Journal of the European Union Chamber of Commerce in China

EURObiz

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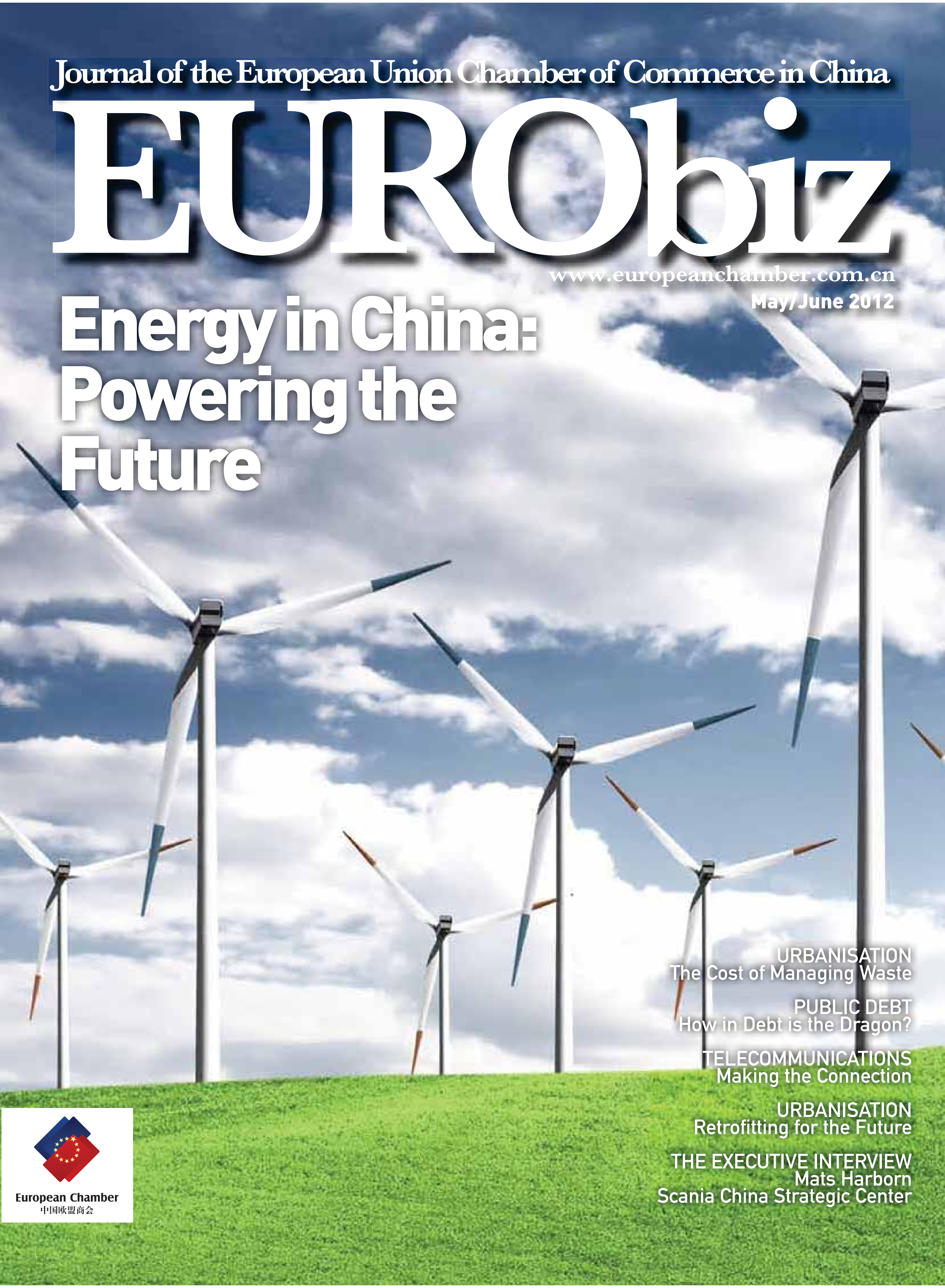
Energy in China: Powering the Future



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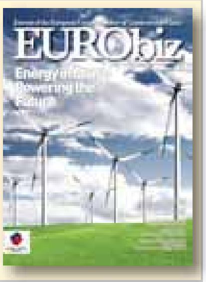

BUSINESS FEATURES

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Continuity In Leadership

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

At our annual general meeting in Beijing on 26th April, you, our members, elected a President, three Vice Presidents, and a Treasurer to serve on the Executive Committee (ExCo). I am very pleased to have been reelected and begin my second year as the President of the European Union Chamber of Commerce in China.

Being one of the founders of the European Chamber, I believe a strong and honest European business community is able to bring to China the experience and the expertise that can help this country to grow and become as open as we are in the European Union. To reach this objective the European Union Chamber of Commerce in China, being a bottom-up independent organisation, has the unique task to support European Industry operating in China.

Leading such an organisation means commitment, availability and accountability.

For this coming year, I have an ambition, a goal and a dream: my ambition is to continuing contributing to fill the gap between Europe and China in the business environment, building a bridge of dialogue and trust, while maintaining a frank and constructive approach toward Chinese officials as well as EU and Member States policy makers. My goal is to reinforce the visibility and credibility of the European Chamber with the Chinese Ministries and Agencies as well as advising EU legislators on how to strengthen their relation with China. My dream: getting the attention of all 27 Member States and hearing their political leaders speaking with a single voice and acting united!

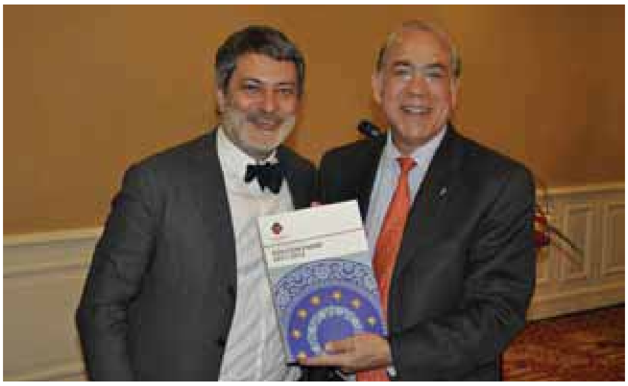
This coordinated approach is critical as we tackle the important issues facing European industry in China. For example, we expect that China's investment in the European Union will increase. The European Union continues to offer opportunities for investment and cooperation between the two sides. However, the trend of European investment in Europe to China is being negatively affected, not only because of the European crisis but also because of a number of barriers that appear inconsistent with statements of openness made by Chinese leaders. Therefore there is a need to develop policies to guarantee equal treatment for all investment in China, no matter whether it is domestic or made from overseas. A competitive market will enable China to achieve 12th Five-Year Plan goals and to move towards consumption, high-technology and a green economy. Only unity on this and other priority matters can move us closer to our goals of more open and fairer access markets in China for European companies.

I would like to thank all the members of our outgoing Executive Committee for a very productive and enjoyable year. It has been a pleasure working with you, and I hope that we will continue to remain engaged via the Chamber's Working Groups.

I welcome our new ExCo and remind our incoming officers to be committed, flexible and accountable, to handle the many demands that our important work for the Chamber will make on our time.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Dinner with the EU Commissioner of Health and Consumers,
John Dalli



Prior to Commissioner Dalli's meetings with his Chinese ministerial counterparts, representatives of the European Chamber were invited to a dinner with the Commissioner at the residence of the Ambassador of the EU to China, Markus Ederer. Led by European Chamber President Davide Cucino, Secretary General Dirk Moens and Tianjin Chapter Board Member Eric Bouteiller, the Chairs of the Healthcare Equipment, Cosmetics and Pharmaceuticals Working Groups briefed Commissioner Dalli and the Director General of DG SANCO, Paola Testori Coggi on recent developments and issues of concern to European businesses in their respective industries.

Presentation to Republic of Ireland Taoiseach,
Enda Kelly

Vice President of the European Chamber and Chair of the Banking & Securities Working Group Jens Ruebbert was invited by Enterprise Ireland to present an overview of the banking sector in China to the Prime Minister of Ireland Enda Kelly during his visit to China. Taoiseach Enda Kelly gave a welcome speech at the event that was attended by 70 delegates from Ireland who had accompanied the Prime Minister to China. The Irish Minister for Jobs, Enterprise and Innovation Richard Bruton also spoke at the event.

Letter to the Chinese Minister of Industry and Information Technology,
Miao Wei

On 24th February, the Ministry of Industry and Information Technology (MIIT) published the draft 'Catalogue for Choosing Official Cars for Party and Government Offices' (Catalogue). The draft Catalogue included neither any cars produced by European joint venture manufacturers nor imported European cars. As such, it would therefore serve to exclude European car manufacturers from a procurement market with a potential of one million cars per year. In response to the draft publication of the Catalogue, the European Chamber submitted a formal letter signed by European Chamber President Davide Cucino to MIIT Minister Miao Wei to express concern and raise suggestions. In the letter, the European Chamber called upon the Ministry to revise the list in the draft Catalogue to include automobiles of any origin provided that they meet the identified cost and engine size limits of the Chinese government, as well as low pollution emission performance standards.

Meeting with the Danish Minister for Trade and Investment,
Pia Olsen Dyhr

On 24th February, at a time when Denmark is holding the Presidency of the Council of the European Union, a delegation of the European Chamber led by Vice Presidents Miroslav Kolesar and Jens Ruebbert met with the Danish Trade Minister, Pia Olsen Dyhr. During the meeting, the Danish Minister spoke about the EU debt crisis as well as opportunities for cooperation between China and the EU and what they could mean for European business. The European Chamber representatives briefed Minister Olsen Dyhr on the EU-China Summit outcomes and the general business environment in China.

European Chamber-hosted Event with the Secretary General of the Organisation for Economic Co-operation and Development,
Angel Gurría

On 20th March, the European Chamber had the pleasure to host the Secretary General of the Organisation for Economic Co-operation and Development (OECD) Angel Gurría for an insightful talk on the topic 'China in Focus: Lessons and Challenges' following the recent OECD publication of a study of the same name. At the event, European Chamber President Davide Cucino discussed the Chinese business environment with Mr Gurría and presented to him the *Position Paper 2011/2012*.

Event and Dinner with the Director and Founder of China's National Economic Research Institute,
Dr. Fan Gang

The European Chamber was delighted to host one of China's most esteemed and influential economists, Dr. Fan Gang, for both an event and a dinner with members of the European Chamber's Advisory Council on 5th April. Dr. Fan holds various positions including Professor at the Graduate School of the Chinese Academy of Social Sciences, Director and Founder of China's first economic think-tank the National Economic Research Institute (NERI), and Vice Chairman of the China Reform Foundation. At the event, Dr. Fan gave European Chamber participants a speech on the short-term trends and the long-term development of China's economy. At the dinner he spoke frankly and engaged in deep discussions with members of the European Chamber's Advisory Council on the economic and business environments in China.

Other Lobby Highlights

Advocacy efforts developed and led by the European Chamber's Working Groups remain the core of the European Chamber's activities. In the past couple of months, there has been a high level of engagement from the European Chamber with Chinese and European governments and stakeholders at the working level.

One of the most important initiatives the European Chamber takes is the publication of various pieces of research on issues relating to the business environment in China. Following the success of a survey in 2009, the European Chamber - in partnership with Bain & Company - published a second study documenting the role that Private Equity investment plays in the growth of Chinese companies and how those investments contribute to China's long-term economic and development goals. This publication was released on March 13th in front of approximately 70 journalists at a press launch. Since then, the Private Equity and Strategic M&A Working Group of the Chamber has met with the Deputy Director General of the State Administration of Foreign Exchange (SAFE) to both present the study and the Position Paper 2011/2012 and to discuss recently issued Circulars affecting the private equity and insurance industries; and have been invited by MOFCOM to present the findings of the survey, which is entitled The Social & Economic Impact of Private Equity in China – Survey 2012.

The Renewable Energy Working Group had the opportunity to receive a briefing on current and upcoming Chinese policies in the wind, solar and biogas industries as they welcomed Deputy Director General Liang Zhipeng of the National Energy Administration (NEA) to a Working Group meeting on 22nd March. On the same day, the Renewable Energy Working Group also hosted a representative of the newly formed Chinese National

Renewable Energy Centre to learn more about the Centre and to discuss potential cooperation. European Chamber Secretary General Dirk Moens represented the views of the Renewable Energy Working Group when he spoke at the plenary session of the China Clean Energy Expo in late February alongside the NEA as well as representatives of the China Electricity Council and the State Electricity Regulatory Commission on the needs and opportunities for energy efficiency and clean energy in China. Mr. Moens also spoke in late February at an Economic Dialogue organised by the China Centre for International Economic Exchanges (CCIEE), this time on China's role in the EU debt crisis, on a panel which included the Secretary General of CCIEE and the Head of the Economic Section of the EU Embassy.

New Desk

In January of 2012, the European Chamber established a new desk in its Beijing office to host the Low Voltage Initiative. In March, the Chamber's Business Manager of the Low Voltage Initiative met with the President of the China Electric Design and Research Institute and the Secretary General of China's Technical Committee 64 to introduce the European Chamber and the Low Voltage Initiative. The Paediatric Nutrition Desk of the European Chamber also held a number of meetings in the last couple of months, including a teleconference with the Director of Maternal and China Health at China's Ministry of Health, a meeting with the Director of the Supervision and Administration Division of the State Administration for Industry and Commerce's Department of Advertising Regulation, and a meeting with the German Embassy.

Lobby Letters

The European Chamber also submitted a number of lobby letters to the Chinese central government in recent months. These included a letter from the Chamber's recently established Quality and Safety Services Sub-Working Group to China's Certification and Accreditation Administration on the Administration draft Decree 86 on the 'Management Measures for Qualification Cognizance of Laboratories and Testing Institutions'. The Healthcare Equipment Working Group, together with COCIR and Eucomed, the Chamber's two medical devices desks, wrote to the State Food and Drug Administration (SFDA) to help correct an important inaccuracy in the SFDA 'Notice on Investigating and Handling the Unlawful Behaviour of Using Medical Devices with Invalid Registration Licenses' which could have led to serious negative impacts for medical device manufacturers in China if not addressed. The Healthcare Equipment Working Group together with Eucomed also submitted another two lobby letters in March to the Sichuan and Zhejiang provincial authorities on the issues of medical consumables tendering and price restrictions during centralised procurement, respectively.

PRD Activities

The PRD Chapter of the European Chamber also carried out a number of activities with provincial-level government officials. These included a meeting in February when a European Chamber delegation led by the two Legal and Taxation Working Group co-Chairs met with the Guangdong Tax Bureau to discuss regulatory changes and issues concerning tax as well as the implementation of the VAT pilot program in Guangdong province. In March, the PRD Chapter also met with the Intellectual Property Office of Guangdong Province.

The European Chamber organised a large number of high quality events over March and April, inviting a host of high-level and esteemed external speakers to present to our members. These included speakers from respected think-tanks to speak at Shanghai's third Think-Tank Session on 16th April, as well top-level economists to speak at the twelfth edition of the European Chamber's flagship macroeconomic quarterly seminar Insight China in late March on China's debt, just one week after the inaugural Capital Beat seminar — the Chamber's new Quarterly China Public Affairs Seminar — on the results and takeaways for European business of the recently held National People's Congress in China.

To continue our push to try to ensure that Europe speaks with one strong voice to the Chinese authorities on business issues affecting European companies in China, the European Chamber also held a number of important and high-level meetings with European officials. These included Position Paper presentation meetings with His Excellency Ambassador Carlo Krieger of the Embassy of Luxembourg and with the Deputy Head of Mission of the Swedish Embassy; meaning that the Chamber has now presented the Position Paper to 23 of the 27 European Member State Embassies in Beijing since its publication in September 2011.

Director-Level Meetings

The Chamber met with three Director-level officials of the European Commission in late March prior to their respective meetings with their Chinese government counterparts. These included two meetings with Signe Ratso, Director of Trade Strategy and Analysis at DG Trade. Secretary General Dirk Moens led a meeting with Director Ratso in the morning of 19th March to brief her about the general business environment for foreign companies in China and to discuss the functioning of the Market Access Teams in China which fall under her purview, before the Chairs of the ICT and Information Security Working Groups met Director Ratso in the afternoon of the same day to discuss market access issues in their sectors prior to her meetings with relevant Chinese regulators. Two meetings were also held with the Director of WTO Matters, Legal Affairs and Trade in Goods at DG Trade, Ditte Juul-Joergensen. The first of two meetings on March 26th with Director Juul-Joergensen was held with members of the European Chamber's Banking & Securities Working Group prior to a meeting with Secretary General Dirk Moens on the general business environment. Eb

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Energy in China: Powering the Future

While in the early days of the People's Republic feeding China's large population was once its most momentous issue, now powering the country's continued growth has become a primary concern. Clean and renewable energy are both an important part of China's 12th Five-Year Plan, but even by optimistic estimates, they will satisfy no more than 15% of the nation's energy demand by 2020, and China's dependence on coal and imported oil remains high. In this EURObiz Industry Focus, **Steven Schwankert** looks at China and one of its biggest future challenges: energy.

