

WEDNESDAY 6 MAY 2009

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Present

Crickhowell, L.  
Hamilton of Epsom, L.  
Jay of Ewelme, L.  
Teverson, L. (Chairman)

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Witnesses: **Mr Patrick Child**, Head of Cabinet of Commissioner Benita Ferrero-Waldner, **Mr Vincent Guerend**, Deputy Head of Cabinet, **Mr James Moran**, Director - Asia, DG RELEX, **Mr Franz Jessen**, DG RELEX, and **Mr Asad Beg**, co-Desk China (Cooperation), DG RELEX, European Commission, examined.

**Q335 Chairman:** Thank you very much indeed. I know the timetable has been changed around a fair bit, so thank you for being available. If I go through the house notices from our side, which is always a little strange when we are in your house. We will be taking a record of the meeting because it is only recorded responses to our inquiry that we are able to take as evidence. What we will do is send you a copy of the transcript which you are able to amend if you feel it is not clear. If at any point you do specifically want to go off the record, if you let us know that, that is possible, and preferably let us know when we go back on the record. As you know, this is an inquiry into EU-China. It is clear who we are, but perhaps if I could just make sure we have got everybody's name for the transcript.

**Mr Guerend:** I am Vincent Guerend, the Deputy Head of the Cabinet of Commissioner Ferrero-Waldner.

**Mr Moran:** I am Jim Moran. I am the Director for Asia in DG RELEX.

**Mr Jessen:** Franz Jessen, Head of Unit for China.

**Mr Beg:** Asad Beg, co-desk for China within Franz's unit.

**Q336 Chairman:** Thank you very much indeed. Kathryn is the Clerk to the Committee who organises everything for us and Oliver helps us out in terms of the work we do. We have a number of questions which I think you have had both for yourself, Mr Child, and Mr Moran. What I intend to do is go through primarily the ones we have directed toward yourself, but if we have got time we will go through some of the other ones as well. I do not know if there is anything you would like to say to start off in terms of a short opening statement or whether you would like us to move into the main questions.

**Mr Child:** Perhaps I could just welcome the Committee to the Commission on behalf of the Commissioner, Benita Ferrero-Waldner. Today she is in Prague at one of the many summits with the countries that we have this week, so apologises that she is not able to meet the Committee as she would have very much liked to but she hopes that we will be able to provide the answers to your Committee's questions.

**Q337 Chairman:** Thank you for that and for hosting us here. Perhaps I could start, which is to ask how you would assess the development of EU-China relations over the last five to ten years, the priorities in relation to China, to what extent have the aspirations set out in the Commission's Communication, *EU-China: Closer Partners, Growing Responsibilities*, been fulfilled, where has the EU succeeded in its aims and what have been the areas of greatest difficulties and obstacles in terms of closer ties? It is really an introductory run around the block to look at where we are and perhaps the difficulties of getting towards where we need to be.

**Mr Child:** Thank you very much. Obviously the relationship between the EU and China is extremely important and one which is of growing importance for both sides. This is an excellent opportunity to have this discussion with you on what is one of our most important relationships. I think that we can highlight a number of important areas of progress, in particular the ongoing discussions on the new Partnership Agreement with China which are

making good progress as well as the efforts that we are making to strengthen the trade and economic discussions with China through the recently created High-Level Economic and Trade Dialogue with China, which I understand you will be talking to Commissioner Ashton about later today.

**Q338 Chairman:** Yes.

**Mr Child:** Last year the Commission had a very successful meeting where a large number of Commissioners went to meet the Chinese Government and we have had a number of very high-level visits from the Chinese leadership to Brussels in recent months. There are some encouraging signs of the seriousness that both sides attach to the relationship. There are some very important issues, like dealing with the economic crisis and meeting the challenges of climate change, energy security, which are high on our agenda and which the Commissioner and President Barroso are looking forward to discussing with the Chinese at the summit which will take place on 20 May. Of course, there are also some challenges with the relationship as your question highlighted. We have made less progress than we would like on the dialogue on human rights and democracy with China and we still have trade disputes in a number of important areas. Though I very much welcomed the strong position that the recent G20 summit took on the need for everybody to avoid protectionist reflexes in response to the economic crisis, I think we have to keep that very much in mind also in our relationship with China. We are also keen to engage with China on meeting some of the bigger global issues. There are some very important regional security issues and recent events with North Korea and the missile test is one example of that. Commissioner Michel, the Development Commissioner, is anxious to make more progress with China in discussions on how we approach Africa and the development challenges in Africa and the sustainable management of natural resources from Africa. I know you are meeting his Head of Cabinet as part of your programme and I am sure he will want to talk to you on that. In answer to your question

about how we are getting on with the implementation of our Communication, to some extent it is work in progress and there are some areas of encouraging advance and there are some things that we still need to work on, but it is a very important relationship which is very strongly supported on both sides. If I could make a more philosophical reflection, apart from the obvious challenge of finding a way of having an EU-China relationship alongside the bilateral relationships that Member States individually have with China, we also have two elements of context which are relevant. Firstly, the Chinese Government has a longer time horizon in its planning than is sometimes comfortable for the EU and EU governments. We have a five year institutional cycle and governments change within that time even more often in a number of Member States which tends to force us to look at things in a shorter term perspective than is the case in China. Secondly, I think it is interesting that the EU-China relationship is very focused on economic trade and political issues but is still fairly light on hard security issues, whereas if you look at the US-China relationship in addition to those very important economic considerations there is a much stronger regional security dimension. That is not to say that we in Europe are not interested in the regional security issues but it is less a part of the general conversations about the relationships with China that we have day-to-day. I do not know if Jim Moran would like to add anything?

