



AEGIS EUROPE

The necessity of a full and formal impact assessment of a possible grant of market economy status to China

Executive summary

Those in favour of an EU grant of Market Economic Status (MES) to China tend to narrow the discussion down to the legal “automaticity or not” of granting this status. The full impact of granting MES to a country of the size of China, a country all agree **is not a market economy**, goes far beyond the legal issue. Granting MES would have *tremendous social, economic and environmental consequences for the European Union*. It is surprising that the Commission has still not initiated *a full impact assessment* of this important matter with all its possible consequences, including a feasibility assessment of alternative methods to try to ensure effective measures on dumped imports from China.

The **social impact** of granting MES in terms of EU jobs lost is very substantial whatever the economic methodology used to calculate them. The Commission believes that the only jobs at risk are those direct jobs related to the specific products covered by anti-dumping duties in force, i.e. **around 300 000 jobs**. Moreover, they further contend that the importance of anti-dumping measures can be gauged by the very small volume of imports from China which is subject to these duties, i.e. 1.38% of total imports from China. Both premises are wrong. It is important to calculate both the direct and indirect (upstream and downstream) job impact, as well as the deterrence effect of maintaining an effective anti-dumping instrument (which would be lost if MES were granted).

In terms of indirect jobs affected, most industries estimate that there are 3-4 indirect jobs lost for every direct job that disappears. This immediately places the total number of jobs in imminent danger, if MES is granted, **at levels exceeding one million, just with regard to jobs tied to the specific products currently under measures**. And, this is without taking any account of the clear deterrence effect of effective anti-dumping rules, with exporters knowing that injurious dumping could be met with anti-dumping measures that reduce their export volumes substantially.

In this context, an additional economic impact, **the negative effects of granting MES on future EU industry investments**, in particular in the growing area of “smart manufacturing”, also needs to be assessed.

One further Commission assertion needs to be reviewed and corrected – the seriously flawed claim that the importance of EU anti-dumping measures can be gauged by considering that only 1.38% of EU imports from China are affected by anti-dumping measures. This figure is calculated **after** measures are imposed (and measures have reduced the imports substantially). When imports before measures are considered, then **the percentage of EU imports affected exceeds 10% or more**. Again, this is only with regard to

specific products currently covered by measures, which entirely ignores the impact on imports for other products made by the same industries, as well as the deterrent effect on imports of other products in sectors where China is or has been building up excess capacities.

Another very controversial proposition is that MES can be granted with minimal impact because distortions in Chinese prices and costs from being a non-market economy can be taken into account under existing WTO anti-dumping rules. This is a very unsatisfactory and highly risky approach, not only because of the burden and complexity of those rules, and the results in countries which have already granted China MES, but even more so now that this methodology is under challenge at the WTO. First indications are that a WTO panel has ruled clearly against the EU's methodology, in effect compromising seriously any "mitigating" value of reliance on cost adjustments.

There would also be other consequences of granting MES. The **environmental impact** of granting MES is also hugely significant. Chinese manufacturing (which is 80% based on coal) is much more detrimental to the environment than EU production (28% based on coal). Does it make sense to replace the much cleaner European domestic production by Chinese coal based imports? A striking example is that the replacement of European domestic steel production by Chinese steel imports effectively raises carbon emissions by **around 43%**. The same effect applies to the aluminium industry and others.

The **political impact** of the decision on MES is also significant. Some argue that the Bilateral Investment Treaty (BIT) negotiations with China could be negatively affected by not granting MES, while others also argue that TTIP could be negatively affected and used by China to make the EU the "Trojan horse" for exporting their dumped exports to the United States. **These issues need to be fully analysed.**

1 | Introduction

- Those in favour of an EU grant of Market Economy Status (MES) to China tend to narrow the discussion down to the legal “automaticity or not” of granting this status. This is a strict legal approach of the issue, and not without controversy, to avoid any discussion of the full impact of granting such a status. The full impact of granting MES to a country of the size of China, and a country all agree **is not a market economy**, goes far beyond the legal issue. Granting MES would have tremendous social, economic and environmental consequences for the European Union. Seeing the importance that the European Commission places on jobs (e.g. Juncker plan), the environment (e.g. COP21), and more transparency in policymaking and better regulation, the best experts should be asked to investigate these effects in relation to the grant of MES, and European citizens have the right to be consulted. In other words, such an important decision should be the outcome of a full impact assessment and a completely democratic process in full transparency within the EU. It is surprising that the Commission has still not initiated a full impact assessment of this important matter with all its possible consequences, including a feasibility assessment of alternative methods to try to ensure effective measures on dumped imports from China.
- This note tries to identify all aspects that should be addressed in order to have a holistic view of the impact on the EU, its economy and its population, of a grant of MES to China. Of course a list of all possible questions would be much too long to handle, so this note focuses on the main areas.

2 | Social impact: how many EU jobs at risk?

- The first and most important question concerning the impact of a grant of MES to China, is how many EU jobs would be at risk when a significant and growing volume of imports from China would replace domestic manufacturing production in the EU.
- A study by EPI concludes that between 1.7 and 3.5 million jobs would be at risk in the medium term¹. In addition, that study identifies seven industries with 2.7 million workers in the EU that are known to be extremely vulnerable to a major increase in imports from China because there exist large subsidised overcapacities already built up in China. A comparable study for North America points to a similar magnitude of jobs at risk there in relation to imports from China². It is most important to study the total effects, including both direct and indirect employment effects, in the different industrial and other sectors. There is also an effect on the private spending of jobless persons and the induced effect of lower earnings which causes a loss of further jobs.
- However, we note that on 15 December 2015, replying to a recent Parliamentary question, EU Trade Commissioner Malmström does not seem to agree with the findings of the EPI study. She emphasised that:

