Sustainability Impact Assessment (SIA) in support of an Investment Agreement between the European Union and the People’s Republic of China

_Draft Inception Report_

_Civil Society Dialogue_

_Ecorys Nederland B.V., Oxford Intelligence, TNO_

_Brussels, 26 May 2016_
Agenda of the presentation

1. General introduction and approach
2. Legal framework and the Investment Agreement
3. Overall analysis
   a. Economic
   b. Social
   c. Human rights
   d. Environmental
4. In-depth sector analyses
5. Stakeholder consultations
6. Planning
7. Questions
1. General introduction and approach
1. General introduction and approach

Overall approach of the study based on four steps:

1. **Establishing the baseline and change scenarios**
   - Up-to-date overview of the current situation with respect to current investment levels between the two partners

2. **Screening for key sustainability issues associated with the agreement**
   - Key sustainability impacts associated with the individual elements under negotiation
   - Sector selection

3. **Overall analysis and sectoral analysis**
   - Overall impact (economic/social/environmental/human rights)
   - In-depth sector impact
   - Cross-cutting issues (CSR, the right to regulate, third country effects)

4. **Policy recommendations and accompanying measures**
   - Sustainability areas
   - Sectors selected
1. General introduction and approach

Introduction of the project team

<table>
<thead>
<tr>
<th>Position / team</th>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Team Leader</td>
<td>Richard Liebrechts</td>
</tr>
<tr>
<td>Economic team</td>
<td>Nora Plaisier</td>
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<tr>
<td></td>
<td>Helen Coskeran</td>
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<td></td>
<td>Corine Besseling</td>
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<td></td>
<td>Stephanie Bouman</td>
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<tr>
<td>Social/legal/HR team</td>
<td>Eric de Brabandere</td>
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<td></td>
<td>Marleen Rueda</td>
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<td>Malin Oud</td>
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<td>Sophie Rohlfis</td>
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<td>Environmental team</td>
<td>Evgueni Poliakov</td>
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<td>Trond Husby</td>
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<tr>
<td>Consultations team</td>
<td>Marieke Reichwein</td>
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<td></td>
<td>Shasha Wang</td>
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<td></td>
<td>Stephanie Bouman</td>
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<tr>
<td>Project coordinator</td>
<td>Corine Besseling</td>
</tr>
<tr>
<td>Quality control</td>
<td>Floor Timmons - Smakman</td>
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</table>
2. The Investment Agreement: baseline and change scenario
2b. The Investment Agreement

• Currently 26 bilateral investment protection agreements in place between China and 27 EU Member States
EU’s first ever stand-alone investment agreement covering both market access and investment protection

Aims of the Investment Agreement:
• Improve access to the EU and Chinese markets;
• Address key challenges of the regulatory environment (e.g. transparency, licensing and authorisation procedures);
• Protection of investors in China and EU (e.g. against unfair and inequitable treatment, unlawful discrimination and hindered transfer of capital and payments linked to an investment);
• Ensure a level playing field by pursuing, inter alia, non-discrimination as a general principle subject only to a limited number of clearly defined situations;
• Support to sustainable development initiatives by encouraging responsible investment and promoting core environmental and labour standards;
• Allow for the effective enforcement of commitments through investment dispute settlement mechanisms available to Contracting Parties and to investors.
3. Overall analysis
3. Overall analysis

Key sustainability areas:

• Economic, social, environmental, HR impacts

Cross-cutting issues:

• Legal analysis:
  – change scenario;
  – the right to pursue legitimate public policy objectives;
  – overall investment environment.

• Corporate Social Responsibility

• Third countries effects
3a. Economic analysis
3a. Economic analysis

Existing economic analysis in impact assessment
– Prepared by the European Commission, before the start of the negotiations on the Investment Agreement with China

Approach to this impact assessment
• Reviewing the results from the EC’s Impact Assessment
  – Supplementing them with additional insights, with a more qualitative focus

Sources: literature review (e.g. LSE, UNCTAD), online survey among business stakeholders and potential investors, in-depth sector studies including different consultation activities
3a. Economic analysis

Analysis of modelling assumptions: baseline and change scenario

• More information on recent trends in investments between the EU and China (and third countries) from Eurostat and IPAWorld.

• Analysis of information on change scenario and to what extent this would affect the modelling results.