**Mr Moran:** I have just one thing to add to that because that was quite a comprehensive opening. On the summits, I thought it was significant that after the difficulty we had last November with the postponement of the Lyon summit it was interesting to see that Wen Jiabao, the Chinese Prime Minister, headed off for Brussels within two months of that basically to try to get things back on track as seen from their point of view. We were very welcoming of him and our Commissioner went in March to Beijing and was very warmly received by everybody including the Vice-President Li. It was very rapid movement on the

Chinese side to try to put things back together again. We have now agreed on the summit, as Patrick mentioned, on 20 May and quite probably a second one before the end of the year.

**Q339 Lord Hamilton of Epsom:** Over this past benign decade, which has now very much to a halt, we have benefited from incredibly low import prices of Chinese goods and this has been the moment when we have been brought up with a bump against the global market. One does not get the impression that the EU has actually learnt any lessons from this in terms that there still seems to be a grim determination to raise costs and impose more and more costs on employers when we are competing with people who do not worry about these things at all.

*Mr Child:* Thank you for that question which, of course, goes rather wider than the specific EU-China trade relationship, although relevant in that context. I think that the European Union's collective response to the economic challenges that we faced both before the crisis and subsequently has been going in the direction of trying to introduce more open and liberal markets. The Single Market in itself is an extremely strong project for improving the competitiveness of EU economies and bringing down costs. Of course, we have a certain social model for society which is vital for our populations and important to preserve and challenges to find a pattern of production that plays to the strengths of our competitive industries while taking full advantage of the trading opportunities which the growing economies like China and other emerging economies offer to us. I think that these subjects will continue to be at the centre of the Lisbon Agenda and the EU's collective attempts to reform our economic system and preserve the competitiveness and productivity of our economies. It is true that the exchange rate can weigh heavily on the competitiveness of any economy and the euro remains relatively strong while other currencies have perhaps not been so strong, including some of the ones which are closer to the eurozone than the Chinese economy, and that does alter the terms of trade at least in the short-term, although creates potential for inflation which will erode that difference in the longer term. I think that the

European Commission's contribution to the economic reform agenda has consistently been ahead of the curve of what the consensus of Member States' positions have been willing ultimately to embrace and I am confident that will continue to be the case. The Commission will be an agent of encouragement and change in trying to take the economic agenda in the right direction.

**Q340 Lord Crickhowell:** In your introduction and your remarks about the longer time horizon and the relative lack of interest in hard security issues you talked of bilateral relations and that prompts one to ask the question how does China really see the EU as an international partner, how strong is the EU's position when talking and negotiating with China compared with those of the individual major countries within the EU? We discovered very quickly in our look at the Russian relationships that Russia was adept at playing off the individual countries' interests - energy an obvious one - against those of the EU as a whole. How do you see the situation in that regard as far as China is concerned?

**Mr Child:** I think that China strongly sees benefit in the EU being a strong component in a multipolar system and for that reason is perhaps less tempted to go down the route of divide and rule, picking off differences between national positions of Member States than some of our other large partners. I think Jim's example of the speed with which the Chinese Prime Minister wanted to come and consolidate the relationship following the cancellation of the planned summit of last year was a very good example of the commitment that the Chinese leadership shows to having a very strong EU-China relationship. I think the Chinese system is sufficiently sophisticated to be able to do that in a way which is complementary and not contradictory also to having good bilateral relations with individual Member States.

**Mr Moran:** If I could just add to that because it relates a little bit to the point made about the long-term thinking of the Chinese. I think if you look back to the accession of Hu and Wen in 2003 and to the White Paper that the Chinese then produced on the European Union, which is

still the only White Paper produced by China on anything other than a nation state, you see remarkable consistency in the way that the Chinese have approached Europe throughout that time. What Patrick says has been borne out by the experience.

Another example is the negotiations on a new Partnership and Cooperation Agreement, which we will probably talk about separately. Remember that the original idea to update the 1985 Agreement, at least in print, was put there by the Chinese, the idea being that it would be a way to raise the level and effectiveness of the formal agreements between us. The Chinese well understand the European Union, they know that we are very much an *état de droit*, as the French say, and I think that played into their calculation. They have been consistent in that regard all the way through since 2003. There are some differences here and there and, of course, if they gain commercial advantage or other types of advantage by playing one Member State off against the other they will consider it, but they will always do so against the background that they do see the EU as a valuable partner as the EU for the reasons that Patrick gave. They see the relationship with the EU as complementary and not competitive to the bilateral relationship with Member States. Their geopolitical calculations are rather different from those of the Russians.

