for VBP tenders resulted in poorly conceived tendering procedures: for example, sometimes the tender regulations were only announced orally at tender meetings; the criteria for winning a tender remained unclear; or hospitals' device demand forecasts were not always available when they called for tenders.

In 2020, the Government Affairs subgroup of the Chamber's Consumable and Disposable Medical Device Advisory Committee spent most of its time contacting and visiting local procurement centres to advocate for an improvement of the VBP tender procedures. Thanks to the combined efforts of the NHSA, the local Health Security Administrations and the industry, most of these administrative shortcomings were

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1 *Statistics of China's Healthcare Development (in Chinese),* annual reports 2016 – 2020, National Health Commission, viewed 12th September 2021.

2 *Economy and Society Development Report 2020 of the People's Republic of China* (in Chinese), National Bureau of Statistics, 28th February 2021, viewed 12th September 2021, <http://www.stats.gov.cn/tjsj/zxfb/202102/t20210227_1814154.html>

3 Müller, Volker, *New Payment Systems: The process of Chinese hospitals adopting a commercial mindset, Eurobiz November/December 2017,* 1st December 2017, viewed 12th September 2021, < https://www.eurobiz.com.cn/new–payment–systems/>

4 *Partnering with the NHS to sell goods and services.* Government of the United Kingdom, 28th September 2018, viewed 12th September 2021, <https://www.gov.uk/guidance/partnering–with–the–nhs–to–sell–goods–and–services>

5 *European Business in China Position Paper 2019/2020*, European Union Chamber of Commerce in China, 2019, pp. 263–271, < https://www.europeanchamber.com.cn/en/publications–archive/714/Pharmaceutical_Working_Group_Position_Paper_2019_2020>

Quantity and quality, the golden middle road
Industry paper of the CDMD AC
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solved by the first half of 2021.

In late 2020, the NHSA conducted the first nationwide VBP tender for medical devices — coronary stents. The result was announced on 9th November 2020: the contracted price dropped by an average of 93 per cent, from Chinese yuan (CNY) 13,000 to CNY 700.[6] Ten different stents were selected in the tender; three imported, seven domestic. Several international companies retracted their bid because of the cut-throat price competition. Compared with many other medical devices, the costs of the physical manufacturing of coronary stents are very low, but manufacturers have to invest heavily in research and development, including international multi-centre clinical studies. The price in this national VBP tender covers manufacturing costs, but leaves no resources for manufacturers to invest in further product improvement.

Results of the second VBP tender at national level, this time for artificial joint implants, were announced in September 2021. 44 out of 48 manufacturers passed this pre-qualification. The average price cut compared with 2020 was 82 per cent, certainly at the pain threshold, but not as extreme as in the first national VBP. One improvement noted in the second VBP tender: devices and service prices were quoted separately, increasing cost structure transparency.

However, a general challenge remains for VPB tenders at both national and local levels: as the main objective of VBP is price reduction, tenders are generally decided on price criteria, without sufficient consideration of clinical requirements and quality of devices and related services. In contrast, the European medical device industry promotes the concept of 'value-based healthcare' and 'value-based procurement'. As with consumer products, buying the cheapest medical device is often a waste of money. For example, if a cheap and lower quality artificial joint has to be replaced after ten years, this will cause additional suffering for the patient, the additional surgery consumes additional hospital resources and health insurance payments will increase overall.

The NHSA and most local procurement agencies understand the necessity of introducing 'value-based procurement'; the question is not 'whether', but 'how'. There is no simple formula to compare the lifetime and quality of medical devices, as clinical studies are required for each individual medical device. Taking the lifetime of implants as an example, it may be necessary to observe patients for decades until reliable data are available. The Chamber's Healthcare Equipment Working Group is planning to bring European and Chinese experts together to share experiences and best practices in value-based procurement, to make best use of China's limited healthcare resources.

[6] *Tender Result of the State Level VBP of Coronary Stents Announced, the Average Price for a Stend goes down from an Average of 13,000 Yuan to an average of 700 Yuan* (in Chinese), people.cn, 5th November 2020, viewed 12th September 2021, <http://health.people.com.cn/n1/2020/1105/c14739–31920276.html >

Competition at Home

The duel between European public procurement measures and third market discrimination

by **Cindi Yu**

The European Union (EU) has long advocated for open international public procurement markets. It demonstrated its willingness to open its own market by voluntarily binding itself to the World Trade Organization (WTO) Agreement on Government Procurement (GPA), under which 21 of the 48 WTO members signed up to providing open, fair and transparent conditions for public tenders.[1] However, some big players such as Brazil, Russia, India and China are yet to join the agreement as formal members, while others that did sign the GPA continue to promote self-sufficiency policies in procurement – such as the United States (US) executive order mandating the government to maximise its use of domestically-made goods.[2] The result—as **Cindi Yu**, working group coordinator at the **European Chamber**, explains here—is that EU businesses currently compete under unfair public procurement conditions abroad, while at home they vie for bids on an equal footing with foreign-invested enterprises.

With the 2021 summer break now over, the European Parliament will finally start trilogues with the Council of the EU and the European Commission on adoption of the International Procurement Instrument (IPI).[3&4] The IPI—the first proposal of which was presented by the European Commission in March 2012 before getting caught up in a legislative deadlock that was just recently resolved—is aimed at serving as an 'offensive' tool to disincentivise non-EU countries, or third countries, from

1 *Agreement on Government Procurement,* World Trade Organization (WTO), 30th March 2012, viewed 10th September 2021, <https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm>

2 *Executive Order on Ensuring the Future Is Made in All of America by All of America's Workers,* The White House, 25th January 2021, viewed 10th September 2021, <https://www.whitehouse.gov/briefing–room/presidential–actions/2021/01/25/executive–order–on–ensuring–the–future–is–made–in–all–of–america–by–all–of–americas–workers/>.

3 'Trilogues' are informal, closed–door, tripartite meetings among the European Parliament (representing EU citizens), the Council of the EU (representing member states' governments), and the European Commission (representing the executive power of the EU). The meetings aim to speed up the formal ratification processes by reaching prior agreement on the text.

4 *Draft second report on the proposal for a regulation on the access of third–country goods and services to the Union's internal market in public procurement,* European Parliament, 27th July 2021, viewed 10th September 2021, <https://www.europarl.europa.eu/meetdocs/2014_2019/plmrep/COMMITTEES/INTA/PR/2021/09–01/1237218EN.pdf>

intentionally excluding European goods and services from their domestic public procurements markets.

Looking into the IPI proposal, it lays out two interesting foci: investigation power and deterrence purposes.

Sniffing out that some foreign players are benefitting from both the Single Market's openness and their home markets' protectionism can be easy, but proving so is hard. According to the IPI, the Commission is tasked with initiating investigations of alleged discrimination against EU companies in a third country procurement market on specific goods and services. The IPI attempts to simplify this process by targeting bidders rather than bids, specifically foreign bidders with a) more than 50 per cent of the bid value and b) originating from a country that discriminates against European companies in its relevant domestic market. These foreign bidders bear the burden of proving that the third country is not placing unfair or unfavourable public tender conditions/restrictions against European companies in the specific goods and services the bidder is bidding for in the EU.

To increase the pressure, the IPI introduces retaliation or penalty measures that aim to serve as deterrence against discrimination by foreign governments in public procurement. Foreign tenderers from such economies will see their bids weighed down with added price penalties, or 'price adjustment measures', thereby potentially hampering their chance of winning the procurement bid.

However, these penalties will not directly prevent any third country goods or services from participating in EU tendering procedures, and also exclude any goods or service not provided by European companies. Original expectations of potentially strong retaliation measures—such as barring relevant companies from the market—have been edited out in the latest reviews of the text by the European Parliament. This questions the ability of the IPI to inflict damage upon foreign bidders, and thereby foreign governments, as an 'offensive' tool.

To realise successful implementation of the IPI, the Commission will need the support of the European business community in third markets. While there are cases of clear exclusion of European operators in specific goods and service procurements—such as integrating indigenous innovation policies with government procurement regulations, or clear market restrictions over foreign entities—other invisible barriers relevant to transparency of bidding practices are less easy to appeal against.[5] Some companies affected will speak out, while most are more likely to bite their tongues for the sake of avoiding confrontations with the relevant third country government. European companies rely on government relations for their continued smooth operations in markets with heavy interventions by the authorities; such is the usual case for operators in China. These 'good' relations often represent business opportunities in China – not only the present bid, but also future bids against competitors in an already narrow arena for foreign competitors.

Under these circumstances, European companies not only need to assess how upset they are about missing out on procurement, they also have to understand how effective these countermeasures proposed by the European Commission may be in amending the behaviour of third country governments regarding procurement, to the extent of overcompensating for the potential risks of counter-policing unfair bidding processes.

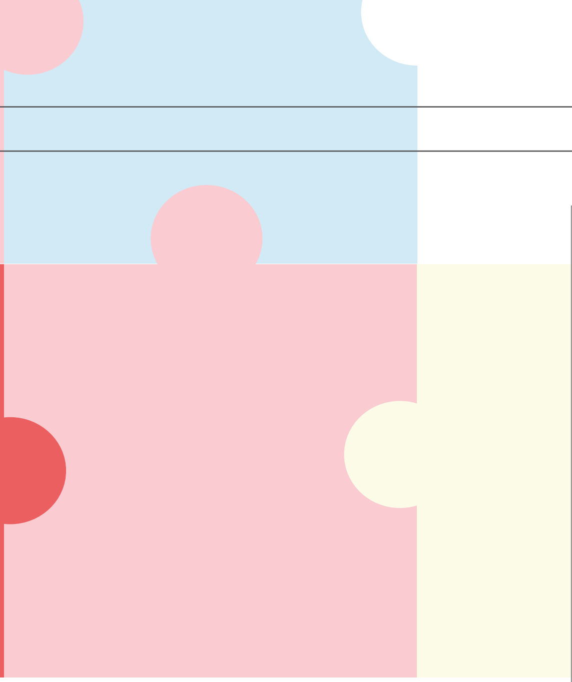
[5] More information on the market access restrictions in public procurement in China for European companies can be found through the European Chamber's Public Procurement Task Force by visiting <https://www.europeanchamber.com.cn/en/working–groups–forums–desks/42/public–procurement>.

PUBLIC-PRIVATE PARTNERSHIPS

Analysis of the relevant policies and project model changes

by **Jane Yang**

Over the past few years, in accordance with the changes to China's public-private partnership (PPP) projects-related policies, enterprises have adjusted their funding methods and integrated equity structures on PPP projects. **Jane Yang** from **EY** aims to give a brief summary on PPPs background, as well as typical PPP operating modes and their impact on financial statements.



PPP projects in development stage

The basic operation mode of most PPP projects is that an infrastructure construction enterprise (hereinafter referred to as 'PPP project undertaker') establishes a project company to accomplish the construction and operation of the entire project. Since PPP-promoting policies were issued in 2015, PPP project undertakers have generally faced a shortage of funds due to the large amount of investment required.

In order to fulfill the financing demands and the requirements of various State-owned Assets Supervision and Administration Commission (SASAC) of the State Council financial indexes, most PPP project undertakers introduce state-owned financial capital for the purpose of pursuing stable investment returns, such as trusts, bank asset management plans, and insurance. The special purpose vehicle (hereinafter referred to as 'SPV') indirectly invests the external funds as capital into the project company. It means that the PPP project undertakers and the external funders hold shares as limited partners of the SPV, while the SPV fulfills the capital needs of PPP projects through equity investment.

PPP projects in adjustment and specification stage

From 2017 onwards, the PPP industry in China entered a stage of adjustment. The SASAC issued *Document No. 192* in November 2017; the Ministry of Finance issued *Document No. 23* in March 2018; and the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued new policies in April 2018. These documents prohibited maturity mismatching and multilayer nesting, restricted equity investment and capital operations such as credit enhancement. After these policies were issued, the capacity for capital investment in PPP projects dropped significantly, resulting in a decline of the integrated shareholding structure construction modes, which was previously the first choice for project undertakers.

In 2019, the State Council has issued encouraging policies on capital-raising for standardised PPP projects. In *Document No. 26*, issued in November 2019, project legal entities and project investors are encouraged to issue equity financial instruments in infrastructure and other 'strategic' industries, raising project funds by multiple financing methods.

