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中国欧盟商会

European Business in China

POSITION PAPER 2025/2026

European Union Chamber of Commerce in China

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The *European Business in China Position Paper 2025/2026* represents the views of the European Union Chamber of Commerce in China. Our working groups, fora and over 1,600 member companies have together compiled the latest assessments, concerns and recommendations of European businesses operating in China. We hope that this position paper will promote constructive dialogue between Europe and China, at both the political and business levels.

This icon
represents the number of years the working group has been making this recommendation.

This icon
indicates that the Key Recommendation is related to achieving carbon neutrality.

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Message from the President

As we ease into autumn, China is in the process of transitioning into a new five-year cycle, with the 15th Five-year Plan—which will set the course for the country's economic and social development until 2030—due to be ratified in early 2026. With the plan currently in the final stages of drafting, it is my pleasure to present the 25th edition of the European Chamber's annual *Position Paper*, which will set our advocacy agenda for the year ahead and, we hope, give China's policymakers some food for thought.

At this juncture, it is worth reflecting on the past half decade, taking stock not only of the policies that have delivered for China's economy but also the challenges that have emerged, as well as those that never went away. The 14th Five-year Plan has delivered on many of the objectives set out five years ago, but there have also been unintended consequences, such as 'involution', increased trade tensions and inefficient use of resources. Now is the time to correct course. With this in mind, the *Position Paper 2025/2026* puts forward numerous constructive recommendations. If implemented, we believe they will help to create a new productive development model that can deliver sustainable, high-quality economic growth while deepening ties between China and Europe, and ensuring that the value created by the relationship is equitably distributed.

I would like to take this opportunity to express my gratitude to our key government interlocutors—particularly the European Union Delegation to China, China's Ministry of Commerce and the China Centre for the Promotion of International Trade—for their continued support and attention to our work. Finally, and most importantly, I would also like to thank the European Chamber's members, and particularly the working group chairs and vice chairs, for all of their hard work, dedication and the valuable insights they have contributed to this *Position Paper*.

Jens Eskelund
President
European Union Chamber of Commerce in China

European Chamber
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ABOUT THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

FOUNDED IN
2000
BY 51 MEMBER COMPANIES

51
WORKING GROUPS, DESKS AND FORA

OVER
1,600
MEMBER COMPANIES

OPERATING IN
9
CITIES

The European Union Chamber of Commerce in China (European Chamber) was founded in 2000 by 51 member companies that shared a goal of establishing a common voice for the various business sectors of the EU and European businesses operating in China. It is a member-driven, non-profit, fee-based organisation with a core structure of 51 working groups, sub-working groups, industry desks and forums representing European business in China.

The European Chamber has over 1,600 member companies in seven chapters operating in nine cities: Beijing, Nanjing, Shanghai, Shenyang, South China (Guangzhou and Shenzhen), Southwest China (Chengdu and Chongqing) and Tianjin. Each chapter is managed at the local level by local boards reporting directly to the Executive Committee.

The European Chamber is recognised by the European Commission and the Chinese authorities as the official voice of European business in China. It is also recognised as a foreign chamber of commerce by the Ministry of Civil Affairs. The European Chamber is part of the growing network of European Business Organisations (EBOs), which connects European business associations and chambers of commerce from 45 non-EU countries and regions around the world.

Mission Statement

As a member-based organisation, the European Chamber seeks to:

1. Ensure greater market access and a level playing field for European companies operating in China;
2. Improve market conditions for all businesses in China;
3. Facilitate networking and communication among members and stakeholders;
4. Provide specific, relevant information to its members on how to do business in China; and
5. Update its members on economic trends and legislation in China.

Principles

1. We are an independent, non-profit organisation governed by our members.
2. We work for the benefit of European business as a whole.
3. We operate as a single, networked organisation across Mainland China.
4. We maintain close, constructive relations with the Chinese and European authorities, while retaining our independence.
5. We seek the broadest possible representation of European business in China within our membership: small, medium and large enterprises from all business sectors and EU Member States, which operate throughout China.
6. We operate in accordance with Chinese laws and regulations.
7. We treat all of our members, business partners and employees with fairness and integrity.

Executive Summary

Recommendations for the 15FYP: Towards a New Productive Development Model

With China now in the preparatory phase of the 15th Five-year Plan (15FYP) (2026–2030), the European Chamber is releasing its annual *Position Paper*, offering 1,141 detailed and constructive recommendations to Chinese policymakers developed by its membership of over 1,600 companies organised into 51 working groups, sub-working groups, industry desks and forums.

The *Executive Position Paper 2025/2026* reviews China's 14th Five-year Plan (14FYP) (2021–2025), assessing both the positive and not-so-positive outcomes, and suggests areas that the 15FYP could focus on so that the guiding principles for the next five years can be finetuned in a way that enables a more open and mutually beneficial European Union (EU)-China trade and investment relationship.

For China to meet its overarching goal of securing sustainable, high-quality economic growth the *Executive Position Paper 2025/2026* puts forward the following five Key Recommendations for the consideration of those involved in the drafting of the 15FYP:

1. **Implement Reforms that Address Underlying Structural Issues**
   - Rebalance supply and demand, address local government debt and optimise capital allocation.

2. **Allow Market Forces to Play the Decisive Role in Resource Allocation**
   - Increase productivity through more targeted development of the private sector, and by both levelling the playing field between Chinese and foreign enterprises and eliminating unsustainable competition.

3. **Take Action to Create Equitable Trade Relationships**
   - Recognise trade partners' legitimate concerns over economic security and industrial resilience, and develop nuanced strategies for strengthening supply chains that do not err towards trade protectionism.

4. **Continue to Green the Economy and Ensure Environmental Sustainability**
   - Increase access to sustainable sources of green energy, fully open the energy and environmental sectors to foreign investment, and incentivise all businesses to play an active role in achieving China's 2060 carbon neutrality target.

5. **Advance China's Digital Transition in an Inclusive Way**
   - Allow foreign players to fully participate in China's digital transition by removing both market access barriers and unreasonable localisation requirements, and implement data governance regulations in line with globally adopted practices to eliminate excessive compliance burdens.

The European Chamber's members—who are all invested in China's long-term success—are committed to contributing to the country's continued development with their technology, capital and global best practices. By implementing the recommendations in this paper the European Chamber believes that China can address near-term challenges, such as entrenched deflation and unsustainable competition, unlock its potential for future growth and development, and reestablish itself as a predictable, reliable and efficient investment destination.

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1 Section One

Executive Position Paper

Executive Position Paper

A Review of the 14th Five-year Plan

The 14th Five-year Plan (14FYP), China's development blueprint spanning from 2021 to 2025, represented a significant shift in the country's strategic approach.

Breaking with the tradition of previous five-year plans, the 14FYP did not include an explicit growth target, an approach that has also been reflected in China's most recent annual growth targets, which have been set at "around five per cent" for three consecutive years since 2023.[1] Beijing's shift away from setting hard gross domestic product (GDP) targets is an acknowledgement of the reality that maintaining the kind of breakneck growth that China enjoyed in the previous two decades is neither realistic nor that important for a maturing economy. It also provides policymakers more space to focus on changing the composition of China's GDP, with an emphasis on sustainable and quality growth.