Supplementing with additional insights (qualitative focus)

• Assessment of potential for new investors entering the market
• Investigate different types of FDI in relation to global value chains
• Assessment of potential impact on SMEs
• Third country effects analysis, taking into account:
  – Investment diversion effect
  – Value chain effects
3a. Economic analysis

Chinese inward and outward FDI flows (1980-2014)

Chinese inward and outward FDI stocks (1980-2014)
3a. Economic analysis

Top 10 sources of FDI projects into China

<table>
<thead>
<tr>
<th>Origin country</th>
<th>Percentage of overall FDI projects into China</th>
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</thead>
<tbody>
<tr>
<td>United States of America</td>
<td>30.6</td>
</tr>
<tr>
<td>Germany</td>
<td>13.3</td>
</tr>
<tr>
<td>Japan</td>
<td>7.1</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.7</td>
</tr>
<tr>
<td>South Korea</td>
<td>3.2</td>
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<tr>
<td>Taiwan</td>
<td>3.2</td>
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<tr>
<td>France</td>
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<tr>
<td>Switzerland</td>
<td>2.9</td>
</tr>
<tr>
<td>Australia</td>
<td>2.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Top 10 recipient countries of Chinese FDI (number of projects) between 2013 and 2015

<table>
<thead>
<tr>
<th>Destination country</th>
<th>Percentage of overall Chinese outward FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>10.5</td>
</tr>
<tr>
<td>Germany</td>
<td>9.8</td>
</tr>
<tr>
<td>United States of America</td>
<td>9.0</td>
</tr>
<tr>
<td>India</td>
<td>5.4</td>
</tr>
<tr>
<td>France</td>
<td>5.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.1</td>
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<td>Singapore</td>
<td>2.8</td>
</tr>
<tr>
<td>Spain</td>
<td>2.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.2</td>
</tr>
</tbody>
</table>
3a. Economic analysis

Main sectors in Chinese outward FDI
Shift from resource-seeking activity to market- and intangible-asset seeking activities

Majority of greenfield FDI projects in Manufacturing (51.7%), with main subsectors automotives, machinery and equipment, chemicals and computer equipment.

Government guidelines focus on following activities for FDI:
• New energy;
• Energy conservation and environmental protection;
• Biotechnology such as drugs and medical devices;
• New materials;
• Information technology;
• Aerospace and telecom equipment manufacturing; and
• Clean energy vehicles as strategic
3a. Economic analysis

FDI inflows and outflows for EU28 (1970-2014)

FDI inward and outward stocks for EU28 (1970-2014)
### 3a. Economic analysis

**EU FDI stock in China by sector in million euros (2010-2012, millions of euros)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and fishing</td>
<td>17</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2.013</td>
<td>2.459</td>
<td>1.995</td>
</tr>
<tr>
<td>- Extraction of petroleum and gas</td>
<td>1.916</td>
<td>2.355</td>
<td>1.884</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>39.697</td>
<td>55.147</td>
<td>60.425</td>
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<tr>
<td>- Food products</td>
<td>2.951</td>
<td>3.500</td>
<td>2.781</td>
</tr>
<tr>
<td>- Total textiles and wood activities</td>
<td>811</td>
<td>865</td>
<td>963</td>
</tr>
<tr>
<td>- Total rubber, petroleum, chemicals and plastic product</td>
<td>8.856</td>
<td>12.873</td>
<td>14.451</td>
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<tr>
<td>- Total metal and mechanical products</td>
<td>15.845</td>
<td>20.611</td>
<td>19.791</td>
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<tr>
<td>- Total machinery, computers, RTV and communication equipment</td>
<td>13.339</td>
<td>16.388</td>
<td>15.010</td>
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<tr>
<td>- Total vehicles and other transport equipment</td>
<td>7.184</td>
<td>11.745</td>
<td>17.020</td>
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<tr>
<td>- Other manufacturing</td>
<td>4.046</td>
<td>5.549</td>
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<tr>
<td>Electricity, gas and water</td>
<td>34</td>
<td>877</td>
<td>873</td>
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<tr>
<td>Construction</td>
<td>251</td>
<td>630</td>
<td>690</td>
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<tr>
<td>Services</td>
<td>35.399</td>
<td>43.081</td>
<td>53.171</td>
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</tbody>
</table>

Source: Eurostat.
3a. Economic analysis

FDI projects from EU into China by activity (2013-2015)

- Education & Training: 53%
- Sales & Marketing: 29%
- Research & Development: 7%
- Testing & Servicing: 3%
- Logistics: 6%
- IDC: 3%
- Headquarters: 1%
- Manufacturing: 1%
- Testing & Servicing: 0%
3b. Social analysis
3b. Social analysis

Main steps

1. Preparation of a baseline scenario
   - General level of standards for (quality of) employment and other social key relevant standards.
   - Based on available information, existing legislation and stakeholder consultation.