When it comes to energy consumption, China is no less superlative than in so many other categories. That the world's most populous nation surpassed the United States in total consumption in 2010, which at the time International Energy Agency Chief Economist Fatih Birol called "a new age in the history of energy". The IEA estimated that China burned the equivalent of 2.252 billion tons of oil in 2009, although China disputes that figure. The IEA also predicts that China's energy needs will grow by 75% by 2035.

That level of consumption also makes China the world's largest emitter of greenhouse gasses in total volume, an assertion to which the country admitted in late 2010, but officials stated that per capita emissions were a more effective and important measurement. At the same time, as of 2011, China is the largest builder of new nuclear and wind energy facilities in the world, as the country seeks to diversify.

Regardless of overall rank, there is no doubt that China's energy consumption is already significant and that even in a best-case scenario, it will continue to grow rapidly in all sectors. China is already a net importer of coal, oil and natural gas, despite having been an exporter in some of those categories as recently as 2009. Zhang Guobao, now the Vice-Chairman of the National Development and Reform Commission (NDRC) and former head of China's National Energy Administration, announced in late 20111 that China would seek to cap consumption at the equivalent of 4 billion tons of coal by 2015, having used approximately the equivalent of 3.2 billion tons in 2011. In order for China to keep pace with current energy demands, it must add 48 Gigawatts (Gw) – a gigawatt being approximately equal to the power needs of 1 million households for a year – of installed capacity per year, a figure that represents about two-thirds of the U.K.'s installed power base.

King Coal

China was the first country to begin using coal for heat, and it has been doing so ever since. The burning of coal provides the majority of China's energy, as it did in the industrial development of many Western nations. More than three-quarters of China's energy – 76.4% -- comes from coal, which, despite China having the second-largest coal reserves after the United States, totaling 170 billion tons, is also the world's largest importer, some of which is imported from foreign countries including Mongolia and Australia. China currently represents about half of the world's consumption.

Coal mining in China takes place in numerous locations, with Shanxi province and the Inner Mongolia Autonomous Region primary among them. China imports both coking coal, used for industrial purposes and in relatively short domestic supply, and steam coal, used primarily for power generation and heating. Both represent different qualities of coal and therefore have different functions.

Coal is good news and bad news for China. Overall, it remains plentiful and inexpensive relative to other energy sources. A net importer, China still mines the majority of its coal itself, although the industry has a notorious safety record. Estimates of how long China's coal resources will last range from 21 years to a century or more, depending on use, increases in energy demand, shifts to other sources, and discovery of new resources.

However, while China's government

plans to reduce dependence on coal, even optimistic scenarios see it remaining above 60% of the country's total energy mix as late as 2035. While coal will decline by percentage as a source of fuel, actual absolute consumption will double over the next 25 years. By comparison, power generation in the U.S. is only 22.5% of total supply. Regardless, overall coal remains a plentiful and inexpensive choice for China, one for which it does not need to rely on foreign suppliers, and for which adequate acquisition and transportation infrastructure has already existed for decades and continues to expand and improve.

However, as a net importer, and given the greenhouse gas implications of burning coal, increased use may cause negative reaction towards China, including from nearby countries such as Japan and Korea. It may also face opposition from the European Union and the United States; some American legislators have already attempted to block coal exports to China by imposing U.S. environmental standards on the product. Regardless, coal is here to stay as the primary fuel for China's energy needs.

Black Gold
Changing Relationships

Unlike coal, China's production of oil from sources in both the northeast and northwest has remained essentially flat since the early 1990s, a situation that is not expected to change, despite increasing domestic oil consumption. As such, China's dependence on foreign oil will continue to rise, and specifically, Middle East oil, although after Saudi Arabia, Angola is the top exporter to China.

Oil accounts for about 19% of the nation's energy needs. Of that, China consumed 9.2 million barrels in 2010, a 10% rise over 2009, with imports accounting for more than half of that demand. China's participation in world oil markets and its expected 40% of predicted demand growth from 2010 to 2012 has and will continue to impact prices, according to the U.S. Energy Information Administration (EIA)

The domestic market is dominated by two giants, who are now also significant international players: China National Petroleum Corp. (CNPC) and China Petroleum and Chemical Corp. (Sinopec). Offshore, China sees another player, China National Offshore Oil Corp. (CNOOC), although it is offshore that China allows greater foreign participation, with foreign companies including Total, British Petroleum, and Shell. Still, about 15% of China's current resources are located onshore, the EIA estimated.

Demand for imported oil is expected to increase, from current levels over 60% to 70% or more by 2035. That demand has led to greater ties for China with some neighbouring countries, including Turkmenistan, Kazakhstan and Russia, and nations farther afield, namely Brazil, Venezuela and Oman. New pipelines from bordering countries, including Kazakhstan and Myanmar, are in the works.

Natural Gas: Future Fuel

As a cleaner alternative to coal and oil in terms of carbon emissions, along with a relatively plentiful supply in both its compressed and liquefied forms, natural gas represents an opportunity for China to move away from more polluting energy sources (see 'Natural Gas in China' on pg.).

Natural gas, in its various forms, represented just over 4% of China's total energy consumption in 2010, and despite some pilot programmes during the 2008 Beijing Olympics, and public busses in some major Chinese cities, natural gas in its two primary forms has yet to become a significant portion of China's energy mix. Several areas wit hin China are emerging as gas production centers, most notably the Tarim Basin in the Xinjiang Autonomous Region, which produced 850 billion cubic feet (bcf) in 2009, according to the EIA.

That said, its potential benefits as a relatively clean source are giving it more attention in terms of China's energy purchases and energy policy. The government has set a goal of 10% overall national natural gas use by 2020. Industrial users account for the bulk of gas consumption at present, according to the EIA, but consumer use for heating and automotive use could eventually rise. China's enthusiasm for natural gas exploration and exploitation has allowed some players to make more favorable investment arrangements, although after recuperation of original investment and a reasonable margin, CNOOC has the right to acquire a 51% stake, the EIA wrote.

Other Sources

The March 2011 earthquake and tsunami in Japan, and resulting nuclear accident in Fukushima, sparked a review of nuclear policy in China, and as such has delayed new projects, despite the Chinese government's interest in and seeming enthusiasm for nuclear energy.

China is the world's largest generator of hydroelectric power, which accounts for about 6% of China's total, and while 'clean', the environmental impact of large dams, along with the massive relocation of up- and downstream residents, is cause for debate. The Three Gorges Dam project, the largest in the world, will finally be completed this year, and will still account for less than 10% of China's planned 380 GW by 2020.

China's seeming focus on alternative energies, especially those generally considered clean and renewable, continues, and the country is a leader in many of those sectors, including in terms of installed capacity and actual generation. Wind energy is emerging in China, now the world's fifth-largest wind power producer, and steadily moving up the rankings, with China's installed base already number two globally. China's production of solar panels is now also the largest in the world, so much so that the U.S. recently filed a dumping complaint against its rival producer. However, solar, deployed most widely in Qinghai Province and the Xizang Autonomous Region (Tibet), accounts for far less than 1% of China's total energy production.

延安石油化工厂

Greater utilisation of these alternative energies faces two problems: their expense in generating power, at least in the short-term; and simple power transmission infrastructure. As for the latter problem, as noted in a May 2011 article in Forbes, about one-quarter of China's wind power resources are not connected to the nation's grid. China's total installed base of wind power exceeds that of the United States, but still lags in total generation due to its disconnect, given the remoteness of the sites from population and power generation centres.

China and Energy Security

China's demand for energy and its current heavy reliance on imported oil to meet its needs affects not only energy policy, but clearly also influences other policy areas. Although recent friction in the South China Sea relates primarily to territorial disputes, the potential energy resources in the area also play a role, with China, Malaysia, the Philippines and Vietnam all keen to exploit oil in the area. Malaysia is currently the leading producer of oil in the area. China's demand has also created tension over its relationship with some other oil-producing nations, such as Iran and Sudan, despite United Nations sanctions against both, including an EU and U.S. ban on oil purchases from Iran.

While energy demands may have soured China's relationship with some of its neighbours, it has grown closer to others as a result. For example, despite China's extensive coal resources, its status as a net importer has led it to turn to nearby Mongolia, which has rich coal mines and very modest energy demands. Mongolian coal sales to China doubled from 2009 to 2010, and the landlocked nation is now China's leading supplier of coal. However, Chinese interest in Mongolian coal and other resources has been so high that the Mongolian government is enacting new laws capping investment in strategic industries, including coal production, to limit the participation of Chinese state-owned enterprises and other foreign investors.

Along similar lines, China has sought a treaty to acquire some of Russia's voluminous natural gas reserves. While the relationship between the two sides has grown steadily closer, the failure to complete a treaty so far has been a sticking point. With negotiations spanning many years, back in 2007, NDRC's Zhang expressed his frustration and was quoted as saying, "Today is cloudy with a chance for sun, while tomorrow is sunny with a chance for clouds. One moment Russia is saying they have made a decision, the next saying that no decision has been made". Five years later, there is still no treaty, despite Russian hopes that a gas deal with China would raise both interest and prices for similar sales in Europe.

China's energy security issues are now the world's issues also. Dr. George J. Gilboy and Eric Heginbotham, in their book *Chinese and Indian Strategic Behavior: Growing Power and Alarm*, suggested that "The volatility in world energy demand and energy prices – to which China and India contribute by dint of their own cycles of domestic reform, investment and growth – is a more important issue for global energy security than the illusionary threat that either country will disrupt markets by 'locking up resources'".

Energy and the Environment

China's 12th Five-Year Plan seeks to strike a delicate balance between continued and sustainable growth and environmental protection. For its part, the Chinese government has created energy savings targets both on national and provincial levels, although not all plans are yet published, including the 12th Five-Year Plan for energy, due in part to the Japan earthquake triggering a review of national nuclear energy policy. Additionally, the largest 10,000 companies operating in China have been required to submit energy reduction and carbon emissions reduction plans.

Chinese Jump.

As for a large-scale transition to clean and/or renewable energy, he said, "It is scientifically feasible, but economically expensive and politically difficult. More important still, though, is to look at energy consumption and efficiency rather than simply adjusting and expanding supply".

actually a series of spills that occurred in the offshore Penglai oil field, China's largest. The spills covered 4,250 square kilometers, about "six times the size of Singapore", Chinese state media reported at the time. ConocoPhilips, which has a 49% stake in the oil field, was fined $191 million, and China National Offshore Oil Corp., which owns 51% of the field, was fined $78

"If China cannot reduce its dependency on coal, it will struggle to clean up the air of its cities which will have a malign, long-term and expensive impact on public health". Jonathan Watts, author of *When A Billion Chinese Jump*.

The stakes for a move away from coal and towards other, lower-emissions energy sources are high.

"If China cannot reduce its dependency on coal, it will struggle to clean up the air of its cities which will have a malign, long-term and expensive impact on public health. It will also be increasingly responsible for and vulnerable to global warming. Although China can currently argue that in historical, per-capita terms, it is less culpable than other nations for the carbon dioxide in the atmosphere, this moral high ground will be lost over the next decade. That will seriously damage China's image, particularly as the consequences of global warming become more apparent", said Jonathan Watts, author of *When A Billion*

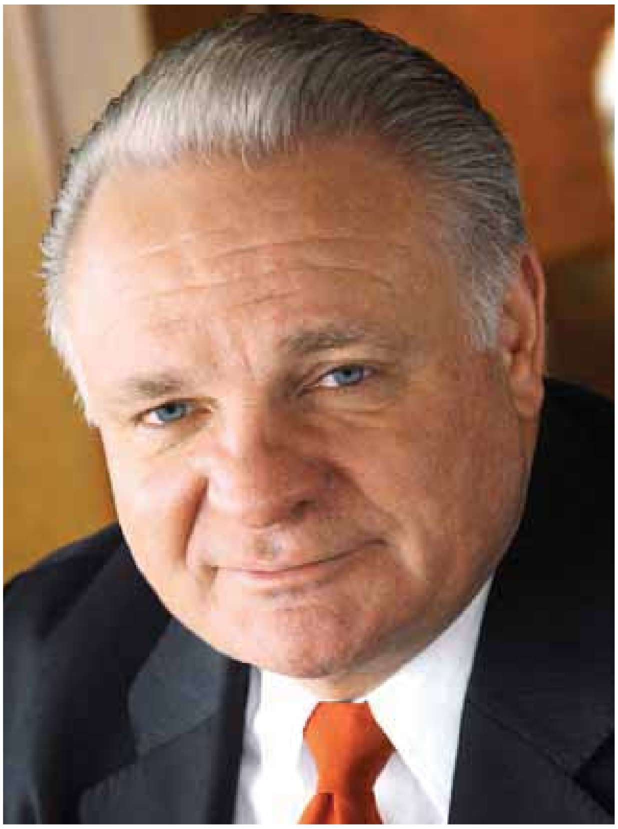
"China has been more successful in committing massive resources (investment and land) to the expansion of renewable energy, particularly wind and hydro. This is what you might expect from a large nation that is run by a leadership who favour top-down, engineered, supply-side solutions. They can also move more quickly because individuals and NGOs have weaker blocking rights to hold up dams or appropriation of land for wind and solar", Watts said.

Coal is not the only fuel source that is a cause for environmental concern. As last summer's incident in the Bohai Sea demonstrated, the effects of large-scale oil use, both in terms of the potential for spills and greenhouse emissions, remains a risk. The June incident,

million. Fish kills have been observed in Shandong province on the southern shore of the Sea, and both North and South Korea expressed concern over the possible impact on their own fisheries and maritime activities.

Demand for all forms of energy will only continue to growth throughout coming decades, and therefore China's greatest challenge is in the acquisition, distribution and management of energy sources, along with a determined effort to increase energy efficiency and reduce overall demand. The results – or consequences – of this policy and management will affect not only China and its future growth and development, but also the rest of the world and its efforts to reduce greenhouse gasses and limit climate change. Eb

NATURAL GAS IN CHINA:



Cleaner, More Plentiful and Increasingly Popular

Energy prices are climbing, driven by demand and dwindling resources. However, a relatively plentiful supply of natural gas offers hope that a move away from petroleum could reduce costs and carbon emissions. Founder of JFP Holdings and author of **Managing The Dragon**, **Jack Perkowski** looks at the opportunity for a new kind of automotive fuel.

With the price of gasoline climbing and the potential cost of carbon emissions, users of petroleum are looking elsewhere for fuel sources, including forms of natural gas. For example, U.S. television network CNBC's Rick Santelli is making it his personal mission to demonstrate to the world that cars can easily be converted to run on natural gas. If Santelli is right about natural gas, he may start an even more powerful trend. Natural gas is in many places including the United States and Russia, and the U.S. is the world's lowest-cost producer. Lured by the promise of fueling their vehicles at a fraction of the cost of using gasoline, Santelli is sure to have a lot of followers.

The price of gasoline is set by the government in China, and prices were last raised in March to more than seven yuan per liter — high for a country with a much lower average per capita income that is quickly developing a car culture. With Santelli's mission in mind, I thought it would be useful to see where China is in terms of using natural gas as a fuel.

Natural gas produces fewer harmful emissions than gasoline. Gas engines emit 97% less carbon dioxide and 72% fewer hydrocarbons.

Compressed natural gas (CNG), liquefied natural gas (LNG) and liquid propane gas (LPG) are all fossil fuel substitutes for gasoline and diesel that can be used to fuel cars, trucks and buses. In addition to its low cost, natural gas fuel combustion produces significantly less harmful emissions than gasoline. Gas engines emit 97% less carbon dioxide and 72% less hydrocarbons. The principal disadvantages to using natural gas are that there are presently far fewer refueling stations and that the upfront cost of a vehicle that can run on natural gas is about $1,000 higher than one that uses gasoline.