With the inclusion of the concept 'coordinate development and security'—a top-level policy priority aimed at balancing economic growth against national security concerns—the 14FYP also reflected China's desire to increase its overall level of self-reliance to mitigate the impact that external shocks and geopolitical tensions could have on its economic security.[2] This was reinforced by the 'dual circulation' policy,[3&4] which has profound implications for business both in China and globally.

These core ideas will likely continue to exert a strong influence over the direction that China will follow in the next half decade: when speaking at a symposium dedicated to the 15FYP on 30th April 2025, Chinese President Xi Jinping mentioned the importance of coordinating development and security, as well as the need to assess internal and external risks and challenges in a comprehensive manner.[5]

'Dual circulation' and its impact on business

Now part of the constitution of the Communist Party of China,[6] the 'dual circulation' policy is China's strategic response to both mitigate perceived vulnerabilities in its supply chains and reduce its dependencies on third countries in critical areas, including food, energy and technology. It is aimed at creating a more resilient and self-reliant economic system by focussing primarily on boosting domestic innovation and high-tech manufacturing capabilities, as well as domestic consumption.

The policy comprises two main components: the 'internal circulation', focussing on the domestic market; and the 'external circulation', defining both China's role in global markets and the role global markets are

1 *China NPC: Around 5% GDP growth target set for 2025*, DBS Treasurers Private Client, 5th March 2025, viewed 30th June 2025, <https://www.dbs.com.hk/treasures-private-client/aics/archive/templatedata/article/generic/data/en/GR/032025/250305_insights_china.xml>

2 For more on this topic, see: *Riskful Thinking: Navigating the Politics of Economic Security,* European Union Chamber of Commerce in China and China Macro Group, 20th March 2024, viewed 1st July 2025, p. 21, <https://www.europeanchamber.com.cn/en/>

3 *China's new 'dual circulation' development paradigm, Xinhua,* 28th March 2021, viewed 31st July 2025, <https://english.www.gov.cn/news/topnews/202103/28/content_WS60604adbc6d0719374afba4a.html>

4 Yao, K., *Explainer: What we know about China's 'dual circulation' economic strategy,* World Economic Forum, 14th September 2020, viewed 31st July 2025, <https://www.weforum.org/stories/2020/09/chinas-dual-circulation-economic-strategy/>

5 Cao, D., *Compilation of 15th Five-Year Plan prioritized, China Daily,* 20th May 2025, viewed 16th July 2025, <https://www.chinadaily.com.cn/a/202505/20/WS682a8d67a310a04af22c025d.html>

6 Wang, O., *China's Communist Party cements 'common prosperity' as core economic agenda, South China Morning Post,* 23rd October 2022, viewed 26th June 2025, <https://www.scmp.com/news/china/politics/article/3196908/chinas-communist-party-cements-common-prosperity-core-economic-agenda>

expected to play in the development of China's domestic economy.

'Internal circulation': industrial policies, self-reliance and domestic consumption

China's 'internal circulation' is being developed and consolidated through a series of industrial policies aimed at increasing both China's self-reliance and its technological capabilities, with the 14FYP emphasising basic research. The country's upgrading of its manufacturing base—and in particular its development of unparalleled industrial clusters and vertically integrated value chains for key technologies—has led to a rapid increase in its share of global manufacturing, which is now more than that of Germany, the United States (US), Japan and South Korea combined.[7]

Prior to the drafting of the 14FYP, initiatives such as Made in China 2025 (MIC2025) had been pivotal in driving China's industrial upgrading and technological innovation, albeit with mixed results at the sectoral level. In certain industries, China has achieved remarkable success, becoming a world leader in areas such as electric vehicles (EVs) and high-speed rail – from the research and development (R&D) stage all the way through to final assembly. This was made possible through both substantial, targeted government support and strategic investments in R&D, particularly during earlier stages of development.

However, this has come at the expense of significant resource misallocation and market inefficiencies. Many players in these sectors have relied heavily on government subsidies and support and most remain unprofitable, with some passing on liquidity issues to suppliers by delaying payments.[8&9] Despite recent efforts to subsidise demand, the disproportionate focus on providing support to the supply side has resulted in slower consumption growth relative to the increase in production capacity, a dynamic that intensified during the COVID-19 pandemic and that remains largely unresolved today.[10]

This imbalance has contributed significantly to the emergence of what the Chinese Government has referred to as '*neijuan*' or 'involution'. These terms refer to a situation when overcapacity and unhealthy competition result in companies investing ever increasing resources without generating commensurate returns – an unsustainable dynamic.[11] China's leadership has signalled its intent to bring this under control, with calls made to manage "disorderly price competition" among enterprises.[12]

Policies related to developing the 'internal circulation' have had a profound impact on some foreign-invested enterprises (FIEs) operating in China. The country's emphasis on self-reliance and developing indigenous technologies has seen the playing field sometimes being strongly tilted in favour of domestic players. At least 10 of China's sectoral 14FYPs make references to 'autonomous and controllable' (A&C) technology guidelines, which encourage Chinese and foreign companies alike to avoid the use of foreign technologies that the Chinese Government fears could be cut off by other countries or may

7 Leahy, J., Langley, W., White, E., Stylianou, N., Clark, D., de la Torre Arenas, I., and Joiner, S., *How China's record trade surplus helped spark Trump's tariff war, Financial Times*, 9th April 2025, viewed 26th June 2025, <https://ig.ft.com/china-trade-surplus/>

8 The Rhodium Group found that this situation was exacerbated during the COVID-19 pandemic, when on top of credit and tax support, central and local governments provided support to failing enterprises in the form of credit forbearances, "with little consideration of profit and efficiency", which resulted in an uptick in the number of loss-making companies. Boullenois, C., Kratz, A., and Rosen, D.H., *Overcapacity at the Gate*, Rhodium Group, 26th March 2024, viewed 3rd July 2025, <https://rhg.com/research/overcapacity-at-the-gate/>

9 According to one media outlet, current liabilities exceeded current assets at more than a third of publicly listed car manufacturers at the end of 2024. Li, G., and Ko, H., *China's car industry runs on empty as supply chain bills go unpaid, Financial Times,* 13th June 2025, viewed 26th June 2025, <https://www.ft.com/content/e6ae000d-d506-4a21-898e-213002234ee2>

10 This is well illustrated by how, in the face of escalating trade tensions in April 2025, industrial production still grew at a faster pace than retail sales, indicating that the domestic market cannot absorb what it produces. *China Consumption Miss Overshadows Factory Strength Amid Tariffs, Bloomberg*, 19th May 2025, viewed 1st July 2025, <https://www.bloomberg.com/news/articles/2025-05-19/china-s-factory-output-grows-more-than-forecast-despite-tariffs>

11 Wu, D., *Explainer | What is neijuan, and why is it worrying China's economic policymakers?, South China Morning Post,* 17th December 2024, viewed 1st July 2025, <https://www.scmp.com/economy/china-economy/article/3291163/what-neijuan-and-why-it-worrying-chinas-economic-policymakers>

12 *Xi stresses building unified national market, promoting marine economy's high-quality development, Xinhua,* 1st July 2025, viewed 11th July 2025, <https://english.www.gov.cn/news/202507/01/content_WS686394c0c6d0868f4e8f3c59.html>

be connected or connectable to external systems, and to opt for 'safe' domestic alternatives instead.[13] Localisation requirements are impacting public, and even private, procurement of network equipment and telecommunications services;[14] and 'buy China' policies in areas such as healthcare have also led to discrimination against foreign firms in government procurement processes.[15]

Many FIEs—particularly those in strategic industries—have lost market share, or even been squeezed out of the market altogether, as a result.[16] This has been a contributing factor to China's overall decrease in foreign direct investment (FDI), with many companies putting decisions to increase their China investments on hold or opting to invest in other markets perceived as offering a more attractive, fairer business environment.