**Q341 Lord Crickhowell:** As they pursue their long-term objectives they must at times find dealing with the EU a fairly odd experience. Here is a year in which there is going to be a period of uncertainty about the arrangements for the Commission, where we are going to go down that road, the Presidency is held by a country which perhaps does not play a major role in their relationships and so on. Is the complexity of the EU set-up something that bewilders and puzzles them, something they seek to exploit, or have they learnt to live with it?

**Mr Moran:** One interesting statistic is the number of Chinese at the Chinese Mission here in Brussels. At the last count I think they had some 70 or 80 of them engaging with virtually every part of the institutional network here. As I said, they really have done their homework on the EU as an institution and what we are about. They might not have reached the same conclusions as we have done in the Commission or you have done in the UK but, nevertheless, they have done some very serious research and work on it and it shows up time and time again. As I said, that negotiation on a Partnership and Cooperation Agreement is very much a case in point. It is very interesting to see how the Chinese calculation has developed over the last five or six years. I am not saying this is necessarily all in our best interests, but I am saying that they work very carefully and seriously on dealing with the EU.

**Q342 Lord Hamilton of Epsom:** What is the current state of the institutional framework for the conduct of EU-China relations? What progress is being made in the negotiations for a Partnership and Cooperation Agreement and what is its potential to provide an effective framework for an increasingly complex relationship?

**Mr Moran:** Taking the second part of this first, the PCA, as I have mentioned before the Commission kicked this off back in January 2007. We have had some eight rounds, the most recent one just a week or two ago, with the Chinese on the political and cooperation part and, of course, there is another track which is basically led by DG Trade when it comes to what the Chinese call the update of the 1985 Trade and Cooperation Agreement, what we call the economic part of the PCA. On the political and general cooperation since we began, we are at roughly the halfway stage in terms of having agreed clauses and language with the Chinese. Nothing is agreed until everything is agreed, of course, the first principle of any negotiation, but in doing these sorts of negotiations and particularly in doing it with the Chinese you build it up from the ground floor, from the foundation upwards. We have actually managed to reach agreement with the Chinese on a number of areas, some of them more difficult than one

would imagine. For example, we are virtually in the same place as regards non-proliferation, which I think is very significant, where we have discovered many common interests, and we are engaging with them on difficult matters like human rights and they in turn, of course, are asking us a number of questions on their side with their demands. The current progress is just about where we think it should be and there is a chance that sometime next year on this part of the Agreement we might come through. Once the Agreement is in place it will be much more comprehensive than the current 1985 Agreement, which is purely trade and development cooperation effectively, that is way out of date. Perhaps with a new institutional arrangement, certainly on our side, it will be possible to engage the Chinese at a higher level than has been the case up to now in terms of operating the Agreement. We are particularly keen, and we always have been, to engage at the level of the State Council on the Chinese side and I think there is a chance we can do that with such an Agreement if and when it comes into being. More difficult has been the trade side where the Chinese have basically more or less stuck to their current WTO commitments and we are looking to go beyond, but I think you will also be discussing that part with our trade colleagues later on. On the PCA, the assessment, but I stand to be corrected by my colleagues as I get involved with this too directly myself, we are just about where we probably should be. On the institutional framework for the conduct of EU-China relations, it is a little bit related to that PCA negotiation as you can see. Much depends on what happens with the Lisbon Treaty, of course, in the short and medium-term as to how that will move on. For the time being, there are dialogues which are conducted on all sides. Most of them are done through the Commission, there are a couple which are run from the Council, for example on non-proliferation, which has been pretty good since the Non-Proliferation Declaration a few years ago and relates a little bit to what I just said about a non-proliferation clause in a PCA. That is a work in progress, as indeed is the Lisbon Treaty.

**Q343 Lord Hamilton of Epsom:** To what degree does the fact that so much of Chinese government is regional impact on this and that basically the central government cannot deliver on many aspects?

**Mr Moran:** In this context of the PCA and institutional relationships I do not think it is a big factor in this. It is a big factor, of course, in other areas. On IPR and areas of that sort, naturally provincial governments can vary quite a bit, and enforcement. Franz Jessen knows more about this than I do because he had to follow it on the spot for some years. Enforcement of central government regulations and so forth can be a bit variable as everybody knows, but is in this context not so much.

**Q344 Lord Jay of Ewelme:** Could I begin by picking up one point you made, Patrick, in your introduction when you said you thought the EU was quite light on hard security, on regional security issues as opposed to the economic and trade issues. I suppose my question is whether you think that matters.