In December, 1999, China's National Science and Technology Ministry and State Environmental Protection Administration set 10% as a target for clean vehicles as a portion of the overall vehicle population, and set a target of 40 to 50% for taxis and buses. Additionally, the policy called for the launch of clean vehicle model zones in

19 cities, including Beijing, Shanghai, Tianjin, and Chongqing. A few natural gas-powered taxis appeared during the Beijing Olympics but were taken out of service shortly after the Games concluded.

As part of this program, city governments in China have implemented policies to encourage the industrialization of CNG passenger cars, LNG heavy-duty trucks and engines, LPG engines, and direct-injection LNG engines. Measures that have been used include offering preferential gas price policies and constructing refill stations. At the end of 2010, more than 80 cities across China had gas refilling facilities and the number of CNG/LNG refill stations totaled more than 1,000. During the course of China's 12th Five-Year Plan, it is projected that an additional 1,000 refill stations will be constructed. Finally, municipal governments have been working with automobile companies and industry research institutions to accelerate the development of new technologies.

Are these measures working? CNG/LNG vehicles have already been incorporated into bus and taxi fleets in 100 cities across the country. In Chongqing, 85% of taxis and 92 percent of buses are using an LNG engine. In Shanghai, Chengdu, Xi'an, Xinjiang and Hebei, these percentages are above 90%. Despite a decline in the commercial truck market in 2011, trucks using natural gas fuel increased by 7.6%.

Since the central government began to implement natural gas policies in pilot cities across the country, China has developed a domestic industry for natural gas products. In 2010, more than 60 natural gas vehicle manufacturers produced over 150,000 natural gas vehicles, and approximately 20 engine manufacturers had capacity to produce 1 million natural gas engines annually. Within the passenger car market, taxis are the target segment for natural gas engines because of the potential for operational cost savings. The total nationwide taxi volume in China is more than 1.1 million units, with an estimated 50% having adopted gas engines. China is already among the top seven gas vehicle markets in the world, and with stricter emission regulations providing an impetus for cleaner vehicles, natural gas vehicles will likely increase in demand. According to the country's national plan, China's natural gas vehicle ownership will be 1.0 million in 2012, 1.5 million in 2015 and 3.0 million in 2010.

That's a good start, but there is still a long way to go when taking into account that China produces over 18 million vehicles annually and has a vehicle population that already totals 112 million. As in the United States, high and rising gasoline prices may provide a strong stimulus for growth.

Read more of Jack's insights on his blog Managing The Dragon, www.managingthedragon.com. Follow Jack on Twitter, @managingdragon. Eb

100 Best Practices in Energy Efficiency

The Energy Working Group comprises more than 225 member companies with a combined total investment in 2011 of around 25 billion Euros, and a collective employment of more than 150,000 people in China. The largest European energy and equipment manufacturing companies also the industrial energy consumers are active members. Its Shanghai chair, **Dr. Martin Wilderer**, suggests easy ways to save energy at work.

In 2011, China experienced some of its worst–ever summer power shortages. Mainly due to rising coal costs and fixed electricity prices, generation of coal-based electricity was not profitable anymore, driving a lot of power producers in the hot months to shut down their operations. On top of that hydropower output was very low in 2011, and the extensive, newly-established green power is not yet fully connected to the grid.

Chinese officials have undertaken immense efforts to efficiently manage power shortages during the hot summer months, enhancing clear prioritisation, peak load management and distribution, as well as increasing power prices for industrial, commercial and agricultural producers. Manufacturers have been ordered by local officials to limit electricity usage, thus having to cut production, and tens of thousands of businesses, mainly factories and other industrial plants, were faced with mandatory power cuts.

Besides being a central goal of the current 12th Five-Year Plan, industrial energy saving was promoted strongly to solve the situation, and it actually can make a great contribution. However, awareness is still low and companies often do not consider energy saving initiatives.

Joint Roundtable

In September 2011, the European Union Chamber of Commerce in China and the Delegations of German Industry & Commerce together founded a working group promoting energy efficiency in production. The idea was to collect best practices in energy saving among the members and compile it in a booklet.

The initiative is not only an effort to share and enhance knowledge development on energy efficiency in production, but also to offer a contribution to power challenges that China is faced with today. The aim is not only to share the knowledge among the members, but also to use collect this joint knowledge for dissemination among the facility departments as well as other interested companies to raise awareness via practical examples established in China.

Joint meetings are organized around specific energy saving topic, featuring presentations from ex-perts in the related field. Some recent highlights were the presentation of Kenan Hafuz Hasan, Festo, on pressurised air as well as the invitation from Schneider Electric Suzhou Production Plant to view their installed Energy Management System.

100 Ways to Save Energy

Energy efficiency can serve as an essential tool to balance energy supply as well as to avoid CO^2 emissions. As examples show, already with simple measures companies can save up to 30% of energy with hardly any investment. This creates significant financial savings so that the efforts also make economic sense. Various examples in the field of air distribution systems, lighting, insulation, controlling systems, thermodynamics and energy saving awareness of workforce have already been collect-ed by the participating companies such as Bayer, MAN, Beko, Linpac, Schneider Electric and Festo. Putting the examples together already had some positive effect on the participating members inspir-ing to carry their efforts further. Thus, the booklet is not only good for external demonstration of our commitment but also has some practical internal use. Companies interested to join the initiative are welcome to participate. On the facing page, we have included two examples of the many suggestions offered to save energy at the workplace and promote awareness of this important issue.

AWARENESS BUILDING ENERGY SAVING AWARENESS PROGRAMME

Background

- The success of an energy efficiency initiative depends on the cooperation, acceptance and involvement of every employee
- Raise awareness for energy conservation
- Encourage and motivate employees to adopt energy saving practices at workplace

Savings Potential

- Comprehensive awareness programs can support and reinforce objectives of an energy efficiency initiative
- Increase understanding of benefits for energy efficiency
- Link actions and behavior by individuals with energy saving
- Motivate employees to modify behavior
- Increase productivity and boost morale by working together to achieve common goals
- Contributes to a healthier environment
- Enhance reputation of company as a leader in environmental stewardship

Savings Calculations

Case: Implement the concept of an Earth Hour

- Engage and encourage employees to turn off lights and other equipments such as computer screens in their area when they go for lunch.

Suggested Action

How to inform employees:

- energy saving training
- regular staff and departmental meetings
- newsletters and communiquƒs
- bulletin boards
- posters and e-mails
- intranet
- pay cheque notices
- personal contact

ENERGY SAVING AT WORKPLACE

Background

- Office equipment is the fastest growing energy user in the business world, consuming 15% of the total electricity used in offices. This is expected to rise to 30% by 2020.
- Heating can account for as much as 60% of a total energy bill, yet a large proportion of the energy consumed by heating is likely to be wasted due to incorrect control. In fact, it is possible to cut heating costs by up to 30% by implementing some simple energy saving measures.

Savings Potential

- Substantial savings can be made by adjusting heating according to the recommended temperatures. Lowering heating temperatures by just 1„C can save 8% on fuel consumption. Many areas in the building are overheated due to lack of control.
- Turning office equipment off during non working hours can save 40% of electricity consumption.
- Enabling standby features on all office equipment can save around 30% of costs associated with PC and monitor use.

Savings Calculations

Estimation of Energy Cost Index (ECI) is used to benchmark the existing performance of the office in terms of energy efficiency. Depending on (a) building type (b) treated floor area (c) annual gas / oil and electricity cost, value of ECI can be calculated. This value is compared with existing benchmarks which enables energy efficiency assessment.

Suggested Actions

- Turn off electrical equipment whenever possible
- Reduce heating temperature to 19°C.

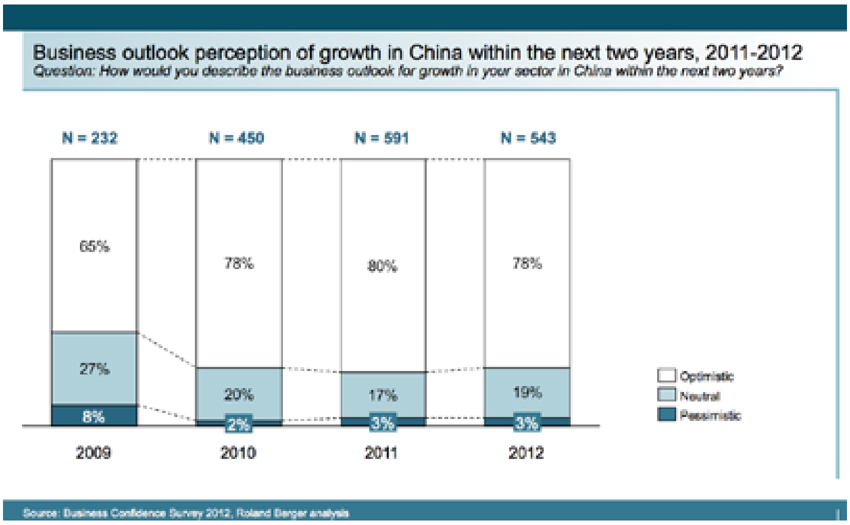
The booklet may be obtained by contacting Bettina Buck, European Chamber bbuck@europeanchamber.com.cn or Carolin Markus, German Chamber markus.carolin@sh.china.ahk.de. Eb

BCS 2012:

Strategic Importance, Investment Uncertainty

Now in its ninth year, the European Union Chamber of Commerce's **European Business in China Confidence Survey 2012,** with responses from over 550 European Chamber member companies, represents a comprehensive cross-section of perceptions of the current business climate in China.

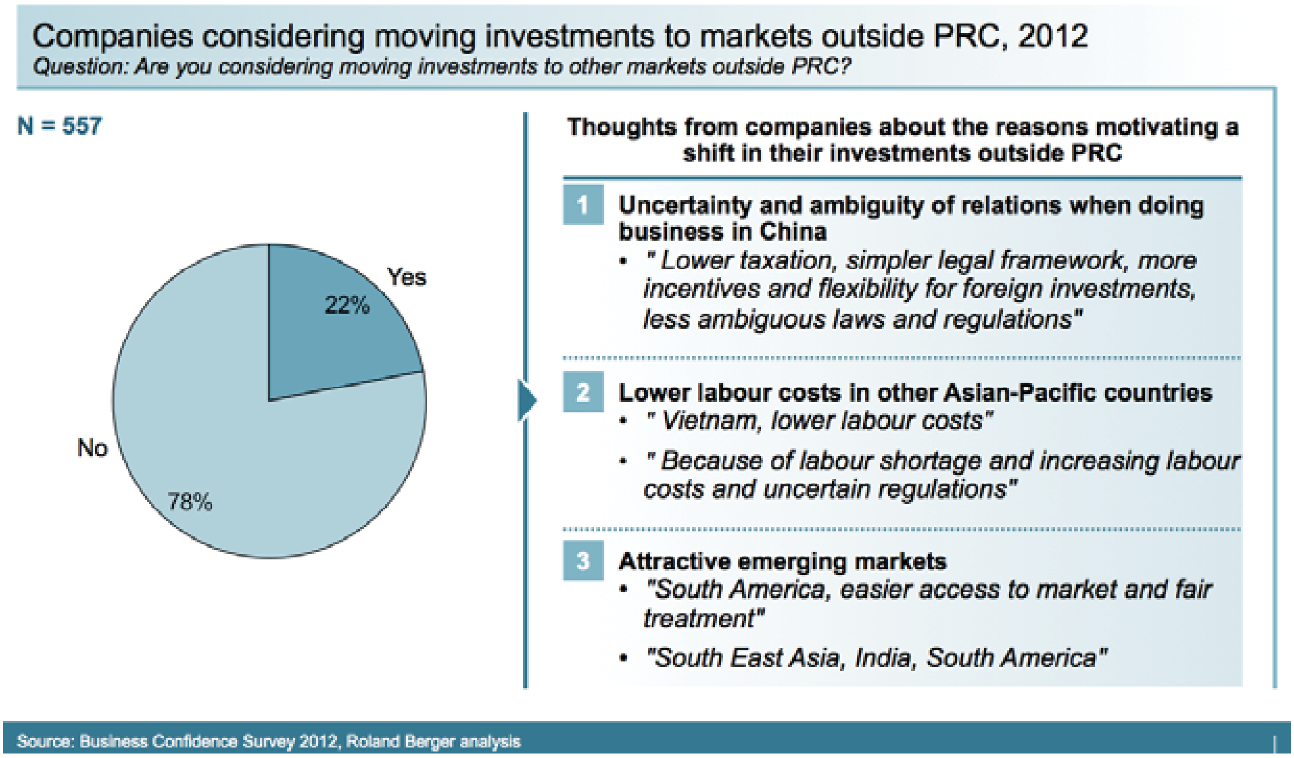
Reflecting China's economic importance as the largest contributor to current global growth, the results of the European Business in China Confidence Survey 2012 show that China's strategic importance for European companies has increased



to unparalleled levels as European companies continue to see increased revenues and profits. This appears to coincide with a general maturation of China's increasingly costly and competitive business environment, with indications that large numbers of companies are looking to increase efficiency and productivity in order to maintain profit growth even amidst high revenue forecasts. Following years of stalled reform, the maturity of the regulatory environment still lags behind. As companies take measures to respond to apparent constrictions in the marketplace, there is a sense of growing frustration that the reforms of the 12th Five-Year Plan are not being carried out and that the regulatory environment will continue to discriminate against foreign companies. As many companies also perceive significant missed opportunities due to this, the Business Confidence Survey reveals that nearly a quarter of member companies are considering shifting investments away from China.

While the global economy continued to struggle over the past 12 months, China's economic performance remained strong and it contributed the most in real terms to global economic growth for the sixth consecutive year. European companies have benefited from this growth, with increased revenues and higher average profit margins in China compared to company performances being reported globally. With optimism about continued growth, China's strategic importance has correspondingly increased for most European companies, as has the strategic intention to serve the domestic market through their China operations. This is reflected in the plans of many companies to make further investments, increase the number of permanent staff positions and develop marketing and sales activities as companies increasingly see boosting domestic consumption as important to China's growth.

Evidence from the survey suggests



a general maturation of the Chinese marketplace to which European companies are trying to adjust. Private Chinese companies are becoming more competitive in traditional business aspects, state owned companies are deemed to be yet still improving in their government relations, and rapidly rising labour costs are impacting business plans. As indicators suggest that some market areas are becoming constricted or even saturated, the upshot is that companies' optimism for revenue growth is not echoed in their profit projections. European companies are increasingly turning to reducing costs to stave off pricing pressures and, although companies increasingly want greater access to more sectors, investment plans indicate that much effort is being exerted to maintain current market share.

Unfortunately, the development of the regulatory environment is not in step with the development of the market. Despite high-level pronouncements regarding the importance of foreign investment and equal treatment for all companies registered in China, the regulatory environment for foreign enterprises conversely appears to have worsened. European companies state that reform of the regulatory environment will be the most important driver of future Chinese growth. Yet although the 12th Five-Year Plan is still generally regarded as positive, the fact that it is increasingly viewed as having little impact on companies' business prospects is reflective of a lack of optimism regarding reform. The importance of increased competition in spurring innovation and in moving towards a more value-added and balanced economic growth model has been widely recognised in China, yet the perception that the regulatory environment will continueto deteriorate for European enterprises suggests that companies remain pessimistic that vested interests in China willstymie reform.

As a direct result of market access and regulatory barriers, European companies report missing out on considerable business opportunities worth a significant share of their revenue in China. European companies hope to compete in new areas and contribute to the development of a knowledge-based and green economy in China. However, as companies become increasingly aware of asymmetries and unfairness caused by the stalled regulatory reform in China, coupled with the increasing maturity of the marketplace, a significant proportion of European companies state that current trends are causing them to consider shifting investments from China to other markets.