In response to these policies, PPP project undertakers have begun to gradually explore the use of equity-based financial instruments that meet the requirements for project capital financing, as well as to meet regulatory requirements and achieve financial control such as asset-liability ratio control and other financial performance.

The typical structure of the PPP project is that the undertaker and the external funder hold their shares as limited partners of the SPV during the adjustment and specification stage. At the level of SPVs, fund raising is carried out through fund share subscription and purchase of other equity financial instruments issued by special-purpose entities. The proportion of funds by SPV equity investments in PPP project companies has declined, and they further met the capital needs of projects by purchasing other equity financial instrument investments issued by project companies.

Financial impacts of integrated equity structure modelling at different stages

From an accounting perspective, the PPP project undertakers need to be in accordance with the definition of 'control' as provided in *Accounting Standards for Enterprises No. 33: Consolidated Financial Statements* (revised in 2014), considered with regard to the specific circumstances of the PPP project. The SPV of the PPP project and the project company can then make a judgment on whether it should be listed/consolidated. In addition, enterprises should also fully consider the following factors:

- whether qualified third parties introduced have actual investment intention;
- the actual operation services and risks related to PPP projects; and
- whether the architectural design and the clause arrangement of decision-making mechanisms at all levels have reasonable setting purposes and commercial substance.

It has been observed that, during the vigorous development stage, PPP project undertakers give priority to project companies for reporting (i.e., not including them in the scope of consolidated financial statements). During the adjustment and standardisation stage, however, project companies are gradually included in the scope of consolidated financial statements, if the PPP project undertakers have control over both the SPV and the project company. Hence, it is necessary to further determine whether the capital invested by external investors can be listed as equity (minority shareholders' equity) in consolidated financial statements, according to the principles of distinction between financial liabilities and equity instruments as set out in *Accounting Standards for Business Enterprises No. 37: Presentation of Financial Instruments* (revised in 2017). To apply these principles, enterprises should fully consider whether a SPV is an instrument that is obligated to deliver financial assets at the time of liquidation, for example:

- whether there is a specific operating lifetime;
- whether there is compulsory profit distribution and other payment obligations; and
- whether there is an indirect obligation to pay cash or other financial assets, such as an arrangement for a quasi-perpetual interest rate jump mechanism.

Conclusion

To sum up, PPP projects may involve complicated accounting treatments. PPP project undertakers should fully consider the *Accounting Standards for Business Enterprises No. 33: Consolidated Financial Statements* (revised in 2014) and *Accounting Standards for Business Enterprises No. 37: Presentation of Financial Instruments* (revised in 2017) for detailed analysis when making relevant accounting judgments.

Note: This article has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice. This article is the author's personal opinion and the author reserves the right of final explanation for this article.

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Checking out the Belt and Road

How can international testing, inspection and certification bodies contribute?

by **Lily Zhang**

The China-Europe rail routes at the heart of China's Belt and Road Initiative (BRI) provide direct trade links from Chengdu in southwest China to as far east as Hamburg in Germany and Milan in Italy. However, along the route, freight trains must switch between standard gauge tracks in China to wide gauge tracks in Russia and Belarus, and then back to standard gauge in Poland for most European Union Member States. It is this lack of consistency among standards that international testing, inspection and certification (TIC) bodies strive to eliminate. **Lily Zhang** of **Bureau Veritas** takes a look at how the BRI can benefit from the involvement of international TIC organisations in coordinating standards among participating countries.

The world economy is undergoing a long period of adjustment and recovery due to the lasting impact of the international financial crisis and, more recently, the pandemic. Scientific and technological progress, increases in population, economic globalisation and other major engines of economic growth over the past decades are now shifting gears, with their role in driving the world economy weakening significantly. A new round of growth drivers is still being fostered, and future economic development points have not yet formed.

China's BRI has closely linked the economies of the participating countries and regions, and strengthened their internal driving forces and risk resilience. The initiative has also promoted infrastructure development and institutional innovation, as well as creating new economic and job creation growth points.

Although the BRI has been moving forward smoothly with the support of China's economy and technology, there are still risks involved, which are reflected in three main aspects: political risk, economic risk and social risk.

Economic risks arising from the lack of sufficient attention to or awareness of quality management problems can result in huge losses for BRI projects. The root cause of this problem is that the parties involved may have different standards for recognising or evaluating the quality of a service or product. This can lead to opposing views that prevent them from reaching a consensus, and ultimately hinder the project from being delivered on schedule.

As the prevailing international system of conveying trust in the economic and social realms, as well as enhancing mutual recognition, the TIC industry has played an important role in improving quality, building up brands, promoting international cooperation, and establishing market and social order.

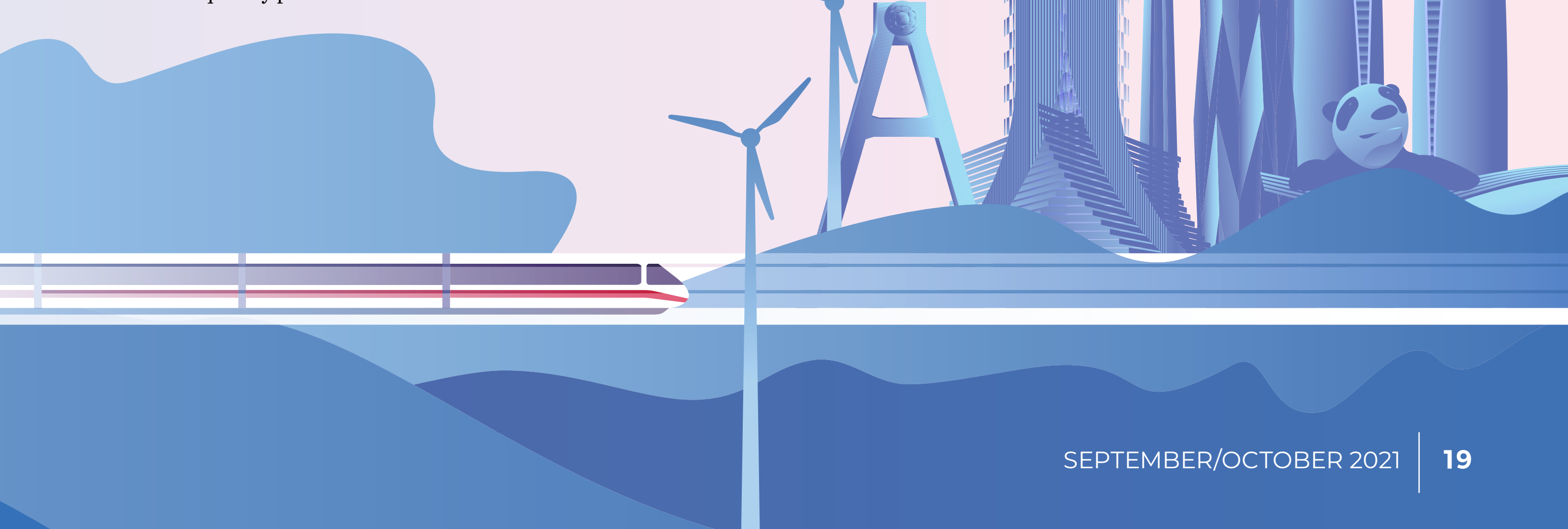
International TIC bodies in particular, due to their long historical development based on the concepts of fairness, integrity and objectivity, are recognised worldwide and have earned their credibility. Their reputation makes it easier for them to gain recognition from both sides in resolving disputes and frictions arising from quality problems.

In addition to the settlement of disputes and reducing project quality and safety management risks—and perhaps more importantly—international TIC bodies can promote mutual recognition of conformity assessment results of countries along the Belt and Road through core technical means such as technical regulations, standards and TIC. These services further facilitate international trade while ensuring safety and quality, and facilitate Chinese products and services in going global.

BRI projects with a reputation for high quality that utilised such international TIC services include Russia's Yamal liquid natural gas project, Turkey's Hunutlu coal-fired unit project, Indonesia's Batam coal-fired power plant project, and the hydropower transmission and transformation project in Equatorial Guinea.

In view of the key role and importance of international TIC bodies, it is recommended that the Chinese authorities formulate and enact relevant policies and measures that will encourage these bodies to participate throughout BRI projects. Taking infrastructure construction projects as an example, integrated quality technical services should be encouraged, from the project planning and design stage to the construction, acceptance and operation stage, to better control the quality and safety risks of the project in all aspects. The earlier the professional service organisations are involved, the greater the capacity to avoid technical barriers and identifying problems, and thereby preventing economic losses caused by quality and safety standard problems later in the project.

Bureau Veritas is well-known globally in testing, inspection, certification and technical consulting services. Created in 1828 and headquartered in Paris, France, it now has around 1,500 offices and labs, and more than 75,000 staff members, in 140 countries. Bureau Veritas delivers professional services and innovative solutions to its 400,000 clients in multiple key industries, to ensure their products, facilities and production flows meet the required codes and standards of quality, health, safety, environmental protection and social responsibility. Restarting its China operation in 1993, Bureau Veritas has over 130 offices and labs, and more than 17,000 professional staff members in 55 cities across the country.



20TH AUGUST
SHANDONG

Vice president delivers speech at Shandong Dialogue with Chambers of Commerce

European Chamber VP Guido Giacconi attended online and addressed the Shandong Dialogue with Chambers of Commerce.
Photo: European Chamber

On 20th August 2021, European Chamber Vice President (VP) Guido Giacconi attended online and addressed the Shandong Dialogue with Chambers of Commerce. Themed 'New patterns, new drivers and new opportunities', the main conference took place in Jinan, with 16 sub-venues in various locations throughout Shandong Province. VP Giacconi presented highlights of the European Chamber's recently-published *Business Confidence Survey 2021*, and discussed potential areas in which the European Union (EU) and China could cooperate, such as climate change, biodiversity, international development, World Trade Organization reform, international standards-setting and alignment on digitalisation.

14TH JULY
FUJIAN

Chamber's message presented to Fujian vice governor, local investment conference

VP Klaus Zenkel delivered a keynote speech at the Fujian International Investment Promotion Conference, highlighting the achievements of European companies in the province.
Photo: European Chamber

On 14th July, European Chamber VP and South China Chapter Board Chair Klaus Zenkel met with Fujian Vice Governor Guo Ningning to present findings from the European Chamber's *Business Confidence Survey 2021*. VP Zenkel offered European Chamber recommendations to the Fujian Government on the local business environment, advocating for the easing of entry restrictions for foreign employees and addressing the recent power supply shortages. VP Zenkel also delivered a keynote speech at the Fujian International Investment Promotion Conference, highlighting the achievements of European companies in Fujian in sectors such as manufacturing, sustainable development, new energy, digital innovation, pharmaceuticals and healthcare equipment.

12TH AUGUST
CHONGQING

Chamber delegation meets with Chongqing Foreign Affairs Office

Southwest Chapter Board Member Xavier Arnaud led a Chamber delegation to meet with Tang Wen, deputy director of the Chongqing Foreign Affairs Office.
Photo: European Chamber

On 12th August, Southwest Chapter Board Member Xavier Arnaud led a Chamber delegation to meet with Tang Wen, deputy director of the Chongqing Foreign Affairs Office, on China's visa policies and the impact of the COVID-19 travel ban on both visa services and business. The discussion went on to cover ways to develop the sports industry in Chongqing through cross-industry projects while incorporating environmental protection. Currently, the added value of China's sports industry accounts for only about one per cent of gross domestic product but is expected to grow to four per cent by 2035.

13TH AUGUST
TIANJIN

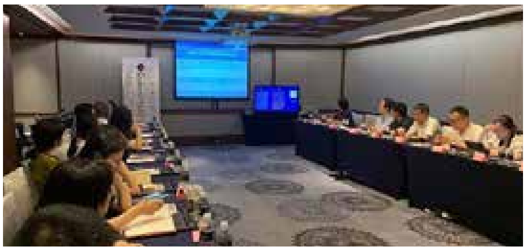
Tianjin Power Exchange Centre discusses energy trading system with chapter members

Tianjin Chapter Chair Christoph Schrempp and Board Member Florian Thomas Mack led a Chamber delegation to meet with the Tianjin Power Exchange Centre.
Photo: European Chamber

On 13th August Tianjin Chapter Chair Christoph Schrempp and Board Member Florian Thomas Mack led a Chamber delegation to meet with the Tianjin Power Exchange Centre on the upcoming local green electricity transactions mechanism and rules (expected to be implemented by the end of 2021). Topics discussed included the collection of valid transaction proof/evidence (provided by the Centre or other local authorities), estimated demand for green electricity in the context of rising unit prices, and the pros and cons of international renewable energy certification in comparison to local green electricity transactions.