**Mr Child:** I think that it is relevant in the way we approach China and the way we approach discussions with the United States on China. Of course it would be good if the EU were able to be more present in some of the regional security issues in Asia. I am not talking about security issues worldwide, obviously, but in some of the hot issues in Asia. To take an example, in some of the earlier discussions in the Six-Party Talks on North Korea we have occasionally been approached by the Americans with a request to come with funding for one or other aspect of the accompanying measures that they hope would help to bring the parties towards some sort of agreement on the future set-up and a peaceful resolution of that situation and we have been ready to consider such requests, but I guess our ability to shape and influence the way in which the EU's money and other instruments might be used would have been more effective if we had been part of those discussions right at the table all through the process. Certainly our capacity to carry the political constituencies with us in Member States

and in the EU, in the European Parliament and elsewhere, would be strengthened if we could show that we were bringing our contribution as the EU to these discussions rather than responding to requests from others. I think that it would be a good thing if the EU were able to raise its game in this area, but we have other challenges around the world as well which we also need to work on. It is not something which makes me lose a lot of sleep but it is an area where we could potentially improve.

**Mr Moran:** What Patrick says is absolutely right, but one thing to remember is that since the arms embargo story of 2003-05 a number of strategic dialogues on East Asia were started, three of them in fact, one with the Americans, another with China and a third one with Japan. One should keep that in mind. They are dialogues, of course, not necessarily the sort of cooperation you are probably hinting at, but it is quite an interesting departure. There has been quite a lot of discussion with China in the context of that particular dialogue on a whole series of issues, including those close to home like transparency in military expenditure and so on, not just on regional matters. That has been happening over the last two or three years and that is the troika format: Presidency, Commission and Council.

**Q345 Lord Jay of Ewelme:** I had not realised that the Americans had approached you on the Six-Party Talks, that in itself is quite an interesting reflection on how they see the EU as part of these complex of security and economic issues. Can I go on to ask a little bit about how you see the EU and China response to the present financial crisis. I suppose this will become slightly clearer after the summit in Prague. Do you see yourselves as on something of the same page as far as the response to the big issues which the financial crisis has raised on global economic trade and financial governance issues, for example, and in particular perhaps the reform of the IMF and the World Bank? Just as a codicil to that last point, what role might the EU have in trying to implement some of the G20 outcomes given that the EU itself does not have a seat on the Bank and the Fund Board and is there an issue there in

following up the G20? I might just have a follow-up about the G2 but I will stop there for now.

**Mr Child:** I think that the conclusions to the recent G20 summit very well encapsulate the degree of consensus that there is on the response to the global financial crisis and the things that are in those conclusions are where we agree, and in particular where the industrialised world can agree with also the emerging economies, and the things that are not so visible or prominent in those conclusions are the areas where we probably still need to work. The G20 conclusions are an excellent reflection of where the level of consensus is at. Within that, I would say that as well as reform of the international financial architecture, what I mentioned earlier about the shared commitment to resist the temptation to go into protectionism in the face of the economic pressures that we are all confronted with is something that we need to keep hold of very firmly. We have been concerned, I am sure like others, to see the work that the World Bank has been doing in monitoring how different trading actors, including I guess some quite close to home, have actually delivered on that commitment of the G20. Specifically on the reform of the World Bank and the IMF, I think everybody welcomes the increased resources in particular that are now available for the IMF to help countries affected by severe macro-economic imbalances. Going with that, there does need to be continuing reflection on the relative weights in the decision-making of the international financial institutions, of the developed world and the emerging economies. Those countries which are being asked to make big additional contributions to the IMF need to see that reflected in their influence and weight in the governance and decision-making capacities of the IFIs. That is the way the discussion will go in the future, I am sure, which does indeed present some pretty tough questions for the EU and EU Member States in particular. Looking at the composition of the G20, there was a striking number of European representatives of one sort or another sitting round the table and the others were also present. It is not surprising to me that this

debate on reform of the IFIs brings to the surface the questions about how the EU is engaging and represents itself in international organisations of this sort. If you ask the Commission, the case for more unified consolidated representation, or steps in that direction, is pretty unanswerable. Of course, we understand that there are many Member States with established positions and relationships in international organisations going beyond the IFIs, also the UN system for example, which politically are very important to them and which they are not going to be moving away from very quickly.

**Mr Moran:** I think there is a wider Asian point here as well. China has stumped up something for the resourcing of the IMF, I think 40 billion. Some people say it could and should have been a lot more. At the same time, interestingly, there has been a process going on related to what is known as the Chiang Mai initiative, which some of you who know the region may remember is something set up at the time of the Asian banking crisis and is supposed to be there to provide financial succour for the South East Asians and East Asia generally. I understand that they have very recently agreed on a rather significant package. I thought the most interesting thing about that was that the ADB managing director who was part of this felt it necessary to say that this was not at the cost of the IMF efforts that are being made by Asian countries. I think that sort of defensiveness shows you there are dangers there, particularly for the established international financial system if indeed, and this goes back to Patrick's point, those who are asked to give a stake are not also given the holding that should go with it.

**Q346 Lord Jay of Ewelme:** Personally, I agree with that. On the question of numbers of seats and voting and so on, have you had any suggestions, informal or otherwise, from the Chinese of, "Wouldn't it be a good idea if there were a European seat, it would make things so much easier"? Is there a push in that direction at all?