China's ever increasing strategic importance for European companies

The importance of the Chinese market for European companies is continually underlined by the answers given in this survey. European companies are looking to increase investments, create jobs and better serve the domestic market:

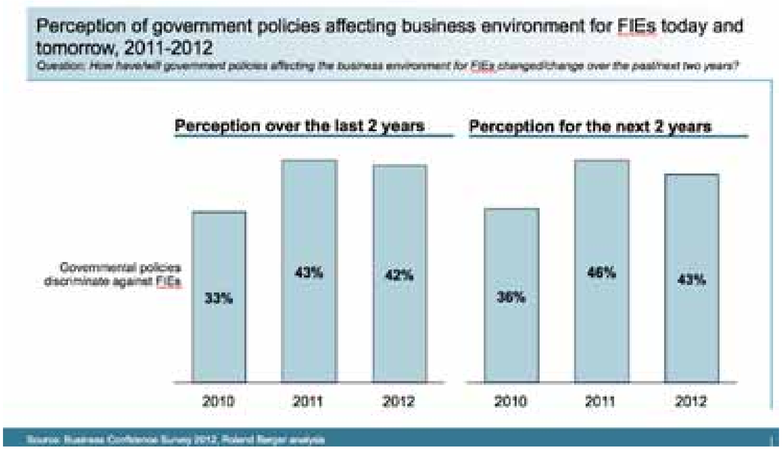
• China revenue comprises more than 10% of worldwide revenue for half of the respondent companies, representing an increase of 50% since

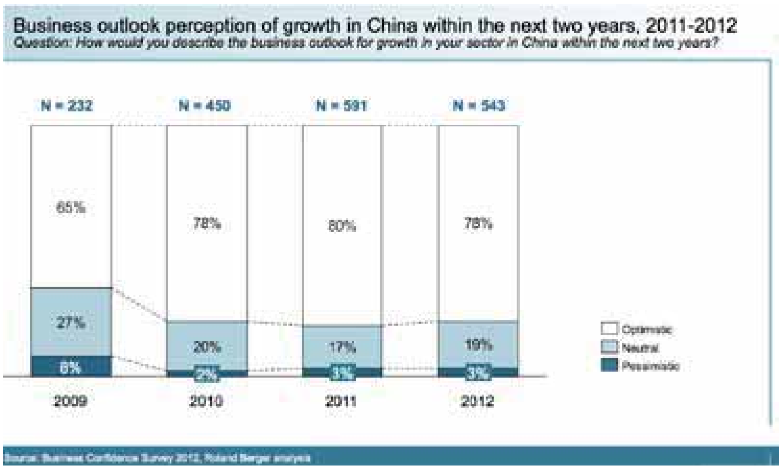
2009

• Three-quarters regard China as a top three destination globally and it continues to increase in importance

• New investments in China are planned by 63% of respondents, withmore than half looking at entering new provinces

• 61% increased the number of permanent staff positions in 2011 and nearly three-quarters plan to hire more people in the next two years





A maturing market

Various indicators suggest that the market in China is becoming more competitive with private and state-owned Chinese enterprises, offering distinct challenges and rising labour costs impacting strategy:

• Chinese private enterprises are increasingly competitive in terms of pricing, branding and sales

• Chinese state-owned companies are seen as improving, particularly in terms of governmental relations

• Cost reduction is becoming a more frequently used strategy by European companies to maintain their competitiveness and the top three areas for future investment are branding, marketing and sales, and HR, indicating that more European companies are having to fight to maintain their current market position

• Rising labour costs are regarded as a significant concern by 63% of respondents

Stalling regulatory reform

The regulatory environment is not developing in accordance with the needs of the market and long-standing issues in this area remain of significant concern:

• 40% report that Chinese government policies towards foreign enterprises are less fair than they were two years ago

• The discretionary enforcement of regulations by government is seen as the most significant obstacle to doing business in China

• The development of the rule of law and more transparent policy making and implementation is rated as the most important driver for future Chinese economic growth

Barriers resulting in significant missed opportunities

European companies state they continue to miss out on business opportunities in China because of market access and regulatory barriers. The value of these out-of-bounds opportunities is significant and underlines that this is the most significant issue being faced by European companies in China today:

• Half of companies report missed opportunities due to market access barriers, with two-thirds of these estimating the value of these missed opportunities at 10-50% of revenues

• Nearly a quarter of respondent companies are considering moving existing investments out of China.

The European Business in China Confidence Survey 2012 will be presented in Beijing and Shanghai on 29th May, with presentations in other parts of China to follow in June. Please visit www.europeanchamber.com.cn for the events schedule or to download your free copy of the Survey. Eb

We are eager to include you in our 15th anniversary celebrations. If you have BJU stories, photos and/or videos you would like to share with us, please send them to **bju_15years@ufh.com.cn**.

我们期待收到您与和睦家的珍贵记忆和您的近况，并邀请您和家人参与北京和睦家医院15周年庆祝活动。请将照片、视频链接和就诊故事发送至 **bju_15years@ufh.com.cn**。

United Family Healthcare
和睦家医疗

The Social and Economic Impact of Private Equity in China

The European Union Chamber of Commerce in China's 2012 survey, **The Social and Economic Impact of Private Equity in China**, puts the spotlight on the role of this type of investment and updates the European Chamber's earlier study in 2009. Produced in partnership with Bain & Company, it demonstrates the effect of private equity in a country that is now one of the leading destinations for this kind of capital.

This second survey on the social and economic impact of PE in China documents the role that PE investments play in the growth of Chinese companies and how those investments contribute to China's long-term economic and development goals. Since our groundbreaking survey in 2009, PE firms have continued to transfer management know-how to their portfolio businesses, build globally competitive companies, improve corporate governance, develop an innovative private sector, support development inland and foster domestic consumption. The survey's goal is to chronicle the growing impact of PE investments on China based on objective facts and figures.

PE, still a relatively new phenomenon in China, continues to develop rapidly, establishing the country as one of the world's top destinations for PE investments. With US$16 billion invested in 2011, PE in China represents more than 5% of the value of global private equity investment, a significant increase from just more than 1.5% in 2007. As with many fast-growing industries, the societal changes set in motion by new capital flows raise questions about whether PE enriches Chinese social and economic development as a whole.

To help answer those questions, the Private Equity and Strategic M&A Working Group of the European Union Chamber of Commerce in China and its survey partner, Bain & Company, examined PE's social and economic impact in China. The resulting report chronicles evolving trends, compares current findings with findings from the past survey and presents data on important social indicators, including job creation and improved salaries, research and development (R&D) spending, "green economy" and investments into inland provinces. It evaluates key measures of economic performance, including revenue and profit growth, support to small and mid-sized enterprises, tax payments and corporate governance. The study also serves as a major source of quantitative information about PE in China and contributes to a constructive debate about its current role and future development.

This second survey covers deals announced during the period from 2004 to 2008. It includes information from a panel of companies that represented 40% of the total value of PE deals valued at more than US$20 million during that period. (All compound annual growth rate comparisons are based on this group of survey participants.) The majority of the companies surveyed are small to mid-sized, with revenues of less than 10 billion RMB. We excluded deals completed after 2008 in order to track post-investment performance for a period of at least two years. The report reveals PE's social and economic contributions based on quantitative analysis of portfolio companies and 25 in-depth interviews with PE-backed company executives.

This study uses three key comparisons to gauge performance along social and economic dimensions: performance of PE-backed firms compared with publicly listed firms over a two-year period, post-PE investment; 2012 survey findings with 2009 survey results; and change in portfolio companies' performance during the two-year period following the initial investment with the next two-year period.

Key findings:

PE has a significant social impact on China, demonstrated by improved job opportunities and innovation

PE-backed firms pay higher salaries even as global economic uncertainty continues. PE-financed companies generated full-time jobs at an annual rate of 8%, on a par with the market over the period of our study—but at a slower pace than in the 2009 survey, when job growth at PE portfolio companies increased by 16%. Even so, wages are continuing to rise—the salary growth rate is 7% higher at PE portfolio companies than at listed companies, contributing to an improved standard of living for employees and spurring consumption.

PE-backed firms have increased R&D investments to incubate innovative growth

Measured as a percentage of revenue, PE-backed companies now spend almost twice as much on R&D than their publicly-listed counterparts, demonstrating a sustained emphasis on innovation. PE investors work with portfolio companies to help them understand the pivotal role that innovation plays in powering growth. As Chinese companies build value, they help the nation achieve one of its public policy goals: establishing China as an innovative society.

Environmental protection grows slowly for both listed and PE-backed firms.

When it comes to environmental initiatives, however, both PE-backed and publicly traded companies have opportunities to do more. For both groups, corporate commitment to environmental protection is in the early stages. Only about 40% of the companies we surveyed had released an environmental protection report detailing spending and green initiatives; even fewer disclosed their expenses for environmental protection.

"Go West"

PE firms continue to support China's "Go West" policies that spur growth by encouraging investments in China's underdeveloped inland provinces, primarily in western and central China, as well as Tier-3 cities.

After a decline in 2008, investor interest rebounded. Since 2009, more than half of all PE investments have been in companies headquartered in the western region, surpassing backing for businesses located in the more affluent coastal provinces. From 2009 to 2010, deals in Tier-3 cities also grew dramatically from US$1.2 billion to US$2.8 billion.

PE's economic impact is notable, especially when comparing companies' financial performance

PE builds financial performers that generate higher profits and growth. PE-backed companies in China outperformed the market in revenue growth, rising an average of 21%—an impressive gain from just 3% in the 2009 survey. They also posted 7% higher profit growth than their publicly traded counterparts, achieving a compound annual growth rate of 21% versus 14% at listed companies.

PE investors provide critical support for smaller companies

PE firms provide critical support for this business segment, now a powerful engine of growth. Investors helped smaller companies outgrow listed competitors. The survey results show that smaller PE-funded firms tripled the revenue growth rate of comparable listed companies.

Valued PE advisers improve governance, generate higher tax payments and spur growth

The majority of executives of PE portfolio companies value the guidance provided by PE firms. They benefited from the role their PE partners play as management and financial advisers on a range of issues: strengthening corporate governance, creating more open and transparent decision-making processes and reallocating working capital to support expansion. Reflecting their stronger financial performance, PE-backed companies yielded tax payments that grew at an annual rate of 21% – slightly lower than the 28% posted in the 2009 survey – but still higher than their benchmarked peers. The result implies that PE shareholders continue to bring improved corporate governance with respect to the disclosure of taxable income. They also use their networks to provide access to customers, suppliers and distribution channels.

But PE firms received mixed reviews from some survey participants who welcome more hands-on support and increased industry operational knowledge from their investors, even after taking the company public.

PE-financed firms continue to support the expansion of China's domestic consumer goods and retail industry

Attention of PE firms continues to shift to the consumer goods and retail sector. In 2010, deals in these two sectors represented 13% of total PE deal value, a significant increase from a mere 4% in 2004. Retailers backed by PE investors booked sales growth of 59%, compared with just 19% for publicly listed retail companies – consistent with what we observed in the 2009 survey.

Please visit www.europeanchamber.com.cn to obtain your free copy of **The Social and Economic Impact of Private Equity in China.** Eb

Riding the Wave of Recruitment

In the first edition of a new regular feature on human resources (HR), Dan Zhu, chair of the European Chamber's HR Working Group in Shanghai, looks at issues facing companies operating in China and how to maximise their hiring decisions.

With the global financial crisis and China's own growth slowing down, many multinational corporations (MNCs) are facing increasing pressure in further developing their China business. Whereas in the past China was viewed as a strategic market, today it has become a bottom-line market, a battlefield where an MNC cannot miss due to stagnant or shrinking margins at home.

With headquarters demanding greater investment return, the China market has become an even bumpier road to success. The market is seeing slower GDP growth, from 13.1% to 9.5%, and the world's largest automotive market is expected to cool down. Labour costs have risen due to annual salary increases of 8-9%. Chinese competitors are buying talents with raises of 50% to 100%. Some MNCs' Recruitment functions have been facing the embarrassment of no or few candidates for some positions.

Many common recruitment issues face most MNCs in China.

Due to growth pressures, MNCs are poaching from each other to replace existing functions. By constantly fishing in the same pool, quality candidates have become scarce and prices have been gone up because of the mismatch of supply and demand.

Due to the scale and increased complexity of enterprises in China, there are a growing number of highly-specialised or newly-created senior positions.

Most such new positions are first-time hires, and there is a lack of clarity on their roles and responsibilities.

Interviews for such functions are often made based on the travel schedule of interviewers from headquarters to China, which makes the hiring lead time particularly long compared to existing roles. Each round of interviews will often have a three-month break in between..

There are no or very few local talents available for highly-specialised roles, especially in research and development. However, when such talents are finally sourced on the global market, China's existing China reward system is lagging in offering competitive compensation packages due to the existing compensation and benefit structure. For instance, China-hired talents are subject to a much higher individual income tax (can be up to 45%) compared to those hired in Hong Kong (16.5%) and Singapore (17%).

Local business HR often lacks resources due to global headcount control, while local functional HR are overwhelmed with fire-fighting in delivering operational service.

Most MNCs have a sort of centralised recruitment center of excellence (CoE) dealing with vendors in talent supply. Recruitment information often gets twisted in the transmission process from hiring managers to business HR, then to functional HR, and then to external vendors, and vice-versa.

There is a general lack of strategic views in business HR for historical reasons, which makes it difficult for them to link business needs to immediate task-focused actions. Most of the HR start their career from junior administrative roles right after college graduation, most of them never have any previous line function experiences. Often HR business partners tend to focus on existing process and procedure instead of future capacity and scalability planning and enabling.

In terms of their employer value proposition, most MNCs still remain at the stage of showing and telling the usual Fortune 500 story, without putting too much effort on China market segmentation about their own niche and positioning in the highly-competitive employer branding market. Their unique selling points from the home market are no longer unique selling points against highly aggressive and creative local competitors.

When beefing up recruitment CoEs, most MNCs tend to put junior staff in such functions. However, those juniors often lack in-depth understanding of the industry's needs and insight about candidates. Such capability is often built on rigorous methodology and years of practice.

When talking about recruitment, most hiring managers tend to think the starting point is a candidate's CV. Therefore, without much thought about the role's individual and organisational expectations, most interviewers start candidates in rounds and rounds of interviews. Such an approach must come to an end.

Still remember quality control or quality assurance? It has been transformed into total quality management, where strategic measures and methodology have taken place. The same has now reached recruitment.

For those who want to ride the wave of recruitment, instead of just saying how strategic HR is, here comes the call for a systematic but commonsense-driven approach.

With the growing complexity and scale of enterprises in China, the market needs seasoned and strategic China HR who can actively lobby and engage with global headquarters to get resources such as headcount, job grading and compensation and benefits, and flexibility.

Instead of fishing in the same talent pool with the clichés of "Fortune 500 company experience, English fluency, Top 20 school graduates plus MBA preferred", HR and hiring managers should focus on enlarging the existing pool. This calls for risk-taking and judgment on the part of interviewers. Playing it safe cannot always guarantee safety, let alone creativity.

Current lead time has to be shortened due to a talent shortage. Instead of asking candidates for rounds of standalone interviews, HR could coordinate all or most interviewers for a packed interview day, where efficiency could be improved and decisions could be made shortly when memories of the applicants are still fresh.

All interviewers need to start their interviews from competency requirements. Often people know there is something called a competence model somewhere remote in the HR world. However, most hiring managers are not clear about such competencies' real application in candidate screening. This calls for training on such methodology for all hiring managers and HR functions, so as to make sure all parties are on the same page. Topics could range from competence application and examples, CV screening, probing techniques and answer evaluation.

When in doubt about a candidate's capability, get a second opinion from an independent third party. Such parties are preferably a long-term trusted partner, instead of just a candidate vending machine.

Get creative in campus recruitment. Too many big names are waiting in line to get the campus talk at end of each year, the audience cannot differentiate much between European company A and American company B. What they really care about are the top three questions: "Can I learn something new?"; "What is your China growth roadmap?"; and "Who is my career role model in this company?" Generalities won't woo people any more.

Instead of training all freshly graduated employees upon arrival, training can be customised at a much early stage in cooperation with local vocational schools and universities. Such an approach could provide training recipients more time in learning and practicing, and hiring companies extra opportunities in getting to know the students for proper selection.

Riding the wave of recruitment calls for more than thoughts and guts from decision makers. Like surfing in high ocean waves, we cannot blame the ocean but balance ourselves to make the right move. For those in HR roles, regardless business HR or functional HR, the time people focus on the circle of concern is gone now, it's time we get our act together and focus on our circle of control, the control that lies in our own hands and steers the growth drive.