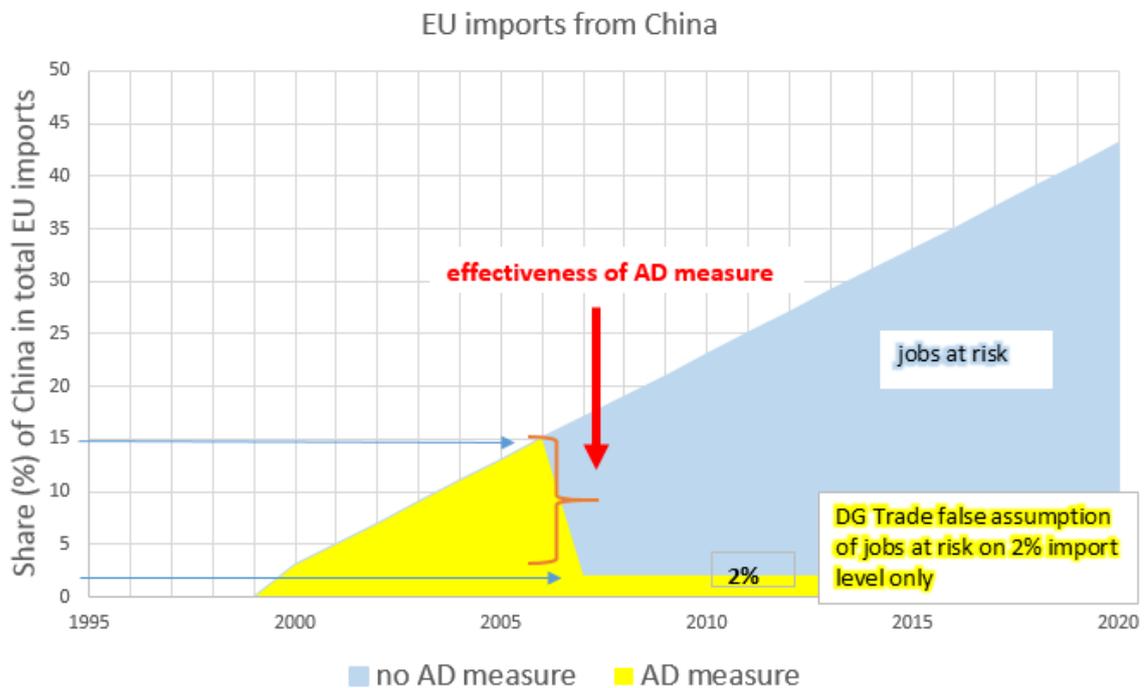
It is important that any studies regarding the possible impact of changing the way dumping margins of Chinese exporters are calculated be done on the basis of a robust methodology and assumptions. For example the recently published study by the Economic Policy Institute based in Washington assumes tariffs on all imports from China would go down by 30 percentage points as a result of Market Economy Status while in fact only 1.38% of all EU imports from China are subject to anti-dumping measures. Hence, it would appear that this study inflates any negative impacts significantly.

- The main argument used by Commissioner Malmström, the **“1.38% argument”**, misleadingly minimises the importance of EU anti-dumping measures on imports from China, and therefore the impact of granting MES on EU jobs.
- That figure is measured in relation to imports after duties are imposed. To the extent the measures have been effective, the result is often a big drop in (dumped) imports from China of the products in question. [see box below]

¹ Scott, Robert E. and Jiang, Xiao. Economic Policy Institute. *Unilateral Grant of Market Economy Status to China Would Put Millions of EU Jobs at Risk*. 18 September 2015. <http://www.aegiseurope.eu/resources/>

² Molano Ruiz, Manuel, Somerville, Robin, and Szamosszegi, Andrew. American Iron and Steel Institute (AISI). *Assessment of the Probable Economic Effects on NAFTA of Granting Market Economy Status to China*. 10 November 2015. www.steelnet.org/new/20151110a.pdf

Box: level of imports before and after imposition of anti-dumping (AD) measures and jobs at risk



Only 1.38% of the current total value of EU imports from China is currently covered by AD measures. DG Trade wrongly concludes that only the jobs related to the products covered by these measures are at risk once China is granted MES (*see answer given by Ms Malmström on behalf of the Commission on 15.12.2015*).

The current level of EU anti-dumping measures only reflects the effectiveness of the AD measures in place. Indeed, it is common that the level of imports from China drop substantially, often by 60-80%, following the imposition of measures, e.g. from an import level of 15%* to 2% of total EU imports of a given product (see yellow). Without the AD measures, the import volume from China in relation to the products in question would have increased further (see blue), in relation to the overall volume of EU imports from China as well as in relation to other imports of the same product.

If AD measures are made ineffective, as they would be with the grant of MES to an economy as distorted as that of China, the blue area reflects the amount of direct jobs at risk just with regard to products covered by current measures.

In other words, there are two ways in which the 1.38% figure gives a grossly underestimated view of the real impact of EU AD measures:

- 1) That figure measures the volume of imports of a given product only after measures have been imposed, i.e. after there has already been a major drop in the volume of the product in question. As noted above, that drop is often 60-80% of the total volume of imports of that product from China.

2) That figure ignores how the volume of imports of that product would have increased well beyond the (already much higher) figure of imports that were occurring prior to the imposition of measures (shown in the graph above by the region shaded in blue).

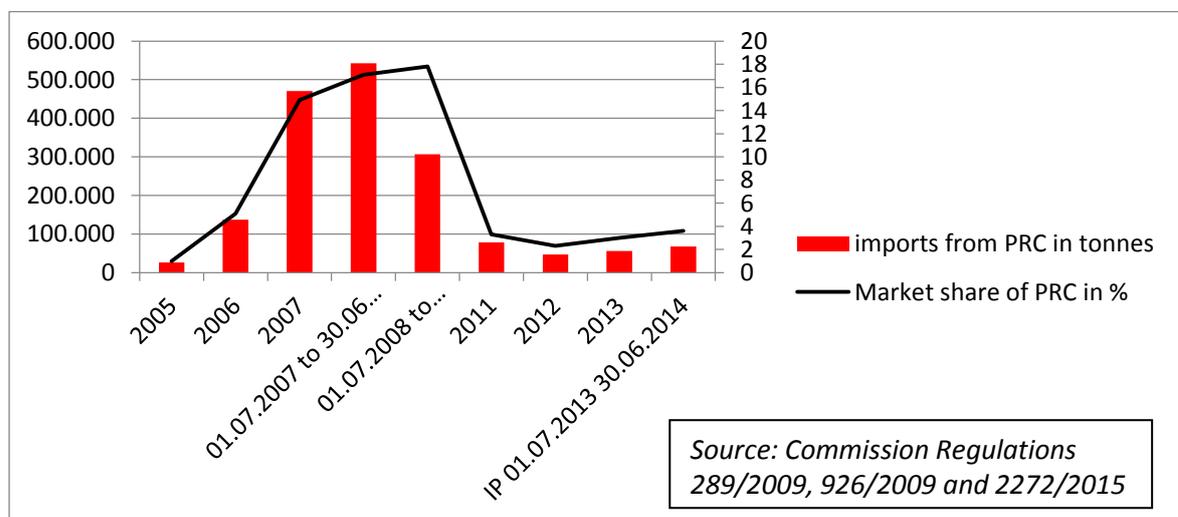
One example of this evolution and current vulnerability despite a low current level of imports from China is in relation to the AD measure in place in the EU since 1993 on imports of Chinese bicycles. Currently the EU market consists of 20 million bicycles of which 8 million are imported, and of those 8 million only 400 000 now come from China.