16TH JULY
NANJING

Chamber explores members' 'green card' options with Nanjing Entry & Exit Administration



The European Chamber Nanjing Chapter held a dialogue with the Nanjing Exit and Entry Administration.
Photo: European Chamber

On 16th July, the European Chamber Nanjing Chapter held a dialogue with the Nanjing Exit and Entry Administration to discuss China's permanent residence policy. The administration delegation was led by Deputy Director Li Kerong, alongside Director Liu Yan of the Visa Division, and Liu Yan, director of the Visa Division. The dialogue covered the ways to apply for permanent residence in China, the procedures for applying, and the benefits the permanent residence permit, or 'green card', will allow foreigners to enjoy as Chinese citizens. Member companies also had the chance to directly raise questions to the government officials regarding entry and exit policies related to the COVID-19 travel ban.

2ND AUGUST
BEIJING

VP Giacconi addresses 2021 Global Digital Economy Conference

VP Giacconi gave a keynote speech at the 2021 Global Digital Economy Conference.
Photo: European Chamber

On 2nd August, VP Giacconi gave a keynote speech at the 2021 Global Digital Economy Conference, emphasising the importance of the Chinese digital market for European companies. He also stressed the need for a level playing field for European companies in China's technological realm to realise a true digital economy. The conference was co-hosted in Beijing and online by the Beijing Municipal People's Government, the National Development and Reform Commission, the Ministry of Industry and Information Technology, the Ministry of Commerce and the Cyberspace Administration of China. VP Giacconi joined the conference digitally, on invitation of Beijing Mayor Chen Jining.

Finding Cost Savings in Manufacturing: Making It Happen

As China manufacturers look for solutions to maintain competitiveness in today's price-driven market, Gerwin Gädigk, Executive President of Leadec Asia, believes the answer lies in effective machine and equipment maintenance.

Manufacturing industry's changing landscape

China's economic development has now entered a slower phase after years of rapid growth. As this slow-down becomes the new normal, it has established the need for manufacturers to shift from adding capacity to finding efficiencies and fully utilizing their assets. Manufacturers have worked hard and found ways to reduce costs, but are still challenged to find more ways to improve their profitability. While this P&L objective is clear, the big question is "how to achieve it?"

Overspending on China maintenance

During China's high-growth phase, many manufacturers focused on adding production capacity and installing the best high-speed manufacturing machines. Many are now overspending on items such as spare parts, expert services and emergency maintenance. These costs are buried deep within the organization and can quickly become a significant drain on their profits.

Gädigk explains: "During the last few years of working with China manufacturers, we have observed that 80% of efficient manufacturing companies overspend significantly on maintenance, and most maintenance teams are not equipped to recognize this spending. It must be frustrating for senior management to have leaking profits buried so deep within their organization that they can't resolve them."

Gädigk emphasizes that there is clearly a significant opportunity in the China market today for manufacturers to dramatically improve their P&L while increasing machine availability at the same time.

"We have seen many manufacturers work hard to improve their cost of production, while missing a significant opportunity in equipment and machine maintenance. Many do not have the insight on how to improve, and we at Leadec have decided to share our database and help."

Gerwin Gädigk, Executive President of Leadec Asia

Leadec grows in China with its unique value proposition

With over 20 years' experience gained from maintaining thousands of machines in China, Leadec has been able to develop a database of maintenance metrics specifically related to costs. This has allowed Leadec to establish a data-driven and systematic approach to measuring and dramatically reducing maintenance expenses.

"Leadec provides best-in-class maintenance resulting in benchmark equipment availability. At the same time, we reduce the cost of maintenance by removing wasted spending on such things as OEM services and spare parts. These financially bookable savings typically offset the cost of maintenance by up to 30% every year. These savings are kept 100% by our customers who have then improved their performance and reduced spending."

Leadec cost consulting health check

Leadec's cost database model identifies the costs, while their experience will help find a solution.

Gädigk reveals that: "We see a huge gap in the China maintenance segment. Companies are overspending to maintain production. Thus, we decided to help manufacturers fill this gap through Leadec's Cost Consulting Service and the Leadec Cost Health Check."

Leadec's Cost Consulting Service has three stages:

1. WeChat mini program – This provides manufacturers a quick insight into their potential savings;

Leadec experts are maintaining the machine

2. Leadec Cost Health Check – A half-day workshop with a Leadec maintenance expert who will provide an assessment of the site and where potential cost-savings can be found; and
3. Deep Dive support – If the site wishes, Leadec will provide further assistance to analyze any key findings and develop a custom action plan to realize the savings.

Positive Feedback

Since launching the service this year, Leadec completed over 40 Cost Health Checks with average savings of around RMB 12,000,000, mostly involving medium-sized factories.

"The results are encouraging. We believe that we are providing value to manufacturers with our expert analysis, and we are excited about the cost-savings findings so far. It's clear that the cost Health Check model is helping companies find new ways to improve their profit. In some cases, we have continued to support companies beyond the initial report and on track to realize incremental first year savings of over RMB 2,000,000. I am confident that this is an effective cost-reduction process, and the results are seen immediately with an improved P&L."

How to get a cost check and find savings

To start your cost check: Scan the WeChat code on the previous page, email Leadec at info-china@leadec-services.com, or call +86 18964785574 for further information.

About Leadec

Leadec in China is part of the global group network of Leadec, the world's leading service specialist for the entire life cycle of a factory and the associated infrastructure. In China, the company's team comprises over 1,500 employees across 50 locations. www.leadec-services.cn

THREE DESIGN LESSONS

For the post-pandemic city

by **Arup**

COVID-19 brought the benefits of digitalisation into sharp relief, which in turn accelerated the digitisation process in many areas of business and society. For companies, the most obvious advantage of 'going digital' was the ability to keep operating from their employees' homes. Such decentralisation by individual enterprises also helped bring outbreaks under control and kept employees safe. Likewise, civil engineers learned that decentralisation can help municipal authorities respond quicker to pandemics, natural disasters and other crises. As explained by Arup in this article, diseases shape cities. But what if we were able to instead shape our cities to better fight diseases?

Recent months have seen life disrupted in every city in the world. The variety and imagination of responses to this crisis has given urban planners a huge source for insight. As with any experiment, the findings may take time to review and adopt. But already they point to practical ways in which we can and should be improving the planning and design of our cities. Here are three challenges reshaping urban planning:

1. How can access to the real-time information that helps cities survive crises be improved?
2. What can urban planners do to reduce the impact of a crisis on disadvantaged communities?
3. How should public services be designed to cope with surges in demand?

We need city-wide digital transformation

Before COVID-19, digital transformation was largely a priority within individual sectors. The pandemic has proved the need for real-time, geo-located information that is publicly available to city managers across all sectors.

We should no longer consider the digitalisation of health, sanitation, transport, supply chains, or even labour practices in isolation. Digital strategies must embrace the provision of all public services in an interconnected way.

This matters because our cities will increasingly combine physical facilities with virtual environments and services. The surge in use of digital networks during lockdowns has challenged views on the speed and scale at which digitalisation can be delivered.

Already, 5G networks are starting to give us greater capacity and reliability.

These networks should not only improve the accuracy and effectiveness of disaster response; they will also underpin an ability to respond better and faster to the changing social and economic needs of those who live and work in our cities.

Design should work for everyone

Every time an unforeseen event occurs, lessons are learned for the better design of urban environments and health systems. This was true of H1N1, SARS and Ebola, and will be true, now, of COVID-19. Following those earlier epidemics, unfortunately, the lessons were not always shared equally across all districts of a city. Findings were typically not implemented in city outskirts or in areas with higher proportions of poorer or more vulnerable residents.

The increasing density of our cities has allowed for greater connectivity and mobility. It has helped make our cities more sustainable. But how do we manage density when a contagious disease risks turning those advantages into threats? Effective information sharing becomes essential at these times. The communities excluded from the lessons of previous health crises typically have less access to these information-sharing networks. How can we address this in order to see all residents benefit equally from the lessons we learn from this pandemic?

In a post-lockdown world, we have the opportunity—some may say responsibility—to give marginalised groups equal consideration in our planning as we reshape our communication networks and our wider cities.

Decentralise to build immunity to crisis

Many of the public services essential to a city are managed centrally by a single organisation. The surge in demand for those services caused by the pandemic exposed how painfully vulnerable such centralised organisations are in times of crisis. During the SARS outbreak in Singapore, for instance, three key hospitals were forced to close as the city fought to contain the disease. During COVID-19, severe disruption to supplies of personal protective equipment put shocking numbers of staff at risk in Italy's hospitals. Will designers of urban systems learn the lessons this time and make decentralisation an integral part of their planning?

Privatisation and decentralisation of public services, such as waste collection and healthcare, have proven effective in delivering operational efficiencies. During a crisis, decentralisation delivers another strength: resilience. It reduces the single points of failure that make centralised systems so vulnerable.

Coming out of this pandemic, urban resilience should be a top priority for policymakers. As well as decentralisation, we should be considering the risks of cross-contamination between related urban systems. For example, following the SARS epidemic, Hong Kong introduced regulation to improve the collection and management of wastewater after discovering the virus was transmitted through connected drainage systems.

Urban development has health implications

The COVID-19 pandemic has raised new questions, forcing us to reassess the way we design our cities. Without giving up on the idea of the city as a social hub, the crisis has provided an opportunity to rethink the relationship between urban design and public health. The ability to assess and mitigate the effects that development has on health should become a new field of expertise, to help prepare cities to respond more rapidly and efficiently in future.

Arup is the creative force at the heart of many of the world's most prominent projects in the built environment and across industry. Working in more than 140 countries, the firm's designers, engineers, architects, planners, consultants and technical specialists work with our clients on innovative projects of the highest quality and impact.

Founded in 1946 with an enduring set of values, our unique trust ownership fosters a distinctive culture and an intellectual independence that encourages collaborative working. This is reflected in everything we do, allowing us to develop meaningful ideas, help shape agendas and deliver results that frequently surpass the expectations of our clients.

BEIDOU IS GO!

GNSS market and technology trends in China

by **Tiantian Qi**

In 2019, 53.5 per cent of the world's Global Navigation Satellite System (GNSS) installed bases were located in the Asia-Pacific. The region's GNSS revenue for that year amounted to euro (EUR) 46 billion, of which road-related usage accounted for half and consumer services another 38 per cent. A recent report by GNSS.asia on industry market trends in the Asia-Pacific estimates that this revenue will grow to EUR 106 billion by 2029. In this article, **Tiantian Qi,** project manager of **GNSS.asia** in China, looks at developments in China's GNSS market over the past year, from satellite constellations to schoolbags with positioning devices and smart weeding machines.

BeiDou-3 officially launched

On 31st July 2020, President Xi Jinping announced the official launch of China's BeiDou-3 (BDS-3) satellite navigation system. This latest launch takes the system global, following the BDS-2, which was regional, and BDS-1, the initial national-based satellite navigation system. Going global enables BeiDou to compete with Europe's Galileo system and the satellite navigation systems of the United States and Russia. China also launched its first Internet of Things (IoT) satellite constellation in 2020, which, according to the GNSS.asia *Market and Technology Trends Report,* will improve China's capacity in terms of "IoT, mine hydrology monitoring, marine ranching, intelligent container, ecological environment protection, forest fire prevention, green mining and smart agriculture”.[1]

2020 also saw the introduction of the latest generation of BDS high-precision navigation microchips, the world’s first 22 nanometre positioning chip. This chip is quarter the size of the previous generation and will consume only a fifth of the power when in operation.

Benefits for Chinese people

BeiDou can also bring major benefits to ordinary people in their day-to-day lives. For example, China’s Child Safety Emergency Response (CCSER) platform signed a strategic cooperation agreement with a high-technology subsidiary of the navigation technology service provider NavInfo. The aim is to develop wearable devices for children that will help prevent bullying, sexual abuse and cases of abduction/disappearance. Similarly, a BeiDou-linked positioning schoolbag has been produced by Fujian Questing Technology and Qianxun Spatial Intelligence (Qianxun SI). An accompanying mobile app will provide real-time positioning information, as well as electronic geofencing—where an alarm is triggered if the location transmitter crosses a pre-defined boundary—and tracing data.