About Shanghai HR WG:

The HR Forum has been changed into a Working Group due to the growing importance of HR for all members. From now on, each year the HR WG will concentrate on three major lobbying actions to related regulators and agencies. The newly elected Shanghai Chairs focus on activities in building the HR community and promoting professionalism, including breakfast presentations, on-site visits for sharing of best practices, and an annual one-day HR conference. For more information, please contact Dan Zhu at dan.zhu@rainbowcareer.com. Eb

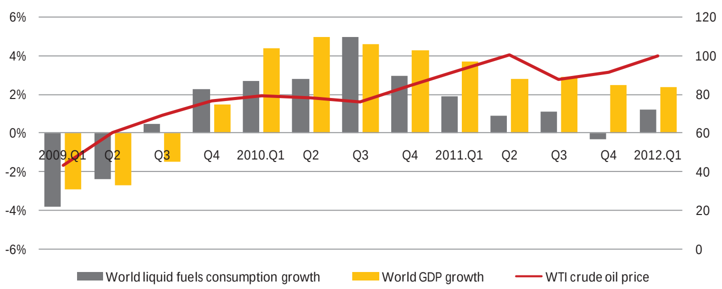
ENERGY CONSUMPTION IN CHINA: Surging Demand vs. Limited Production Capacity

– China's Increasing Reliance on Imported Energy Products

By Rachel Wang,
Industry Analysis Department, ACMR

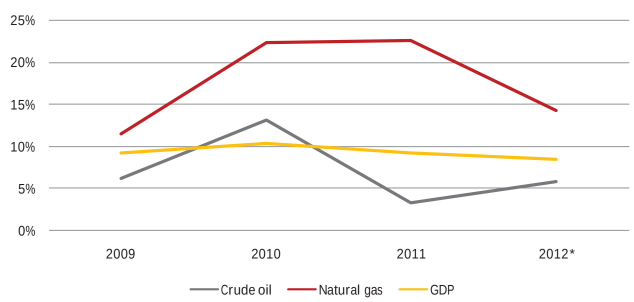
In 2011, the global economy experienced slower growth of around 3%, compared with 4.2% in 2010, according to World Bank. Despite low global economic growth, oil prices fluctuated throughout the year and show an overall upward trend due to increasing energy consumption. In addition, factors including geopolitics, exchange rates and financial markets also influenced the price movements. According to the U.S. Energy Information Administration, the annual average price of crude oil in 2011 hit its highest level in history. The average price for Brent crude oil for the year reached $111 per barrel, 40% higher than 2010, and $14 higher compared with 2008.

World Liquid Fuels Consumption Growth, World GDP Growth, and WTI Crude Oil Prices, 2007 – Q1.2012 USD per barrel (in real 2010 dollars)



In 2011, China consumed about 453.7 million tons of crude oil, showing an average growth of 8.1% since 2009. Crude oil consumption in China in 2012 is expected to increase by 5.8% compared with the previous year, amounting to 480 million tons. In addition, natural gas consumption in the country grew even faster, at an average rate of 22.5% per annum, totaling 131.2 billion cubic meters. In 2012, China will consume 150 billion cubic meters of natural gas, up 14.3% from 2011.

Crude Oil Consumption, Natural Gas Consumption and GDP Growths in China, 2009-2012

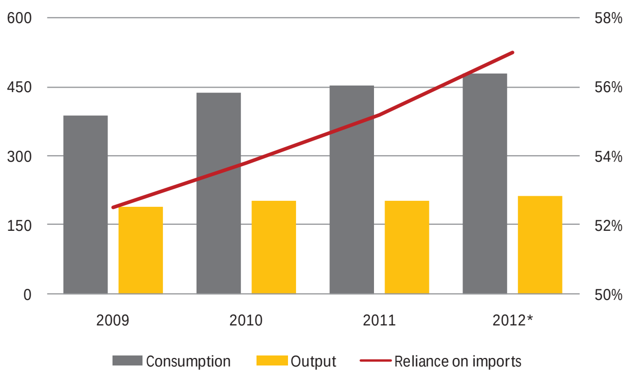


Source: National Bureau of Statistics, ACMR
Note: 2012 data are ACMR estimates

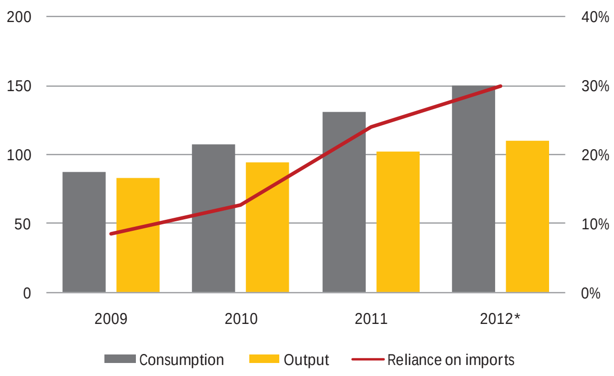
However, facing rising consumption, output showed much slower growth, which has resulted in China's increasing reliance on imported crude oil and natural gas. From 2009 to 2011, crude oil output in China grew at an annualised rate of 3.7%, much lower compared with 8.1% growth in consumption. China's degree of reliance on imported crude oil has increased from 52.5% in 2009 to 55.2% in 2011, and is expected to continue increasing to about 57% in 2012. Similarly, the country's reliance on imported natural gas has risen from 8.6% in 2009 to 24% in 2011, due to the average consumption growth of 22.5% and output growth of 10.8% in the same period. In 2012, imported natural gas will account for around 30% of China's natural gas consumption.

Consumption, Output, and Reliance on Imports of Crude Oil and Natural Gas in China, 2009-2012

Crude Oil (Million tons)

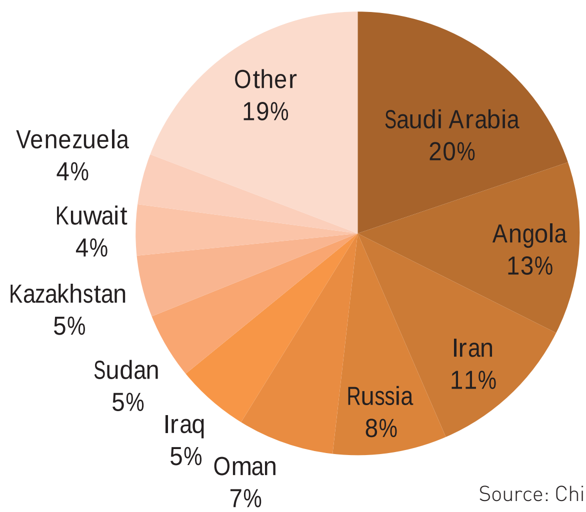


Natural Gas (Billion Cubic meters)

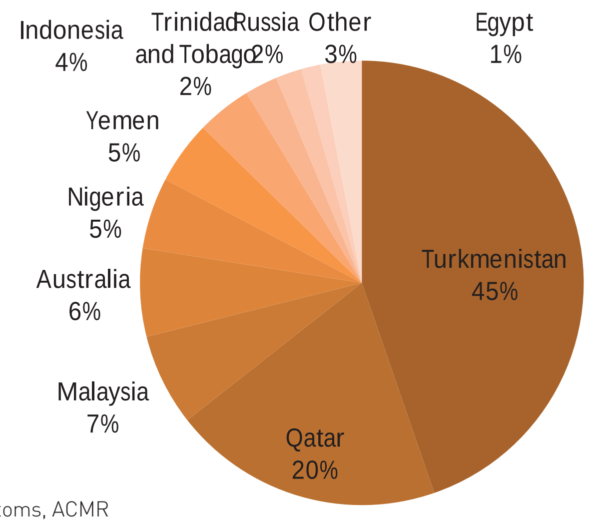


Source: National Bureau of Statistics, ACMR Note: 2012 data are ACMR estimates

Top 10 Imported Sources of Crude Oil in China, 2011



Top 10 Imported Sources of Natural Gas in China, 2011



Source: China Customs, ACMR

Oil Price Adjustment in China, 2009-2012 (in € per ton)

Date	Gasoline	Diesel Oil
20 Mar. 2012	+66.7	+66.7
8 Feb. 2012	+33.3	+33.3
9 Oct. 2011	-33.3	-33.3
7 Apr. 2011	+55.6	+44.4
20 Feb. 2011	+38.9	+38.9
22 Dec. 2010	+34.4	+33.3
26 Oct. 2010	+25.5	+24.4
1 Jun. 2010	-25.5	-24.4
14 Apr. 2010	+35.5	+35.5
9 Sep. 2009	+50.4	+50.4
1 Sep. 2009	+31.5	+31.5
28 Jul. 2009	-23.1	-23.1
30 Jun. 2009	+63.0	+63.0
1 Jun. 2009	+42.0	+42.0
25 Mar. 2009	+30.5	+18.9
14 Jan. 2009	-14.7	-16.8

Rapidly rising global oil prices and China's increasing reliance on imported energy products have pushed China's energy prices up significantly. For example, during the period from 2009 to April 2012, the National Development and Reform Commission has adjusted the oil price in China 16 times, upwards for 12 times and downwards four. The most recent adjustment of oil prices in China happened in March 2012, a €66.70 increase per ton for gasoline and diesel oil, respectively, and also the biggest rise since 2009.

According to China's 12th Five-Year Plan, China will construct more refining bases to increase oil supply capacity during the period from 2011 to 2015. Meanwhile, the country will also accelerate the development of non-petrochemical energy, which accounted for only 8% of energy consumption in China in 2011. By 2015, non-petrochemical energy will contribute 11.5% to total energy consumption according to the 12th Five-Year Plan. Eb

How in Debt is the Dragon?

While sovereign debt has captured headlines for effect on the governments of Europe, China, which was seen as weathering the global economic crisis, now faces its own rising levels of public spending. Fueled by local borrowing for infrastructure projects, debt may now be as high as 40% of GDP. Two prominent economists, Prof. Victor Shih and Prof. Patrick Chovanec, gave EURObiz's **Steven Schwankert** their views on the problems and the solutions.

Local governments have not been permitted to issue bonds for their public spending without State Council approval since 1995. Therefore, the most common method for financing new projects is for a local government to create a commercial or business entity that it owns entirely. That entity then seeks financing, usually from a bank, with the local government guaranteeing the loan, occasionally using future revenues or public properties as collateral. These are called Local Government Financing Vehicles (LGFVs).

While this may appear to be a reasonable alternative method of public debt financing, the results are not in line with normal expectations. Within China, mayors typically shift to a new city or post after two or three years, and as such, a new mayor is usually keen to make his own mark, rather than use budget to pay off their predecessor's projects. According to Prof. Victor Shih of Northwestern University, new municipal officials want to focus on new and bigger projects, as it is these projects, rather than local GDP growth, that seems to lead to career advancement in government. This creates difficulties in repayment of the loans used for these initiatives.

Also, at a more basic level, whereas bonds generally offer favorable interest rates and a longer term of repayment, where as a bank loan's rates are usually higher, and the length of the loan far shorter, putting greater pressure on the local entity. This model has apparently been repeated in numerous locations, and with many of the projects built in this way – namely, public infrastructure projects such as roads and bridges – generating insufficient levels of revenue to fund repayment, as a result public debt continues to grow.

Calculating China's current level of public debt also depends on which set of statistics one chooses to believe, the speakers indicated.

In the past, local banks, as part of the loan, have provided a cushion to local governments in order to give them cash to repay the interest, said Prof. Victor Shih of Northwestern University.

Crunching the Numbers

Shih said that in 2010, institutional debt stood at 10.7 trillion yuan, according to official estimates, and that those funds were used mostly for programmes like new schools, hospitals and road projects. However, Shih questioned the number.

"If that's possible, then why is there only that much debt"? Shih, both in his presentation and a June 2011 guest post for The Financial Times, said that while what China considers to be public debt totals 10.7 trillion yuan, what is owed by LGFVs and other central and local government-backed entities must also be counted to present a more comprehensive accounting of China's public debt situation. As such, probably a more accurate number is 20 trillion yuan, about 40% of GDP, a figure arrived at by adding the debt estimates presented by the National Audit Office, the China Banking Regulatory Commission and People's Bank of China.

The debt is also not being handled differently from that of similar loans to private businesses. For example, one LGFV wanted to default, Shih said, but the government would not allow it. Eventually, the debt was purchased by a cash-generating SOE, which could repay it while getting the debt off the LGFV's books.

Shih indicated that awareness of the problem has escalated recently not just because of the amount of debt, but because cash flow of all entities has declined, "which I think is pretty alarming", he said. He also indicated that land sales were really the only asset that most local governments had to effectively repay debt.

Although public projects, including Olympic coverage, were large sources of public spending, up until 2008, it didn't really matter, the issue of local government debt didn't seem as serious, in part because of huge amounts of money flowing into China, which also had a trade surplus of 4-6% of GDP. Approximately 2 trillion yuan worth of new bank deposits per month at that point.

However, as China's economy slows relatively, the situation has changed.

Northwestern University economist Prof. Victor Shih.

For example, PBOC had to destabilise bonds it issued previously, from at total of 3 trillion yuan down to 1 trillion last year. On top of that, 7.5 trillion yuan in new loans for public projects were made last year. Even that number is deceptive, Shih said, explaining that a large part of new financing was just rolled over non-performing assets that were already on bank balance sheets, and that "this will likely happen again to the tune of 5 trillion yuan", this year.

In terms of government measures that can begin to rectify the situation, beyond extending loans or otherwise sweeping the debt under the accounting carpet, involves the kind of structural change that is called for in the 12th Five-Year Plan, including boosting consumption. "PBOC still has a huge amount of liquidity locked up" Shih said, adding that the central bank "must be active in reducing the reserve requirement ratio and addressing "pockets of liquidity going forward to that areas don't blow up".

It is the "Central Bank's job to control this so that there aren't greater issues down the line", Shih said.

Stimulus and Slowdown

If China calculated its debt in the same way as other countries, the government would be on the hook for debt banks and state-owned enterprises (SOEs), according to Patrick Chovanec, Associate Professor of Practice at Tsinghua University's School of Economics and Management in Beijing.

Chovanec traced the current rise in government debt to stimulus measures taken in the wake of the global financial crisis in late 2008, in part to offset a dramatic drop in export demand from traditional markets such as the European Union and the U.S.

"This was lending in a very concentrated period -- to stimulate the economy rather than earn return", he said, but noting that "in many cases, one investment makes sense, five others don't, all got approved". Beyond that, not all were conceived or approved with the idea that they would generate sufficient cash flow to repay their investment during the loan period. Also, some of these projects completed early, ending their loan grace period and requiring repayment earlier than planned.

Chovanec questioned the approach of some in the government. As a source of revenue, some have said, "Don't worry, there is always land sales", whereas others have tried to brush off the problem of loan repayment. However, he added, "A Singaporean government official would never say 'we're the government so we don't have to worry about return on investment'".

He pointed to the example of China's Premier Zhu Rongji, whom Chovanec said was "determined" in his fight to reduce bad debt. However, the government ultimately chose to wipe that debt off of Chinese banks' books, then recapitalised them, he said.

Chovanec's greatest concern for the economy is that recent growth has been debt-fueled, stating that 5% of last year's 9% came from investment in fixed assets. He also noted that household income is not longer the biggest driver of GDP growth, being replaced instead by real estate.

"Of all those things China is building, China needs to add 20% every year more to maintain growth" at the same level, Chovanec said.

Bonds. Municipal Bonds.

He moved back to what the State Council said in 1995 was no longer permissible for local governments to do: issue bonds.

"The magic word we hear now is bonds", Chovanec said, but asked, "Who is going to buy those bonds? Banks will buy some, but private wealth management vehicles will also buy them".

"Bonds work if risk is being priced appropriately — in this case, many people expect they will be guaranteed by the banks", he observed, but also clarified that that guarantee will likely not be offered.

Chovanec issued a warning on bonds: "A premium is being paid for inflation,

Patrick Chovanec, Associate Professor of Practice at Tsinghua University's School of Economics and Management in Beijing.

not on risk".

He added that risk is not being priced properly and is not being recognised by the market, of which Chovanec said "that is a recipe for disaster".

He expected the move away from debt-driven growth to be a long process. "The debt model exists because it has to exist. The government is stepping on the brake and the gas at the same time, and the real estate market was just the first gasket to blow".

In terms of traditional revenue sources in China, according to Shih the problem is not exports; the problem is imports. "China is importing a lot of stuff – including oil -- and imports are getting more expensive because China is importing them", he said.

Local government debt will also influence other areas of the economy, including the full convertibility of the renminbi. "Given issues of losses in the system, addressing these losses in an opaque way, there's no way for China to have a convertible currency in five or six years", Chovanec said.

"Debt for equity can only be done in a closed financial system. If the system is open, the losses must be recognised", he said, adding "The government is committed to an economy where there are no losers", Chovanec said. Eb

Going Where the Passengers Are

As demand for international travel from and to China grows, air routes are now emerging from cities previously not thought of as global destinations, including Nanjing, Shenyang and Qingdao. With its new route from Frankfurt to the latter two cities, Lufthansa takes its service further into China. General Manager Sales and Airport Services North-east China of Lufthansa German Airlines, **Charles So**, spoke to EURObiz about what that access means and barriers still faced by international carriers.

