SAY YES TO JOBS & FAIR TRADE! SAY NO TO MES FOR CHINA!

INTRODUCTION

Is China a market economy? That is the question facing the European Commission which is currently deciding whether to grant China 'Market Economy Status' (MES) in 2016. The Commission is examining China's MES whilst concurrently seeing the disastrous effects of dumping products on the EU market. If surrendered, MES could cost the EU millions of jobs and hundreds of billions of euros in lost GDP because it would remove the ability to take remedial action against the rising flood of dumped products. Ensuring that the EU's trade partners meet their obligations to free and fair trade is fundamental to fair competition, so EU policy makers must grant MES to China only when its 'state capitalist' system becomes a market economy that renounces dumping.

1. DUMPING WIPES OUT EUROPEAN JOBS AND IS CONTRARY TO THE PRINCIPLES OF FREE AND FAIR INTERNATIONAL TRADE

1.1. China's dumping undermines free and fair trade

A company is 'dumping' if it is exporting a product to the EU at prices lower than the normal value of the product (the domestic prices of the product or the cost of production) on its own domestic market. The purpose of dumping is usually to increase market share in a foreign market or to drive out competition. Chinese enterprises dump more products into Europe's open market than any other country in the world. Indeed, 75% of all the EU's anti-dumping measures in force involve China.

The European Commission has found China guilty of dumping 54 important products on the EU market at predatory prices. Furthermore, the EU is currently experiencing a rise in anti-circumvention proceedings where Chinese producers try to avoid anti-dumping measures illegally by exporting to Europe, via third countries such as Taiwan and Malaysia.

1.2. The enormous EU-China trade deficit grows every year

Even without Market Economy Status, China has been able to dramatically increase exports to Europe by an average of 11% per year over the past fifteen years, rising from €75 billion in value in 2000 to €360 billion in 2015. Europe's trade relationship with China is not balanced and is made worse by dumping. The trade deficit between the EU and China reached an all-time record high of €180 billion in 2015.

1.3. Dumping from China is wiping out European Jobs

European industry has already lost millions of manufacturing jobs to China. For instance, when China joined the WTO in 2001, millions of EU workers were employed in the textile sector. Now, China has an estimated 65 percent of the world's total textile production and European production has been decimated.

Overall, China now makes and sells more manufactured goods than any other country, particularly steel. Driven by massive excess capacity more than twice the size of total EU steel demand, China has been dumping unprecedented volumes of steel into Europe. The EU steel sector has lost at least 85,000 jobs since 2008, over 20% of its workforce. Import volumes of steel from China into the EU have doubled in the past two years, with prices collapsing by about 40%. Steel is the backbone of many of Europe's manufacturing and construction industries, providing direct and indirect employment to millions more European citizens. All these jobs are now under threat from Chinese dumping, which would accelerate massively if the EU were to grant MES to China.

1.4. Dumping from China after MES would endanger millions more jobs

Abandoning the possibility of deploying defences against China's state-financed dumping would expose EU producers to a flood of cheap imports, destroying employment and business investment in manufacturing. The list of vulnerable industries with jobs at risk include steel (330,000 jobs), ceramics (200,000 jobs), glass (200,000 jobs), aluminium (255,000 jobs), bicycles and parts (28,000 jobs), solar panels (25,000 jobs) and many others besides. Millions more indirect jobs depend on these industries for their survival.

These industries are at high risk due to the potential for large import surges in sectors where China has, or is developing, substantial excess production capacity. The country has demonstrated past willingness to engage in subsidies and the massive dumping of excess domestic production at prices below cost. The Economic Policy Institute (EPI) projects that if MES were to be granted, EU output could be reduced by up to €228 billion or 2% of GDP per year. According to the EPI this would put between 1.7 and 3.5 million European jobs at risk.

According to *The Financial Times* in December 2015 *"MES will kill traditional industries, including steel, ceramics and textiles, because it will become far harder to retaliate against Chinese dumping with countervailing tariffs. The left-leaning Economic Policy Institute in Washington has concluded that MES would endanger as many as 3.5m jobs in the EU. Europe's traditional industries have led the campaign to deny China MES. The €28bn ceramics sector says that as many as 100,000 jobs, or half the total it employs in Europe, are at risk. About 33,000 jobs were lost in the tableware sector in the seven years to 2011 before anti-dumping tariffs were imposed, according to Cerame-Unie, a trade body."*

1.5. China's environmental and social dumping is wiping out jobs

China's export-led growth strategy leads to environmental and social dumping. Europe's steel industry is amongst the cleanest and most advanced in the world. Thanks to sustained investment in innovation the steel industry has significantly reduced its environmental impact: energy usage, use of 'reducing' agents, and CO2 emissions have been halved in the past few decades.