Recent statements from China's leadership indicate that attaining self-reliance will remain a top priority under the 15FYP, as the drive to upgrade the manufacturing sector and "master key core technologies" continues.[17] In late April 2025, speaking at a symposium focussed on the 15FYP, Chinese President Xi Jinping called for the development of "new productive forces" to be elevated to a more prominent strategic position.[18,19&20] As the Chamber's report *Made in China 2025: The Cost of Technological Leadership* noted, "'new productive forces' is essentially a repackaging of MIC2025's aims, to be applied to a wider range of industries, indicating China's intent to continue the use of strategic industrial policy."[21]

'External circulation': a catalyst for trade imbalances

The 'external circulation' is focussed on cementing China's pivotal role in global supply chains while decreasing its dependencies on external markets, thereby lessening its trade partners' ability to apply political pressure or impede its development.

Indeed, China's share of global container exports rose from 32 per cent in 2019, to 34 per cent in 2023, and is estimated to have reached 36 per cent in 2024.[22] In tandem, China's trade surplus in value terms surged 89 per cent from United States dollar (USD) 524 billion in 2020, to USD 992 billion in 2024, the

13 *Riskful Thinking: Navigating the Politics of Economic Security,* European Union Chamber of Commerce in China and China Macro Group, 20th March 2024, viewed 1st July 2025, p. 21, <https://www.europeanchamber.com.cn/en/publications-archive/1175/Riskful_Thinking_Navigating_the_Politics_of_Economic_Security>

14 According to media reports, China has instructed government entities and SOEs to replace office-related equipment and information technology systems by 2027 with alternatives produced by Chinese companies. *China Quietly Shutting Out Foreign Makers of IT Equipment, The Japan News*, 7th July 2023, viewed 1st July 2025, <https://japannews.yomiuri.co.jp/world/asia-pacific/20230707-121299/>

15 Preference for 'domestically manufactured' products in public procurement is a long-standing market access barrier for many foreign companies in China. Many healthcare equipment manufacturers, for example, report that their products are frequently excluded from public procurement despite being developed and manufactured in China. This has compelled them to increase local investments and reconfigure supply chains in an effort to remain competitive in government procurement. At the same time, there are currently no policies that clarify specific standards for what constitutes 'made in China', and FIEs that follow the path of heavy localisation have no guarantee they will qualify. *European Business in China Position Paper 2024/2025*, European Union Chamber of Commerce in China, 11th September 2024, viewed 1st July 2025, p. 24, <https://www.europeanchamber.com.cn/en/publications-archive/1269/European_Business_in_China_Position_Paper_2024_2025>

16 In a survey conducted between August and September 2024 among the Chamber's European member companies, 35 per cent of respondents reported losing business opportunities in China over the past two years due to customers being cautious about choosing foreign brands, while 27 per cent reported the same as a result of domestic procurement guidelines and 20 per cent due to local production requirements. *Siloing and Diversification: One World, Two Systems*, European Union Chamber of Commerce in China, 9th January 2025, viewed 26th June 2025, p.17, <https://www.europeanchamber.com.cn/en/publications-siloing-diversification>

17 Leahy, J., *China's Xi Jinping steps up calls for industrial self-sufficiency amid trade war, Financial Times,* 20th May 2025, viewed 10th July 2025, <https://www.ft.com/content/7485a549-4648-4c1b-885a-07b9616cf589>

18 *The general secretary provides scientific guidance for planning the "15th Five-Year Plan", Qiushi*, 1st May 2025, viewed 10th July 2025, <http://www.qstheory.cn/20250501/b81ff5d3ea954fb7b6f5bdd5164d2fc2/c.html>

19 Introduced in September 2023, the term 'new productive forces' refers to anything that emerges "from continuous breakthroughs in science and technology, driving strategic future and emerging industries that may introduce disruptive technological advancements in an era of intelligent information." *Explainer: What do "new productive forces" mean?, Xinhua*, 21st February 2024, viewed 10th July 2025, <https://english.news.cn/20240221/3e0d1b79a39f4e6c89724049558e1082/c.html>

20 'New productive forces', or '*xinzhishengchanli*' in Chinese, is also often translated as 'new quality productive forces'.

21 *Made in China 2025: The Cost of Technological Leadership*, European Chamber, 16th April 2025, viewed 1st August 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1274>

22 World container market: recovery in 2024, Opportimes, 19th February 2025, viewed 18th July 2025, <https://www.opportimes.com/en/world-container-market-recovery-in-2024/#:~:text=Regional%20trade,products%20in%20the%20global%20market.>

largest ever recorded.[23&24] A significant contributor to this has been the disparity between China's rapid increase of manufacturing capacity and relatively slower consumption growth: while the country accounts for about 30 per cent of all manufactured goods, its share of global consumption is only 15 per cent, which is even below its 18 per cent share of world GDP.[25]

China's rising export dominance and the subsequent trade imbalances that have developed has sounded the alarm bell for many third-market governments that, concerned by the impact on their own economic security, have demonstrated their intent to take corrective action.[26] EU officials now habitually bring up the topic during their engagements with Chinese counterparts at all levels, and European Commissioner for Trade and Economic Security Maroš Šefčovič has stated that China's "impressive rise must not come at the expense of the European economy".[27] Meanwhile, the US-China trade imbalance is one of the main justifications used by the Trump administration for the tariffs it has imposed on Chinese imports.[28,29&30]

The US-China trade war has not only resulted in supply chain damage, it has also prompted China to divert exports previously bound for the US, potentially increasing trade tensions with other third markets.[31] In addition it has negatively impacted the business confidence of European companies in China.[32]

As previously alluded to, while the EU and the US account for nearly two-thirds of China's trade surplus—and certainly even more if goods assembled in or transhipped via a third country were included—they are not China's only trade partners that have become increasingly concerned about the impact of China's increasing exports. In fact, in 2024, it was developing countries that filed the majority of complaints against China at the World Trade Organization (WTO), with many having already taken steps to protect their key

23 Table of total value of imports and exports (in USD) A: Annual table, General Administration of Customs, 18th January 2025, viewed 26th June 2025, <http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302277/302276/6325037/index.html>