2. Analysis of institutions for labour market governance
   - Legal framework for employment and working conditions, including ILO conventions
   - Policies and institutions for social policy
   - Social partners’ participation in labour market governance

3. Impact of potential investment flows
   - Consideration of issues stemming from the overall economic analysis
   - Employment effect by gender, and the impact on working and employment conditions and the informal economy
3b. Social analysis

Main topics

• Key social indicators to be assessed:
  – employment effects, possibly by gender and sector
  – working conditions
  – Freedom of association and the right to collective bargaining
  – Discrimination on the grounds of gender, health, migration, registration, disability and age
  – Income distribution
  – Governance, participation and good administration: institutions for labour market governance.
  – informal economy

• Analysis of the interaction between the agreement and the effective implementation of the international Core Labour Standards and Fundamental Conventions of the ILO

• Analysis of the implications of the agreement for social policy
3b. Social analysis

Methods

- Literature review (e.g. Princeton, ILO, World Bank),
- Legal analysis (e.g. EU Directives, national laws),
- Data analysis,
- Expert interviews,
- Stakeholder consultations (e.g. All-China Federation of Trade Unions)

Stakeholders are invited to provide input
3c. Human rights analysis
3c. Human rights analysis

Main steps

1. Selection of relevant human rights.
2. Description of the baseline scenario and the policy measures shaping the practice of the selected rights.
3. Analysis of how the selected human rights are likely to be impacted positively or negatively, based on the impacts identified in the economic analysis.
4. Analysis of the extent to which the measures may enhance or impair the enjoyment of the relevant human rights.

Methods
Literature review (e.g. ILO reports, reports from UN experts), legal analysis, expert interviews and stakeholder consultations (e.g. the Institute for Human Rights and Business).
3c. Human rights analysis

Areas likely to be covered

- Right to property;
- Right to an effective remedy and to a fair trial;
- Non-discrimination;
- Freedom of association and freedom of expression;
- Prohibition of forced labour and child labour;
- Rights of indigenous peoples;
- Right to an adequate standard of living and the right to health;
- Right to privacy and protection of personal data

Based on the normative framework of the Charter of Fundamental Rights of the European Union, the relevant UN Treaties and conventions, the ILO Core Labour Conventions, and the European Convention on Human Rights.

Stakeholders are invited to provide input
3d. Environmental analysis
3d. Environmental analysis

Scope of the analysis

• Analysis of the recent developments in climate and energy policies in China and the EU

• Inventory of existing multilateral environmental agreements (MEAs)

• Analysis of direct and indirect impacts on environmental areas using a structural decomposition analysis (estimated changes from liberalisation commitments on emissions to the air, waste and waste management, GHG emissions, use of energy, water, resource use and land use)
3d. Environmental analysis

Approach to the quantitative analysis

- Structural Decomposition Analysis (SDA) using EXIOBASE database
  - Uses the economic input-output model that is based on input-output coefficients and final demand per sector
  - Analyses changes in indicators such as energy use, CO₂ emissions, labour demand and value added
  - Investigates whether recent changes in the environmental indicators in the EU and China can be explained by imports or exports
  - Estimates direct and indirect environmental impacts of the Investment Agreement, in combination with the figures from the Commission Impact Assessment
3d. Environmental analysis

Approach to the qualitative analysis

• Key issues:
  – Climate;
  – Air quality;
  – Water quality and resources;
  – Biodiversity, flora, fauna and landscapes;
  – Waste production / generation / recycling;
  – Efficient use of resources;
  – Sustainable consumption and production;
  – International environmental impacts;
  – Transport and use of energy;
  – Land use

Methods: literature review, survey carried out in this study, stakeholder consultations
4. In-depth sector analyses
4. In-depth sector analyses

Sector selection criteria

• Size of EU’s outward FDI of the sector, based on Eurostat data;
• Sectors that are likely to attract large amounts of EU investments in China in the short to medium term;
• Labour intensity and potential impact on employment

• Final selection will be done in close consultation with the Inter-services Steering group and taking into account contributions from stakeholders

– Stakeholders are still welcome to put forward their suggestions with arguments
### 4. In-depth sector analyses

**Summary of the selection criteria, criteria split out in extra-EU and China**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Criteria 1a</th>
<th>Criteria 1b</th>
<th>Criteria 2a</th>
<th>Criteria 2b</th>
<th>Criteria 3a</th>
<th>Criteria 3b</th>
<th>Total</th>
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<td>Agriculture, forestry and fishing</td>
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<td>2</td>
<td>3</td>
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<td>Food, beverages and tobacco</td>
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<td>3</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2.00</td>
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<td>1</td>
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<td>Wood, paper, printing and reproduction</td>
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<td>1</td>
<td>2</td>
<td>2</td>
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</table>
4. In-depth sector analyses