The same electronic geofencing technology can also be applied to livestock. Herders in Inner Mongolia will be supplied by the government with a smart monitoring system. Collars fitted on sheep or cattle will send signals to their herders’ handheld devices, allowing not only for geofencing but also real-time positioning, as well as the analysis of herd movements over time. BeiDou is also having an impact in other fields of agriculture; a research team from Yangzhou University used BDS positioning to more accurately apply fertiliser and carry out weeding, which resulted not only in increased yields but also reduced herbicide pollution.[2]

Autonomous driving

As over half of GNSS revenue in the Asia-Pacific market was generated from road-related usage, it is no surprise that further research and development (R&D) is being dedicated to autonomous driving. SAIC Motors have launched heavy-duty trucks with Level-4 (L4) autonomous driving capabilities; that means they are self-driving, but currently only legally allowed within allocated areas.

However, within those areas, the vehicles can be operated far more efficiently. For example, L4 trucks are now crossing the Donghai Bridge to and from Shanghai and the Yangshan Deep-water Port in Zhejiang Province with only 20 metres between each vehicle, instead of the 150 metres recommended to ensure safe manual driving. This reduction in separation distancing is due to the BDS-facilitated precise positioning, which enables heavy trucks to park in place each time, and to stop within 15 seconds regardless of weather or road conditions. This technology is also in use in Yutong Group’s smart buses operating in Zhengzhou and RoboTaxi service in Guangzhou.

Drones

China’s drone market is expected to grow significantly, particularly the civilian drone sector, and is forecast to reach Chinese yuan (CNY) 96.8 billion by 2023, at compound annual growth rate of over 60 per cent.[3] Currently, there are over 6,000 unmanned aerial vehicle enterprises in China, 70 per cent of which provide government-related services such as firefighting, security and meteorology, among others. New avenues for development in the civilian drone market are opening up in agriculture, cargo transportation and data acquisition, to name but a few. For instance, in the Second Affiliated Hospital of Nanhua University in Hunan, drones can transfer medical samples to the pathology department in 70 seconds, as opposed to the 20 minutes it can take if delivered by staff.

Conclusion

In 2020, China was the first market to be affected by COVID-19, but it was also the first to use GNSS technology—such as robot courier services—to help people deal with lockdowns and restrictions on movements. The government’s 14th Five-year Plan builds on this trend by promoting industries that rely on BeiDou-related technology. Chinese consumers are already very savvy when it comes to mobile devices—demonstrated by the essential role WeChat now plays in Chinese society—which makes it easier to introduce any apps or handheld devices required for innovative GNSS-related services, increasing the opportunities for investment in the GNSS market.

Tiantian Qi is project manager at GNSS.asia in China, and senior business manager and national working group lead at the European Union Chamber of Commerce in China.

GNSS.asia is funded by the European Union within Horizon 2020, the EU Framework Programme for Research and Innovation, under grant agreement no 870296. Via a network of local representatives across Asia, supplemented with expert knowledge of local and wider technology trends, GNSS.asia continues to drive cooperation on GNSS technology across continents. The project has a significant outreach, including via workshops, industry seminars and roundtables, both in Asia and in the EU. If you would like to learn more about GNSS.asia visit their website under www.gnss.asia.

1 *Market and Technology Trends 2021/ Edition 3,* GNSS.asia, 1st September 2021, viewed 9th September 2021, <https://gnss.asia/new/market–and–technology–trends–edition–3/>

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3 Fan Feifei, *Profits, air–dropped!, China Daily,* 25th February 2019, viewed 7th September 2021, <https://www.chinadaily.com.cn/a/201902/25/WS5c732fb4a3106c65c34eb180.html>

LAYING THE CORNERSTONE

China's data protection regime tells us how the resource is valued

by **Tiffany Wong**

2021 has been a busy year for China's cybersecurity regime. At the national level, the Personal Information Protection Law (PIPL) was passed in August and will come into effect on 1st November. China's Data Security Law (DSL), passed earlier in June, came into effect in September 2021. Regulations on the protection of critical information infrastructure were enacted in late summer. The automotive sector has also seen multiple cybersecurity regulations, including a wide-sweeping regulation on the governance of automotive data and a guiding opinion on the cybersecurity of smart vehicles. As **Tiffany Wong** from **Sinolytics** explains, all these laws and policies fundamentally change the way corporations should think about data and data processes in China.

Together with the 2017 Cybersecurity Law (CSL), the PIPL and the DSL form a three-pronged cybersecurity framework that covers all aspects of a corporation's functions. The CSL, forming the foundation for regulations such as the network grading system Multi-level Protection Scheme 2.0, focusses mainly on network security compliance. The PIPL, focussing on the categories of personal information and sensitive personal information, poses new challenges for corporations collecting and processing such data; cross-border transfer of personal information could potentially trigger additional security assessments by the Cyberspace Administration of China (CAC). Individual consent is now required for information collected on persons based in Mainland China. Companies in

Europe are likely to need to revise their privacy policies in order to comply with the law.

Understanding the DSL

The newly-effective DSL remains one of the more challenging laws to comply with and interpret. It includes the category "important data", which will be subject to stricter controls than ordinary data. What exactly constitutes "important data" remains unclear, but companies are expected to comply in ways that could lead to significant costs. Another aspect of the DSL also remains underexplored by businesses – the fact that the law treats and protects data as a strategic economic resource. To better understand the DSL, corporations need to consider the two aspects of what data security means for China: 1) protecting national security, and 2) protecting data as an economic asset.

For foreign companies, assessing how their data-collecting and -processing procedures are seen through the lens of national interest has become a pressing matter. According to Article (Art.) 21 of the DSL, any and all data collected and processed within China's borders will be categorised based on levels of potential harm towards legal persons, public security and national security. Many corporations process data that is not directly managed by the national security apparatus, but which may still be seen as sensitive information by the state (for example, mapping data). Under the DSL, data will fall into one of three classes: core data of the state; "important data"; and general data.

The "important data" challenge

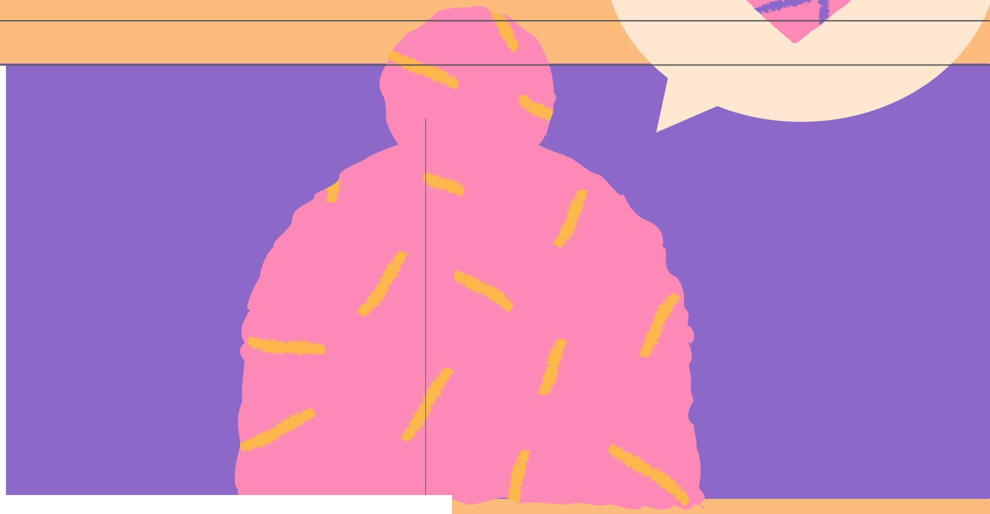
But what does it mean for a foreign company to process "important data"? A concept introduced by the 2017 CSL, "important data" is now subject to an extensive set of security requirements as enumerated in the DSL. The implications for companies are wide-ranging: they are required to set up a separate data security management system, with regular employee training (Art. 27), and carry out regular risk assessments (Art. 30). "Important data" generated by critical information infrastructure operators (CIIOs) must be localised. Non-CIIOs can also expect increased scrutiny due to cross-border data transfer regulations to be released by the CAC and other government bodies (Art. 31). All this complicates the process and transfer of data for foreign firms. In some cases, companies could be required to store data that contain critical intellectual property within China's borders.

The challenge is that the DSL does not yet give a precise enough definition of "important data" for companies to know whether they collect and process such data. The law stipulates that this work will be incrementally carried out by government agencies. Regional and industry regulators will draw up "important data" catalogues, with the overall planning conducted at national level to avoid fragmentation of data protection rules (Art. 21).

Data as a means of production

But it would be oversimplifying to state that China regards data protection solely as a matter of security. In April 2020, the State Council released a set of guidelines for the Chinese Government to facilitate more effective flow of factors of production, entitled *Opinions on Improving the Mechanisms for Market-based Allocation of Production Factors*. This document identifies data as an economic asset critical to creating value in the digital economy. Data is treated by the Chinese Government as a strategic resource, and has *de facto* become a fourth 'production factor' in addition to labour, land and capital.

Through the "data as a strategic resource" lens, data protection is inextricably linked to data valuation and the development of China's economy. Interspersed among compliance requirements, Art. 7 of the DSL states that data protection should play a part in "promoting the development of the digital economy". Art. 13 stipulates that data security should be used to "ensure the development of data for utilisation and to build the digital industry". Art. 19 calls for the creation of data-trading platforms. From the Chinese



Government's perspective, data cannot reliably be used as a resource for a data-driven economy without first ensuring that critical information cannot be leaked.

The DSL shows an intention to simultaneously protect information that is vital to national security while also unleashing data's value potential – a balancing act of security and value proposition. The law does not aim to cripple corporations' ability to use data, but rather to guide them in maximising their data's valuation while maintaining protective measures around information deemed sensitive for national security.

Case study: automotive data security

A recent example involves the *Trial Provisions on the Management of Automobile Data Security (Provisions)*. The *Provisions* lay out the types of data collected by (smart and connected) vehicles that are subject to increased protection requirements and stricter regulations. This includes vehicle data and all other information collected by cars – city streets, other vehicles, pedestrians, and their own drivers and passengers. All this data will have to be stored in China; cross-border transfer triggers security assessments. The *Provisions* cover the entire "life-cycle" of data, meaning that the suppliers of automotive manufacturers will also face increased regulatory requirements and scrutiny.

The *Provisions* effectively force automotive companies to segment data into granular categories – important data, personal information, sensitive personal information and the rest. On the flip side, they also force automotive companies to control what data needs to be tightly governed (that infringing on people's rights and affecting national security) and what data might be used to leverage economic value (that which can easily be collected and transferred). The process is daunting for most corporations, whether local or foreign. But the Chinese Government considers this is a small price to pay if it makes automotive companies see data from the government's perspective: resources that need to be protected before their value can be fully unleashed.

Conclusion

China's cybersecurity and data protection laws have evolved and matured with astonishing speed in the last two years. Data security supervision will likely increase, bringing new compliance complications. Businesses in China will need to seriously tackle these challenges, including systematically reviewing their current data-handling strategies and procedures. However, the potential opportunities that will arise in the digital economy arena once China's data security regime is in place should not be overlooked. Anhui and Chongqing's regional governments are already inviting corporations to play active roles in their big-data trading platforms. Meanwhile, cross-border data platforms are slowly emerging. China's data protection regime seeks to lay the foundation for what could become one of the fastest-growing drivers for the country's economy, and the DSL is its cornerstone. Eb

Tiffany Wong is a project leader at Sinolytics and focusses on cybersecurity and tech regulations in China, as well as China's industrial policy and geopolitical issues. **Sinolytics** is a highly specialised consultancy entirely focussed on China with offices in Berlin, Beijing, and Zurich. It provides in-depth research, expert analysis and strategic advice at the nexus of business and policy. It works with international companies operating in China, enabling well-informed China strategy development and decision-making.