24 Miller, J., *Record Chinese Global Surplus Neared $1 Trillion in 2024*, Trade Data Monitor, 27th January 2025, viewed 10th July 2025, <https://tradedatamonitor.com/datanews/record-chinese-global-surplus-neared-1-trillion-in-2024/>

25 Leahy, J., Langley, W., White, E., Stylianou, N., Clark, D., de la Torre Arenas, I., and Joiner, S., *How China's record trade surplus helped spark Trump's tariff war, Financial Times*, 9th April 2025, viewed 26th June 2025, <https://ig.ft.com/china-trade-surplus/>

26 For example, the Italian Government highlighted its growing trade imbalance with China as a reason behind its intention to leave the Belt and Road Initiative, which Italy joined as the only Group of 7 (G7) country in 2019. Folkman, V., *Italy intends to leave China's Belt and Road Initiative, defense minister says, Politico*, 30th July 2023, viewed 9th June 2025, <https://www.politico.eu/article/italy-leave-belt-and-road-initiative-china-minister-guido-crosetto/>

27 Bermingham, F., *EU to China: your 'impressive rise' must not crush our industries, South China Morning Post*, 6th June 2025, viewed 26th June 2025, <https://www.scmp.com/news/china/diplomacy/article/3313244/european-union-china-your-impressive-rise-must-not-crush-our-industries>

28 Other factors include the US holding China (as well as Mexico and Canada) "accountable to their promises of halting illegal immigration and stopping poisonous fentanyl and other drugs from flowing into our country." *Fact Sheet: President Donald J. Trump Imposes Tariffs on Imports from Canada, Mexico and China*, The White House, 1st February 2025, viewed 17th July 2025, <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-imposes-tariffs-on-imports-from-canada-mexico-and-china/>

29 York, E., and Durante, A., *Trump Tariffs: Tracking the Economic Impact of the Trump Trade War*, Tax Foundation, 2nd June 2025, viewed 26th June 2025, <https://taxfoundation.org/research/all/federal/trump-tariffs-trade-war/>

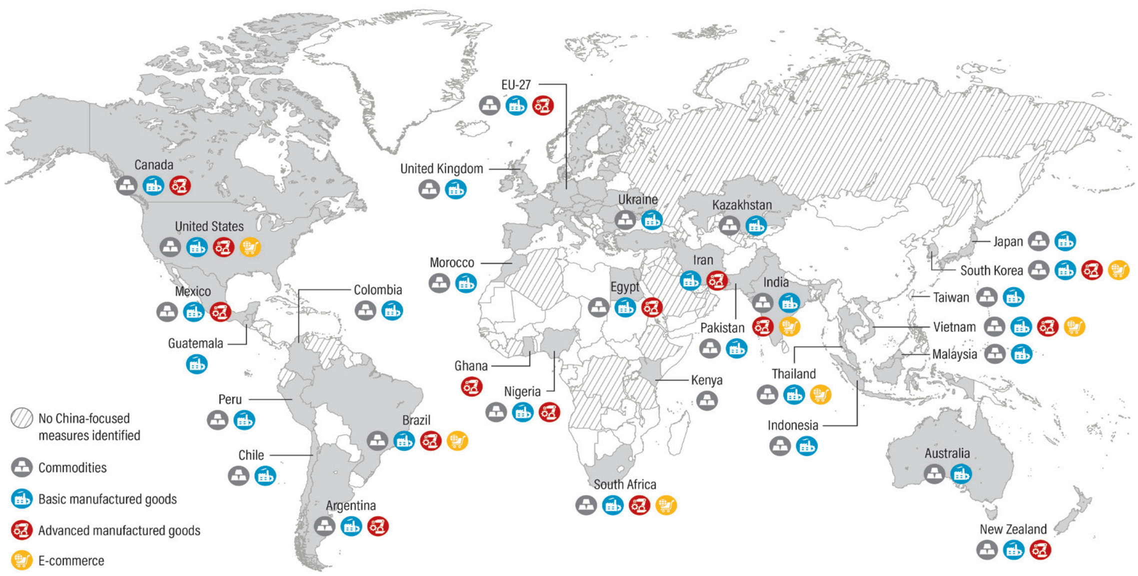
30 On 12th May, following trade talks held in Geneva, Switzerland, the US and China announced their decision to reduce tariffs on each other's goods in a joint statement. Starting from 14th May, both sides cut tariffs on each other's goods by 115 percentage points for a 90-day period. This saw US tariffs on Chinese goods reduced from 145 per cent to 30 per cent and Chinese tariffs on US goods go from 125 per cent to 10 per cent. Bacon, A., Gan, N., and Liu, J., *US and China agree to drastically roll back tariffs in major trade breakthrough*, *CNN*, 12th May 2025, viewed 16th July 2025, <https://edition.cnn.com/2025/05/12/business/us-china-trade-deal-announcement-intl-hnk>

31 LaRocco, L.A., *Trump's 'done' deal with China: Trade damage will remain, logistics firms and retailers say, CNBC*, 11th June 2025, viewed 17th July 2025, <https://www.cnbc.com/2025/06/11/trumps-done-deal-with-china-trade-supply-chain-damage-will-remain.html>

32 A flash survey conducted among European Chamber members in late April found that "the US- China trade war has significantly affected business confidence, both in terms of the ease of doing business now and in terms of expectations for the next two years. More than half of respondents reported that doing business has become more difficult since the beginning of 2025, and the survey identified competitive pressure and profitability as the main pain points for Chamber members. Over 60 per cent of respondents projected that competition will become even more intense and 58 per cent expressed concerns over their company's future profitability." *Flash Survey on the US-China Trade War,* European Union Chamber of Commerce in China, 8th May 2025, viewed 16th July 2025, <https://www.europeanchamber.com.cn/en/publications-flash-survey-trade-war>

industries from the impact of Chinese imports.[33,34,35&36] A 2024 study also found that growing international concern over China's economic model led to many countries taking various restrictive measures (see map below).[37] The list of nations pushing back on Chinese imports that are seen to weaken domestic manufacturing has continued to grow since then. For instance, in January 2025, Russia raised recycling fees on imported Chinese passenger cars, more than doubling their level from last September, and setting the charges to increase by 10 to 20 per cent each year until 2030.[38]

A growing number of markets are imposing trade defence instruments against China's imports of various product categories



Tracked measures of the 50 largest economies include anti-dumping, anti-subsidy, tariffs, quotas, import bans, VAT (for e-commerce), standards/certification requirements, and safeguard measures, introduced in the five years up to November 2024. Icons indicate at least one, but often more measure(s) on that category of goods. Most tracked measures are China-specific, but some are country-agnostic and were included because they target imports where a large share of that country's total imports of that product come from China.