EURObiz (Eb): Lufthansa is a major European carrier. What prompted it to seek routes out of these second-tier cities?

Charles So (CS): Shenyang and Qingdao are both important markets with more than 7 million inhabitants. Both are much larger than most metropolitan areas in Europe -- so we do not think that the term "second-tier-cities" is appropriate. Our customers, the German industry, are very successful in the Chinese market and it is Lufthansa's long-term strategy to be there were the market is and to grow with our customers. Furthermore also our Chinese clients are more and more looking to Europe. Lufthansa has the largest network of European connections, so we cater to the needs of both, our European customers as well as our Chinese customers.

Eb: What percentage of Lufthansa's passengers from China come from non-top-tier cities?

CS: We do not ask our customers where they come from. We can only see their point of booking and their point of embarkation. We are very happy about our partnership with Air China and our global presence with the Star Alliance. So we are in the very fortunate position that we can offer connections from and to so called second-tier-cities at all. As we have seen in Europe in recent years the markets are growing and what we experience in China today is exactly the same. Demand for global mobility is not limited to only a few places. With our global partners, Lufthansa has the right answer and the right connections.

Eb: How many of them are making connections in Germany as opposed to Germany as its final destination?

CS: Our customers are connecting to Germany, Europe and beyond. We do offer the largest network of connections within Europe. Furthermore our Frankfurt hub is well connected by high speed trains and the network of German motorways. With this central position and availability of connections we can offer great connections for every customer who is looking for flights to Europe.

Eb: How difficult is it to create new routes such as this one?

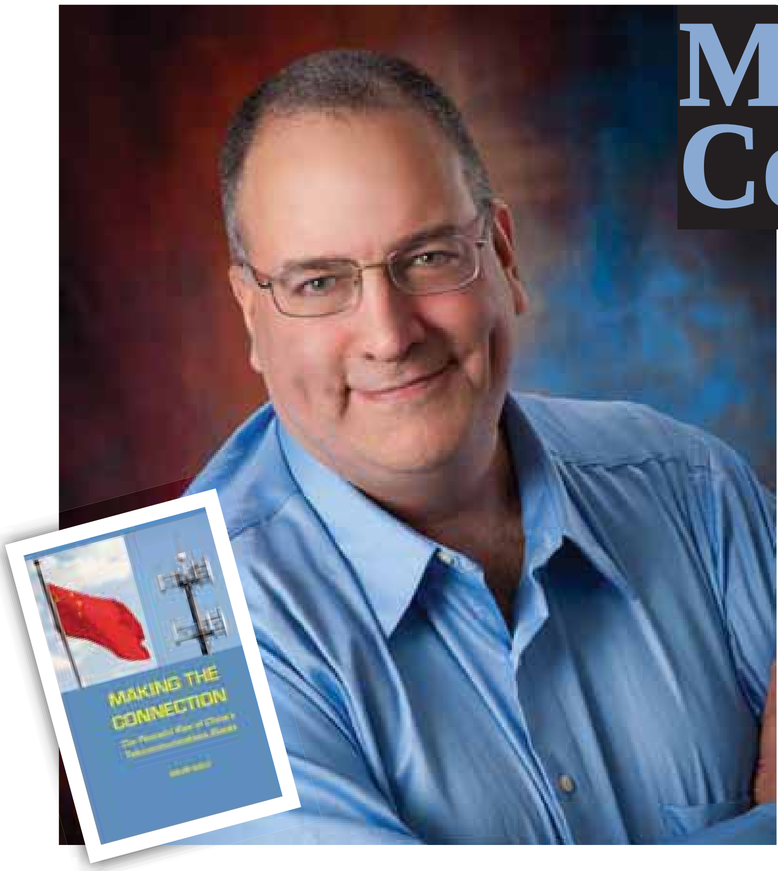
CS: Every new flight needs a huge investment and is a great commitment into the future of new markets. It is not easy to convince all relevant stakeholders within and without the company. So usually it needs a few years of preparation. We experience a great level of support for growth and development from the relevant regulators in China -- but unfortunately unforeseen obstacles from Europe. The new ticket tax in Germany and the European Emission Trading Scheme are heavy burdens for new investments!

Eb: You are based in Nanjing. Why is Nanjing a good base for an international airline like Lufthansa?

CS: Lufthansa has its bases in Shanghai, Beijing, Hong Kong, Nanjing, Shenyang and Qingdao. All are very good bases for business in China. The Lufthansa Group is present in the market with many more successful enterprises and joint-ventures. For example our Maintenance, Repair and Operations activity with Ameco Beijing, or our flight services LSG Skychef are both market leaders in China.

Eb: Does Lufthansa expect to launch other new routes this year, and if so, from what cities and to where in Europe?

CS: Lufthansa expects to continue to grow successfully and sustainably in China -- it is too early, however, to reveal any concrete plans now and here. We connect our Chinese destinations with all relevant markets in Europe. There is no blind spot on our European route-map. Eb



Making The Connection

In **Making the Connection: The Peaceful Rise of China's Telecommunications Giants**, Beijing-based business strategist **David Wolf** plumbs the history of the industry to find an answer, and comes to some unexpected — and controversial — conclusions. For anyone interested in one of the most dynamic industries in China, an industry that has played a key role in China's economic development, and one that, will serve as a bellwether for how Chinese business will develop and globalise in the future.

EURObiz (Eb): Your book is entitled Making the Connection. Who is connecting with whom?

David Wolf (DW): *Making the Connection* refers to my desire to help readers make the connection between the specific market conditions that faced ZTE and Huawei, and how those market-based factors led to those two companies taking their places among the world's leading tech firms. Too many people I meet in the U.S. operate under the thinking that every company in China is a government sock-puppet. Many are, but not all, and the ones that aren't are actually the nation's best companies. The sooner we all make that connection, the better off we are going to be learning how to compete with China's emerging multinationals.

Eb: What would you say to people who argue that the rise of local manufacturers like Huawei and ZTE is due as much to government backing as it is to innovation or their own innate ability to compete?

DW: The Chinese government decided as far back 1986 that the support it would give to the telecommunications industry in China would go to the carriers. What that meant was that the operators were told to do whatever was necessary in order to build a world-class telecommunications network as quickly as possible in China. This happened in three major waves -- regular telephone service, broadband, and mobile -- and it all happened over 30 years. To make that happen, the carriers have been given carte blanche to buy the best equipment in the world, and hang the cost. The result has been a market that has become critical to the fortunes of Alcatel, Lucent, Siemens, Nokia, Nortel, Motorola, Cisco, and a dozen smaller companies from around the world.

When the government did give backing to companies, they were firms with cozy ties with policymakers like Great Dragon, Putian, and Datang. The reason these companies are struggling today is because when you take the government coin in China, you hand over the keys to your future. The government, not the market, starts making decisions for you. The result for those companies was disaster.

Huawei and ZTE, for their parts, took longer to grow because they bootstrapped, using high profits on small- and medium-sized deals to move upmarket. In 1996, both were second-tier companies that had done a lot of hard footwork but just couldn't get a break. Local carriers wanted gear made by the big foreign brands, taking local goods only when the price was superb or when foreigners failed to build a strong relationship in one fifth-tier city or another.

Then, luckily for Huawei and ZTE, lightning struck twice in five years. First, the Internet boom brought on the global telecommunications boom, meaning that all of a sudden every carrier in the world needed to upgrade their fixed-line and mobile networks to broadband. The global brands couldn't meet all of the demand, giving Huawei and ZTE a chance to sell gear to carriers simply because they had gear to sell, right now. Doors that had been closed were opened, and for the first time the two local companies had a toe in that door. There was no fairy-tale change in attitude among the domestic carriers: they still saw Huawei and ZTE as upstarts that were playing out of their league, but the companies made the most out of this superb opportunity.

Second, the telecom crash opened another door. Suddenly orders were plunging, but where most of the global manufacturers weathered the crash by slashing marketing and R&D, Huawei and ZTE doubled-down: they kept pouring money into R&D. That was a tough decision then, but now, a decade later, it is reaping very real benefits.

So when people ask me about government backing for Huawei and ZTE, I ask "to what government backing are we referring?" When I began this research I fully expected to find government hands all over this industry. What I found was a lot of allegation without documentation - smoke without fire. Full disclosure: I found a single deal where the government provided export financing, but it was as routine as the kind of financing that the U.S. Import-Export Bank or similar European institutions provide their companies on export deals. There was nothing sneaky or untoward. Huawei and ZTE built their businesses out of chutzpah, endurance, bootstrapping, and all but pandering to their customers.

Eb: What are players in the Chinese telecoms market getting right that their foreign counterparts are not?

DW: First, I think the global manufacturers are doing a lot right: despite the rise of Huawei and ZTE, the global players retain a firm hold on the majority of this market. Huawei and ZTE thrive domestically in the cracks that the global players leave to them.

At the same time, Huawei and ZTE are hungry and aggressive, which makes them willing to take big risks for comparatively small returns merely for the chance to build relationships. This has forced them to build organizations, from the sales team to product development to finance and production that are designed to be extremely responsive to customer needs. They didn't wake up one day and decide that customer-centricity was a really enlightened business model, they just had no other choice. And it has worked out that there is a large group of operators around the world that wanted a supplier like that.

Finally, Huawei and ZTE both understand that the Chinese telecommunications story is so 10 years ago. The real growth in the industry is not going to be in China in the coming decade, nor will it be in the G20. The networks in those countries will need to be upgraded as technology advances, but now that upgrades can be software based, the revenue opportunities are smaller. Huawei and ZTE are thus focused on parts of the planet where business is tougher than in China, places like Myanmar, Africa, the Middle East, Eastern Europe, and Latin America, and they bring a gut-level understanding of both poor rural carriers and rich but bandwidth constrained high-density urban networks. That helps make them disruptive, and there's where the vulnerability lies for the foreign players.

Eb: You offer the disclaimer that "Making the Connection" was commissioned in part by Huawei. What was their interest in your survey, what did they want to know that the book could show them?

DW: I had written several blog posts that framed Huawei's problems in the U.S. and elsewhere as a failure of the company to communicate intelligently about themselves. I had done the same about Lenovo and why its acquisition of IBM's PC division had failed to yield dividends offshore. I was contacted by Ross Gan at Huawei, and he and I agreed that one of Huawei's many challenges was that there was no memory in the west of how the industry had matured. I told him that was a large project, and he and I both agreed to invest in an effort to tell that story. They deferred around a third of the cost of the project, and I've put in the rest.

Eb: Telecommunications remains a fairly restricted area for foreign players in China. Where are the greatest opportunities now?

DW: Investment and ownership of telecommunications carriers and service providers HAS been fairly restricted. Equipment manufacturing, on the other hand, has not. The best opportunities for foreign firms actually lie in making the gear. The carriers are willing to pay for the best technology regardless of the cost because the government sees an advanced telecommunications infrastructure as a competitive advantage for all industries in China. And among consumers, the foreign brands still reign. Huawei and ZTE would love to dominate the Chinese handset market, but they are fighting a very different battle there, one for which they aren't quite as well prepared.

Eb: China has the largest mobile phone user base in the world. While factually correct, what kind of misconceptions does that superlative create, especially for Western business?

DW: It makes us forget that there are still more people in China without a mobile phone than there are in Europe and the United States combined, that less than 10% of China's mobile subscribers owns a smartphone, that there is no universal telephone service like we have in the U.S. and other countries, and that a billion people still have not connected to the Internet in China.

In the West, we see China as the country that will drive Apple stock to US$1,000 per share because every Chinese will want an iPhone. That is so much nonsense. What is really going to happen here is that either China will address the divide between the telecommunications haves and have-nots, or it won't. If it does, that effort is going to utterly change the telecommunications industry both in China and around the world. How about a $15 smartphone and unlimited data for poor users for $5 per month? Imagine what will have to change in this industry to get there. I don't see Apple having much to do with that kind of an industry.

Eb: You've been in China for more than 15 years. For you, what's the biggest change you've witnessed in China's telecoms space?

DW: When I first got here, a mobile phone was a luxury device and home phones were still a rarity. The phone company told you what you could have and under what conditions, and the only thing they cared about was their profits.

Today, we are exactly halfway through China's telecommunications revolution. Individuals and enterprises are demanding telecommunications on their terms, and, increasingly, they're getting it. But we're only halfway through. When everyone in this country has voice and data connection, we'll be done, and we will have changed the country in the process. But we are as far from that goal now as we were 15 years ago from where we are today.

Eb: We hear a lot about innovation in China but see very little of it. You describe "Innovation with Chinese characteristics: not "eureka!" but "hey, could you guys do this?" Is that ever going to change? Does it need to?

DW: I don't know if it ever will change, but it will have to. Incremental innovation is a great step up from cheap imitations and knockoffs, and it has the potential to transform Chinese manufacturing if every industry would simply follow suit. But that transformation will only return benefits for 10-15 years, after which you have to invest in the kind of fundamental R&D that will drive the economy to the next level. If China gets stuck in the incremental innovation trap, failing to move up the ladder, it will wind up like Japan. And if Huawei and ZTE stop with customer-driven incremental innovation, they'll follow Golden Dragon into ignominy. I don't think there is much chance of that. This summer I am supposed to visit Huawei's R&D facility in Silicon Valley, a facility one Gartner analyst called "the United Nations of Telecommunications" because it has pulled telecom engineers from around the world. If they continue to invest in basic R&D, the ball is back in our court: how do we fight that and win?

We don't do it by running to mommy in Brussels, Washington, or Delhi and crying foul. We do it by out-thinking them. And this is exactly what we need to start doing, not just in telecoms, but in every industry.

Making the Connection *can be purchased as an e-book from www.amazon.com. Read David Wolf's blog at www.siliconhutong.com.* Eb

Retrofitting for the Future

In her ongoing series on urbansation in China, EURObiz's **Vicky Dong** looks at how some city dwellers are taking energy efficiency into their own hands, and working with a European-funded project to raise their own standard of living.

Qin Chuan was recently inspired by a book, 《住进好房子》*Living in a Nice Flat* on how to improve the insulation and ventilation in an existing flat to make it more comfortable to live in. He also decided to change the windows in his flat before summer arrives.

"It never occurred to me that I could change the windows as a personal decision, not initiated by property management, until I read the book. The book showed me a lot more can be done as personal decisions to a flat, other than air conditioning to control the room temperature", Qin reflected. "Now I have decided to change the windows from the sliding style to the open/shut style because the latter closes properly, and will help keep the heat away in summer. This is crucial as the west-facing flat receives a lot of sunshine in summer. And in winter, I won't have to stay meters away from the windows due to a noticeable drop in temperature anywhere near them" said the 30-something resident of a seven-year-old high rise.

He is among an emerging group of individuals who are voluntarily, and of their own initiative, improving the energy efficiency of their surroundings.

"It costs a considerable amount of money, roughly RMB 11,000, for over three square meters of windows in my case, and some troubles to materialise my plan. But in exchange, I have a more comfortable home, very likely savings on our electricity bills, and a positive contribution to the environment".

Compared with Qin's individual decision, the residents of Building No. 12 Huixin West Street in north Beijing were involved in energy-efficiency projects with a different approach. This was a pilot Energy Efficiency in Existing Building (EEEB) project of the Beijing Municipal Commission of Housing and Urban-Rural Development, and also a pilot project of the Sino-German Technical Cooperation Project of EEEB, administered by German International Cooperation (GIZ).

As part of the project, the residents were introduced to the benefits of retrofitting, visited some previous projects to experience the differences and assess the challenges before starting to cooperate.

The project retrofitted external wall thermal insulation, external doors and windows, the ventilation system, heating and pipes for the building. After the retrofit, natural gas consumption dropped by 4.96 m3 and the standard coal equivalent by 5.40 kWh per square meter, according to GIZ. Indoor temperatures for the households were enhanced by up to seven degrees from the previous average temperature of 16 degrees, GIZ reported.

On behalf of the German government, GIZ worked closely with Chinese government in the Sino-German Technical Cooperation Project of EEEB from 2005 to 2011. "We work with the Ministry of Housing and Urban-Rural Development (MOHURD) on a central level and construction commission or other construction institutions on a local level, to support the Chinese government in policy development", explained Jonas Russbild, Senior Programme Manager, Urban Development Programme, GIZ.

