

Brussels, 30/09/2010
C/2010/6349

Dear Lord Roper,

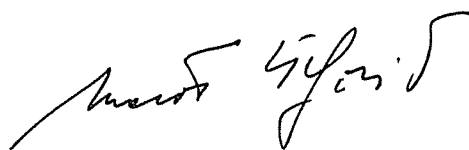
Thank you for sending us the Report "Stars and Dragons: The EU and China" drawn up by the European Union Committee of the House of Lords.

I take this opportunity to thank the European Union Committee of the House of Lords once again for its continuous interest in this matter and its constructive contribution to the ongoing debate. The Commission will carefully consider the views expressed by the Committee in this report.

In line with the Commission's decision to encourage national Parliaments to react to its proposals to improve the process of policy formulation, I welcome this opportunity to comment on the report. Please find enclosed the European Commission's reaction to the report which I hope will contribute to your deliberations.

I look forward to deepening our dialogue on these issues in the future.

Yours sincerely,



*Lord Roper
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EUROPEAN COMMISSION

COMMENTS OF THE EUROPEAN COMMISSION ON THE REPORT OF THE HOUSE OF LORDS "STARS AND DRAGONS: THE EU AND CHINA"

1. China, a multi-faceted, complex and rapidly changing country, remains a key partner for the EU. Its radical transformation over the last 30 years from an agricultural centrally planned economy to an increasingly assertive economic powerhouse is unique in the world's economic history.
2. Since the establishment of diplomatic relations between the EU and China, 35 years ago on 6 May 1975, the quality and quantity of bilateral and regional engagement have grown remarkably. There are now over 56 sectoral dialogues and agreements on a wide range of matters of common interest. EU-China relations need to reflect the perceptions and reality of China as a fast growing player on the world stage.
3. The Commission acknowledges, as identified in the report, that while EU-China relations have developed positively including several high level meetings, there is a need to further develop the strategic potential of the partnership.
4. The main policy objectives of the EU include broadening and deepening dialogue with China on common bilateral, regional and global challenges and supporting China's transition to an open society based upon the rule of law and respect for human rights.
5. The EU is developing a spectrum of instruments to reach these objectives across all policy areas. In order to pursue a comprehensive and coherent EU foreign policy the Commission agrees with the need for clearer and more unified signals to China.
6. Sensitive issues where open disagreements occur from time to time continue to loom in the background. These issues include human rights, Tibet, Xinjiang, Taiwan, trade irritants and the questions of market economy status and the arms embargo.
7. The Commission recognises that the new China, underpinned by political stability, faces new socio-economic and environmental challenges. Although China will soon overtake Japan to become the world's second largest national economy and has lifted over 250m people from poverty since 1978, areas of the country, especially in central and western provinces, have not benefited fully from economic development. Income inequalities and social pressures have also grown, in some cases, markedly as China's economy shifts gear.
8. As regards the EU-China Partnership and Cooperation Agreement, negotiations launched in 2007 are largely progressing well on the political part. The latest negotiation round held in February-March 2010 in Beijing resulted in agreement on 22 chapters, or two thirds of the total for non-trade issues.
9. Differences however remain to be bridged on issues including Taiwan, human rights, International Criminal Court and migration articles. On the trade part, less than one third of the chapters have been closed. Negotiations are however difficult in areas related to

market access such as procurement, investment and key rules related to intellectual property rights.

10. The report rightly emphasises the importance of the trade and investment relationship with China. China is now the EU's second trading partner and our first importer. The report also lists some of the difficulties on the Chinese markets that are of concerns to European business. A number of other key issues for the relationship include the following:
 - the development of the intellectual property rights system in China to support innovation, notably with regards to the protection of patents;
 - the need to ensure a sound business climate and level playing field for foreign operators in China, including with regards to access to procurement;
 - the importance to ensure that China's standards do not diverge from international practice and become barriers to trade.
 - the need for both the EU and China to do more to foster bilateral investment flows, which still hold a large untapped potential.
11. It is crucial that the Chinese leadership addresses these issues and re-engages in economic reforms. A policy of engagement and dialogue with China is the best way to move forward on these aspects and other important elements for the economic relationship, and the High Level Economic and Trade Dialogue plays a key role in this respect.
12. The European Commission's Country Strategy Paper 2007-2013 (CSP) drafted under the Development Cooperation Instrument (DCI) takes account of the duality of China's character: on the one hand that of a developing country in terms of traditional indicators, and on the other that of a major player on the world stage in terms of its commercial weight, FDI flows, consumption of natural resources and greenhouse gas emissions.
13. The European Commission, through its bilateral and regional development cooperation instruments is currently implementing projects worth approximately €380m in a number of areas. Focal sectors include support for China's reform programme in areas covered by sectoral dialogues, assistance to address domestic and global challenges related to the environment, energy, and climate change as well as human resource development.
14. China interacts with the EU to promote its own interests, and driven by energy security and industrial policy interests, China will, independently from an international agreement, implement domestically its sustainable development policies on energy efficiency and renewable energy, which will mitigate greenhouse gas emissions.
15. The Commission agrees that this is not enough. Additional efforts should be put in place to shift our economies towards a low carbon path and globally to achieve the 2°C target. Early actions have to be taken to mitigate the risk of carbon lock-in. To build a more transformational engagement, the EU and China should seek transparency on the motives and identify common interests to cooperate on equal footing.
16. Copenhagen witnessed a "coming-of-age" of the BASIC group. The EU needs to recognise this shift in the dynamics and decisively look for areas of convergence by making alliances with these countries more visible and recognized internationally. In view of its size and weight, China plays a special role in the BASIC group.
17. China has clearly recognized that climate change policies orienting development towards a low-carbon economy act as a stimulus to economic growth. The EU shares the strategic interest of being in the forefront of the transition towards higher, supported by an

innovation-based economy. We need to acknowledge, assess and be in a strong position to respond the progress made in China in this area.