The domestic EU production of bicycles is around 12 million units. In this example, Chinese imports now represent only 2% of the EU market. However, if MES were granted to China, it could be expected that the AD measure would be lowered significantly and, as China has production overcapacity for that product which exceeds total EU consumption, EU imports of Chinese bicycles would increase tremendously.

The USA experience confirms this. The US government removed AD measures in the 1990's, the domestic industry was overwhelmed by dumped imports from China, and 99% of the USA market volume today (a total of 18 million bicycles) is imported from China. There is hardly any remaining American production of bicycles.

Another example of the major drop in imports from China following the imposition of measures: before the imposition of EU AD (and AS) measures on coated fine paper from China in 2010-2011, imports from China reached 125 000 tonnes. In 2012, the first full year after the imposition of measures, imports were 19 000 tonnes, i.e. less than 20% of the pre-imposition volume.

An EU AD investigation of seamless pipes started in July 2008. The imports from China of the product concerned reached a maximum of 542 840 tonnes during the investigation period. In April 2009, provisional measures were imposed and final measures in October 2009, so that imports decreased in 2009 and decreased further in 2010 (the first full year with measures in place). The market share of China decreased from 17.1% in the original IP to 3% in the IP ending in 2013 according to the official Commission findings.



- *The number 15% is a theoretical starting point but the decline in imports following the imposition of measures (here, from 15% to 2% of total EU imports) is a common experience. In any event, the reasoning remains valid with regards to jobs at risk.*

- Secondly, in sectors where China now dominates the world market, there might be no EU industry left to lodge a complaint (we can take as an example the toys industry: most of the world's toys are manufactured in China), so imports from those sectors in effect "dilute" the importance overall of having effective anti-dumping measures against imports from China.
- Thirdly, while the individual products covered by measures may only represent a certain percentage of imports, what really matters are the imports of the sectors making those products because the Chinese overcapacities are not limited to single products of a given sector. These are sectors (e.g. steel) where it is already known that Chinese producers have huge overcapacities which have resulted in extensive dumping of products in the EU. Accordingly, there is every reason to consider that in fact **all** employment of those companies is at risk. This is the approach taken in the second half of the EPI report, which concluded that just considering seven sectors which currently have one or more products covered by anti-dumping measures, already 2.7 million direct jobs are at risk if the EU unilaterally grants MES to China (even **before considering the indirect jobs effect**).
- Fourthly, these numbers do not consider sectors for which there are no measures currently but there have been measures in the past and there may very well be a need for measures in the future (e.g. footwear). In this category, one can also put telecommunications equipment (which represents alone about 20% of all EU imports from China in 2014), for which Commissioner De Gucht nearly initiated trade defence investigations (ex officio), but in the end agreements were reached with the Chinese government.
- Finally, other sectors where no anti-dumping measure is yet in place (esp. moving downstream and up the value chain) will be next targets, and imports from China in those sectors are also relevant, especially in sectors which we know have substantial overcapacities in China and/or are considered strategic by the Chinese 5-Year Plans. In this regard, it is worth considering the example of solar panels: in 2004 the level of imports from China into the EU was negligible, and yet only seven years later, EU imports of that one product from China represented over 7% of all EU imports from China³. This shows that the "deterrent" effect of the measures on a relatively small percentage of imports is relevant and in fact hugely important with regard to a much larger percentage of EU imports.
- It is therefore highly debatable that any serious study aiming at assessing the potential impact on EU jobs of a decision to grant MES to China can be based on the **"1.38% argument"**.

³ Solar module sales hit a record in the period 2011 – 2012. In that time 30 EU manufacturers had to close production and the Chinese market share climbed to more than 80%.

- Hence, if these are the arguments used by Commissioner Malmström to reach the conclusion that the EPI study would “inflate any negative impacts significantly”, one might well ask if Commissioner Malmström’s critique of the EPI study is based on sound arguments. Indeed, the EPI study – as any other economic study – can and should be publicly scrutinised. However, criticizing it on the basis of misleading – as is the “1.38% argument” – statements, risks undermining the credibility of these critiques.
- That’s even more important considering that the results of both the “internal evaluation” as well as of the “independent study” referred to in the written question - and conducted, we hope, on the basis of a “robust methodology and assumptions” – should have been available by the end of the year, in order to provide more information to all interested parties, including Parliament and Member States.
- However, the end of the 2015 has passed, and nobody has yet been given the opportunity to see any of these two studies, to publicly scrutinise them nor to publicly comment on the asserted “robustness” of the methodology and assumptions used. We hope to be able to do that soon.
- To conclude, it is clear that the direct employment related to the products currently covered by AD measures is above 300 000 jobs in the EU (see table in annex). This employment would clearly be under immediate threat if the EU were to grant China MES. However, this does not consider the jobs which depend on the jobs immediately under threat, i.e. the indirect employment at risk. In this regard, the indirect employment ratio used for industrial sectors is 3 to 4 jobs affected for each direct job affected. Considering that this ratio is changing quickly in an upward direction (see box below on smart manufacturing), the number of indirect jobs at risk if the EU grants MES to China is conservatively placed at around 1 million jobs.
- Of course the other side of the coin is to examine how many jobs would be created by cheaper (dumped) imports from China of raw materials and semi-finished products. Here, however, it would be essential to identify the sectors in Europe which would hypothetically create this extra employment, and make the assessment over a sufficient time period. The latter is important as China is very quickly developing their own final product segments; e.g. electrical cars are known to be a key target in the new 5 year plan of China. Also, value chain aspects have to be considered.
- The unavoidable conclusion is that anti-dumping measures are critical to maintaining a level playing field in the EU, and that in any case many more than 300 000 direct jobs are at risk from a grant of MES to China, and the total including indirect jobs could be at least four times as much.⁴

⁴ Another important question is how fit for purpose the current AD mechanism is with regards to SMEs. Two thirds of all employment in manufacturing is created by SMEs in the EU. However, the AD complaint procedure is very burdensome to follow, and expensive, as recognised by the EU itself. Most current AD cases are initiated by large companies and the cases brought by SMEs are only those that are efficiently organised in an association, or another representative body. This is another indication that the current volume of imports currently covered by AD measures is a strict minimum.