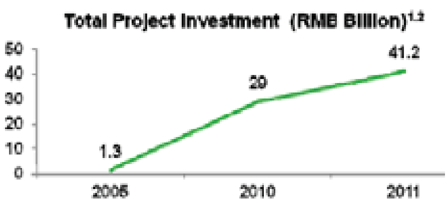
As an important part of the 12th Five-Year Plan to reduce emissions, energy efficiency improvement in existing buildings has come to the top of the agenda.

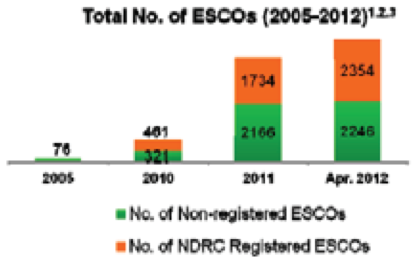
MoHURD issued the "12th Five-Year Plan on Energy Efficiency in Buildings" in January 2012, followed by the "Guide to Retrofit Existing Residential Buildings to Improve Energy Efficiency" in March 2012. And from end of 2011 to March 2012, over 20 local governments translated them into local regulations and policies.

The target for retrofitting existing residential buildings in the north China heating zone during the 12th Five-Year Plan is 400 million square meters, 4.4% of a total heating area of 9 billion square meters, according to the "Work Plan on Emission Reduction" during the 12th Five-Year Plan, issued by the State Council in 2011. The heating zone covers 15 provinces and autonomous regions in north China, where central heating is supplied in winter.

In April 2012, MoHURD and the Ministry of Finance (MOF) jointly released the "Opinions on Improving the Energy Efficiency in Residential Buildings in Hot Summer/Cold Winter Regions", which applies to 16 provinces and regions along the middle and eastern parts of the Yangtze River. The retrofit target in these regions during the 12th Five-Year Plan is 50 million square meters, which will be trickled down and translated into local targets by the end of May for implementation.

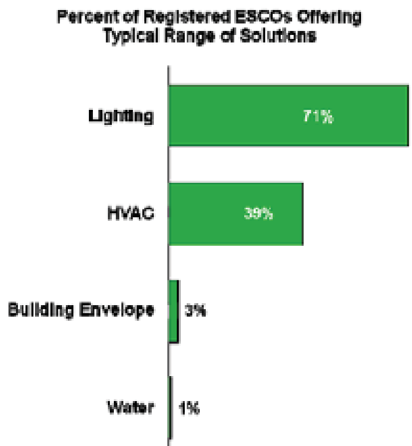
Besides the area of residential buildings where the government is





leading the effort, those of public and commercial buildings are equally important in the retrofitting market, where energy performance contracting (EPC) emerges and complements the role of government.

EPC is "an innovative financing



technique that uses cost savings from reduced energy consumption to repay the cost of installing energy conservation measures. Normally offered by energy service companies (ESCOs), this innovative financing technique allows building residents to achieve energy savings without upfront capital expenses. The costs of the energy improvements are borne by the performance contractor and paid back out of the energy savings. Other advantages include the ability to use a single contractor to do necessary energy audits and retrofit, and to guarantee the energy savings from a selected series of conservation measures", as defined by the US Department of Housing and Urban Development.

According to the China Greentech Initiative, a Chinese-international community of over 100 commercial and policy organisations focused on identifying, developing and promoting green technology solutions in China, ESCOs that usually offer EPC services have registered tremendous growth in China in recent years, both in terms of total project investment and the total number of establishments. Approximately one-third of all ESCOs specialise in buildings, compared with approximately two-thirds that specialise in industry, CGTI reports.

CGTI further identifies efficient lighting and heating, ventilation, and air conditioning (HVAC) as the top two areas where ESCOs registered with NDRC mainly focus.

However, the building envelope is seldom favoured by ESCOs due to a prohibitively long payback period and the difficulty to calculate its contribution in overall energy saving, Fu Lini, research analyst from CGTI explained. The building envelope typically includes the foundation, roof, walls, doors and windows.

"Most energy consumption in existing buildings goes to its HVAC system, while the high energy demand of HVAC system is partially a direct result of poor insulation", according to Xiao Yongchang, Senior Engineer in Institute of Architecture Environment and Energy Efficiency, China Academy of Building Research, in an interview with China Science Daily.

EPC came to China as early as the 1990s, but didn't prove as successful as in the west. The common problems hindering its development include the relatively small size of companies, insufficient funding and technical support, and a lack of a third-party certification mechanism, China Science Daily reported.

Xiao further commented in the interview, "the building energy efficiency market is still to be cultivated, in joint efforts from the government, experts and industry players…EPC will never do the job alone. It also takes the supports from the government, the regulations on the operations to improve the overall energy efficiency in buildings in China". Eb

IPR Protection in China for the Textile Industry – Part 2

This article is a continuation from last month to further address intellectual property (IP) issues across subsectors of the textile industry, including textile machinery, yarns and specialty fabrics, finished fabrics and brand apparel and accessories. The areas of IP most relevant to the above sectors are discussed over two parts, with this second part addressing copyrights, transfer of technology and trade secrets. China IPR SME Helpdesk's **Ben Roberts** looks at how companies in the industry can protect themselves.

China's textile industry is both an opportunity and a threat to foreign businesses. It is a major market for those supplying production technologies and a key supply base for textiles and finished goods. However, foreign technologies and brands that are not adequately protected often fall victim to infringement by Chinese competitors.

Copyrights

Copyrights are granted automatically, however China does allow voluntary registration. A Copyright registrationwill be accepted as evidence of copyright ownership in the event that you wish to enforce your copyright against an infringer and greatly reduces the preparation of evidence.

Administrative enforcement of copyright is possible through the National Copyright Administration, although the local administrative authorities tend to focus on enforcement of pirated software and media products. Where the infringement is not literal (i.e., not an exact copy), it is more suitable to bring cases to the People's Court.

If the copyright is not registered, it is important to keep dated records of the first creation of the work so that the date of creation and ownership of the copyright can be proven.

A critical component in textile manufacturing technology may be operating software and technical manuals to operate and/or maintain machinery. Such materials are automatically protected in China as works of copyright. However, it is recommended that companies register the copyright to prove ownership in case of infringement.

In some cases where machinery has been copied by a competitor through reverse engineering and it is not protected by invention, utility or design patents, the only recourse that the original manufacturer may have is to claim copyright infringement of software or operating manuals. This only addresses the copying of the software and manuals but does not protect the design of the machinery itself.

Apparel designs may also be protected as works of copyright. Copyright protection is granted automatically on creation of a work, allowing a design to enjoy double protection through a design patent and copyright.

Having a registered copyright in China is a convenient way to show evidence of ownership. You can also record a series of works under one copyright application, for example, all the same designs in one season.

However, it should be noted that copyright can be more complicated to enforce compared to a design patent. Therefore, the fact that no registration process is required to enjoy copyright protection should be balanced against a greater cost of actually enforcing the right if infringed, compared to a design patent.

Apart from the protection of their designs, apparel companies can also use copyright to protect their catalogues, brochures and websites.

Transfer of Technology

When manufacturing in China, either directly or through a third party (supplier, joint-venture partner), companies will often import their technology from Europe and appoint agents or distributors who assemble, install and service the equipment.

In order to avoid loss of important assets or even loss of markets, know-how transfers and technology transfers should be accompanied by contracts with licensees, suppliers, employees, and sub-contractors, covering the scope of each party's rights and obligations, as well as the geographic restraints, time scopes, confidentiality and non-competition issues. However, technology transfer contracts are subject to rules to prevent restrictive and uncompetitive practices. Companies licensing technologies to Chinese entities in the form of technical solutions or services should comply with China's technology transfer regulations.

Trade Secrets

In some cases, products or processes are protected as trade secrets instead of patents. Some companies may even prefer to protect their product or their processes as trade secrets (or a combination of patents and trade secrets). Trade secret protection is particularly common for processes, making it difficult or impossible for a competitor to discover the process through reverse engineering.

China defines a trade secret as valuable information that is not publicly known, and the owner has taken steps to keep it secret. The owner of the secret must take his/her own measures to keep the information secret. Trade secrets are only violated when another party has taken information that was explicitly kept confidential.

It is important to note that reverse engineering (i.e. disassembling a machine or product to learn how it is made) is a common practice in China. Only a product or process granted with a patent may be protected from reverse engineering. Should a competitor discover the secret information through his/her own reverse engineering efforts, it is not considered an act of infringement.

Trade secrets are often lost by owners failing to isolate the secret information. In many cases, it is the owner's employees who pass the information to others. Therefore, companies with trade secrets should pay particular attention to protecting trade secrets within the organisation and ensure that there is a clear process in place. In the event that information is leaked, having records of the measures taken in order to protect the trade secret is important in providing concrete evidence that the information was intended to be confidential. Therefore, in order to preserve a trade secret, the owner should identify exactly what information constitutes the "secret" and take steps to isolate it. Within the organisation, there may be physical barriers such as passwords or contractual barriers such as strict confidentiality clauses in contracts for employees or any licensees who have access to the secret.

It is also essential to require any potential partner in China to sign a non-disclosure agreement (NDA) before revealing any commercial or technical information. Although NDAs are recognised by China's courts, its most valuable function is often to signal to your potential partner that you are serious about protecting your IPR. China's Labour Contract Law allows restriction for departing employees in key positions to work for a competitor for up to one year, although reasonable remuneration should be provided.

In case of unauthorised disclosure or unauthorised use of information regarded as trade secret, both administrative action through the Administration of Industry and Commerce (AIC) and judicial enforcement through the People's Courts are available. However, given the complexity of trade secret infringement cases and the high value of the information, cases are normally handled by the People's Courts. There are also criminal sanctions for trade secret infringement if the monetary value of the theft is particularly high.

Case Study about Finished Fabrics

European company R had developed a type of accessory that greatly improved the appearance of finished apparel. Company R had earned a leading position to the extent that apparel buyers often demanded this product be used in the apparel they sourced. The product was covered by a patent in some countries but protected only by a trademark registration in China. Company R's trademark was used as a hang tag on the finished garment to indicate that their product was used in the garment.

Since the original product was essential for many apparel suppliers in China, local competitors began to offer a competing product. Company R did not have any legal rights to prevent competitors copying the product itself, but it was able to take action against accessory suppliers and apparel manufacturers who used the original brand tag on their apparel without actually buying company R's product. Company R took administrative action for trademark infringement through the Administration of Industry & Commerce (AIC) and also publicised the actions in industry press, which appeared to have an effect.

However, a local competitor registered the Chinese nickname of company R's product as a trademark, allowing the competitor to use company R's name legally. Company R was then forced to pursue cancellation of the trademark through the Chinese Trademark Office procedure, which is a lengthy and uncertain process.

Company R could have further protected its IP by registering not only its official name, but also its translated Chinese name and any other nicknames that the product was referred to as in the China market. The process and cost of registering multiple trademarks are generally more manageable than cancelling, opposing or buying back a trademark.

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

European Chamber
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Human Capital
CONFERENCE 2012
Leadership and Transformation

First Annual Human Capital Conference in Beijing

"Leadership and Transformation":
Maximising Opportunities and
Overcoming Challenges in China

Date: 8th June 2012
Time: 08:30 – 18:30

Location:
Westin Hotel Chaoyang, 7 North Dongsanhuan Road, Chaoyang, Beijing
Ticket Price: 1500 RMB for Member / 2000 RMB for Non-member

Registration:
Please register at bj_events@europeanchamber.com.cn or contact us at 6462 2066 ext. 84

Confirmed Speakers:

- Mark Goyens President, Bekaert Asia
- Roland Decorvet, Chairman and CEO, Nestlé China
- Joerg Wuttke, Chief Representative China, BASF
- Elizabeth Knup, Chief Representative China, Pearson
- Gail Heck Sweeney, General Manager, Agilent Technologies China
- Jack Lim, Managing Director, Korn/Ferry
- Rainer Schmitz, Global Talent Director, Bacardi
- Diana Niu, Senior HR Vice President, Volvo Group APAC
- Alexandre Gentot, Asia Vice-President, Human Resources, Gemalto
- Danielle Monaghan, HR Director, North Asia, Cisco Systems
- Michelle Zhang, Director, Greater China Sales & Marketing Department, Ping'An group
- Niklas Olsson, Director Organization Capability Greater China, Nike
- Dr. Bob Aubrey, Partner and Practice Leader, People Development Consulting, Mazars

Future Leaders:

- Melody He, Founder and CEO, Doudou Mobile
- Alex Chen, Principal, Yinghao College
- Clark Zhang, Managing Director of Global Business Development, PiYi Investment
- Céline Starck, Financial Business Partner, Global Primary Care Function, Bayer Healthcare
- Yunpeng Xie, Chief Alias Designer, Volvo Construction Equipment

Moderators:

- Professor John Yang, Dean of Beijing International MBA National School of Development, Peking University
- Karen He, HR Director, Mazars China
- Elisa Mallis, Head of Executive Coaching, MDS
- Jaspal Channa, General Manager, European Chamber, Beijing Chapter

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CALENDAR

Jonathan Fenby Book Presentation: **Tiger Head, Snake Tails**

British writer, journalist and analyst Jonathan Fenby's 'Tiger Head, Snake Tails: China Today, How It Got There and Where It Is Heading' is an all-embracing account of contemporary China. It covers the economic, political, social and historical essentials of the China story and succeeds admirably as it moves between the expansion of transport and infrastructure that has unified the country logistically as never before, the cities that are spearheading the country's economic miracle, the poor working conditions and growing militancy of its labourers, its diverse mass of enormous factories and cottage industries, the push and pull between the centre and the provinces, between Han Chinese, and Tibetans and Muslims.

Thursday, 7th June 8:00 am, Marriott Beijing Northeast, 26A Xiaoyun Road, Chaoyang District, Beijing.

Annual Human Capital Conference

The European Union Chamber of Commerce in China is delighted to hold its annual **Human Capital Conference in Beijing**. This full-day event will feature CEO's and Human Capital practitioners from some of China's top performing companies who will share their experiences, insights and ideas for the future in answering this year's big question: "What will it take for current and future leadership to successfully maximise opportunities and overcome challenges in China and globally?"

Friday 8th June 8:30 am, Westin Chaoyang Hotel, 7 North Dongsanhuan Road, Chaoyang District, Beijing.

China's Investment in Europe: Opportunities and Challenges

Following the success of the 7th EU-China Business Summit, the European Union Chamber of Commerce in China is organising a special edition of our annual M&A Conference on Chinese Outbound Investment in Europe. In 2011, Europe became the leading destination for China with 34% of all M&A investments recorded by value, up from only 10% in 2010. During this conference series leading European companies will provide strategic advice, in-depth analysis of opportunities and challenges for Chinese investors in Europe as well as a wide presentation of all investment opportunities available for them in the largest economic area of the world.

Thursday, 28th June 8:30 am, Kerry Centre Hotel, 1 Guanghua Road, Chaoyang District, Beijing.

For more information and registration, please visit www.europeanchamber.com.cn.

New European Chamber Treasurer Francois Bernard (left, facing away) shakes hands with former Chamber President Joerg Wuttke. President Davide Cucino (center) and new Vice President Bruno Gensburger (right) look on.

European Chamber Elects New Board at Annual General Meeting and Annual Report

President Davide Cucino is re-elected to a second term, along with the selection of three Vice-Presidents and a Treasurer for the leadership of the European Union Chamber of Commerce in China. The Pearl River Delta's chairman also joins the Board for the first time, as membership in the chapter surpasses 200.

Over 100 representatives of European Union Chamber of Commerce in China members attended the Chamber's Annual General Meeting on 26th April, 2012, at the Embassy of the Delegation of the European Union to China and Mongolia in Beijing. Other members voted via proxy, as is permitted under the Articles of Association.

The meeting was opened by His Excellency, Ambassador of the Delegation of the European Union to China and Mongolia, Dr. Markus Ederer. Dr. Ederer took the opportunity to review the embassy's work with the Chamber during the past year. "I can say that we have seen each other often, including at the EU-China Summit, and during the visits of commissioners", he said. "The politics of trade are rarely straightforward, between the two partners in the world's largest trading relationship".

Regarding intellectual property rights protection, Dr. Ederer said, "Thanks to clear and consistent feedback from the Chamber, we have been able to forge a new mechanism to oversee IPR enforcement". The Ambassador also cited the Chamber's work in relation to the establishment of the China-EU Water Platform, a 500 billion-Euro programme over the next 10 years for water infrastructure.