**Mr Child:** Not from China.

**Mr Moran:** China hedges on this one, I think.

**Mr Child:** Not that we are aware of from China.

**Q347 Lord Jay of Ewelme:** But from?

**Mr Child:** The question is sometimes raised both in our own internal discussions ---

**Q348 Lord Jay of Ewelme:** That I can imagine.

**Mr Child:** --- and in discussions with some of our other major partners.

**Q349 Lord Crickhowell:** I am tempted to ask one question following from a question posed by Lord Jay. He asked whether China and the EU shared a common approach to such things as financial governance, but is there not quite a serious problem of finding an agreed approach on what should now be done about financial governance of banking and other institutions? There are those in Europe, I know, who feel that somehow the whole thing was the fault of the so-called “Anglo-Saxons” and there now needs to be tight regulatory control which some of us think might have disastrous and damaging consequences of a quite different kind. There are differences even within Europe about what is the right solution, are there not?

**Mr Child:** There is a very active and important discussion going on within the European Union on how we should address the challenges and weaknesses in the financial system which have been revealed by the recent crisis. I think the report that was produced recently by ---

**Chairman:** I do not think we will go too far into all of this. It is just the internal European bit of it.

**Q350 Lord Crickhowell:** The difficulty is that we are trying to get common ground with a country like China when there are actually quite fundamental questions that we have got to

ask ourselves about the proper way to approach it and that is a factor that surely we have got to take into account.

**Mr Child:** I think then the short and simple answer to your question is that the Spring European Council was a very successful opportunity for Europe's leaders to define a common response to the economic crisis which was then an excellent preparation for the way that the European participants in G20 articulated their view. That does not mean there are not still things we need to discuss internally in working through the details of the positions that were agreed at the European Council and endorsed at the G20, but there was a high degree of consensus among Member States reached at that meeting.

**Q351 Chairman:** The next question is around the exchange rate and Lord Hamilton has already brought up some of this area and it may be we should ask some of those questions somewhere else. You mentioned the rest of eastern Asia and the various regional set-ups in ASEAN and the South Asian Association for Regional Cooperation, those sorts of areas. Does the EU and China have a similar view on the potential outcome in terms of regional groups elsewhere within Asia?

**Mr Moran:** If you go through them one-by-one, briefly, ASEM, the Asia-Europe Meeting, is a place where we have found a lot of common ground with China and it relates a bit to the previous discussion. Last October there was a summit of ASEM in Beijing and by most accounts it was the best we have ever had since this process was brought in in 1996. The reason for that was there was an extremely good discussion between principals on the financial crisis which was breaking there and then and to some extent I suppose it was good luck for ASEM that it took place at the right time, just before the G20 process got going, and it was a very good forum for talking about these issues. It was a discussion inspired as much by China as by anybody else, and I think that was an important point. They were not just the host, they were very insistent, notably with their Asian partners, to make sure that this thing

was brought front and centre, and it was. That is one example, perhaps the most prominent, but there are many others. China really does engage pretty heavily. ASEM, it is always there, attends all the events, all the conferences, is always pushing forward and is generally very positive. It is a different story elsewhere. If you look at the other fora, the ASEAN Regional Forum, which is the only security architecture that exists regionally in Asia, China tends to be a bit more hedged. It plays the game but it does not get terribly proactive. It is particularly concerned, for example, not to offend the North Koreans because of the Six-Party Talks process and various other things, so they are much more circumspect. We cooperate with them there on some softer security items. ASEAN is by far the most advanced regional organisation in Asia but there is still a great deal to do. Our focus in ASEAN is continuing to help ASEAN, particularly with its international efforts including developments. Co-operation with China in the ASEAN context does not take place very much, in fact hardly at all, because of our focus which is very much to support ASEAN to develop. More so in SAARC, SAARC is terribly under-developed and faces all sorts of challenges. It is a very under-developed regional organisation which, if you ask me, is in need of development and the focus there again is strengthening in any way we can those efforts for integration in that very dangerous part of the world of South Asia. Again, China is there but very distant as an observer; as are we, but we are much more engaged with SAARC than China is. It is really in ASEM where we do come closest to them in terms of cooperation.

**Q352 Chairman:** In terms of the Shanghai Cooperation area, which became headlines a couple of years ago but now seems to have disappeared, is that as dead as it would appear to be? Do we have an interest in the Chinese-Russian relationship?

**Mr Moran:** We do have an interest in the SCO, we follow it very closely. I do not think anybody for the time being, least not everybody, is talking about being in any way formally associated with it but, for example, just recently in March the SCO in Moscow had a

conference on Afghanistan and we attended that. I think it was the first time as the EU that we had got involved with the SCO at their invitation for pretty good reasons because on Afghanistan the more cooperation the better, particularly given the importance of Central Asia for that part of the world. Other than that, the SCO has really picked up in the last two or three years, not least because of the efforts of China, but that is another story.

**Q353 Lord Crickhowell:** You mentioned earlier the efforts with rule of law, democracy, human rights and so on, and we know it is an area of limited progress. Is there any way we can make our efforts more effective? What conditions should China fulfil before the EU lifts the arms embargo?