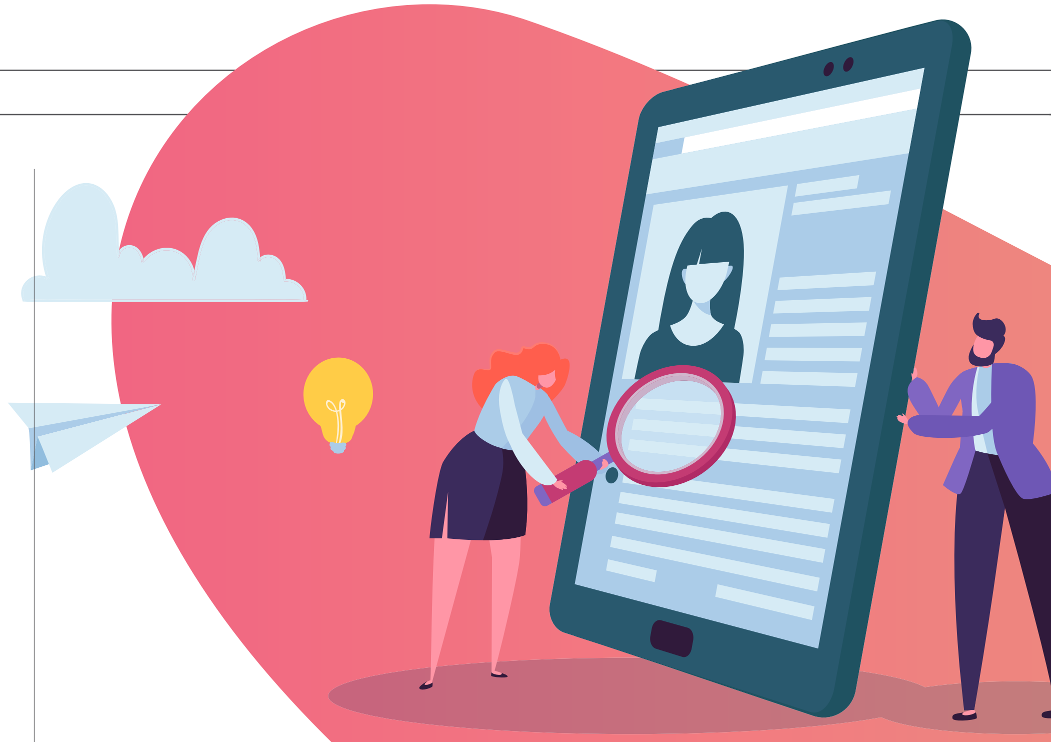
The European Chamber collaborated with Sinolytics to produce the report; *The Digital Hand: How China's Corporate Social Credit System Conditions Market Actors*. Scan the QR code to download the report.

Most-wanted List

On the hunt for talent in South China

by **Sebastian Hardt**

On 17th August, the Guangdong Human Resources and Social Security Department (GHRSSD) published a list of urgently-needed talent within the Guangdong-Hong Kong-Macao Greater Bay Area (GBA). The feedback collected from more than 17,000 enterprises across nine cities in Guangdong Province confirms what has already been intensely discussed over the past couple of years among most European Chamber member companies in South China – how the hunt for talent is hotter than ever. Sebastian Hardt, chair of the Human Resources (HR) Working Group of the South China Chapter, tells us more.



According to the GHRSSD study, the greatest demand is for technology research and design specialists, product developers and software engineers, as well as assembly engineers and workshop managers for high technology and advanced manufacturing companies. This forecasts a further increase in the demand for skilled workers and specialised talent, to fill roles from entry level to managerial positions, over the next three to five years.

While the list published by the GHRSSD contains no surprises for many Chamber member companies, three main questions remain:

- Where are the talent and specialists?
- How can an entrepreneur or manager attract such talent and specialists?
- What can a HR department do to retain the talent and specialists it has on board?

Looking at the number of students graduating in China each year, it might be assumed that a lack of educated individuals in the Chinese workforce would not be an issue. According to the Ministry of Education (MOE), more than nine million students will graduate from Chinese universities in 2021, an increase of 350,000 compared to 2020 and a new record-high.[1] But, according to some European Chamber member companies in South China, the level of education and the quality of these graduates are not meeting expectations. Many companies report that graduates need training in practical, job-related knowledge and skill-sets, and that internal education is required to develop talent and specialists. Depending on the required qualifications and skills, the education and development of talent can take up to three years, with very specialised skills taking even longer.

While technical knowledge and hard skills can be learned on the job, most European companies also criticise the lack of critical thinking and soft skills among graduates. These aspects are often difficult to find in the Chinese education system, where the main focus is on learning by rote for written examinations, quantitative testing and competitive ranking – the best example of this being the National College Entrance Examination (*gaokao*).

Hope for improvement has emerged following remarks made by President Xi Jinping at the fourth session of the 13th National Committee of the Chinese People's Political Consultative Conference in March, in which he emphasised the need to push forward educational reforms to build a "balanced basic public education service system to contribute to the country's high-quality development."[2] While the initiative is welcome, its ability to close the gap will ultimately depend on how well and consistently it is implemented.

Taking into account the small amount of talent already available on the market, as well as the costly and time-consuming educated and developed specialists, competition for staff with local companies and corporations in the GBA is increasing significantly. Chinese entities—like Huawei, Midea, Xiaomi, Lenovo, Ping An, Bank of China and BYD, to name but a few—can now attract talent easier than foreign-invested enterprises (FIEs) since becoming household names and by

[1] China will have 9 mln new college graduates this year, Xinhua, 13th May 2021, viewed 9th September 2021, <http://www.xinhuanet.com/english/2021–05/13/c_139943253.htm>

[2] *Xi Focus: Xi's 'Two Sessions' messages point way for China at historic development juncture, China Daily,* 10th March 2021, viewed 21st April 2021, <http://www.chinatoday.com.cn/ctenglish/2018/ttxw/202103/t20210311_800239929.html>

According to the results of the *Business Confidence Survey 2021*, enterprises are increasingly investing in improving working conditions and enhancing training.

providing higher salaries and more enticing benefits. In 2020 alone, Huawei invested more than Chinese yuan (CNY) 11 billion in employee benefits for their almost 200,000 employees, and hired more than 20,000 new employees locally.[3] Not only small and newly-founded member companies within the European Chamber face strong competition in the hunt for talent; established large enterprises in the automotive and medical device industries also lose out to rising local competitors in the job market.

Realising that working for a European enterprise for a long time is not considered a big accomplishment by the modern young Chinese professional is, indeed, a bitter pill to swallow. In many cases, these enterprises are exploited by Chinese graduates or young professionals to get one to two years of work experience under their belt and increase their attractiveness and value for the domestic labour market. In addition, traditional manufacturing companies are especially suffering from the glamour of the booming high technology, finance and e-commerce industries with strong bases in the GBA. For some member companies spoken to for this article, offering higher salaries or paying special retention bonuses increases their costs in a less-than-ideal solution. Others have started to outsource specialist tasks where possible.

To attract talent while also retaining highly-educated and experienced employees, South China Chapter member companies employ various approaches. Some try to extend their HR tool box for their current and potentially future employees. Building up and initiating internal talent development programmes that include fixed salary increase and promotion systems, are the most common options. Other benefits and activities also growing in popularity include complimentary meals; company-owned day care centres; flexible working hours; support in changing residency from hometowns to work locations in order to help families apply for better schools; health checks and additional health insurances; and leisure-time activities like sport events or family days. According to the European Chamber's *Business Confidence Survey 2021*, enterprises are increasingly investing in improving working conditions and enhancing training.[4] Entities operating within a bigger corporate group with several global branches also try to promote development possibilities either within China or internationally. However, the flexibility and mobility for location changes even just within China seems to be shrinking.

Unfortunately, there is no secret recipe to overcome the lack of, or to attract and retain, talent. Good examples of best practices, increasing information sharing and strengthening ties within the HR industry will help companies develop high standards together, and make European and non-high-technology companies more attractive to the general labour pool.

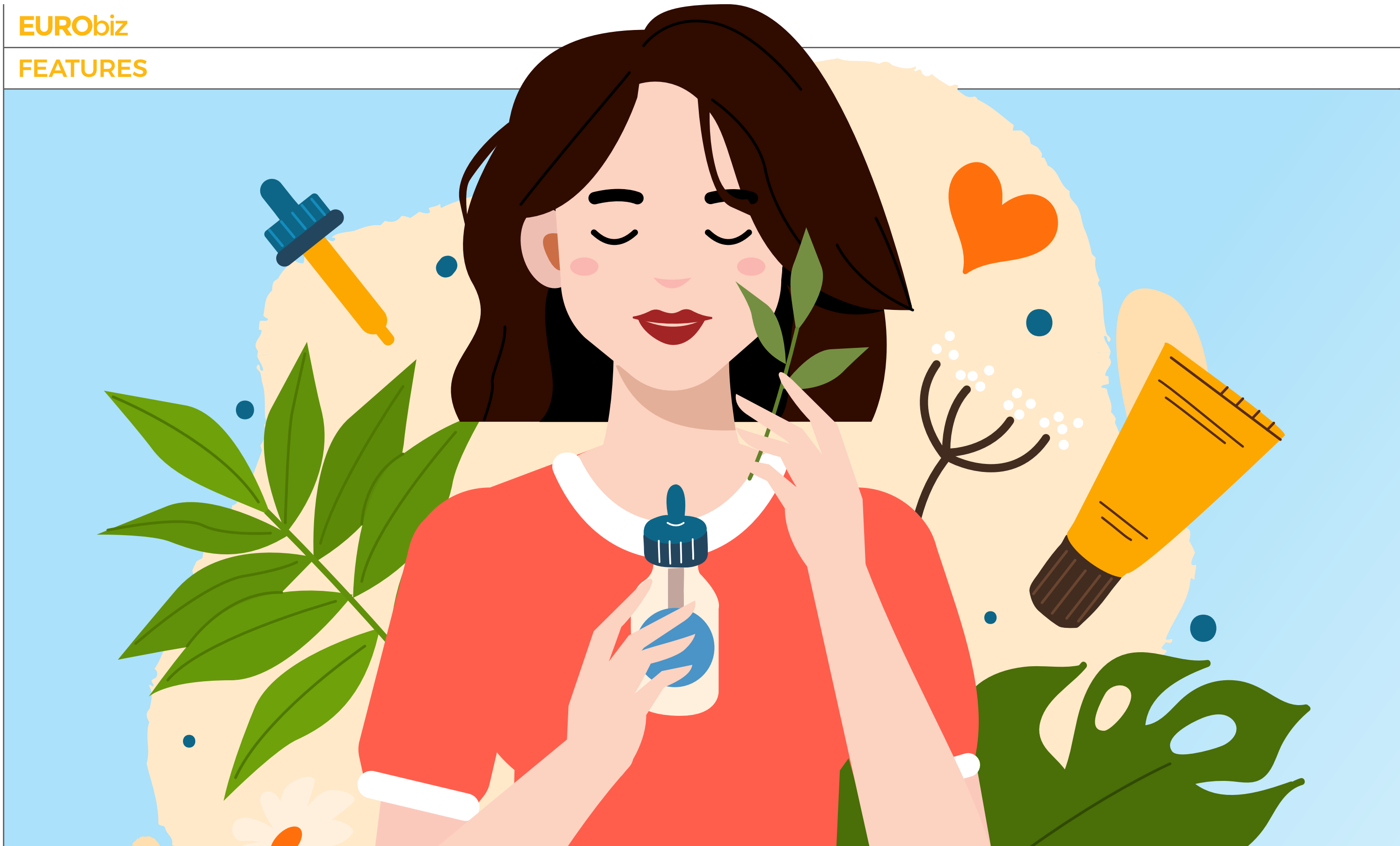
Sebastian Hardt is chair of the Human Resource Working Group of South China Chapter. He is also commercial director with responsibility for Financial Controlling, Logistics and Information Technology of the Robert Bosch Plant in Shenzhen, the biggest plant of the Automotive Aftermarket division within the Group.

The **European Chamber Human Resources Working Group** aims to provide a platform for members to exchange information, and promote awareness on HR and labour-related issues across all industrial and service sectors, by developing an open dialogue with relevant Chinese authorities and international organisations.

The working group is organising a HR Conference in that will take place in Guangzhou before the end of the year. For more information on the conference and/or the working group, please contact Peter M. Drucker, business and government affairs manager in Guangzhou (pdrucker@europeanchamber.com.cn).