Box on smart manufacturing: A Higher Multiplier with Smart Manufacturing

Smart manufacturing requires at least three to four times the number of indirect jobs for outside support compared with direct jobs—versus the much lower employment multiplier of traditional factories today, which is only about one-half of a non-manufacturing support job for every job in a factory.

As factories get “smarter” and more advanced, the multiplier increases significantly. In some advanced manufacturing sectors, such as electronic computer manufacturing, the multiplier effect can be as high as 16 to 1, or 16x, meaning that every manufacturing job supports 15 other jobs. Highly automated, high-tech manufacturing regions already have employment multipliers closer to 3.5, according to the Milken Institute’s Manufacturing 2.0 research study.

- Furthermore, while an important question is the exact extent of the multiplier effect on indirect jobs, a more fundamental question is why the European Commission would even consider moving toward a proposal to grant China MES without a serious, comprehensive and transparent evaluation, with full input from industry stakeholders, when there are clearly such key manufacturing sectors and so many jobs at risk. In this regard, because the focus here is on manufactured products, another point to consider is that the effect per country, or even in certain regions, is likely to be relatively much more important than in others. Also this needs an in-depth assessment.
- Another aspect of the social impact of granting MES to China is workplace health and safety in China, as well as the rights of workers.
- Currently, as the European Union rightly points out, there is a complete absence of dialogue and wage negotiations between social partners in China. The absence of freedom of association in China is a major issue and EU trade unions insist that the pursuit of investment agreement discussions with China be made contingent on immediate moves towards allowing workers to organise and bargain freely and independently. The unilateral grant of MES could have exactly the wrong effect in this context: it would remove a substantial means of motivating the Chinese government and Chinese companies to respect basic market principles of corporate social responsibility in order to benefit from a treatment meant for market economies where business decisions are free from government influence and prices are determined by market forces. In a market economy, the price of labour is freely negotiated in full respect of workers' rights.⁵

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An integral part of workers' rights is the right to a safe workplace, and there are very strict EU health and safety measures which are fully respected and integrated into the modern production processes used in the EU workplace.

3 | Economic impact

- The impact on employment is one aspect of the economic impact of a grant of MES to China. To have a full view of the economic impact, it is also necessary to consider the impact on investments and innovation, and indeed the maintenance and expansion of value chains in the EU.
- The starting point for this examination is the impact of a grant of MES on the level of anti-dumping measures in investigations of imports from China. Even before considering the level of measures following the grant of MES, a full impact assessment must consider the major decrease (more than 50%) in the number of investigations and measures imposed which follows a country's grant of MES to China.⁶ For those products, the level of measures is effectively zero, meaning obviously that there would be no defence against dumped imports from China for those products.
- For those products for which an investigation would occur and measures would be imposed, the level of those measures is likely to be significantly lower. Looking at the experience of the EU with the level of measures imposed on Chinese companies which have obtained "market economy treatment" (MET), the level of measures is likely to be around 10% or less (which represents a decrease of between 25 and 30% from the level of measures for other Chinese producers). This appears to be confirmed by the experiences of Australia and South Korea, which have both already accorded MES to China (see box on Australia below).
- As it is a common experience in the EU that Chinese exporters routinely absorb AD measures at the level of 10% or less, i.e. they neither adjust their prices nor diminish the level of their exports to the EU,⁷ this raises the very real risk that the grant of MES to China would leave the EU essentially defenceless in the face of imports from China.
- *Furthermore without effective TDI's, the number of industries affected by Chinese dumping will most likely increase sharply.* This follows from the observations made above, that other products made by producers of the same industries as the products already subject to measures (e.g. additional steel products or additional auto parts) are likely to be dumped as well, and the fact that China has been building up large overcapacities across its manufacturing base, not just with regard to industries for which there are existing measures.
- The situation is exacerbated by the ongoing Chinese government action to devalue the Chinese currency (the renminbi) to its lowest level in 6 years. This devaluation is a rather strong indication that the Chinese government is reverting to the stimulation of exports as in the past, because the transition to a higher level of Chinese domestic consumer

⁶ See Francisco Urdinez, *The Political Economy of the Chinese Market Economy Status given by Argentina and Brazil*, Universidade de São Paulo (SP, Brazil), 2014. This study is available at https://www.icesi.edu.co/revistas/index.php/revista_cs/article/viewFile/1853/2431

⁷ The very recent example of solar glass is a case where the Chinese exporters were found to be absorbing duties amounting to **over 20%**. See Commission Implementing Regulation (EU) 2015/1394 of 13 August 2015, OJ 2015, L215/42.

demand is not materializing quickly enough to maintain high growth rates. To grant China MES without a full impact assessment in this context would be like sailing blindly (and directly) into a storm.