Data source: MERICS, China's Ministry of Commerce Trade Remedies Information

China has responded to many of these actions by implementing countermeasures, including reciprocal tariffs, export controls on critical goods and other trade restrictions. This has further exacerbated trade

33 Leahy, J., Langley, W., White, E., Stylianou, N., Clark, D., de la Torre Arenas, I., and Joiner, S., *How China's record trade surplus helped spark Trump's tariff war, Financial Times*, 9th April 2025, viewed 26th June 2025, <https://ig.ft.com/china-trade-surplus/>

34 While Brazil is one of the few countries with an overall trade surplus with China, it has still introduced various trade measures to protect certain segments of its economy. Most recent measures include temporary anti-dumping duties on four types of industrial products – including metal foil, atomisers, polyester fibres and a pigment used, among other applications, in paint, cosmetics and food. In 2024, Brazil also introduced a 10 per cent import tax on pure electric vehicles and a 15 per cent import tax on hybrid vehicles, both of which will be gradually increased to 35 per cent by 2026. Also in 2024, Brazil cancelled its duty-free policy for small, low-value parcels in an attempt to tighten its regulations for cross-border e-commerce. See, A., and Moscati, J., *Opportunities and Challenges of Brazil-China Trade under the Impact of US Tariffs*, China Law Vision, 15th May 2025, viewed 26th June 2025, <https://www.chinalawvision.com/2025/05/international-trade/opportunities-and-challenges-of-brazil-china-trade-under-the-impact-of-us-tariffs/>

35 In April 2024, Mexico slapped tariffs on 544 products—including clothing, textiles, steel, aluminium and furniture—imported from countries that it does not have a free trade agreement with, which includes China. Lo, K, *China's exports to Mexico are getting heavier tariffs – is it a sign of more to come?, South China Morning Post*, 30th April 2024, viewed 11th June 2025, <https://www.scmp.com/economy/china-economy/article/3260971/chinas-exports-mexico-are-getting-heavier-tariffs-it-sign-more-come>

36 In June 2024, Indonesia announced a plan to impose tariffs of up to 200 per cent on imports of China-made products, including textiles, footwear, electronics and cosmetics. Yuniar, R.W., *Indonesia plans tariffs of up to 200 per cent on China-made products to protect domestic industries, South China Morning Post*, 3rd July 2024, viewed 11th June 2025, <https://www.scmp.com/week-asia/economics/article/3268919/indonesia-plans-tariffs-200-china-made-products-protect-domestic-industries>

37 Soong, C., and Gunter, J., *It's not us, it's you: China's surging overcapacities and distortive exports are pressuring many developing countries too,* MERICS, 3rd November 2024, viewed 18th July 2025, <https://merics.org/en/tracker/its-not-us-its-you-chinas-surging-overcapacities-and-distortive-exports-are-pressuring-many>

38 McMorrow, R., Liu, N., Li, G., and Mosolova, D., *Russia imposes fees to stem flood of low-cost Chinese cars, Financial Times*, 10th March 2025, viewed 4th August 2025, <https://www.ft.com/content/48cb143e-03ce-4e23-bc6a-7e47d673f1d8>

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tensions and led to a more fragmented and unpredictable global trade landscape.[39, 40&41]

What European businesses hope to see in the 15FYP

The 15FYP will set the direction for China's social and economic development from 2026 to 2030. It will be an important transitional plan, as it should see the peaking of carbon emissions, planned to take place before 2030, and also comes five years before the deadline for China to achieve 'socialist modernisation'.[42]

At the time of writing, preparations for drafting the document are ongoing, both in terms of discussions among China's top leadership about priorities, and soliciting opinions from the general public, officials, experts and businesses. Details of the contents have not yet been made public, with only some broader themes shared by state media.[43]

The plan is expected to be approved at the next plenum of the Chinese Communist Party's Central Committee, set for October 2025, and then released during the subsequent Two Sessions, which is to take place in March 2026.[44]

The following are some of the key areas that businesses would like to see covered in the plan with recommendations that the Chamber believes, if implemented, could help spur China's development and attract more FDI.

1. Implement Reforms that Address Underlying Structural Issues

According to the European Chamber's annual *Business Confidence Survey* (BCS), over the past three years, China's economic slowdown has been the top concern for European companies operating in the country.[45] Optimism about near-term future growth and profitability sank to record low levels, while the overall contribution of China to European companies' global profits remains suppressed at a time when record numbers also report that doing business became more difficult over the past year.[46]

39 On 9th April, following the US imposing additional tariffs on Chinese imports, China announced new tariffs of 84 per cent in response. The mutual tariff rates have since been lowered, following two-way talks in May. Partridge, J., and Davidson, H., *China announces 84% tariffs on all US goods in response to Trump's 104%, The Guardian*, 9th April 2025, viewed 18th July 2025, <https://www.theguardian.com/business/2025/apr/09/donald-trump-unleashes-new-wave-of-tariffs-against-dozens-of-countries-china>

40 "On April 4, China's Ministry of Commerce imposed export restrictions on seven rare earth elements (REEs) and magnets used in the defense, energy, and automotive sectors in response to U.S. President Donald Trump's tariff increases on Chinese products." Baskaran, G., and Schwartz, M., *The Consequences of China's New Rare Earths Export Restrictions,* Center for Strategic & International Studies (CSIS), 14th April 2025, viewed 19th July 2025, <https://www.csis.org/analysis/consequences-chinas-new-rare-earths-export-restrictions>

41 Other trade restrictions that China has imposed include administrative hurdles, inspections or quotas. Che, T., Hsieh, C., and Zheng, M.S., *China's Use of Unofficial Trade Barriers in the U.S.-China Trade War*, Stanford Center on China's Economy and Institutions, 16th February 2024, viewed 18th July 2025, <https://research.hktdc.com/en/article/MTYxNzY1NjM2NA#:~:text=Non%2Dtariff%20barriers%2C%20like%20administrative,war%20in%202018%20and%202019.>

42 "Socialist modernization will be basically realized from 2020 to 2035; From 2035 to the middle of the century, China will become a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful." *Xi stresses efforts to write new chapter in building modern socialist country in all respects*, International Department of the Central Committee of the Communist Party of China, 1st August 2022, viewed 26th June 2025, <https://www.idcpc.gov.cn/english2023/ttxw_5749/202208/t20220801_159454.html>

43 Chen, X., *China's 15th Five-Year Plan to focus more on new quality productive forces, Global Times*, 16th May 2025, viewed 26th June 2025, <https://www.globaltimes.cn/page/202505/1334244.shtml>

44 The plenum was set to be held in October at a Politburo meeting on 30th July 2025. According to the *South China Morning Post*, "practice over the past decade suggests the event is likely to land in the second half of October and last four days". Zheng, W., *China to convene gathering in October to discuss next five-year plan, South China Morning Post,* 30th July 2025, viewed 30th July 2025, <https://www.scmp.com/news/china/politics/article/3320102/china-convene-gathering-october-discuss-next-five-year-plan?module=top_story&pgtype=homepage>

45 For three consecutive years from 2023 to 2025, 'China's economic slowdown' was selected by the highest proportion of respondents as the challenge that will have the greatest impact on their company's future business in the Chinese mainland.