Sectorial analysis

• Based upon the criteria, we propose six sectors for in-depth analysis:
  – Mining and energy extraction;
  – Processed foods and beverages;
  – Chemicals;
  – Transport equipment;
  – Communication and electronic equipment;
  – Finance and insurance

• Topics to be covered:
  – Baseline description of the sector
  – Market access issues and other challenges
  – Expected impacts of the EU-China investment agreement
  – Policy recommendations
4. In-depth sector analyses

Methodologies

• Review of literature
• Review of data
• Review of relevant legislation and regulation
• Causal chain analysis
• Survey
• Interviews with experts
• 3 case studies
  – Specific companies (OI’s databases) – EU investors in China and/or Chinese investors in the EU
  – Aim: to shed light on the investment considerations and the role of the investment agreement
5. Stakeholder consultation
5. Stakeholder consultation

Consultation plan

• An assessment of the civil society landscape in China
  – an identification of key stakeholders and potentially affected groups to be consulted in the EU and China
  – a mapping the nature of civil society in China

• A detailed description of the appropriate tools and activities to be used in the stakeholder consultation plan given the different local stakeholder landscapes

• The development of a mailing / distribution list with contact details of these key stakeholders.

• An outline of the consultation process and planning

• A risk assessment of the stakeholder engagement plan and how these risks will be monitored and prevented/mitigated to ensure constructive dialogue and useful inputs from stakeholders
5. Stakeholder consultation

Consultation plan

Purpose

Dissemination

Consultation
1. Ensuring quality, credibility and legitimacy of the SIA process;
2. Identification of the sectors for in-depth analysis;
3. Provide sector specific input;
4. Identification of priority areas and key issues in the trade negotiations;
5. Ensure a better understanding of the TSIA process by civil society.

Consultation tools and activities

Website
- Background TSIA
- Study downloads
- Study and event updates
- Input from stakeholders
- Discussion forum
- Contact

Electronic
- Electronic newsletters
- Dedicated email address
- Facebook
- Twitter
- LinkedIn

Ad-hoc
- Interviews
- Stakeholder surveys
- Meetings
- Attendance of relevant conferences

Civil society meeting and events
- Three public meetings organised by European Commission:
  1. After draft inception report
  2. After draft interim report
  3. After draft final report
- Workshop in Brussels

European Union
- EU organisations
- Business representatives
- Civil society organisations
- Research institutes / think-tanks

China
- Business representatives
- Civil society organisations
- Government
- Research institutes / think-tanks
5. Stakeholder consultation

Consultation tools

• A dedicated website for the SIA
5. Stakeholder consultation

Consultation tools

- Electronic communications and social media
  - Email address (Sia-China@ecorys.com)
  - Newsletters
  - Facebook
  - Weibo
  - The Ecorys Trade Twitter
  - WeChat
  - LinkedIn
5. Stakeholder consultation

Consultation tools

Other consultation tools
• Ad-hoc consultations such as interviews, meetings, questionnaire (stakeholder survey) and the attendance of relevant conferences during the interim phase
• Civil Society dialogue meetings in Brussels
  – Presentation of the draft reports.
• Workshop in Brussels early July 2016
  – Focussed parallel sessions:
    ◦ Social impact
    ◦ Environmental impact
    ◦ Sector impact

• Stakeholder input and feedback on our report is very welcome!
6. Planning
## 6. Planning

<table>
<thead>
<tr>
<th>Activity</th>
<th>Deadline</th>
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<tbody>
<tr>
<td><strong>INTERIM PHASE</strong></td>
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<tr>
<td>Deadline for providing input</td>
<td>5 June 2016</td>
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<tr>
<td>Stakeholder workshop in Brussels</td>
<td>Early July 2016</td>
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<tr>
<td>Draft Interim Report published online</td>
<td>July 2016</td>
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<tr>
<td>Steering Committee Meeting 3</td>
<td>September 2016</td>
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<td>Revised Interim Report</td>
<td>September 2016</td>
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<td><strong>FINAL PHASE</strong></td>
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<td>Draft Final Report published online</td>
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<td>Steering Committee Meeting 4</td>
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<td>Civil Society Dialogue 3</td>
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<tr>
<td>Revised Final Report</td>
<td>December 2016</td>
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</table>
Let’s stay in touch!

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Thank you for your attention

Any questions?