It would be directly contrary to the EU's environmental policies to replace much cleaner European domestic production by Chinese coal-based imports by means of a trade policy initiative that would effectively do just that. IndustriAll, the European industrial worker's trade union is *"particularly concerned about labour standards in China and social dumping, which alongside state incentives, are conducive to a situation where Chinese steel can be sold at unfairly traded prices (aka dumped prices) in Europe."*

2. STOP MARKET ECONOMY STATUS FOR CHINA

2.1. China is not a market economy

The European Commission currently defines China as a non-market economy due to state interference in the management of the economy, which distorts domestic cost and price structures. The EU has set out five criteria that determine whether a country is a market economy:

- ✓ The removal of barter trade.
- × Absence of government intervention in the management of companies.
- × Transparent company law and corporate governance.
- × Functioning property law and bankruptcy regime.
- × A financial sector free from government manipulation.

According to the EU's own assessment, China has met only one of the five criteria: the removal of barter trade. China has had 15 years since it joined the WTO in 2001 to reform, and to meet its clear-cut obligations, including the vital provision to allow all prices to be *'determined by market forces.'* The Chinese central government and political authorities have maintained extensive controls over the economy through detailed five-year plans and 22 national industrial-sector plans, faithfully implemented by provincial and local governments. China's 'State Capitalism' system facilitates collusion between elites in the Communist Party and the corporate sector. Furthermore, the State has substantial influence over company decision-making through intervention in the pricing of specific goods, raw materials and energy prices.

In supporting its export-led growth strategy with widespread subsidies and state, provincial and local capacity-expansion plans, China has promoted massive excess production capacity in a wide range of industries. There is state control of trade union organisations – and the lack of free collective bargaining has not been raised in the context of MES with the Chinese authorities by the EU, despite objections by the European Trade Union Confederation (ETUC). Currency manipulation by China has also acted as an implicit subsidy to China's exports to the EU and other countries, and as an effective tax on EU exports to China, and to all other countries where EU products compete with those from China.

Currency manipulation adds a wedge between costs and prices in China and those in other countries, and provides a further justification for the treatment of China as a non-market economy in anti-dumping cases. Currency manipulation is worsening, as widely reported in the media. According to the BBC in January 2016: *"Recent moves by Beijing to depreciate the yuan have ignited fears that the world's second-largest economy is slowing more than expected and could trigger another wave of competitive currency devaluation. A weakening of the currency is often seen as an indication that that the economy is doing worse and needs to be propped up by boosting exports. A lower yuan makes the cost of exporting goods for Chinese companies cheaper, giving the slowing factory sector a boost".*

2.2. **China MES is not automatic**

When China joined the World Trade Organisation in 2001 it came with a crucial clause that handed WTO members, including the EU and the United States, the right to *"ignore Chinese prices and costs in anti-dumping cases and instead calculate dumping margins using external benchmarks"* to determine "normal" production costs. This effectively meant they could place much higher duties on imports from China in anti-dumping cases than if China was treated as a market economy. Achieving MES is one of China's core strategic goals, as it would make it far more difficult for the EU to impose steep tariffs on Chinese companies for unfairly dumping low-cost goods, thereby rendering Europe defenceless in trade policy terms.

Chinese officials now argue that the provisions of their original agreement mean that all member governments must grant China market economy status automatically on December 11, 2016. However, solid legal analyses (e.g. three separate reports by Bernard O'Connor, Laurent Ruessmann and F. Martín Malvarez) substantiate that there is no legal automaticity in the EU granting MES to China, particularly if the technical criteria are not met. WTO protocols do not grant MES, automatically or otherwise. In fact, the remaining text of China's Protocol makes it clear that China must meet specific criteria before MES can be granted. None of our major trading partners – such as the US, Canada, Japan or India – consider it automatic.

According to BUSINESS EUROPE: *"The decision to grant Market Economy Status also does not have a clear deadline and should be based on reasons other than the expiry of subparagraph (a)(ii) in China's protocol of accession to the WTO."* Also according to the ETUC: *"Well-grounded legal analyses demonstrate that there is no legal automaticity in the EU granting MES to China after that deadline and the ETUC, together with a range of organisations on both sides of European industry, strongly contests the suggestion that China should automatically be granted Market Economy Status in 2016."*

2.3. The EU has no legal obligation to decide anything now

Granting MES to China requires a legislative change in EU law, so the Chinese government argues that process should begin now in order to be ready by December 2016. In fact, the EU can simply maintain the status quo, because the position of other trading partners will oblige China to submit the issue to the WTO Dispute Settlement Body. The EU should liaise with its major trading partners to take a uniform approach to MES, as any pre-emptive EU decision could not be reversed in light of an eventual WTO decision.