46 Only 29 per cent of respondents reported that they were optimistic about their growth prospects in China in the coming two years, with only 12 per cent optimistic about profitability. Seven in 10 respondents reported earnings before interest and taxes (EBIT) margins in China less than or equal to their worldwide average. *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 26th June 2025, p.1, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

This sentiment seems to be shared by Chinese companies as well, many of which are impacted at least as severely as their European counterparts, with the share of loss-making industrial firms in 2024 surging to the highest level since 2001.[47]

Underpinning business concerns are a host of structural issues impeding China's economic development. For example, the property sector slump that has been ongoing for four years and does not yet seem to have bottomed out, continues to exert pressure on domestic consumption, which had already been battered by the uncertainties brought about by the COVID-19 pandemic.[48&49]

While consumption in China is actually growing (see Box 1), a core issue—as previously mentioned—is that manufacturing output has grown faster. 'Involution', expanding inventories, pressure on profit margins, decreasing asset utilisation and pressure to export are all natural consequences of this mismatch.

TRADE-IN SCHEMES PROVIDE A SHORT-TERM BOOST TO CONSUMPTION

One of the factors contributing to recent consumption growth in China has been the introduction of targeted measures to incentivise consumers. For example, a scheme announced by the National Development and Reform Commission on 24th July 2024, set aside Chinese yuan (CNY) 150 billion to subsidise the replacement of outdated commercial equipment and certain consumer goods.[50] According to the Ministry of Commerce (MOFCOM), the trade-in programme resulted in additional sales revenues totalling CNY 1.3 trillion as of January 2025.[51] The central government budgeted CNY 300 billion to continue the programme in 2025.[52] While a positive development, such trade-in schemes tend to advance decision-making related to purchases of, for example, relatively expensive white goods, as households look to capitalise on the immediate savings they can make. This means that these schemes will likely only provide a short-term boost to domestic consumption in China, as such purchases are not typically made at a high frequency, and do not address the underlying causes of low consumer confidence.

The need to boost consumption is well recognised by the Chinese leadership. It was listed as the top task for the year in the 2025 Government Work Report, which stated that domestic demand should become "the main engine and anchor of economic growth". Some of the steps set out in the report are directed at increasing spending power, for example through personal income growth and a reduction of financial burdens for low- and middle-income groups.[53] This is in line with the European Chamber's

47 *China Forced to Keep Unprofitable Firms Alive to Save Jobs and Avoid Unrest, Bloomberg,* 12th June 2025, viewed 28th July 2025, <https://www.bloomberg.com/news/features/2025-06-12/xi-keeps-china-s-unprofitable-businesses-alive-to-save-jobs-and-avoid-unrest>

48 Liao Cun, senior researcher at China's Renmin University and chief economist at Sino Group, estimated the real estate sector's contribution to Chinese national GDP to be around 25 per cent. The real estate market's eight per cent decline in 2024, therefore, could have dragged down China's annual GDP by as much as two percentage points. *Chinese property still accounts for 25% of GDP, China Banking News*, 1st November 2024, viewed 3rd July 2025, <https://www.chinabankingnews.com/p/chinese-property-still-accounts-for>

49 According to the World Bank, consumption contributed 2.8 percentage points (pp) to y-o-y GDP growth in the first quarter of 2025, below the 3.6pp recorded in the first quarter of 2019, before the COVID-19 pandemic. *Unlocking Consumption to Sustain Growth in China – World Bank Economic Update*, World Bank Group, 13th June 2025, viewed 26th June 2025, p.5, <https://www.worldbank.org/en/news/press-release/2025/06/13/unlocking-consumption-to-sustain-growth-in-china-world-bank-economic-update>

50 *Upgrading, trade-in policy bearing fruit, China Daily,* 24th September 2024, viewed 27th June 2025, <https://english.www.gov.cn/policies/policywatch/202409/24/content_WS66f214d7c6d0868f4e8eb30c.html>

51 *China's trade-in program boosts consumer goods sales by over 1.3 trln yuan, Xinhua,* 15th January 2025, viewed 27th June 2025, <https://english.news.cn/20250115/f360f80f69ec4ec29eb016a6aa4e667b/c.html>

52 *China pledges continued funding for consumer goods trade-in subsidies, Xinhua*, 20th June 2025, viewed 2nd July 2025, <http://english.scio.gov.cn/m/chinavoices/2025-06/20/content_117939138.html>

53 The 2025 budget increased the amount allocated to the voluntary social pension and health insurance scheme (the Rural and Urban Resident Scheme, RURS) to 0.3pp of GDP, which means the basic pension benefit was raised by CNY 20 to CNY 142 per person per month, and the medical insurance subsidy by CNY 30 to CNY 700 per person per year. However, as the World Bank points out, these levels remain very low, which limits the effectiveness of social protection in boosting household consumption. *Unlocking Consumption to Sustain Growth in China – World Bank Economic Update*, World Bank Group, 13th June 2025, viewed 26th June 2025, p.11, <https://www.worldbank.org/en/news/press-release/2025/06/13/unlocking-consumption-to-sustain-growth-in-china-world-bank-economic-update>

recommendation to shift the focus towards supporting the demand side rather than the supply side of China's economy. While addressing several structural issues—such as an insufficient social security system, which leads to high costs for housing, and child- and elderly care—is a relatively long-term solution for stabilising demand, increasing people's incomes could be a first, more immediate, step towards addressing sluggish consumption. This is something that some Chinese academics also agree will be a core part of the 15FYP.[54]

STEPS TOWARDS RAISING CONFIDENCE AND NEW AREAS FOR BOOSTING CONSUMPTION

Further increase national medical expenditure

According to official data, China's medical expenditure as a percentage of GDP has been increasing during the 14FYP period—accounting for seven per cent of GDP in 2022 and 7.2 per cent in 2023—reflecting the country's efforts to continually develop its healthcare sector.[55&56] As these levels are still below the average of Organisation for Economic Co-operation and Development (OECD) member countries—which stood at 9.2 per cent in 2023[57]—it suggests there is still room for China to raise the proportion of medical and health expenditure to GDP.

This is important, as catastrophic health expenditures have been shown to have an adverse impact on the household consumption of affected families, with low-income households disproportionately impacted. Studies have also found that despite the situation improving following China's recent healthcare reforms and the rollout of insurance schemes, the burden of medical costs on families is still substantial, with the ageing population and slowing economic growth projected to exert more pressure on China's medical insurance system.[58]

The Chamber therefore advocates for a continued increase in medical expenditure as a percentage of GDP throughout the 15FYP period, to a level in line with the OECD average. Additional resources could then be allocated to areas including chronic disease management, innovative preventive and therapeutic healthcare solutions, and rare disease treatment. This would help to relieve some of the burden of medical costs on households, and in turn increase the likelihood of boosting consumption in other areas.

- For more information, please refer to the *Pharmaceutical Working Group Position Paper* on page 258.