18. The Commission is particularly pleased with the establishment of a regular dialogue between Commissioner Hedegaard and her counterpart, NDRC Vice Chairman Xie Zhenhua and the joint declaration reiterating China and EU support to the Copenhagen Accord and promoting the reflection of the Accord's political agreements in the UN negotiating process. Our broader political dialogue with China should complement these efforts.
19. At the last EU China Summit in Nanjing both sides renewed a commitment to strengthen cooperation on climate change and energy, which is supporting a process that is already actually taking place. China has been successfully conducting technology transfers through trade, foreign investments and international cooperation.
20. On the Near Zero Emission Coal initiative the Commission has invested sufficient resources so far, and provided the project with the necessary supporting expertise. More commitments from EU Member States is now necessary, along with increased ownership on Chinese side and involvement of all line Ministries in charge of permitting power plants and Chinese oil industry.
21. The Commission is willing to play a more important role in joint Research Development and Deployment in low carbon technologies, such smart grids, clean coal technologies, and energy saving in building. This would also offer opportunities for enhanced cooperation
22. However, such an enhanced cooperation should be accompanied by enhanced commitments and actions by China. This includes measures to avoid protectionism and allow free trade, and agreement to engage in new sector-wide carbon market mechanisms, which can mobilize efficiently the significant financial resources required to trigger a shift towards a low carbon economy in China.
23. In this regards the Commission welcomes positive steps have been taken during our recent bilateral discussion to cooperate on sectoral crediting.
24. The Commission agrees with the report's finding that divisions among EU Member States undermine our engagement. The Commission believes that we should aim to ensure we exploit the experiences of the MS diplomatic communities in full to complement the efforts of our climate negotiators, particularly in the context of our dealings with key partners such as China.
25. Human rights issues are systematically raised during the Commission's regular political contacts and in particular during the regular Human Rights Dialogue with the Chinese authorities, with the latest session on 29 June, but also in other fora, including at the highest level. The Commission continues to aim for a result-oriented process with a clear aim to promote progress on the ground.
26. The EU has already supported legal reform in China since the mid 1980s. Following the first comprehensive cooperation agreement 1985, the European Commission has implemented a series of training and technical assistance programmes in the legal and judicial areas. The creation of the China-EU School of Law (CESL) in 2008 was a first attempt to institutionalise legal cooperation. Support to police training, notably by strengthening the capacity of Chinese police in the areas of police training and rule of law as well can facilitate further cooperation within the wider framework of security system reform. Cooperation could be extended from the fields of judiciary and police support reform and development in all parts of the legal and judicial system.

27. Since 1979, the Chinese legal system has been undergoing a major reform process, with extensive implications for China's economy and society. Legal and judicial institution building has since led to key achievements in governance improvement, especially in strengthening the rule of law, setting a legal framework for a market economy, and creating a judicial system.
28. However, due to its vast dimensions and its complex set up, China has not yet fully achieved a reliable and secure "Rule of Law" level. Conflicting legislation and enforcement between central government and provincial and local authorities have further impeded legal governance. Due to the unique multi-level governance complexity of the state, interpretation, harmonisation and enforcement of law have to be further developed.
29. The Commission wishes to continue to support the Chinese Government in its efforts to develop a society based on the rule of law. In particular the Commission wishes to
- a. to support Chinese legal professionals at central, regional and local level in the implementation of China's legal reform programme, in particular through continued support to the China EU School of Law.
 - b. to further expand the knowledge and experience of Chinese law students and legal professionals in relation to the European legal system, legislation and international best practices.
 - c. to strengthen access to justice, improve the efficiency of the justice system, support mediation and arbitration and enforcement of decisions.
 - d. to support China in the drafting of key legislative acts where EU experience is appropriate
30. China's presence in the rest of the developing world, and particularly in Africa, is growing very rapidly. This is also true for Chinese development assistance, which is a very welcome contribution to the common effort for poverty reduction in Africa. Up till now, China has generally not been transparent about its aid to Africa, and does not try to coordinate with other donors. The EU should continue to work for cooperation with China under the leadership of the recipient African countries or regions, as part of extending the 'aid effectiveness' approach to emerging donors. The report's suggestions in this regard are helpful, with respect to the Extractive Industries Transparency Initiative, debt sustainability and the need to support the involvement of African regional organisations and civil society in trilateral dialogue.
31. The Lisbon treaty offers an opportunity for the EU to improve its external action and help to shape the outcome of issues of global concern. We need to take opportunity or risk becoming a passive player in a world where important decisions are taken by others.