3. THE EU MUST NOT GRANT MES TO CHINA

3.1. MES would leave the EU defenceless

MES would severely undermine the effectiveness of the EU's trade defence system and expose the EU market to effectively unrestricted Chinese dumping. Current anti-dumping measures safeguard tens of thousands of direct and indirect jobs in Europe, with thousands more in sectors or product types still undefended. Without the anti-dumping instruments currently available, up to 3.5 million jobs would be at risk from China's unfair trading practices. Without effective anti-dumping measures the EU is only left with the anti-subsidy instrument, which has never been effective in the face of the distortions of the Chinese economy: it only allows action against specific subsidies and not against the subsidies which are generally available in China. To make things worse, in addition to the opaqueness of Chinese subsidy regimes, the Chinese government has never complied with the WTO obligation to report subsidies, nor has it ever co-operated with the European Commission in anti-subsidy investigations. Accordingly, the average subsidy rate found in Chinese cases is negligible, and entirely inadequate in redressing injuries to EU industry and easily absorbable by Chinese producers.

3.2. MES would flood the EU with dumped Chinese imports.

It is impossible for sectors based in a European market economy to compete with state-sponsored dumping and export subsidies. Such a capitulation would severely damage the competitiveness of EU manufacturers, undermining still fragile European economies, potentially causing millions of job losses and severely damaging the EU's industrial base. Furthermore, granting China MES would result in significant trade diversion effects from other markets, and result in an increasing volume of imports from China. This would put additional pressure on European manufacturers, as opposed to their competitors in other parts of the world. The consequences according to the EPI could be a loss of annual EU GDP of €228 billion; greater than the combined economies of Croatia, Bulgaria, Slovenia, Lithuania, Latvia, Estonia, Cyprus and Malta (i.e. 8 of the 28 EU Member States).

3.3. MES would increase CO2 emissions

Chinese manufacturing (which is 80% based on coal) is much more detrimental to the environment than EU production (28% based on coal). The replacement of European domestic steel production with imports of Chinese steel results in around 43% more CO2 emissions than would otherwise have been created. In 2015, China exported around 7 million tonnes of steel to the EU, which if instead made in Europe would have reduced CO2 emissions by an amount equivalent to 2.1 million mid-sized cars.

China continues to face far lower environmental burdens which, combined with dumping, is decimating EU production. Such unfair trade practices will mean Europe will simply have exported its CO2, as well as hundreds of thousands of jobs.

As reported in *Die Welt* in January 2016: *"Average CO2 emissions per ton of steel produced in China are around 500 kg higher than in Europe. Therefore, if you were to import 30 million tons of steel, this would add an additional 15 million tonnes of CO2 to the overall global emissions total, compared to the situation had the steel been produced in Europe. From a global climate perspective, this is the exact opposite of the intended goal of policies such as the EU ETS."*

3.4. **MES is opposed by major trading partners including the US**

Many of the EU's major trading partners, including the US, Canada, India and Japan, do not consider that China has achieved MES or that any change is automatic after December 2016. Washington has warned the EU against granting China MES, saying Chinese companies would flood European markets with unfairly cheap goods. The US has also warned the EU about the consequences of granting MES unilaterally to China with regard to the impact on TTIP negotiations.

According to *The Financial Times* in December 2015: *"Washington has warned Brussels against granting China 'market economy status', saying the long-sought trade concession could hamper efforts to prevent Chinese companies flooding US and European markets with unfairly cheap goods. Achieving market economy status (MES) at the World Trade Organisation is one of China's core strategic goals. Among other benefits, it would make it far more difficult for the US or EU to impose steep tariffs on Chinese companies for unfairly dumping low-cost goods on their markets.US officials have warned EU counterparts that granting Beijing MES would amount to "unilaterally disarming" Europe's trade defences against China."*

3.5. **MES is opposed by European workers and manufacturers**

Given the direct threat to jobs and growth in Europe it is not surprising that workers and industry are united against MES. IndustriAll, the trade union representing 6.9 million workers across supply chains in manufacturing, mining and energy sectors across Europe says *"No to MES".* EUROFER and many other industries are opposed to granting China MES. AEGIS Europe, bringing together 30 European industry associations, accounting for more than €500 billion in annual turnover and millions of jobs across the EU is utterly opposed to China MES.

3.6. **MES will not encourage China to reform**

If the EU grants China MES before becoming a market economy there would be little incentive to reform, or stop dumping and illegal export subsidies. Chinese officials are trying to solve their domestic economic problems—including a massive property bubble, a collapsing stock market, and a slowing domestic economy— through more dumping and market manipulation. The country is, in effect, exporting its overcapacity and domestic economic problems abroad. Granting MES would remove the only means the EU has to prevent itself becoming a dumping ground for Chinese economic displacement.

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