- One would expect that policy-makers that consider a grant of MES to China would also examine possible options to mitigate its impact and to try to ensure a continued effective defence against dumped imports from China. Unfortunately, there is little leeway in the set of WTO trade defence rules that apply to market economies, and a strict general prohibition of discrimination (e.g. with regard to imports from China).
- With regard to the calculation of dumping margins, there are situations which can justify moving away from the producers' own selling prices and constructing a domestic market price ("normal value") based on costs and a reasonable level of profit. In the construction of normal values based on costs, it is possible in certain situations to look beyond the accounting records of the producers under investigation and to make adjustments to the declared costs. However, these rules are very complex and put a significant initial burden on complainants and then on the authorities themselves to justify the use of prices and costs other than those of the exporting producers in question. This can be seen very clearly in the case of Australia (see box on Australia below).
- Furthermore, and perhaps most importantly, the EU's approach to making these cost adjustments is currently the subject of WTO litigation in several cases. First indications are that the results of the panel report in the case *Argentina – Biodiesel* are **strongly against** the current EU cost adjustment methodology.⁸ A final result in that case will most likely be available later this year; in the meantime, it would be particularly foolhardy in this context to think that the use of general cost adjustment methodologies would ensure the continued effectiveness of EU AD measures against dumped imports from China.
- Some have suggested that since the dumping of Chinese exports is often made possible by government subsidies, all that is needed is a "strengthening" of the anti-subsidy instrument. Again, WTO rules constrain what is possible to counter subsidisation of exports. The one "WTO-plus" rule which the EU applies in this context, and which could be removed, is the so-called "lesser duty rule" (i.e. limiting duties to the lower of the subsidy margin and the margin of actual injury to EU producers). Besides the fact that a Commission proposal to remove the EU's "lesser duty rule" has been blocked at Council level for nearly two years, a removal of that rule would still leave the anti-subsidy instrument woefully inadequate to deal with the manifold and systemic distortions of the Chinese economy, especially in view of the lack of transparency and the non-cooperation of the Chinese government in anti-subsidy investigations. To date, nearly half of the anti-subsidy investigations to date against imports from China were closed without the imposition of measures, and overall, the average EU anti-subsidy duty rate of 6.4 per cent is not sufficient to address unfairly traded imports from China.

⁸ See Comment: *WTO ruling dents EU defenses against Chinese imports*, MLex, 6 January 2016.

- Overall and in any event, a full impact assessment is essential, not only with regard to the effects of granting China MES, but also with regard to the effects of any alternative measures that might be considered to mitigate the effects of granting MES.

Box on the Australia case:

Granting MES to China has put Australian factories on their knees

The Australian government granted MES to China in 2005. Since then, in order to address the distortions of the Chinese economy in anti-dumping investigations of imports from China, Australia has relied on the existence of a “particular market situation”.⁹ When a “particular market situation” is found to exist, the authorities proceed with cost adjustments in relation to input price distortions, in calculating the dumping margins of Chinese producers. This approach is part of the ordinary WTO anti-dumping rules designed for use with regard to market economy producers. However, it is manifestly insufficient to deal with the many and varied distortions of a non-market system which has multi-layer government involvement and lacks any meaningful transparency (especially considering that the Chinese government does nothing to facilitate the task, not even meeting its WTO obligation to declare its subsidy arrangements). As could be expected, this has led to very low duty levels imposed by the Australian authorities (when they have imposed measures).

For example, in the case of aluminium extrusions, Australia imposed an anti-dumping duty at the level of 7% in 2010. In stark contrast, the average duty levels imposed by the US and Canada for the same products at the same time are in a range from 30 to 60%.

As might be expected, duties were much more effective to stop dumping in the US and Canada. For example, dumped imports from China had managed to capture 20% of the US market by late 2009, but following the imposition of duties in 2010, that share dropped to less than 1%.

Similarly, the very low duties imposed in 2010 in Australia did nothing to stop the dumping of Chinese imports. It was only in 2015 that the Australian industry had a prospect of higher measures via an anti-absorption investigation. Thus, it took a period of 7 years starting from the initial complaint in Australia to get to a point where measures could deal more effectively with Chinese dumping. Most industries in today's fast-moving economy could not wait for seven years to get anything approaching effective relief. In the meanwhile, across a wide spectrum of industries, unrestrained Chinese imports have killed Australian manufacturing.

The real question for the EU is how many EU producers could survive with ineffectively low duties imposed once MES is granted to China. Certainly, no EU producer will survive for 7 years an onslaught of dumped imports from China.

- The section above, regarding the social impact of granting MES, addressed the fact that the grant of MES would put jobs at risk in entire sectors of the EU economy. Besides the impact on employment, it is also essential to consider the impact on investments in the EU. Indeed, European manufacturers (re)-invest an important part of their turnover in research and development, maintenance, productivity improvements, the

⁹ See, e.g., Australian Government, Anti-Dumping Commission, Report No. 263, *Review into Anti-dumping Measures – Aluminium Road Wheels exported from the People's Republic of China*, 14 September 2015, Appendix B.

implementation of measures to meet the requirements of EU environmental legislation, and brown- and greenfield expansions. To the extent their profitability and even existence is placed at risk by the grant of MES to China, those investments in the EU economy will no longer take place.

- Some claim that it is necessary to grant MES to China even if it is uncertain whether there is in fact a WTO obligation to do so, in order to elicit a substantial Chinese contribution to the Juncker EUR 300 billion investment plan. If a possible contribution of China to the EU investment program is given serious consideration as a reason to grant China MES,¹⁰ it is necessary to first consider the past and future investments of European-based companies which would immediately be at risk if MES were granted to China.
- Indeed, if companies have no assurance of a stable future business environment, which includes the prospect of effective defence against dumped imports, investments will drop away. The fact that China counts so much overcapacity in a wide range of sectors is a clear obstacle for further investments if there is little prospect of maintaining a level playing field in the face of dumped imports. These considerations are of paramount importance not only for investments by companies already established in the EU, but also for potential EU investors and foreign direct investments.
- In addition to employment and investments, EU-based companies also pay taxes on their income and contribute to the general economy through their spending. Chinese producers are not contributing to the European tax system. European-based companies also contribute to the welfare system through social security taxes. Furthermore, the higher unemployment rates that would result from a grant of MES to China would have a large impact on government expenditures.
- A basic but crucial question is the extent to which it is essential for the EU to maintain value chains in Europe? A value chain by definition adds value, preserves know-how and often triggers innovation efforts because of close cooperation among operators in the supply chain.
- Another economic risk of granting MES to China is the risk of becoming too dependent on supplies from China. In general, it is important for users to have a number of supplying countries to source from, and so it is necessary to examine the extent to which the grant of MES to China would lead to an expansion of imports from China and the crowding out of other suppliers, both EU and third country suppliers.
- To the extent an impact assessment considers the economic benefit for downstream sectors of having greater access to cheap (dumped) imports from China, it is equally necessary to consider that China has been moving up the value chain very quickly.

¹⁰ The latest evolution on the Chinese financial market, meaning a much higher debt level than before, and the ongoing turbulence on the Shanghai stock exchange, undermine the hope that the Chinese government has much room to manoeuvre to invest in the European Juncker plan. On top of the clear state intervention in the financial markets in China, it is not helpful to attract foreign investments, and it is not compatible with the EU's five market economy criteria.