President Davide Cucino then presented the Chamber's Annual Report. Highlights of the year included 75 membership growth to just under 1,700 member companies by the end of 2011; increased visibility and relevance for the Chamber, by bringing EURObiz production in-house, and record media coverage of key issues, including the highest Business Confidence Survey response rate ever; more high-level meetings than ever, including a European Tour that featured 11 capital cities, with five new capital cities being visited for the first time, and also meetings with mayors of four Chinese cities and EU Council President Herman Van Rompuy; and a healthy cash position for the Chamber, with a cash position of eight months of expenses. The President thanked the 2011 Executive Committee (ExCo) for all of its hard work and accomplishments and wished his fellow board members well in the upcoming election and their professional pursuits.

As goals for the coming year, President Cucino cited an 80% membership renewal rate and reaching the target of 1800 members; the launch of the Chamber's new website at www.europeanchamber.com.cn, due in late May; a new media strategy including comprehensive use of social media and more regional involvement, along with a dedicated Chamber advertising campaign featuring a series of brand ads designed by in-house, to be placed in Chamber and external publications. In addition, he cited plans for more publications, including the first-ever outbound investment survey, the Business Confidence Survey, the private equity survey (published in April), and the production of a high-quality Position Paper followed by its roll-out in Europe and China.

Speeches were then given by the candidates for all positions. President Cucino ran unopposed. For Vice President, the candidates were Claudio Facchin of ABB; Bruno Gensburger of Sanofi Aventis; Miroslav Kolesar of PPF; Juan Ignacio Motiloa of Gamesa; Jens Ruebbert of Deutsche Bank; and Roland Savoy of Devriant.

Ms. Marianne Gumaelius, First Counselor, Head of Trade and Investment Section, Delegation of the European Union to China, verified all ballots and certified the election. She then announced the results. President Davide Cucino of Ansaldo STS was re-elected after running unopposed; Juan Ignacio Motiloa, Jens Ruebbert and Bruno Gensburger were elected as Vice Presidents; and Francois Bernard of FJA & Partners as Treasurer. The Vice Presidents will be joined by Piter De Jong of ING Bank, Chairman of the Chamber's Shanghai Chapter, and Holger Kunz, Chairman of the Chamber's Pearl River Delta (PRD) Chapter, to serve as Vice Presidents of the Chamber's ExCo. For the first time this year, the PRD will have direct representation on ExCo, as it has now surpassed the 200-member level required to have its Chairperson also serve as a Vice President.

From left: European Chamber Vice President Juan Ignacio Motiloa; Vice-President Jens Ruebbert; Vice President Bruno Gensburger; President Davide Cucino; Delegation of the European Union to China and Mongolia Ambassador Dr. Markus Ederer; Treasurer Francois Bernard.

Ambassador Ederer returned to the podium to end the evening, and exhorted the Chamber in the same way he had in 2011: that he would be pleased to see some women nominated for the board's available positions. Following his remarks, the meeting adjourned. Eb

European Chamber's Shanghai Chapter Holds Eighth Annual Gala Ball in Celebration of Europe Day

The finest aspects of Europe were celebrated for one night on Saturday, 12th May, as the European Chamber's Shanghai Chapter held its 8th Annual Gala Ball, in celebration of Europe Day. Now a mainstay on the Shanghai social calendar, nearly 400 attendees covering a wide range of industries, alongside European and Chinese government representatives, descended upon the Kerry Hotel Pudong for this, the Chamber's largest annual event

It was an opportunity to taste the cultures of several European countries, but also of Europe of a whole.

A testament to both the diversity and community that define the European Union, attendees from over 30 different countries indulged in tantalising food and drink from the four corners of the Continent. Guests experienced wines from France, Romania, Hungary and Luxembourg; beers from Belgium and Holland; schnapps from Austria, Estonia and Germany; vodka from Poland and mineral water from Slovenia.

With stomachs so well pampered, eyeballs and ears were not to be neglected. The evening's entertainment came in the form of an arresting aerial ballet performance that took place over guests' heads, followed by an impromptu operatic medley from three of the hotel's 'waiters' – whose voices just happened to perfectly emulate the Three Tenors.

The Gala Ball would not have been possible without the generosity of sponsors. Special thanks go out to ING, SweetPearl, The German Centre, Merck, Metro, ROI, Baker & McKenzie, British Airways, Lanxess, Robert Walters and Taylor Wessing for making the evening a success.

1. Director General of Shanghai Customs Mr. Huang Shengqiang and Mrs. Xu Mingyuan with European Chamber Vice President Mr. Piter De Jong and Mrs. Dan Zhu.

2. Sponsors Taylor Wessing arrive at the event.

3. From top left: Mr. Goetz Lehmann, Mr. Philip Lazare, Ms. Eva Drewes, Mr. Uri Gabay, Mr. Klaus Peter von der Eltz, Ms. Malu Kendzia, Ms. Robyn Geffen, and Ms. Dai Min.

4. Guests from Heineken, NCTM and the Chamber pose for a photograph.

5. Band **Limelight** keeps guests dancing to a whole range of classic disco songs from around Europe.

6. Sponsors showcased on the event backdrop.

7. Three waiters clad as hotel staff belt out classic opera.

8. The aerial ballet performance provided a dazzling spectacle during dinner.

From left: Xavier Leroux, Director, Alliance Francaise de Nankin; Patricia Enzmann, General Manager, European Chamber Nanjing Chapter; Marianne Gumaelius, First Counselor, Head of Trade adn Investment Section, Delegation of the European Union to China; Emmanuel Lenanin, Consul General of France in Shanghai; Michael Kimpel, Dept. Manager of Automotive Aftermarket for Bosch Automotive Products; Vincenzo DeLuca, Consul General of Italy in Shanghai.

Nanjing Chapter Stages Europe Day Career Events for University Talents

The European Chamber's Nanjing Chapter and the Alliance Francaise de Nankin celebrated Europe Day this year by organising a career fair for university talents, with the theme "Develop Your European Career". The half-day exhibition provided university students and other job seekers in Nanjing with the opportunity to learn more about 30 potential European employers from 12 countries operating in the city and nearby areas of Jiangsu province. Along with major European companies, European consulates, business support offices and education institutions also participated.

The event itself, this year moved to celebrate the day in 1950 when the French foreign minister proposed a European steering committee, an organisation that eventually grew into and became what is today the European Union.

"The nations of Europe on this day chose to lay down their arms and create a foundation for unity and common development", said Xavier Leroux, Director, Alliance Française de Nankin, in a welcome speech. Numerous special guests attended the opening of the event, including Marianne Gumaelius, First Counselor, Head of Trade and Investment Section, Delegation of the European Union to China; Vice-Mayor of Nanjing Zhang Zeguang; Emmanual Lenain, Consul General of France in Shanghai; Vincenzo DeLuca, Consul General of Italy in Shanghai; Carlo D'Andrea, Chairman of the European Chamber's Nanjing Chapter; and Michael Kimpel, Department Manager of Automotive Aftermarket for Bosch Automotive Products in Nanjing.

"Business and trade remains at the heart of China and the EU's relationship", said Marianne Gumaelius, addressing guests at a cocktail reception following the

Vincenzo DeLuca (left), Consul General of Italy in Shanghai, shares a laugh with his French counterpart, Emmanuel Lenain, during the opening ceremony of the Europe Day celebration.

Staff members of the Alliance Francaise de Nankin man their booth at the Europe Day exhibition.

Thirty exhibitors from 12 countries offered a variety of opportunities to young Nanjing talents to develop their European career.

European Chamber Nanjing Chapter Chair Carlo D'Andrea addresses guests at the opening of the Europe Day celebrations.

exhibition's opening. In 2011, the trade relationship between the two sides stood at 394 billion Euros, an increase of 100 billion Euros in just two years. EU exports to China in Nov. 2011 were up 21% year-on-year.

She foresaw the relationship both deepening and strengthening. "Europe is looking forward to China's General Procurement Agreement membership. China's membership in the GPA will ensure healthy competition and sound pricing", she said.

Michael Kimpel of Bosch discussed the operating environment in Nanjing, stating the he was surprised by the level of talent there. "You don't find the younger or the experienced", he said, indicating that talents straight out of university and those with a long track record were not readily available. However, there was an available mid-range pool of talents with experience in the five to 10-year range.

He also indicated that experience was necessarily the most important criteria, and that each candidate must be considered separately. It also places a different leadership burden on management. "You have to win them with your personality", Kimpel said, proudly adding that he had not lost a single member of his team in two years.

He said that the Nanjing region offered many opportunities, but that the focus must be local. "I am the only expatriate in the whole area [for Bosch]", Kimpel said. "I want local design for local products. My role here is to teach and coach".

Ten workshops organised by European organizations introduced the attendees to the European higher education system, lifestyle and investment environment. Presentations were also made by participating European companies, introducing their corporate culture and human resources requirements.

Along with introductions to major European companies and the career paths they offer to Nanjing area and an exhibition for candidates to meet potential employers, the event, held at the Matrix Creative Center, also featured an exhibition of 60 pictures from the GoodPlanet Foundation, illustrating the European concept of environment protection and respect for biological diversity.

The day concluded with a networking event for representatives from Europe and Nanjing, accompanied by a buffet of European cuisine and live music. Eb

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING


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1, 20th March, a lunch meeting was organised with Mr. Angel Gurría, Secretary-General of the Organisation for Economic Co-operation and Development (OECD).

2, 22nd March, the European Chamber organised its first session of Capital Beat, the brand new European Chamber Quarterly Public Affairs Seminar with leading politicial experts.

3, 29th March, the European Chamber's presented the 12th Insight China event-How in Debt is the Dragon.

4, 13th March, European Chamber launched its 2012 Survey-The Social and Economic Impact of Private Equity in China.

5, 5th April, the AC Summit Dinner was organised with Professor Fan Gang,director and founder of China's National Economic Research Institute.

6, 5th April The Chamber presented an afternoon seminar with Professor Fan Gang, director and founder of China's National Economic Research Institute.

CHENGDU

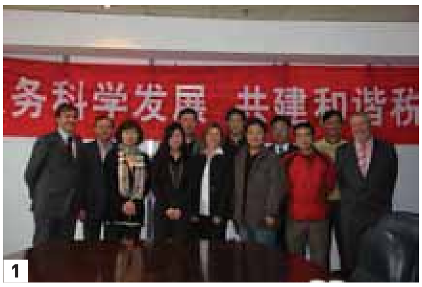

1

1. 15th March, Chengdu Inaugural Inter-Chamber Spring Mixer 2012 held by European Chamber together with 6 other chambers in Crowne Plaza Chengdu City Center, bringing together a wide variety of members and friends under one roof for a wonderful night of networking and cocktails.


2

2. 13th April, European Chamber, together with NIMI, co-presented the insightful seminar on "International Supply Chain Management and the role of RFID", delivered by the award winning and published Dr. Bill Hardgrave, Dean and Wells Fargo Professor, College of Business, Auburn University.

NANJING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1.On 27th March, a delegation of the European Chamber Nanjing met with Mr. Jiang Xuefeng, Deputy Director of Large Business and International Taxation Division of Nanjing Municipal State Taxation Bureau to discuss tax related questions from member companies.

PEARL RIVER DELTA


1


2

1.On 3rd March, 2012, the European Chamber – PRD Chapter held the annual Gala Dinner – A Night of Stars in Sheraton Guangzhou. More than 200 guests from member companies, European country consulates and government officials enjoyed night of journey of European films and music.

2.On 10th April, 2012, the European Chamber – PRD Chapter Board Election was held in Sofitel Sunrich Hotel Guangzhou. 1 Chair and 6 Board Members were elected to serve the 2012/13 term.

TIANJIN


1


2


3

1. Officials from the Commerce Commission of the Tianjin Binhai New Area gave an update on their major projects and supporting policies to member companies during a visit to the Tianjin Binhai Planning and Exhibition Centre on 23rd March.

2, 3. On 23rd March, more than 30 members of the European Chamber Tianjin Chapter visited the leading Italian manufacturing company TiMEC in the Tanggu Marine High-Tech Development area.

SHANGHAI

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1. Zhang Guangyong, Wuham Municipal Government Deputy Secretary-General, delivers a keynote speech at the 3rd Development Zones Conference on 12th April.

2. On 28th March, Mr. Frank Schoneveld, Senior Consultant, McDermott Will & Emery (MWE) China Law, Mr. Peter Corne, Managing Partner, Dorsey & Whitney and Mr. Zhou Hu, Deputy Group Leader, Shanghai Environmental Supervision Institute presented at a joint event between the European Chamber and the Shanghai Environmental Protection Bureau.

3. Mr. Jeff Kwek, Head of Branding at Tencent, speaks to a packed room for the MarCom Forum seminar on 'Digital China' on 30th March.

4. Attendees gather for the SME Quarterly Afternoon on 2nd March, a regular gathering tailored for the Chamber's SME members.

5. The first Retail & Distribution Half-Day Conference draws a crowd, 21st March.

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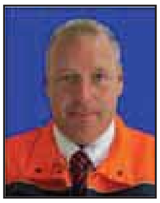
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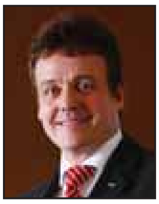
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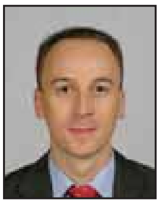
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THE EXECUTIVE INTERVIEW: Mats Harborn

Mats Harborn Executive Director, Scania China Strategic Center
Vice Chair, Automotive Working Group

The Executive Director of Scania China Strategic Center, Vice Chair of the European Chamber's Automotive Working Group, told EURObiz's **Steven Schwankert** about his efforts to promote sustainable transport.

EURObiz: You've been in China for a while. How did your career here get started?

Mats Harborn (MH): I was joined Scania to open their representative office here in China, in 1985. At that time, we had basically only one customer here, the Ministry of Forestry. I moved to headquarters in Sweden in 1989, but came back to China in 1992 to work as the Chief Representative of Svenska Handelsbanken and later as Commercial Counselor at the Swedish Embassy. I then returned to Sweden, but came back to China again in 2004, rejoining Scania. We established Scania Sales Co. (China) Ltd. in 2007, followed by the Scania China Strategic Center in 2010.

Eb: Are all of the company's product lines operating in China?

MH: Yes. Our heavy-duty commercial vehicles include long-haul trucks, utility vehicles, and fire engines. We also offer busses and coaches. We sell only premium vehicles, which cost three or four times more than their local competitors. We also produce engines for industry, such as for use with stonecutters, and for commercial and leisure marine use.

However, we don't think of Scania as selling trucks. We are selling the movement of goods from point A to point B. You can express it as that we are selling ton-kilometers Even though our products are more expensive, it pays off in efficiency, in service life of the product, in reduced fuel consumption and emissions. This is an advantage of many European companies and products. They cost less to operate and generate bigger revenues.

Eb: What are some of the issues the company faces here in China?

MH: First I should say what issues we don't face. We do not face procurement issues, and there are very few trade barriers for truck companies. However, the regulatory environment here over-regulates all players, and it is hampering also the growth of the Chinese own truck industry.

Chinese officials are proud to say they produced 1 million trucks last year. I would be embarassed to say that because it shows only that the economy requires double the number of trucks to meet the demand of comparable markets. One problem is that there are few if any demands by suppliers on their transport companies on efficiency, legality and quality. For example, are your digestives or Pringles broken when you open the package? They shouldn't be. Normal transport systems are designed to handle that.

Sweden provides an example on this. Sweden is one of the top countries in the world for efficient transport. Companies should be using TPL to verify and guarantee that their transport providers are adhering to basic laws, and to measure things like their delivery punctuality. Well planned transports, using the right equipment cost less, but we need to create awareness around these issues. Illegal, overloaded, poorly maintained vehicles should not be part of European transport systems in China!

Eb: Do Scania's issues differ from those of other members of the Automotive Working Group, such as passenger cars makers?

MH: Scania products are purchased by people who use them to make money. For consumers, a vehicle represents private mobility and maybe status. A car manufacturer wants to make and sell more cars. For commercial vehicle manufacturers, we want to sell better transport solutions, not necessarily more trucks.

Another difference is that I believe we should not adapt to the Chinese way of trade. I honestly believe that we as Europeans can contribute to China become more sustainable and efficient. Ultimately, there is no such thing as a profit and loss statement with Chinese characteristics. P&L is the international language. In the new economic development model that China is pursuing with a focus on efficiency, this will become more apparent by the day. Eb