**Mr Child:** I think that it is indeed one of the more challenging areas of the relationship and it is something which we will certainly want to discuss in the negotiations on the new Partnership and Cooperation Agreement. It is precisely in order to bring together different strands of the relationship, including the more difficult ones, that we always favour a comprehensive approach to agreements with important countries rather than having a whole collection of rather separate sectoral agreements, and we must continue to make efforts in that respect. It is true that the existing human rights dialogue with China has not achieved all that we would like. We have had some general discussions on important things, like the review of the death penalty, but we have not been successful always in bringing up in that context individual cases. The most recent incident in that respect was when almost simultaneously as a meeting of the EU-China Human Rights Dialogue was taking place, when the meeting ended we received the information that a person we had been particularly following had been executed that same day, which was quite a strong and negative signal, we thought, on Chinese commitment to this human rights dialogue, but it is something which is and must remain very important and central to the relationship with China. We cannot ignore the very important human rights agenda because we have very important economic or commercial issues to

discuss with China, and certainly that is a point that Commissioner Ferrero-Waldner has always stressed.

**Q354 Lord Crickhowell:** I understand that, but if you do not achieve very much is there not a tendency perhaps for the Chinese to say, “Okay, we have got to go through this nonsense. They’re going to go on talking to us about this, but we can safely ignore doing anything about it because at the end of the day life goes on as we want it”?

**Mr Moran:** There is a tension here between the desire for process on the Chinese side and desire for substance on the European side all the time. It ebbs and it flows. Patrick mentioned something important in his presentation just now. He talked about the review of the death penalty. I do not think we could ever actually prove it because these things are difficult to quantify but one thing is for sure, that in at least a dozen successive Human Rights Dialogues under 12 different presidencies, we, as the EU, have consistently given the Chinese some very, very sharp and clear messages about what they need to do to reform the system so far as the death penalty is concerned. Of course, we aim for a moratorium and abolition. We are the only party external to China who have been consistently saying this. One or two individual Member States, the UK included, have been giving similar messages but that does tend to be a little less consistent because they are also dealing with a whole bunch of other issues with the Chinese. I do not think it would be too heroic to say that we did have some influence on the change in Chinese policy which was significant insofar as all death penalty sentences now are reviewed centrally in Beijing and, according to independent assessments, will probably lead to a reduction in the number of executions in that country. It does not solve the problem and it could be said to be marginal, but it is something which is significant in the big picture. I am not here to defend the Human Rights Dialogue as being the wonderful answer to all the problems we have with China but I would say it does require some patience and it does have some results. There is an evaluation being done this year. There is another

side to this which is extremely important and is often ignored because it is long, it is arduous, it is involving a lot of process, and that is the importance of the rule of law in China. The importance of the rule of law is something we never, ever fail to press. The opening of the EU-China law school supported by the Commission is a very good illustration of how we want built up capacities in order to promote rule of law.

**Q355 Lord Crickhowell:** I suggested in a conversation we were having earlier that it also probably has an impact in this increasingly global communications world in which whatever restrictions the Chinese Government may put on people looking at the Internet and so on, they have got to increasingly take account of opinion in China as I am sure it will probably impact on that.

**Mr Moran:** That is true.

**Q356 Lord Hamilton of Epsom:** Can I come in on corporate law and company law. It is in Chinese interests really that they should start getting their act together on this because it will then encourage direct investment into China whereas so much goes into Hong Kong now where they are protected by the Hong Kong judicial system. Are you noticing anything happening on that front?

**Mr Moran:** The WTO, of course, has driven a great deal of change in China since accession, not that they have necessarily done everything they should have done, I do not think one can say that, and you will probably talk about that in your discussions with our Trade colleagues. The law school I just mentioned does have an important component within it for training Chinese lawyers in corporate law, in civil law as well as criminal law, and perhaps eventually will have an impact on human rights-related activity as well. Corporate rule of law is seen as being the number one priority for that operation and I think it is important that the Chinese

have recognised that. You are absolutely right, investment in China is pretty impressive, but it could be an awful lot more impressive if they were to make greater advances on that front.

**Q357 Chairman:** Just to follow up Lord Crickhowell's question about the arms embargo and what the conditions are that it has lifted. Is it just that America allows us to, is that it?

**Mr Moran:** The Council conclusions of 2004 specifically mentioned a couple of points there. Just to recall, it was thought that it would be helpful if China was to make progress with its ratification of the International Covenant on Civil and Political Rights. The regional security dimension was also mentioned.

**Q358 Chairman:** What practically in reality could allow it to happen, I suppose that is what we are trying to understand?

**Mr Child:** (Off the record)

**Mr Moran:** (Off the record)

Individual Member States had their own conclusions to bring. As the European Union a lot of important lessons were learnt. Some of these lessons you can see for yourself and anyone can see them because during the British Presidency of 2005 for the first time CFSP policy guidelines for East Asia were developed and were published at the end of 2007. I am sure you have looked at those as part of the record of your inquiry. It is quite interesting if you take a close look at that document because there you will see both in letter and to some extent in spirit some of the lessons that we took on board from that experience.