Because of this, and because Chinese overcapacities are not limited to single products of a given sector, the effect of a weaker trade defence system following the grant of MES to China needs to be assessed by looking at the imports of these sectors in total, and of downstream sectors on which China is increasingly focused. On this latter point, the Chinese 5 year plan indicates what the major targets are (e.g., electrical cars, railroad rolling stock, advanced machinery, new materials, etc)¹¹. Thus, the short-term benefit of having cheaper inputs needs to be set against the short- to medium-term prospect of imports of final products from China against which there would be no effective defence available.

Box on E-bikes

The EU bicycle industry and its innovations would be destroyed by unfair imports from China

As the EU established in Council Regulation (EU) No 502/2013, with respect to the Union interest in the continuation of AD measures on bicycle imports from China:

(249) The Union industry contributes significantly to technological innovation and spin offs, such as the recently developed EPACs (Electronically Power Assisted Cycles) and electronic bicycles that would not be economically viable without having a bicycle industry in the Union. Moreover, the Union industry contributes to the environmental goals such as greening of transport and decarbonisation.

(250) The Union industry is also a driving force for related industries, such as production of bicycle parts, bicycle accessories and related services. In total the Union industry generates directly and indirectly between 60 000 and 70 000 jobs in the Union market.

(251) The Union industry had undertaken efforts to restructure and invested in innovation which would be lost should the Union industry disappear. To the contrary, with the measures in place, the Union industry would be able to maintain and even increase sales volume and thereby generating the necessary return on investments which would enable it to continue to reinvest in new technology and innovation.

In particular, if the EU bicycle industry had been destroyed by the subsidised dumping of the last twenty years by Chinese exporters, very important developments for the benefit of EU citizens such as the Pedal-Assisted E-bikes (EPAC's) would simply not have occurred.

The dominant position on the EU market of industries in China using dumping as a way to cope with massive overcapacities is a mortal threat to innovation and industrial progress in the EU.

The loss of any EU industry would make the manufacturing value chain in Europe much weaker: for instance, thanks to the development of the Pedal-Assisted E-bikes, Bosch and many other automotive parts makers are heavily investing in the bicycle industry,

¹¹ Taube, Prof. Dr, Markus, and Schmidkonz, Dr, Christian GbR. THINK!DESK. *Assessment of the normative and policy framework governing the Chinese economy and its impact on international competition*. 13 August 2015. <http://www.aegiseurope.eu/resources/>

creating tens of thousands of new jobs for young EU engineers and technicians: *in 2015 over a billion euros were invested in the bicycle industry, 400 million of which by Bosch!*¹²



At the same time, due to the lack of effective AD measures to address the heavy injury inflicted by dumped imports of solar PV modules from China, Bosch lost its entire investment in two extremely modern factories (value: EUR 2.5 Billion).

In modern Industry – and above all in Industry 4.0 – the impact of investments, automation, and innovations is much higher than in the past. Their cost can reach 30 to 40% of the price of a new product. The EU bicycle industry is strongly dedicated to investments in sustainable, pollution-free e-commuting on two-wheels, a phenomenon that will grow very rapidly in the next 5 to 10 years.

In the EU, these investments are made by the industry itself, while government subsidies cover these costs to Chinese producers. Without the prospect of effective AD measures, there would be no future for any EU high-tech Industry. Scientific studies have demonstrated that the price of Chinese products in the solar-, steel-, glass-, paper-, and auto parts industry, is 25% to 30% less than those of EU producers (often SME's), and that this has been possible only because of subsidies received from China's central and provincial governments¹³. It would be an irreplaceable missed opportunity to foster growth, employment and innovation in the EU to leave this only to Chinese exporting companies by granting China MES before China actually becomes a market economy.

¹² Bosch Annual Report 2015. http://annual-report.bosch.com/fileadmin/pdf/en/Bosch_Annual_Report_2014_Financial_Report.pdf

¹³ Haley, Prof. Usha, and Haley, George T. *Subsidies to Chinese Industry: State Capitalism, Business Strategy and Trade Policy*. Oxford University Press, USA, April 25, 2013.

4 | Environmental impact

- As a global actor, the EU plays a key role in international efforts to promote sustainable development globally. The grant of MES to China at this time would have a major negative impact on the promotion of sustainable development globally.
- Indeed, China's annual energy production is around 80% based on coal¹⁴, and that contrasts sharply with the EU, where energy production is only 28% coal-fired. The large negative effect of a steep rise of coal-based imports from China on the European CO₂ targets should be taken into consideration when assessing the impact of granting China MES. It would be directly contrary to the EU's environmental policies to replace the much cleaner European domestic production by Chinese coal-based imports by means of a trade policy initiative that would effectively do just that.
- A striking example is that the replacement of European domestic steel production by imports of Chinese steel causes around 43% more CO₂ emissions. More concretely, in 2015 China exported around 7 million tonnes of steel to the EU, and the **excess** CO₂ emissions represented by producing this volume in China is the equivalent of CO₂ emissions from about 2.1 million middle class cars compared to if it would have been produced by European plants.
- What about the convergence with other EU environmental policies like the ETS? What would the grant of MES do to any incentive for the Chinese (local) industry to ensure its production is more environmentally friendly? Energy in China is as expensive as in the EU. On top of this, the coal is mined on the other side of the country from the coastal area where most of the manufacturing plants are located. Coal is the cheapest option for China, and MES would better secure the exports of environmentally unfriendly production to the EU.
- The largest part of the containers shipped back to China is empty. Why is it important to pay more attention to ship emissions? Air pollution emissions from ships are continuously growing, while land-based emissions are gradually coming down. If things are left as they are, by 2020 shipping will be the biggest single emitter of air pollution in Europe, even surpassing the emissions from all land-based sources together¹⁵. The grant of MES to China would result in an increase of container traffic to the EU as exports from China to the EU increase substantially. Does it make sense from an environmental point of view to intensify container traffic by inviting dumped imports from China to replace EU-based production which meets strict environmental requirements?