Optimise conditions for remote work

The Social Insurance Law and relevant regulations require employers to provide social security for employees at the locations where the enterprise's business units are registered, regardless of its

54 *China Daily* cited Cheng Xusen, a research fellow at Renmin University of China's National Academy of Development and Strategy, as saying that increasing household income is expected to be a key priority in the 15FYP, as part of efforts to increase domestic demand. Cao, D., *Compilation of 15th Five-Year Plan prioritized, China Daily*, 20th May 2025, viewed 16th July 2025, <https://www.chinadaily.com.cn/a/202505/20/WS682a8d67a310a04af22c025d.html>

55 *The total number of health personnel in the country reached 14.411 million, and personal health expenditure accounted for 27.0% of total health expenditure in 2022, Xinhua*, 12th October 2023, viewed 8th July 2025, <https://www.gov.cn/lianbo/bumen/202310/content_6908684.htm>

56 *The average life expectancy in China has reached 78.6 years, Xinhua*, 29th August 2024, viewed 8th July 2025, <https://www.gov.cn/lianbo/bumen/202408/content_6971252.htm>

57 *Latest health spending trends—Navigating beyond the recent crises,* OECD, 19th December 2024, viewed 8th July 2025, <https://www.oecd.org/en/publications/latest-health-spending-trends_df0bb1ba-en/full-report.html#section-d1e247>

58 Wei, N., Huang, W., and Zhou, L., *Impact of Catastrophic Health Expenditures on Chinese Household Consumption*, Front Public Health, 10th November 2021, viewed 8th July 2025, <https://pmc.ncbi.nlm.nih.gov/articles/PMC8631299/>

employees' work locations.[59] Although the Chinese Government has taken measures to facilitate the transfer of employees' social insurance nationwide, remote workers still miss out on some benefits and welfare—including maternity leave allowance and pension benefits—in their place of residence and work. The most cited reasons for this are varying interpretations of labour laws and regulations across different jurisdictions, as well as differing court decisions. In addition to impacting employee entitlements, business expansion through remote engagement is also being hindered.

The Chamber therefore recommends allowing employers to provide social security for employees working in locations that are different to where the company is registered; applying the same statutory standards to all employees; and ensuring labour laws and regulations are interpreted consistently nationwide.

- For more information, please refer to the *Human Resources Working Group Position Paper* on page 67.

The 'silver economy'

The proportion of people aged 60 and above in China is increasing, and according to some estimates will exceed 30 per cent of the total population by 2035. Services and products aimed specifically at this demographic—which fit under the umbrella term the 'silver economy'—are projected to surge from about CNY 7 trillion in 2024, to approximately CNY 30 trillion in 2035. If this projection is right, in 10 years' time, the silver economy will account for about 10 per cent of China's total economy.[60]

Recognising this potential, the Chinese Government has already taken steps to develop the sector. In January 2024, the State Council issued the first national policy focussed on the silver economy.[61] This initiative is aimed at expanding and standardising the silver economy through measures such as cultivating dedicated industrial clusters and improving tailored products and elderly care services. It also encourages the development of new areas of the economy like smart health and elderly care technologies.

In December 2024, the People's Bank of China (PBOC) and eight other ministries jointly issued guidelines that focus on providing diversified financial services for different elderly groups, increasing credit supply for silver-economy-focussed enterprises, and promoting innovation in commercial insurance annuity products. The guidelines also emphasise strengthening financial literacy education and consumer rights protection for senior citizens.[62]

European companies across multiple industries have much to contribute to the development of this sector of the economy due to the vast experience they have gained in their home countries and globally. The *2025 Action Plan for Stabilising Foreign Investment* already paved the way for this by opening opportunities for FIEs in healthcare, education and biotechnology.[63] However, there is scope

59 *Social Insurance Law of the People's Republic of China*, Ministry of Human Resources and Social Security, 29th December 2018, viewed 27th April 2025, <https://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/fl/202011/t20201102_394629.html>

60 Leung, K., *China's aging population fuels 'silver economy' boom, but profits can prove elusive, AP,* 29th November 2024, viewed 26th June 2025, <https://apnews.com/article/china-elderly-aging-population-silver-b81916bc8fea7b9f251ec8565941e692>

61 *China unveils measures to develop 'silver' economy, Xinhua*, 16th January 2024, viewed 26th June 2025, <https://english.www.gov.cn/policies/latestreleases/202401/16/content_WS65a5b709c6d0868f4e8e31cc.html>

62 *PBOC and Eight Other Ministries Issue Guidelines on Financial Support for China's Elderly Care Initiatives and High-Quality Development of the Silver Economy,* PBOC, 13th December 2024, viewed 26th June 2025, <http://www.pbc.gov.cn/en/3688110/3688172/5188125/5546738/index.html>

63 *2025 Action Plan for Stabilising Foreign Investment*, MOFCOM & NDRC, 22nd February 2025, viewed 26th June 2025, <https://english.www.gov.cn/news/202502/22/content_WS67b9044dc6d0868f4e8efdff.html>

for more, especially in currently overlooked areas, including foods for special medical purposes (FSMP) or treatments for diseases not yet included in China's various frameworks for healthcare and disease management.

- For more information, please refer to the *FSMP Sub-working Group Position Paper* on page 158 and the *Pharmaceutical Working Group Position Paper* on page 258.

The nighttime economy

According to a survey conducted by the MOFCOM, nighttime consumption accounts for 60 per cent of all urban consumption in China.[64] It is a segment that is already attracting attention, with the central government urging provincial-level authorities to improve the quality of nighttime services.[65]

Although the State Council's March 2025 *Special Action Plan to Boost Consumption* only makes one reference to the nighttime economy,[66] local governments in various regions—including the cities of Shanghai, Chongqing and Tianjin, and Henan Province—have implemented their own policies to promote its development. Henan and Chongqing have already adopted comprehensive strategies emphasising spatial optimisation and systematic planning, while others have introduced narrower, targeted measures.[67,68,69&70] The lack of a coordinated policy scope and focus suggests that the sector would benefit from more comprehensive, national guidance. Moreover, many of the existing policies were designed during the COVID-19 pandemic and therefore do not accurately reflect current economic realities.

Integrating a national-level framework for the development of the nighttime economy into the 15FYP would be a solid step towards harmonising regional efforts, aligning relevant policies with current economic priorities and maximising the sector's contribution to long-term consumption growth.

- For more information on the nighttime economy, please refer to the *Agriculture, Food and Beverage Working Group Position Paper* on page 142.