**Lord Hamilton of Epsom:** Does the arms embargo work both ways? Is it an embargo on Chinese exports of arms as well? I know they have got a monopoly, for instance, in anti-personnel mines after we banned them.

**Q359 Lord Jay of Ewelme:** Since we are talking about sensitive technologies this follows on rather naturally from what we were asking about the arms embargo. Is there anything you want to say about the policy on export of sensitive technologies and in particular what kind of mechanisms are there for ensuring compliance by Member States?

**Mr Moran:** I think the most important thing for us in the Commission is the Dual-Use Regulation, which is extremely significant and, in fact, in some ways for the Chinese more irksome than the arms embargo itself. They never fail to make the connection between high-tech trade and the Dual-Use Regulation in conversations we have with them. It is a very difficult regulation to implement, as indeed it is for the Member States, but it is a significant part of the -if you will excuse the pun - armoury that we have in this regard, in addition to individual sovereign Member State controls of course.

**Mr Child:** And a fairly high degree of exchange of information between Member States on proposed commercial transactions.

**Q360 Chairman:** Perhaps we could move on to the more person-to-person, civil society-to-civil society side which we can sometimes forget in our own inquiry in that we are not talking just about a dialogue between a group of Member States and a sovereign nation, it is much more complex than that, and the question of how those cultural relationships and civil society relationships have developed, whether that has really fulfilled expectations and can it move forward in the future rather better?

**Mr Jessen:** What we have seen there has been a growing of the activities. We have a very large interaction in the development of tourism, for example, which is much faster than we had five years ago, helped very much by our ADS agreement that came into force in 2003 where group visits from China are now accepted into Europe with a fast-track visa procedure. Since 2001 we have seen a very significant increase in the number of Chinese students coming to Europe. We are talking about very substantial numbers today which are

comparable to and sometimes exceed what we see with the US and China. We have seen an increase in European interest in studying in China and the figure we have is something like 20,000 students from Europe studying in China.

**Q361 Chairman:** What is the figure estimated the other way around?

*Mr Jessen:* It is about 100,000. Then we have the more formalised EU level dialogues where we have the EU-China Forum that has taken place twice and has a number of activities under it that are taking place on a regular basis. We are trying to make that into a more permanent structured activity. This is bringing partners from different Member States and different parts of China together trying to see how farmers from China talk with farmers from different parts of Europe and so on. We need to do more in that area but it has developed quite a bit since 2006. We have also seen very good development in the think tank cooperation, European think tanks getting together at the level of the EU sharing experiences with, say, UK think tanks and German think tanks and so on, but also where EU think tanks get together and meet Chinese counterparts . That dialogue is also very productive today.

**Q362 Chairman:** What sort of area of think tanks is that?

*Mr Jessen:* Many of them are based in universities, of course, China institutes in various universities in Europe. Here in Brussels we have some think tanks that are focused on the EU with a special China interest.

**Q363 Chairman:** The other thing is the parliamentary links between the European Parliament and the Chinese Parliament. I think those were envisaged in agreements. Has anything happened on that side.

*Mr Jessen:* There have been regular contacts and meetings on a very regular basis for years now as Parliament-to-Parliament discussions.

**Mr Moran:** There was a very active MEP, Dirk Sterckx, a Belgian MEP, who is the chairman of the China delegation which is just about the best attended of virtually all the Asian delegations. We are often at hearings there, there are 30 or 40 MEPs participating and they are frequently in China.

**Q364 Chairman:** I remember that China was the only organisation that ever took any notice of European Parliament urgencies in the early days whereas the rest of the world just let them pass by, which was probably the best thing they did actually.

**Mr Moran:** I think it has changed a bit since then.

**Chairman:** I am sure it has, and hopefully so.

**Q365 Lord Crickhowell:** What is the situation on migration and management of the migration legal framework? How effective is that in dealing with the related problems of crime, terrorism, corruption and so on? What is the general picture on that?

**Mr Moran:** On migration for a long time we have tried to engage the Chinese on a readmission agreement, as we do with a number of partners. That has proven to be difficult, certainly we have been at it now for a number of years, primarily because the Chinese in return wish to have facilitation of legal migration particularly when it comes to dealing with business people, diplomats, and so on and so forth, which is something on which we have to depend on the Member States to get agreement and up to now we have not had a consensus from Member States on being able to provide the sort of facilitation that the Chinese desire. I think so long as we are not able to do it the readmission question will remain on the table, but I would not expect a negotiation to take place until and unless we can offer the Chinese something in return. Migration is among the priorities identified, but it is not at the top of the list. Illegal migration from China is a difficulty for a number of Member States, including the UK from time to time, but, as I say, it is a question of a quid pro quo.

**Mr Jessen:** You mentioned crime, terrorism, corruption and migration. Interestingly, these are four of the major chapters in the PCA negotiations and on three of them we have made very good progress on crime, terrorism and corruption. We still have to engage in-depth with the Chinese within the PCA context on migration, but that is one where we see progress being possible.