[3] *Huawei Investment & Holding Co, Ltd 2020 Annual Report*, Huawei, 2020, viewed 10 September 2021, <https://www.huawei.com/en/annual–report/2020>

[4] *European Business in China Business Confidence Survey 2021*, European Union Chamber of Commerce, 10th June 2021, <https://www.europeanchamber.com.cn/en/publications–business–confidence–survey>



Regulating Beauty

Exporting cruelty-free cosmetics to China is possible but challenging

by **Tiffany Zhang**

Exempting general cosmetic products from animal testing has reassured foreign cosmetic companies that they can export cruelty-free goods directly to the Chinese market. While this has opened many doors for European companies, many have found that further indirect barriers in the forms of certification requirements or opaque processes still await them. **Tiffany Zhang** of **Dr2 Consultants** looks at the recent improvements to the cosmetics business environment in China, and the challenges that remain for European Chamber members.

Trends in China's cosmetic market

The cosmetics sector in Mainland China has been growing at a tremendously fast pace in recent years and, alongside the overall rapid development of the Chinese economy, consumers' preferences have matured. Younger generations now account for a large share of consumption activities. These young people have broad knowledge and visions, and are accustomed to researching their purchases, which makes them stricter about criteria when selecting products. In particular, safe and sustainable goods are becoming increasingly popular among this group.

Until this year, China imposed very strict requirements on foreign cosmetics brands attempting to enter the market. One of the main requirements that deterred many foreign cosmetics companies from expanding into China was that all imported cosmetics products needed to undergo animal testing. This situation has changed with the promulgation of the *Administrative Provisions of Cosmetics Registration* and its series of implementing regulations. Since May 1st 2021, it is possible for foreign brands to undergo registration and recordation in China for general imported cosmetics products without having to provide animal-test reports.

Regulation updates

The guiding legislation for the sector is the updated *Cosmetic Supervision and Administration Regulation* (CSAR), which went into effect on 1st January 2021. This is a general instructional regulation that includes new provisions about several relevant requirements including:

- instructions for safety assessment before registration;
- stricter rules for efficacy claims – these now need to be backed by sufficient scientific evidence; and
- requirements for foreign cosmetics producers to obtain Good Manufacturing Practice (GMP) certificates for each product they want to export to China.

The updated regulation system created a smoother and simplified recordation process in general, most importantly exempting qualifying foreign products from animal testing. At the same time, more changes were made regarding administration and registration, including:

- new details on requirements for annual reporting;
- foreign factories are now subject to Chinese review and inspection;
- cosmetic ingredients are subject to traceability management; and
- special cosmetics labels need to be publicly displayed.

On 6th August, the National Medical Products Administration published the *Measures for the Supervision and Administration of Production and Operation of Cosmetics (Administration Measures)*, which will go into effect on 1st January 2022.[1] The *Administration Measures* include clear provisions on cosmetics production licensing, production management, operation management, supervision, legal liability and other aspects.

The focus is clearly on creating an improved framework of transparency to facilitate and stimulate foreign investments in the sector.

Business impact

The new regulation system opens up doors for foreign cosmetic companies that want to enter the China market. Although the registration and recordation process for companies, both domestic and foreign, is becoming more transparent and straightforward, there is still room for improvement in terms of processing speed.

For example, from 1st to 19th May 2021, no new products were recorded on the official State Food and Drug Administration's query platform. The first ordinary cosmetics record information was added on 20th May. On 7th June, the number of ordinary cosmetics recorded increased to 72, and on 10th June increased again to 375. [2]

This means that within 41 days of launching the new platform, only 375 generic cosmetics products were successfully filed. As a comparison, according to an analysis of the Number and Sales Data of Registered Cosmetics in China from November to December 2020, the number of cosmetics products registered reached 34,600 per month on average in 2020.[3]

[1] *Measures for the Supervision and Administration of Production and Operation of Cosmetics,* NMPA, 6th August 2021, viewed 15th September 2021, <https://www.nmpa.gov.cn/xxgk/fgwj/bmgzh/20210806170256199.html>

[2] *Only 375 new products were approved in 41 days, how much impact will the new cosmetics filing rules have on the industry?, Sina,* 15th June 2021, viewed 15th September 2021, <https://finance.sina.com.cn/chanjing/cyxw/2021–06–15/doc–ikqcfnca1100242.shtml>

[3] Number and Sales Data of Registered Cosmetics in China official platform, viewed 22nd September 2021, <http://ftba.nmpa.gov.cn:8181/ftban/fw.jsp>

Besides the recordation, more requirements are placed throughout the supply chain. Cosmetic enterprises will need to dedicate specialists to manage new responsibilities in different procedures, including formula checks, recordation or registration, and packaging. At the same time, all cosmetics distributors and retailers on e-commerce platforms, either through self-built webshops or other network services, will need to disclose cosmetics labels and other relevant information consistent with the CSAR. In addition, cosmetic distributors/retailers are also required to register on e-commerce platforms with their real names, contact information and other relevant information. A due diligence check is required every six months to see if any required and relevant information needs to be updated.

Conclusion

With the newly published regulations, China opens the door wider while building a proper administrative system that covers all cosmetic products, albeit one that can still bring barriers for European brands—particularly those not familiar with China—to navigate around. More efforts must be made to ensure compliance with the CSAR when entering the China market.

Tiffany Zhang is a junior advisor at Dr2 Consultants Shanghai, who has been assisting cosmetics brands entering the Chinese market for many years.

Dr2 Consultants Shanghai facilitates trade between China and Europe markets through results-driven advisory services. Their local team in Shanghai offers guidance and support to European clients that want to conquer the Chinese market, as well as to Chinese companies looking to expand their activities in Europe. Since its foundation 22 years, Dr2 Consultants has been trusted by many governments, associations, companies and non-governmental organisations.

European SMEs in China

The current policy environment for small and medium-sized enterprises

by **Susana Xu**

In recent years, the policy environment for small and medium-sized enterprises (SMEs) in China has undergone a significant transformation. The European Union (EU) SME Centre recently released a report to provide an overview of the most significant developments affecting SMEs operating in the country. This article by **Susana Xu** of the **EU SME Centre** will provide you with a synopsis of their findings.

SMEs constitute an overwhelming majority of the enterprises in China and are key to its economic development. Around 50 per cent of the nation's tax revenue and 60 per cent of its gross domestic product (GDP) come from SMEs. Small businesses are also responsible for 70 per cent of technology innovation and 80 per cent of urban employment in China.[1] European SMEs operating in China play their part in contributing to those indicators.

However, European SMEs continue to encounter difficulties while conducting business in China. According to the European Chamber's *European Business in China Business Confidence Survey 2021* (BCS 2021), the most significant of these challenges are: information and support networks; access to financing; administrative and financial burden; talent acquisition and retention; and shortages of key technologies and skills.

Impact of pandemic

As can be expected, a major challenge for SMEs in 2020 was the impact of the COVID-19 outbreak, the subsequent lockdown and travel restrictions. The BCS 2021 indicated why SMEs were particularly hit hard by the pandemic – due to their nature, they usually have fewer financial resources, are heavily reliant on steady business, and therefore were vulnerable to the disruption of business networks, supply chains and human resources.

Measures to reduce the administrative and financial burden of SMEs were particularly important in helping them to weather the pandemic. As the scale of the outbreak became clear in early 2020, the government issued approximately 600 policies aimed at reducing the financial and administrative challenges facing SMEs. These measures included tax relief, postponement of loan repayments, and cuts in rent and insurance costs. While these eased the pressure somewhat, China Association for SMEs' (CASME) SME Development Index (SMEDI) data from the second quarter of 2021 showed that figures are still not back to 2019 levels, which indicates that the sector needs further support.

Financial support

Therefore, in terms of financial support, the *Government Work Report 2021* announced that preferential tax policies for SMEs would be extended. In addition, banks and financial institutions were instructed to increase their loans to micro and SMEs by 30 per cent.[2] Access to financing has always been an issue for SMEs in China, as banks traditionally prefer to fund state-owned enterprises (SOEs), which—due to their support by the government—are considered a safe bet.

Alternative forms of financing could potentially help ease the financing difficulties of SMEs. This is becoming more feasible, considering the major changes the fintech sector in China has undergone, from mainly engaging in peer-to-peer lending to leveraging

[1] Ma, Si, *Small firms recovering steadily, China Daily,* 2nd June 2021, viewed 16th June 2021, <https://www.chinadaily.com.cn/a/202106/02/WS60b6de27a31024ad0bac2fb0.html>

[2] *Government Work Report,* State Council, 12th March 2021, viewed 14th April 2021 <http://www.gov.cn/premier/2021–03/12/content_5592671.htm>

fintech to reduce financing costs.[3] The newly emerging blockchain technology is another promising solution.[4]

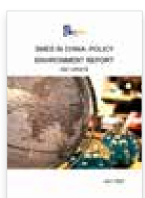
Administrative barriers

In recent years there has been significant progress in areas like reducing administrative charges, dealing with construction permits, getting electricity, and resolving insolvency, as well as simplifying tax declarations. However, the *SME Development Environment Assessment Report 2020* shows that the implementation of SME policies is not uniform across provinces, with a huge gap between the best (Shanghai, Shenzhen and Nanjing) and the worst performers (Urumqi, Haikou and Lhasa).[5] Regarding the latter, looking at the link between administrative procedures and market access, 12 per cent of SME respondents to the BCS 2021 reported encountering direct barriers, such as negative lists, while a third indicated that they face indirect barriers, such as access to licensing, or dealing with complex and time-consuming administrative approval processes.[6] In the case of SMEs, long approval processes may create additional costs, such as the payment of office rental while licence applications are pending. Furthermore, the COVID-19 outbreak, which left many SME legal representatives stranded abroad, highlighted the need to digitalise certain administrative procedures that require the physical presence of a legal signatory.

Conclusion

The policy environment for SMEs in China has transformed significantly in recent years, with progress in key areas from access to financing to reduction of administrative and financial burdens. In the meantime, China's push for innovation and entrepreneurship has led to a steady improvement in intellectual property rights enforcement. However, SMEs—and in particular European SMEs—still face considerable obstacles that hinder their healthy development in the Chinese market. Some of these challenges stem from discriminatory regulations (such as public procurement), while others (like financing) are the consequence of insufficient encouragement by authorities, and the lack of bilateral or multilateral coordination. Above all, the heavy blow the outbreak of the pandemic has dealt to SMEs' business operations throughout 2020 and 2021 still has a lasting impact on their ability to grow.

Therefore, there is still a need for further policies to support the development of SMEs in China – both domestic and foreign. Looking to the future, it will be important that the 14FYP for SME Development and its accompanying regulations include commitments to improve the business environment for small enterprises, and to support SME development in the context of strengthening China's middle-income population.



To access the full *SMEs in China: Policy Environment Report 2021*, please scan the QR code.

The EU SME Centre is an EU initiative that provides a comprehensive range of hands-on support services to European SMEs, getting them ready to do business in China. Our team of experts provides advice and support in four areas – business development, law, standards and conformity, and human resources. Collaborating with external experts worldwide, the Centre converts valuable knowledge and experience into practical business tools and services easily accessible online.

[3] *Fintech creates better environment for SMEs,* China Daily, 23rd September 2020, viewed 31st May 2021, <https://www.chinadaily.com.cn/a/202009/23/WS5f6ab083a31024ad0ba7b366.html>

[4] Isler, Renzo. *Blockchain and SME Financing,* 8th December 2020, viewed 17th June 2021, <https://www.eurobiz.com.cn/blockchain–and–sme–financing>

[5] *SME Development Environment Assessment Report 2020,* China Centre for Promotion of SME Development, 31st March 2021, viewed 17th June 2021, <https://www.miit.gov.cn/jgsj/qyj/zcfg/art/2021/art_6d9b19918def4480bbb60d67acca484d.html>

[6] *European Business in China Business Confidence Survey 2021,* European Union Chamber of Commerce in China, 8th June 2021, <https://www.europeanchamber.com.cn/en/publications–business–confidence–survey>

Celebrating Pioneering Companies

European Chamber Sustainable Business Awards 2021

by **Catalina Fernandez Silva** and **Tiantian Qi**

The European Union Chamber of Commerce in China Shanghai Chapter celebrated its fifth Sustainable Business Awards (SBA) Conference and Ceremony on 14th September 2021, in collaboration with consultancy SynTao as knowledge partner. The SBA stem from Shanghai Chapter's Corporate Social Responsibility (CSR) Forum, with the purpose of rewarding excellence in sustainable and CSR company programmes, as well as raising awareness about sustainable business practices and responsible operating models.