¹⁴ IEA_2013 data

¹⁵ <http://www.transportenvironment.org>

Box: The risks of MES for the European aluminium value chain

The Chinese aluminium industry alone accounts for 5% of the total Chinese CO₂ emissions per year, because most Chinese smelters use coal-fired energy. This amount of CO₂ emissions is as large as the total annual CO₂ footprint of the United Kingdom. In Europe the smelters operate on a much cleaner energy mix from hydro, nuclear and gas sources. At the same time, the Chinese overcapacity in aluminium is as large as the total aluminium market in Europe. Replacing European domestic production by dumped imports from China would have a devastating impact on the European CO₂ footprint. This is in full contradiction with the EU ambitions regarding climate change. MES for China would facilitate to a huge extent imports of Chinese aluminium into Europe.

The proximity of the metal supplier with his customer, the semi fabricator, is important and has led to close cooperation. The smelter creates alloys upon the request of the customer. The semi fabricator creates specific products upon the request of his customer. For example, in the extrusion industry, the extruder produces specific profiles for window makers based on a die that is owned by the window maker, but manufactured by the extruder. Close interaction between the window maker and the extruder to develop the die is a *condition sine qua non*. For a window maker to have its property, namely the die, being used in a Chinese plant, is a real challenge and is risky. It is then only a matter of time that China will produce the windows domestically and export more final products. The overcapacity in China on semi-fabricated products is also massive.

The European recycling industry is the biggest recycler of aluminium in the world. Also here the proximity of the customer gives gains from an economic and environmental perspective. Recyclers use specially designed trucks to transport the molten metal to customers. Their radius for action is around two to three hours before the metal starts to solidify. This saves a lot of energy compared to the transport of imported Chinese “standard” ingots, which need to be remelted again in Europe. In addition, the creation of tailored alloys in close cooperation with the customer creates much additional value.

On a level playing field, these close interactions between the different segments of the value chain, gives comparative advantages for the European producers. However, as the Chinese Ministry of Industry (MITT) itself recognises, China faces huge overcapacities in the aluminium industry, and as the Taube study¹⁶ demonstrates clearly how Chinese smelting and extrusion is subsidised and cannot fail, MES for China would result in a large increase in dumped Chinese aluminium exports to the EU, endangering the entire value chain of the European aluminium industry.

¹⁶ Taube, Prof. Dr, Markus, and Schmidkonz, Dr, Christian GbR. THINK!DESK. *Assessment of the normative and policy framework governing the Chinese economy and its impact on international competition*. 13 August 2015. <http://www.aegiseurope.eu/resources/>

5 | Political impact

- There are indications that the USA has warned the EU several times about the consequences of granting MES unilaterally to China, including with regard to the impact on TTIP negotiations. The USA cannot accept that unfairly traded cheap Chinese inputs give European producers an artificial cost benefit for exports to the US, compared to their American competitors. There needs to be close consultation with the US and other major trading partners before the Commission adopts any proposal. Especially as the provisions of China's WTO Accession Protocol apply to all WTO Members, and the matter of the consequences of the expiry of one subparagraph of that Protocol will most likely be submitted to WTO dispute settlement in any event, it would make sense to coordinate positions with not only the US, but also other major trading partners. A full impact assessment would need to consider the consequences for its relationship with other major trading partners if the EU were to make a unilateral grant of MES.
- Some argue that China will retaliate immediately against the EU if the EU does not grant MES. However, there are reasons for China not to engage in immediate retaliation, not least because it would be illegal under the WTO system but also in view of the difficulty of retaliating against a number of major trading partners at the same time. In any event, a full impact assessment should also take into account China's possible reaction if MES is not granted.

6 | Other areas of impact

The EU has a longstanding policy of favouring the development of emerging economies via the Generalised System of Preferences. Thanks to those tariff preferences, many developing countries, such as Cambodia, Pakistan and Sri Lanka, have built up light manufacturing industries which depend on their exports to the EU (given the relative early stage of development of their domestic markets). The exports from these countries to the EU would also be endangered should the EU grant MES to China. Indeed, not only EU producers but third country producers present on the EU market depend on the existence of a level playing field. A large increase of EU imports from China following a grant of MES to China would drive out EU imports from third countries as well as EU production. To the extent third country producers depend on their exports to the EU to achieve competitive scale, the grant of MES to China by the EU would result in the destruction of industries in developing countries as well. Also these effects on the EU's development policies must be considered when assessing the impact of a proposal to grant China MES.

The EU has in place very strict health and safety standards, both for the workplace and for users / consumers of products placed on the EU market. To the extent the grant of MES to China would result in a significant increase of imports from China, the impact on the ability of EU market surveillance to monitor and continue to enforce existing measures needs to be examined. Indeed, a large percentage of the products which intercepted and refused entry into the EU, on the grounds that they pose a serious risk to EU consumers, originate from China. EU standards must be adequately enforced with regard to imports from third countries, and the impact of a grant of MES on the ability of EU market surveillance authorities to maintain an adequate level of enforcement is an important concern.

There is much to be examined in relation to the above aspects, and there are certainly others as well like business legislation and consumer rights in Europe, not to mention the degree to which a premature grant of MES would actually remove any incentive China might have to continue with the reforms needed to implement the many obligations it undertook when it joined the WTO. These are all important elements to assess when evaluating the degree of market functioning in China, and the consequences of granting MES before China has actually put in place a true market economy.

Preliminary assessment of impact on jobs - ongoing anti-dumping investigations in imports of certain products from China (AD cases)

Number of jobs taken from the Regulations for the IP periods when available or provided by the complainants when missing. Last update: 02.01.2016

Highlighted cells indicate where information is not available.

Product	Case No.	Year started	IP jobs
Acesulfame Potassium (ACE-K)	AD611 ongoing	2015	
Aluminium foil (certain)	AD534 R565 R607 renewed	2015	781
Aluminium foils ("household foils", end consumer rolls, in small rolls)	AD582	2012	284
Aluminium radiators	AD578	2012	1,641
Aluminium road wheels	AD541-R628 ongoing	2010	12,981
Aspartame	AD621	2015 (just initiated)	
Barium carbonate	AD475 R502	2011	
Bicycles	AD287 R339 R503 R546 R563	2011	13,646
Bicycles (parts)	AD287 R407	2013	16,000
Carbon and alloy steel butt-welded fittings until 24"	R603	2014	968
Ceramic foam filters	AD624	2015	
Ceramic tableware and kitchenware	AD586	2012	25,093
Ceramic tiles	AD560 R586	2011	77,458
Chamois leather	AD494 R477 R532	2012	59
Citric acid	AD522 R584 R585 R614 ongoing	2015	600
Citrus fruits	AD524 AD524a AD524b R583	2014	2,400
Coated fine paper	AD552	2010	11,500
Cold-rolled flat steel products	AD620 ongoing	2015	8,400
Fasteners, iron or steel	AD525 R515 R548 R591	2015	19,950
Ferro-silicon	AD516 R471 R514 R572	2014	1,042
filament glass fibre products	AD549 R593 ongoing	2015	3,302
Grain-oriented flat-rolled products of silicon-electrical steel	AD608	2015	2,539
Hand pallet trucks and their essential parts	AD474-R390-R396-R431- R444-R458-R466-R504- R545-	2012	434