**Q366 Lord Crickhowell:** Can you give me some idea of the scale of what we are talking about, numbers of Chinese who have come and settled in Europe? Do we know what sort of numbers we are talking about?

**Mr Moran:** By its very nature illegal migration is always difficult to track, but I think it is fair to say there are significant numbers of Member States who over the years have had difficulties. The trend in recent years has not been alarmingly upwards but it is an ongoing difficulty in some Member States and one that we would certainly be able to deal with more effectively if we had a readmission agreement. As I say, in order to do that we need a quid pro quo and I do not think there is a consensus amongst the Member States yet on visa facilitation.

**Q367 Chairman:** I know there has been an issue in the UK with dodgy student permits, if you like, but are the routes just purely arriving at airports and getting access or are there routes across Central Asia that are happening now?

**Mr Moran:** There is an organised crime link in some of this, and it is well known. We have had some incidents in the UK, Morecambe and elsewhere, and that is affecting a number of Member States.

**Mr Jessen:** Forged documents, of course.

**Mr Moran:** One last point that is important to put on the record. Franz mentioned the ADS agreement and it is important to recall that in the ADS agreement we do have a readmission

clause. This, indeed, was the big sticking point to get it. We got it in the end, so anybody who overstays on an ADS scheme we have in place within that context a readmission mechanism which works for the Chinese.

**Q368 Lord Jay of Ewelme:** I think you said, Mr Moran, that there was an evaluation taking place later in the year of the Human Rights Dialogue. I just wondered, is that just for China or is that an evaluation of human rights more generally? What is the timing of that?

*Mr Moran:* I think it is at the end of the year, Franz, is it not?

*Mr Jessen:* It is just about to start.

**Q369 Lord Jay of Ewelme:** Is that an evaluation just done internally or with the Chinese? How is it carried out?

*Mr Jessen:* It is just on the European side.

**Q370 Lord Jay of Ewelme:** You do not ask the Chinese whether they think it has made an impact?

*Mr Moran:* We could, I suppose, but it might take a while to get the report finalised.

**Lord Jay of Ewelme:** Yes, I can see that.

**Q371 Chairman:** Is there anything that we have missed or anything you would like to put before us? We have not gone through energy security and the environment so much because we are dealing with that in some other areas, but I do not know whether there is anything specific you would like to say on that.

*Mr Child:* In conclusion I did just want to underline on environment and climate change that engaging with China in preparations for the Copenhagen meeting is likely to be one of the really top line objectives for the summit in a few weeks' time. Of course, energy security is a somewhat different issue, in fact, which is of shared concern. We are in a slightly different

situation, I guess, on energy security in our relations with China than the environment but it is also something that we need to discuss with them very actively. If you are able to find colleagues in this town who know even more about those topics than we do I would urge you to really get into that with them.

**Q372 Chairman:** If there is one message that you want to give to us from the external relations point of view on Copenhagen we would be very interested to hear it because presumably this must be one of the main areas where if cooperation should work anywhere it has to be this, does it not?

**Mr Child:** Indeed. I think after the decisions of last December's European Council on the European strategy on climate change, the big challenge we now face is spreading the word with other major third countries so we are taking the opportunity in all the meetings we are having, the summits and all the other meetings at the level of the Commissioner and elsewhere, to push this agenda extremely strongly.

**Q373 Lord Crickhowell:** We have been pursuing Copenhagen at other meetings and getting quite a lot of information on it. You are very much laying emphasis now on the energy security point. As a Committee we had a long look at energy security in Russia but I am not sure that we are as well-informed about energy security issues with China. What are the main points of concern on energy security as far as China is concerned?

**Mr Child:** To a large extent when we are dealing with China we are competing with China for the energy sources and energy opportunities.

**Q374 Lord Crickhowell:** In Africa, the Middle East and elsewhere?

**Mr Child:** Yes.

**Q375 Lord Crickhowell:** Is there a debate going on and in what form? I confess to taking an interest in the climate change issue and I am suddenly rather aware that I am not as well-informed as I should be about Europe's position on the energy security issue.

**Mr Child:** One important chapter on energy security is also trying to diminish our needs for energy and energy efficiency and developing the technologies that are conducive to that. Those are the sorts of areas where we can readily cooperate with China and other important economic actors. That is an area that we can take forward with them.

**Mr Moran:** And we are so doing. The Chinese themselves recognise the importance of energy efficiency, it is in their five-year plan. They have missed the targets the first year or two but they are getting better now and know it is a top priority for them. On the competition for energy, it exists but it is nowhere near to the same degree as with other parts of the world. For Central Asia, of course, there are some areas where we are both consumers of energy. The other side of it is that one has got to be, of course, always aware of the mercantilist approaches which from time to time mean we do see, including from China, locking up resources in a way which would not allow the market to function as effectively as we would like and that is a message we always give to the Chinese as best we can.

**Chairman:** Thank you very much indeed to all of you for giving us this time. It has been a very useful dialogue. Thank you very much indeed.