Chair of the Corporate Social Responsibility Forum Hui Zhang, opened the SBA Conference, while Vice Chair Cindy Zhang acted as Master of Ceremony. Dr Ellen Touchstone, associate dean of Responsible and Sustainable Business Education at Xi'an Jiaotong Liverpool University, addressed the conference via video message, and keynote speeches were delivered by Helen Tu, executive director at Chic Investment Group; and David Ferreira, deputy chief executive officer (CEO), Ping An Health and general manager for China at Discovery-Vitality Group.

The conference also featured two panel sessions, which focussed on a) company best practices for building climate-resilient business models, and b) using diversity and inclusion as a part of corporate sustainability goals. Panel speakers came from a wide array of backgrounds including business, non-government organisations (NGOs), European Union (EU) Member States Diplomatic Service and academia.

Bettina Schoen-Behanzin, vice president of the European Chamber and chair of the Shanghai Chapter, opened the SBA Ceremony, and Tunde Laleye, general manager at BearingPoint, gave the keynote speech. European Chamber members, sponsors, partners, guests and EU Consuls General attended to celebrate this year's award-winning companies among the following categories:

Advanced Performer in Decarbonisation – This award recognises a company's overall strategic planning and pioneering role in practicing low-carbon transformation, and demonstrating ambitious goals and best practices in reducing carbon emissions, to achieve the goal of carbon neutrality and green development.

2021 Winners: Alfa Laval, Bosch, Société Générale China, Walmart

Navigating Diversity and Inclusion – This award recognises a company's overall strategic planning and pioneering role in facilitating multi-stakeholders to realise the United Nations (UN) Sustainability Development Goals (SDGs) in their China operations by promoting employee diversity, organisational diversity and even CSR activity diversity, in order to stimulate

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- **Awards Ceremony and Conference** September 2022

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creativity and productivity, improve customer satisfaction and enhance market competitiveness.

2021 Winners: Ferrero, Inclusion Factory

Outstanding Environmental Performance – This award recognises a company's overall strategic planning and pioneering role in facilitating multi-stakeholders to realise pollution prevention, waste reduction, biodiversity, green development and other environmental protection actions.

2021 Winners: BASF, Novo Nordisk

Pioneer in Advancing Rural Revitalisation – This award recognises a company's overall strategic planning and pioneering role in facilitating multi-stakeholders to explore a feasible pathway to realise rural revitalisation, in which companies are indispensable: they provide substantial financial and technical support to ensure that vast amounts of rural areas are alleviated from, and do not return to, poverty. Meanwhile, companies are also essential in realising industrial prosperity, and building ecological living environments and civilised rural areas.

2021 Winners: Rabobank

Resilient Industry, Innovation and Infrastructure Leader – This award recognises a company's overall strategic planning and pioneering role in innovative contributions to urban and industrial construction through approaches that support communities and improve local resilience to achieve sustainable development.

2021 Winners: SUEZ, Waste2Wear

The European Chamber's Shanghai Chapter Corporate Social Responsibility Forum understands the importance of sustainable and environmentally-friendly business practices for continued economic development around the globe. Focussing on sustainability as a strong driver for future development neatly aligns with the EU's Horizon 2020 targets. China also has made strong sustainability and climate commitments within its 14th Five-year Plan, its 30/60 carbon neutrality targets, and its pledge to achieve the UN 2030 SDGs.

The Corporate Social Responsibility Forum believes these new dynamics generate both challenges and opportunities for enterprises to leverage CSR as strong business competitiveness in their long-term growth plan. People are the key to the vitality and future of CSR; therefore, academic institutions in China should lead the development and empowerment of future generations of responsible leaders and social entrepreneurs. Coordination of the leveraging of various stakeholders' efforts and expertise to reach collective impacts, through an effective synchronisation mechanism or 'eco-system', needs to be further enhanced. The forum intends to continue providing an open platform to foster communication, collaboration and co-innovation among key stakeholders in Europe and China.

The European Chamber would furthermore like to thank our sponsors, partners, judging panel and all companies that applied for the 2021 Sustainable Business Awards.

If you wish to take part in the 2022 Sustainable Business Awards, please contact Tiantian Qi at tqi@europeanchamber.com.cn

Since its establishment in 2005, the **European Chamber Corporate Social Responsibility Forum** has attracted more than 250 European companies, including both multinational companies and small and medium-sized enterprises from a wide range of industries and various business units. In line with the EU's Strategy on Corporate Social Responsibility, the forum has gradually evolved into a mature mechanism and an effective platform where members can share best practices and seek potential collaborations. By hosting various forums, conferences and seminars with both industry-centred and topic-centred groups, the Corporate Social Responsibility Forum is well placed to pass on value and fill the trust gap. The forum helps members learn from their peers and advance their strategic skills in terms of project design and implementation.

#BECAUSE OFUS

Access to green energy in Tianjin

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

In 2019, we launched our #becauseofus campaign to show our gratitude for the joint advocacy efforts of all stakeholders: governments, think tanks, member companies and our own working group and desk managers. In *EURObiz* in 2021, we will present four examples of our successful advocacy work.

For this edition, we look at **advocating for green energy in Tianjin.**

Since the beginning of 2020, demand for green energy among European manufacturing companies based in Tianjin has become increasingly urgent, due to concrete global targets set by their headquarters aimed at reducing carbon emissions within the next five to 10 years. However, there is currently a shortage of renewable energy resources in Tianjin that can enable these companies to reach their binding goals. As a result, advocating for access to green energy has been one of the European Chamber's Tianjin Chapter top priorities over the past 18 months.

In July 2021, preparation for the trading of green electricity in Tianjin got underway. In addition, surveying green energy demand among companies has gradually started.

Background

Almost 50 per cent of Tianjin Chapter members are from the manufacturing industry, including several large energy consumers such as Airbus, Volkswagen and some pharmaceutical companies. In early 2020, many member companies received clear and binding targets from their headquarters to achieve carbon neutrality by or before 2050. Since then, demand for green energy in Tianjin has surged.

Many European small and medium-sized (SMEs) have been able to develop energy-saving solutions, and some Chamber member companies have already

achieved carbon neutrality through the purchase of green certificates. However, a majority of the large European manufacturers in Tianjin need to be able to purchase green energy directly, as the installation of solar panels on factory roofs is not an efficient option for European companies that have high energy needs and bold decarbonisation targets.

The 'Jing-Jin-Ji' region (covering Beijing, Tianjin and Hebei Province) as a whole faces a shortage of renewable energy resources. The majority of Tianjin's power still comes from traditional coal-fired power plants, with no hydropower options available. Green energy supply has therefore been possible through generating locally and local government efforts to source from outside for trading in the Tianjin market.

Advocacy actions

Access to green energy has become one of the Tianjin Chapter's top advocacy priorities since 2020, with the following actions having taken place so far:

- September and December 2020: met with Tianjin Vice Mayor Jin Xiangjun to raise members' concerns regarding their increasing need for green energy, as well as to express their hopes of taking a leading role in decarbonisation in Tianjin.
- January 2021: met with the Tianjin Development and Reform Commission to discuss the decarbonisation challenges faced by European companies operating in Tianjin.
- April 2021: met with Tianjin Vice Mayor Wang Xu to raise the urgent need for member companies to be able to access local sources of green energy.
- June 2021: met with the State Grid Tianjin Branch to update them on companies' decarbonisation plans and discuss progress of a green electricity trading system.
- July 2021: met again with Tianjin Vice Mayor Wang Xu to present the findings of the *European Business in China Business Confidence Survey 2021,* while reiterating members' concerns and highlighting the importance of green energy access and business environment to the local business community.

Results

- Preparation for the green electricity transaction in Tianjin started in July 2021. European companies—as major energy-consumer manufacturing companies—provided comprehensive feedback regarding green energy transaction certificate, transaction price and expected amount of green energy demand, facilitated by the Tianjin Chapter. The European Chamber believes that this survey process is the first step towards establishing a regular green energy market-based trading mechanism in Tianjin.
- The Tianjin Chapter has been invited to support the promotion of the green energy trading system among the European business community, and to help European companies apply for access. A number of European Chamber members have already successfully applied.

Outlook

The European Chamber is continuing to advocate for the establishment of a regular green energy trading mechanism to increase local green energy supply. The Tianjin Chapter will continue to work with the Tianjin Government and the State Grid to promote green energy market-based trading in Tianjin, to support European manufacturing companies in achieving their bold decarbonisation goals while facilitating China's 2060 carbon neutrality goal.

For more details on this campaign and other advocacy successes, please visit the European Chamber website: https://www.europeanchamber.com.cn/en/advocacy-success

Media Watch

President's voice on China's zero-tolerance strategy amplified by Bloomberg

Locally-transmitted COVID-19 cases were reported in half of China's provinces from the end of July to the middle of August, leading to strengthened, targeted lockdowns, travel curbs and mass testing across the country. This ongoing strict approach to virus control caused international media to speculate that China could be isolated for years to come. Expressing concern from a foreign business perspective, European Chamber President Jörg Wuttke warned that China could be left "on its island doing its thing" if it persists with a zero-tolerance approach to COVID-19 as other countries open. Asked about China's vaccine strategy, President Wuttke told *Bloomberg* that "[a]s long as [Chinese leaders] don't have enough booster shots, I think it's pretty much going to be more draconian controls."


Prognosis
China's Covid-Zero Strategy Risks Leaving It Isolated for Years
Bloomberg News
9 August 2021, 18:30 GMT+8 *Updated on 10 August 2021, 07:00 GMT+8*

President's voice on China's zero–tolerance strategy amplified by *Bloomberg*.
Media: *Bloomberg*
Date: 9th August 2021

President Wuttke participated in the 7th China and Globalisation Forum hosted in Beijing by the CCG.
Media: *CCG*
Date: 30th July 2021

President Wuttke attends the 7th China and Globalisation Forum

On 30th July, President Wuttke participated in the 7th China and Globalisation Forum hosted in Beijing by the Centre for China and Globalisation (CCG), on the topic of new European Union (EU)-China cooperation opportunities. State-run *China Radio International (CRI)* quoted President Wuttke as saying "my focus in this forum is (not only) to outline the challenges we have, but also to broadcast to our members, to the business community, that China still has a very strong growth pattern, 30 per cent of the world's growth in the next 30 years will be in China. So we want to be part of it." Chinese digital media outlet *Jiemian* interviewed President Wuttke at the forum on EU-China cooperation regarding decarbonisation. He was quoted as saying that European companies can seize opportunities related to China's 2030 carbon peak and 2060 carbon neutrality goals. President Wuttke said that as China needs 75 per cent of its current energy system to be sustainable by 2050, the EU can provide various types of support in the fields of talent, corporate structure, cross-border cooperation and the business environment.

VP Giacconi was interviewed by media at the 2nd Qingdao Multinationals Summit.
Media: *Shandong TV, China Daily*
Date: 8th June 2021

Vice President Giacconi inverviewed at Qingdao Summit

The 2nd Qingdao Multinationals Summit was held on 15th and 16th July in Qingdao, Shandong Province. Guido Giacconi, vice president (VP) of the European Chamber, was interviewed by local media *Shangdong TV* as well as state-run media *China Daily*. VP Giacconi told the media that the summit provides a platform for European companies to build more mutual understanding with the local government, thereby allowing the Chamber to advocate more efficiently on relevant requirements and needs.

A clip of a *CCTV* interview with Secretary General (SG) Dunnett was broadcasted on *Xin Wen Lian Bo*.
Media: *Xin Wen Lian Bo, CCTV*
Date: 25th July 2021

Xin Wen Lian Bo features clip from Secretary General Dunnett interview

On 25th July, a clip of a *CCTV* interview with Secretary General (SG) Adam Dunnett was broadcasted on *Xin Wen Lian Bo* – China's most important and influential news programme. SG Dunnett emphasised the importance of the Chinese market for European business, and highlighted the fact that many companies have actually increased their investment in China to ensure the security of supply chains. His statement that companies find it rewarding to invest in China and have increasing confidence in the country's economic development was also featured. SG Dunnett said European business will find more opportunities due to the expanding demands of Chinese consumers, and China's commitment to achieving peak carbon by 2030 and carbon neutralisation by 2060.