	R590 R637 Anti circumvention		
High fatigue performance steel concrete reinforcement bars	AD619 ongoing	2015	3,967
Ironing boards	AD506 - AD506a - R465 - R473 - AD548 - AD506b - R549	2006	722
Ironing boards (Since Hardware)	AD548	2012	234
Lever arch mechanisms	AD491 - R530	2006	713
Melamine	AD554	2010	606
Molybdenum wires	AD540 - R525 - R560 - R613 - R621 ongoing	2009	50
Monosodium glutamate	AD521 - R592	2008	
Okoumé plywood	AD471 - R408 R489 ongoing	2004	983
Open mesh fabrics of glass fibres	AD558 - R539 - R554 - R571 - R594 ongoing	2011	1,180
Organic coated steel products	AD584	2012	5,428
Oxalic acid	AD568	2011	
Peroxosulphates (persulphates)	AD511 R566	2013	
Polyester high tenacity filament yarn	AD547 R627 ongoing	2010	1,333
Polyethylene terephthalate (PET)	AD468 R360-R401-R631 ongoing	2010	2,057
PSC wires and strands	AD529 R534 R596	2015	1,267
Ring binder mechanisms	AD350 R260 R313 R340 R364 R442 R463 R612	2010	
Seamless pipes and tubes, of iron or steel (certain)	AD533R606 ongoing	2015	20,768
Seamless pipes and tubes of stainless steel	AD565	2011	4,395
Silicon metal (silicon)	AD245-R139-R288-R333-R393-R467-R556-R616-R626 ongoing	2010	1,500
Sodium cyclamate	AD626 just started	2015	
Sodium gluconate	AD544-R624 ongoing	2010	
Solar glass	AD598 R611 ongoing	2013	857
Solar panels (crystalline silicon photovoltaic modules and key components)	AD590-R615-R620 ongoing-R629-R640		16,419
			4,782
			3,920
Stainless steel cold-rolled flat products	AD607 ongoing	2015	11,820
Stainless steel fasteners and parts thereof	AD482 R518 R535 R576	2005	252
Stainless steel tube and pipe butt-welding fittings	AD622 New investigation ongoing	2015	1,861
Steel ropes and cables	AD384 R320	2012	2,694

	R348 R517		
Sulphanilic acid	AD444 R429 R581	2014	
Tartaric acid	AD488-R419-R443-R516- R521-R529	2012	230
Tartaric acid	AD614 Ongoing	2015	
Threaded tube or pipe cast fittings, of malleable cast iron (MTF)	AD585-R623 ongoing	2012	1,447
Trichloroisocyanuric acid (TCCA)	AD480 R478 R512 R578 R599	2011	
Tungsten carbide and fused tungsten carbide	AD238 R299 R335 R493	2011	557
Tungsten electrodes	AD502 R464 R547	2013	
Welded tubes and pipes of iron or non-alloy steel	AD523 R589	2015	939
Wire rod	AD530R602	2009	8,991
Total cases ongoing (available information only)			302,970
Agglomerated stone	AD 600	2014	
Aluminium foils ("converter foils" certain CAF)	AD615 terminated	2014 (just initiated)	5741
Candles (certain candles, tapers and the like)	AD528 R597 terminated	2015	6,741
Cargo scanning	AD539	2006	
Saddle	AD508	2005	1,200
Castings (certain)	AD477 R448 R474 RR505 R519	2011	1,610
Coke 80+	AD518	2013	767
Compact disk CR-RS	AD500	2006	
Compressor (certain)	AD519	2011	200
Dyciandiamid	AD512 R564	2014	
DVD+-Rs	AD501	2006	
Footwear with protective toe up	AD495	2006	
Footwear with upper leather	AD459 R434 R 459	2004	57,047
galvanized steel	AD526	2009	
Glass fibre fabrics (woven and/ or stitched)	AD576	2012	
Granular polytetrafluoroethylen (PTFE)	AD485	2010	
Graphite electrode system (certain)	AD567	2011	
Magnesia brics	AD483 R445 R452 R453 R509 R511	2012	
Pentaerythritol	AD504	2007	
Plastic sacs and bags	AD497 R415 R450 R508 R510 R536	2005	12,000
Polyester filament fabrics (certain finished)	AD481 R413 R454	2005	790
Polyester staple fibres (PSF)	AD472 R385 R388 R428 R497	2011	1,186
Polyvinyl alcohol	AD517	2008	
Seamless pipes and tubes (large)	AD597	2013	2,862

Silico-manganese	AD513	2012	
Sodium cyclamate	AD571	2012	
Soy protein product	AD572	2012	
Stainless steel cold rolled product	AD527	2009	
Stainless steel fittings	AD596	2013	
Strawberries	AD505	2012	2,700
Tartaric acid	AD577		
Television picture tubes (cathode-ray colour	AD503	2006	
Tris (2-chloro-1-methylethyl) phosphate (TCPP)	AD562	2011	
Wireless wide area networking (WWAN) modems	AD561	2011	
Total Cases without measures, terminated or withdrawn			87,103
Total jobs			390,073

Sources: DG Trade Notices, <http://trade.ec.europa.eu/tdi/notices.cfm>; Industry data list of the 94 cases available on DG-Trade web site on 31st December 2015

<http://trade.ec.europa.eu/tdi/completed.cfm> and additional cases still active

most of the information are sorted out from the Regulations on Provisional measures and subsequent paragraphs

ABOUT AEGIS EUROPE

AEGIS Europe is a grouping of nearly 30 industrial associations dedicated to ensuring that EU policymakers work towards free and fair international trade. AEGIS members are leaders in sustainable manufacturing and account for more than €500 billion in annual turnover and millions of jobs across the EU. To find out more about AEGIS Europe please visit www.aegiseurope.eu.