European Commission - Press release

Key elements of the EU-China Comprehensive Agreement on Investment

Brussels, 30 December 2020

The cumulative EU foreign direct investment (FDI) flows from the EU to China over the last 20 years have reached more than €140 billion. For Chinese FDI into the EU the figure is almost €120 billion. EU FDI in China remains relatively modest with respect to the size and the potential of the Chinese economy.

As regards investment, the EU-China **Comprehensive Agreement on Investment (CAI) will be the most ambitious agreement that China has ever concluded with a third country.** In addition to rules against the forced transfer of technologies, CAI will also be the first agreement to deliver on obligations for the behavior of state-owned enterprises, comprehensive transparency rules for subsidies and commitments related to sustainable development.

The CAI will ensure that EU investors achieve better access to a fast growing 1.4 billion consumer market, and that they **compete on a better level playing field** in China. This is important for the global competitiveness and the future growth of EU industry.

Ambitious opening by China to European investments

Firstly, the CAI binds China's liberalisation of investments over the last 20 years and, in that way, it prevents backsliding. This makes the conditions of market access for EU companies clear and independent of China's internal policies. It also allows the EU to resort to the **dispute resolution mechanism in CAI** in case of breach of commitments.

In addition, the EU has negotiated further and new market access openings and commitments such as the **elimination of quantitative restrictions, equity caps or joint venture requirements** in a number of sectors. These are restrictions that severely hamper the activities of our companies in China. The overall package is far more ambitious than what China has committed to before.

On the EU side, the market is already open and largely committed for services sectors under the General Agreement on Trade in Services (GATS). **EU sensitivities, such as in the field of energy, agriculture, fisheries, audio-visual, public services, etc. are all preserved in CAI.**

Examples of market access commitments by China:

- **Manufacturing:** China has made comprehensive commitments with only very limited exclusions (in particular, in sectors with significant overcapacity). In terms of the level of ambition, this would match the EU's openness. Roughly half of EU FDI is in the manufacturing sector (e.g. transport and telecommunication equipment, chemicals, health equipment etc.). China has not made such far-reaching market access commitments with any other partner.

- **Automotive sector:** China has agreed to remove and phase out joint venture requirements. China will commit market access for new energy vehicles.

- **Financial services**: China had already started the process of gradually liberalising the financial services sector and will grant and commit to keep that opening to EU investors. Joint venture requirements and foreign equity caps have been removed for banking, trading in securities and insurance (including reinsurance), as well as asset management.

- **Health (private hospitals):** China will offer new market opening by lifting joint venture requirements for private hospitals in key Chinese cities, including Beijing, Shanghai, Tianjian, Guangzhou and Shenzhen .

- **R&D (biological resources)**: China has not previously committed openness to foreign investment in R&D in biological resources. China has agreed not to introduce new restrictions and to give to the EU any lifting of current restrictions in this area that may happen in the future.

- **Telecommunication/Cloud services**: China has agreed to lift the investment ban for cloud services. They will now be open to EU investors subject to a 50% equity cap.

- **Computer services**: China has agreed to bind market access for computer services - a significant improvement from the current situation. Also, China will include a 'technology neutrality' clause, which would ensure that equity caps imposed for value-added telecom services will not be applied to other services such as financial, logistics, medical etc. if offered online.

- **International maritime transport**: China will allow investment in the relevant land-based auxiliary activities, enabling EU companies to invest without restriction in cargo-handling, container depots and stations, maritime agencies, etc. This will allow EU companies to organise a full range of multi-modal door-to-door transport, including the domestic leg of international maritime transport.

- **Air transport-related services**: While the CAI does not address traffic rights because they are subject to separate aviation agreements, China will open up in the key areas of computer reservation systems, ground handling and selling and marketing services. China has also removed its minimum capital requirement for rental and leasing of aircraft without crew, going beyond GATS.

- **Business services**: China will eliminate joint venture requirements in real estate services, rental and leasing services, repair and maintenance for transport, advertising, market research, management consulting and translation services, etc.

- **Environmental services**: China will remove joint venture requirements in environmental services such as sewage, noise abatement, solid waste disposal, cleaning of exhaust gases, nature and landscape protection, sanitations and other environmental services.

- **Construction services**: China will eliminate the project limitations currently reserved in their GATS commitments.

- **Employees of EU investors**: Managers and specialists of EU companies will be allowed to work up to three years in Chinese subsidiaries, without restrictions such as labour market tests or quotas. Representatives of EU investors will be allowed to visit freely prior to making an investment.

Improving level playing field – making investment fairer

- **State owned enterprises (SOEs) -** Chinese SOEs contribute to around 30 percent of the country's GDP. **CAI seeks to discipline the behaviour of SOEs** by requiring them to act in accordance with commercial considerations and not to discriminate in their purchases and sales of goods or services. Importantly, China also undertakes the obligation to provide, upon request, specific information to allow for the assessment of whether the behaviour of a specific enterprise complies with the agreed the CAI obligations. If the problem goes unresolved, we can resort to dispute resolution under the CAI.

- **Transparency in subsidies – ** The CAI fills one important gap in the WTO rulebook by imposing **transparency obligations on subsidies in the services sectors**. Also, the CAI obliges China to engage in consultations in order to provide additional information on subsidies that could have a negative effect on the investment interests of the EU. China is also obliged to engage in consultations with a view to seek to address such negative effects.

- **Forced technology transfers –** The CAI lays very clear **rules against the forced transfer of technology**. The provisions consist of the prohibition of several types of investment requirements that compel transfer of technology, such as requirements to transfer technology to a joint venture partner, as well as prohibitions to interfere in contractual freedom in technology licencing. These rules would also include disciplines on the protection of confidential business information collected by administrative bodies (for instance in the process of certification of a good or a service) from unauthorised disclosure. The agreed rules significantly enhance the disciplines in WTO.

- **Standard setting, authorisations, transparency –** This agreement covers other long-standing EU industry requests. China will provide **equal access to standard setting bodies** for our companies. China will also **enhance transparency, predictability and fairness in authorisations**. The CAI will include transparency rules for regulatory and administrative measures to enhance legal certainty and predictability, as well as for procedural fairness and the right to judicial review, including in competition cases.

Embedding sustainable development in our investment relationship

- In contrast to other agreements concluded by China, the CAI binds the parties into a value-based investment relationship grounded on sustainable development principles. **The relevant provisions are subject to a specifically tailored implementation mechanism to address differences with a high degree of transparency and participation of civil society.**

- China commits, in the areas of **labour and environment,** not to lower the standards of protection in order to attract investment, not to use labour and environment standards for protectionist purposes, as well as to respect its international obligations in the relevant treaties. China will support the uptake of **corporate social responsibility** by its companies.

- Importantly, the CAI also includes commitments on environment and climate, including to **effectively implement the Paris Agreement on climate**.

- China also commits to working towards the ratification of the outstanding **ILO (International Labour Organisation) fundamental** Conventions and takes specific commitments in relation to the two ILO fundamental Conventions on forced labour that it has not ratified yet.

Monitoring of implementation and dispute settlement

- In the CAI, China agrees to an **enforcement mechanism** (state-to-state dispute settlement), as in our trade agreements.

- This will be coupled with a **monitoring mechanism** at pre-litigation phase established at political level, which will allow us to raise problems as they arise (including via an urgency procedure).

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