The Southwest China Chapter held a press conference on the launch of the European Chamber's *Business Confidence Survey 2021* in Chongqing and Chengdu, and the event was reported on by *CRI*.
Media: *CRI*
Date: 18th July 2021

中国欧盟商会：西南地区发展势头强劲

来源：中央广电总台国际在线 | 2021-07-15 15:05:34

国际在线四川消息：7月15日，中国欧盟商会在成都发布《商业信心调查2021》。该项年度调查由585家欧盟商会会员企业完成，就在华欧洲企业2020年业绩以及未来前景等相关问题作答。

Southwest China Chapter holds Business Confidence Survey press conference

On 15th July 2021, the Southwest China Chapter held a press conference on the launch of the European Chamber's *Business Confidence Survey 2021* in Chongqing and Chengdu respectively. The event was reported on by *CRI*, highlighting local chapter statistics shared by European Chamber VP and Southwest Chapter Chair Massimo Bagnasco – 14 per cent of surveyed member companies registered a new branch or branch office in the southwest region in 2020, and 29 per cent of the registration work was completed within 15 days.

Local media *Chongqing TV* held an exclusive interview with VP Bagnasco.
Media: *Chongqing TV*
Date: 2nd Augest 2021

Exclusive interview with VP Bagnasco by Chongqing TV

Local media *Chongqing TV* held an exclusive interview with VP Bagnasco, who talked about European companies' participation in China's 2030/2060 carbon goals from a local perspective. For Chongqing, he said it is important to combine nature and the development of a modern city to create a space for a better life. VP Bagnasco said carbon neutrality is undoubtedly a major area for potential EU-China cooperation, and there are many opportunities for European business in the region. He added that Chongqing's unique position makes it a bridge connecting China's eastern coast and Europe. The city can therefore become a centre for further developing and strengthening bilateral ties.

Events Gallery

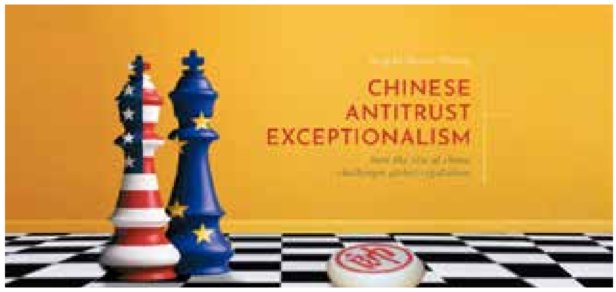
BEIJING, 20TH AUGUST 2021

A Supply-side Solution Laid Out in China's 14th Five-year Plan

- The services industry in urban regions is not recovering particularly fast, especially retail, due to zero tolerance towards COVID-19 resurgences.
- The average unemployment duration in rural China is 40 months.
- China is hoping the stock market will pump more capital into the technology industry so higher taxes will not be necessary to achieve common prosperity.

BEIJING, 8TH SEPTEMBER 2021

Chinese Antitrust Exceptionalism: How the Rise of China Challenges Global Regulation



- Before 2018, only low-profile investigations by multi-level Administration for Market Regulation (AMR) in China concerning anti-competitive behaviour and abuse of dominance were reported.
- There has been an improvement in compliance, and the authorities will not be too strict on companies because growth is needed.
- The extension of the crackdown to gaming and tutoring is because the administration thought there was a misallocation of capital into these sectors.

SHANGHAI, 26TH AUGUST 2021

M&A Conference 2021: Ensuring Resilience, Rebound and Growth

- Foreign companies need to be humble when dealing with Chinese players, and show appreciation for local players' capabilities.
- Companies feel under pressure to take sides between their headquarters and their local market, as they struggle to be compliant in both markets.
- Different regulators (individual regions and countries) setting different regulatory regimes will be the future trend, causing much more regulatory hurdles in merger procedures.

SHANGHAI, 1ST SEPTEMBER 2021

Sustainable Business Talk: VIP Talk with Bosch and Waste2Wear

- Polypropylene (PP) is the second most widely-used plastic in the world, but only one per cent of the amount made every year is recycled.
- While PP is easy to recycle, it is difficult to sort from waste.
- By recycling one tonne of post-consumer PP waste, you can save:
    - the equivalent of the CO_2 absorbed by 24 trees in a year
    - the equivalent of the energy to light five bulbs for a year
    - the equivalent of the water consumed by one person in a year.

TIANJIN, 28TH AUGUST 2021

European Chamber Tianjin Chapter 2021 Badminton Tournament

The winners of the 2021 Badminton Tournament are:

- First - NNIT (Tianjin) Technology Co Ltd, first-time participators
- Second - Airtech Asia
- Third - Wellington College International Tianjin

The venue and first aid services were provided by TEDA Global Academy, prizes by Fraser Place Binhai Tianjin and Fish&Potato Restaurant, event support from AIA Insurance Hero Team, and media coverage by *JIN Magazine*.

SOUTHWEST CHINA, 15TH JULY 2021

European Business in China - Business Confidence Survey Launch 2021 (Chengdu)

- 14 per cent of member companies surveyed registered new branches or branch offices in Southwest China in 2020, and 29 per cent of them completed the registration within 15 days.
- After COVID-19 was brought under control, enterprises quickly resumed work and production through remote working, with 42 per cent achieving revenue growth in 2020.
- Many member companies have consulted the Chamber on the specifics of investment and development schemes in the region.

SOUTH CHINA, 3RD SEPTEMBER 202

2021 European Business in China Award Winners

- **Top Performers in China Award:** Andritz (China) Ltd; faytech AG
- **Innovation and Intelligence Award:** Airbus China Innovation Centre
- **HR Excellence Award:** HSBC Electronic Data Processing Guangdong Ltd
- **Above and Beyond Award:** Sanofi Pasteur China
- **Green Business Award:** Autoneum-Nittoku Guangzhou
- **Chinese Champion in Europe Award:** Cedar Holdings

NANJING, 15TH JULY 2021

Managing Costs by Optimising Your Workforce and Supply Contracts

- Pay attention to price structural trends, in order to understand the motives and momentum of larger organisations and the industry as a whole.
- Utilise the pandemic crisis to renegotiate long-term contracts with suppliers and/or clients.
- Redesign your remuneration model—base salaries, bonuses, overtime pay—if applicable.

Advisory Council News

Revolution, not evolution: BMW Group to reduce carbon footprint significantly by 2030 using innovative materials

Photo: bmwgroup.com

2nd September 2021, Munich – The BMW Group is stepping up its fight against climate change with a unique sustainability strategy and clearly defined carbon dioxide (CO_2) targets, as announced by Oliver Zipse, chair of the Board of Management, at a media event in Munich.

The main focus of the company's pioneering strategy is to drastically reduce CO_2 per vehicle by 2030. In addition, with the introduction of the 'Neue Klasse', the BMW Group will be massively promoting the use of secondary material and the forward-looking principles of the circular economy. The BMW Group is committing to a more sustainable pathway, with the goal of limiting global warming to 1.5 degrees Celsius.

Fulfillment of all climate goals is closely tied to research and development (R&D) of sustainable materials. The BMW Group believes only a holistic approach to the use of proven and new materials can permanently reduce CO_2 emissions. For this reason, the BMW Group is focussing its R&D efforts on environmentally-compatible raw materials. At the same time, it is accelerating the creation of a secondary-materials market, and working with select startups and experienced material suppliers to develop pioneering materials.

With these and many other innovative measures, the BMW Group seeks to raise general awareness of sustainable materials and provide a transparent insight into its circular approach to a sustainable future – with the aim of reducing lifecycle CO_2 emissions by more than 40 percent by 2030.

Novozymes' latest bio-innovations in yeast and fibre continue to set new standards for efficiency in ethanol production

7th July 2021 – After the challenges brought by the pandemic, and for the first time in over a year, the ethanol industry will gather on-site in Iowa, at the Fuel Ethanol Workshop (FEW), the world's largest ethanol event. Participants are hoping also to welcome innovations that provide a substantial boost in efficiency and counteract other production challenges. Novozymes will be introducing two advanced technologies, in yeast and fibre, that have significant potential to achieve this and more.

"By continuing to combine the biological synergies and sustainability of our enzymes, yeast, and technical service platforms, Novozymes is establishing new performance expectations for ethanol production," says Brian Brazeau, Novozymes' president for North America and vice president, Agricultural and Industrial Biosolutions, Americas. "We love taking on tough challenges to create something meaningful and sustainable for our customers and the world – and we cannot wait to bring these two new innovations to FEW this year after such an extraordinary time for the industry."

Novozymes has been the market leader in corn fibre conversion – with technologies that customers trust to support their goals. As a testament to its technology and collaborative approach, the company supports over 80 per cent of the corn fibre-to-ethanol production in North America using in-process, drop-in enzymatic solutions. Novozymes goes beyond biology and collaborates with analytics and engineering partners to seamlessly bring fibre conversion technology to customers.

Atlas Copco acquires a German company specialised in positioning technology

31st August 2021, Nacka, Sweden – Atlas Copco has acquired the assets of NATEV GmbH. The company was founded in 2010 and specialises in position solutions for assembly tools used in industrial production.

NATEV has ten employees and is located in Borken, in north-western Germany. In 2019, the company's sales amounted to approximately euro (EUR) 1 million and in 2020 approximately EUR 0.5 million. NATEV develops systems for real-time positioning and

Photo: atlascopcogroup.com

imaging solutions in close cooperation with key customers in the automotive industry. Products include hardware and software used to monitor and error-proof defined production steps linked to the tightening processes.

Philips introduces new HealthSuite solutions to drive healthcare's digital transformation

Photo: philips.com

9th August 2021, Amsterdam, the Netherlands – Royal Philips, a global leader in health technology, has announced the introduction of two new Philips HealthSuite solutions that are secure, cloud-based and intended to break down barriers across patient care in a scalable, cost-effective model. During the Healthcare Information and Management Systems Society 2021 conference, Philips will showcase and introduce Philips Patient Flow Capacity Suite and Philips Acute Care Telehealth, key HealthSuite solutions that allow health systems to integrate informatics applications that can be combined and scaled up or down according to emerging needs. Philips HealthSuite solutions help health systems deliver on the quadruple aim through a connected, protected, future-ready and cost-predictive single cloud infrastructure and Software-as-a-Service (SaaS) model.

Stora Enso wins four ScanStar packaging design awards

1st September 2021 – Stora Enso has received four Nordic ScanStar awards for convenient, eco-friendly packaging designs that replace plastic. All winning designs are made of renewable wood fibre. This year, the ScanStar awards received a total of 32 submissions from the Nordic countries and 14 awards were given out. The jury assessed the level of competition to be high.

Stora Enso's winning designs are:

- Eco-friendly magazine packaging concept for Vogue Scandinavia: The magazine and packaging are carbon neutral, made with a renewable, low-carbon raw material, and energy efficient production.
- EcoFreshBox: The berry container replaces plastic packaging—even the integrated lid is made from corrugated board—and comes in various sizes.
- Lighting track multipack: The corrugated board packaging is optimised for transporting fragile products.
- Packaging for intelligent fridge: The renewable logistics packaging is made for an intelligent fridge, currently used by Selfly Store by Stora Enso.

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Adam Dunnett

Listed in alphabetical order.

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

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of the European Chamber

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

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storaenso
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CROSS-INDUSTRY MENTOR INITIATIVE (CIMI)

This Cross-industry Mentor Initiative Cycle 3 will partner mid- to senior-level managers in China with C-suite leaders of European business in China, who will help to impart the additional skills and knowledge required for them take the next step in their careers, from senior management to board-level positions. This is a part-time course lasting approximately six months from December 2021 to June 2022.

What will the programme involve?

Applications will be open from October to mid-November 2021. Following the selection process in November 2021, each mentee will be paired one-on-one with a leading business figure from the European business community in China who will provide guidance and support, dedicating at least five full hours to mentee development over the course of the six-month programme. This is a minimum requirement agreed to by all of the mentors, and we expect more time committed in cases where there is a good mentor-mentee fit.

In addition, the following workshops will be provided to help mentees develop leadership skills, share their leadership development experience and expand their network:

- Exclusive breakfast session for mentors and mentees
- Leadership Dialogue
- Advocacy Workshop
- Networking Event