Another area where increased efforts could be focussed to increase economic activity is China's service industry. Although its contribution to the country's GDP has already overtaken manufacturing—standing at 56.1 per cent in 2024—the fact that the added value of the service industry (including non-market services) contributed 74.5 per cent to the Euro area's GDP in the same year suggests that there is room for more.[71] While this also indicates that China's service industry would benefit from a larger contribution

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64 Li, Y., *New zones help push nighttime economy, China Daily*, 28th February 2024, viewed 26th June 2025, <https://www.chinadaily.com.cn/a/202402/28/WS65de7666a31082fc043b96c7.html>

65 *Ibid.*

66 The plan calls for expanding the areas provided for nighttime consumption and enhancing public transportation, as well as the development of temporary parking capacity to support the segment. *The General Office of the Central Committee of the Communist Party of China and the General Office of the State Council issued the 'Special Action Plan for Boosting Consumption', Xinhua*, 16th March 2025, viewed 26th June 2025, <https://www.gov.cn/zhengce/202503/content_7013808.htm>

67 *The Henan Provincial Development and Reform Commission's Notice on the issuance of the 'Guiding Opinions on Promoting the Sustained and Healthy Development of the Nighttime Economy'*, Henan Provincial Development and Reform Commission, 19th September 2024, viewed 3rd July 2025, <https://fgw.henan.gov.cn/2024/09-19/3064640.html>

68 *Chongqing issues action plan to accelerate the development of the nighttime economy, Xinhua*, 21st July 2020, viewed 3rd July 2025, <https://www.gov.cn/xinwen/2020-07/21/content_5528629.htm>

69 He, Q., *Seizing the night, China Daily*, 2nd May 2023, viewed 26th June 2025, <https://www.chinadailyhk.com/hk/article/328491?showpdf=true>

70 *Nighttime economy in full swing in Binhai,* exploringtianjin.com, 1st August 2022, viewed 26th June 2025, <http://tianjin.chinadaily.com.cn/binhain/2022-08/01/c_793813.htm>

71 The service sector's value added is also higher in Japan and the US. In 2021, Japan's service sector accounted for 70.3 per cent of the country's GDP, while in 2021, the US service sector contributed 80.5 per cent of its GDP. *Structure of the euro area economy*, European Central Bank, viewed 14th July 2025, <https://www.ecb.europa.eu/mopo/eaec/html/index.en.html>

from European companies, they are struggling to gain a foothold, with the country's market access restrictions on the service sector greater than the OECD average in 2024.[72] This seems to have been acknowledged, with the release of the MOFCOM's 2025 plan to accelerate the opening of China's service industry.[73]

The kind of planning and coordination required to shift towards a more service-based economy makes the 15FYP an ideal vehicle for facilitating this. For instance, it could push for a restructuring of talent development to steer more students into service-related fields, which would be beneficial for the development of the industry.[74] There is also room for more participation from the private sector, with most investments in services currently being made by state-owned enterprises (SOEs).[75] This, in tandem with removing barriers to foreign participation, would increase competition, which would help to promote the quality growth of the service industry. Finally, further steps could be taken to increase the contribution of service inputs to productive sectors, which is relatively low compared to some other economies, as well as the contribution of modern services—including R&D and digital services—relative to traditional ones such as logistics.[76]

An excessive focus on supply-side industrial policies can intensify the problem of local government debt, as local governments are incentivised to provide support for local champions in key sectors in the hope that they can become market leaders nationwide, or even globally.[77&78] This trend has been exacerbated by the real estate slump, which has severely limited local governments' options for raising funds.[79] Local governments' responses have not been well received by China's leadership due to a lack of diversity in their respective development plans: at a conference on urban work held on 14th July 2025 in Beijing, Chinese President Xi Jinping criticised local governments for focussing their efforts on the same emerging industries, such as artificial intelligence (AI), computing power and new energy vehicles (NEVs).[80]

ADDRESSING LOCAL GOVERNMENT DEBT AN IMPORTANT STEP TOWARDS RE-ESTABLISHING A RELIABLE BUSINESS ENVIRONMENT

Increasing fiscal pressures on local governments have resulted in severe and persistent problems with accounts receivable. For example, as of the first half of 2024, the average accounts receivable of listed environmental protection companies reached a record high, with a 114 per cent receivable-to-revenue ratio.[81]

72 *OECD Services Trade Restrictiveness Index: China*, OECD, 10th February 2025, viewed 15th July 2025, <https://www.oecd.org/en/publications/oecd-services-trade-restrictiveness-index-country-notes_4c1d2b0d-en/china-people-s-republic_a5f9d8a0-en.html>

73 On 18th April 2025, the Ministry of Commerce issued a work plan aimed at accelerating the opening up of the service sector. The plan includes 155 pilot tasks in key areas including e-commerce, healthcare, financial services and tourism. *The Ministry of Commerce issues notice on accelerating the comprehensive pilot work plan for the expansion and opening up of the service industry,* Department of Foreign Investment of the MOFCOM, 18th April 2025, viewed 15th July 2025, <https://wzs.mofcom.gov.cn/zcfb/art/2025/art_869de097dd4640d3bb5e44338bc534b0.html>

74 *Innovative China: New Drivers of Growth,* World Bank Group & Development Research Center of the State Council, 16th September 2019, viewed 15th July 2025, p. xxv, <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/833871568732137448/innovative-china-new-drivers-of-growth>

75 In 2019, private firms accounted for 37 per cent of investment into services, while state firms contributed 44 per cent. *Ibid,* p. 6.

76 A 2019 comparison with South Korea, the US, Germany, Japan, Mexico, India and Brazil showed that in China the contribution of service inputs to productive sectors is relatively low. Meanwhile, "the contribution of traditional services, such as distribution and transport, to manufacturing is relatively higher than more modern services." *Ibid*, p. 36.

77 Official data showed that as of the end of 2024, local governments' on-balance sheet debt exceeded CNY 47 trillion. The International Monetary Fund (IMF) estimates that on top of that they also have about CNY 60 trillion of hidden debt. *China Needs $3 Trillion Local Debt Solution, Top Economist Says, Bloomberg*, 26th February 2025, viewed 26th June 2025, <https://www.bloomberg.com/news/articles/2025-02-26/china-needs-3-trillion-local-debt-solution-top-economist-says>

78 Electric vehicle (EV) manufacturing is a prime example of a sector that is saturated with unprofitable players that are reliant on support to stay afloat. Local governments primarily provide aid through subsidies, cheap financing and/or land and prioritised access to procurement. Gunter, J., Brown, A., Chimits, F., Hmaidi, A., Vasselier, A., and Zenglein, M. J., *Beyond overcapacity: Chinese-style modernization and the clash of economic models*, MERICS, 1st April 2025, viewed 26th June 2025, <https://merics.org/en/report/beyond-overcapacity-chinese-style-modernization-and-clash-economic-models>

79 Some economists concluded that a continued double-digit growth of nontax revenues in 2024 indicated that local government may have sought to raise penalties to offset the decline in land sales revenues, which highlights the limitations of local governments' ability to raise funds. *China Property Slump Spurs Local Governments' Quest for Cash, The Wall Street Journal,* 2nd September 2024, viewed 26th June 2025, <https://www.wsj.com/economy/housing/china-property-slump-spurs-local-governments-quest-for-cash-9a0c6ffd>

80 Du, S., and Yang, X., *Small observations – General Secretary Xi Jinping at the Central Urban Work Conference, People's Daily,* 17th July 2025, viewed 28th July 2025, <https://paper.people.com.cn/rmrb/pc/content/202507/17/content_30088242.html>

81 *Interpretation of the 2024 Half-yearly Report of the Environmental Protection Industry, Is It Still Worth Sticking to It?, The Paper,* 5th September 2024, viewed 6th April 2025, <https://www.thepaper.cn/newsDetail_forward_28644249>

The Chinese Government has acknowledged the problem and issued guidelines on addressing arrears owed to enterprises in the second half of 2024.[82] However, the industry continues to face severe cash flow pressures. For example, one European company is owed over CNY 400 million in unpaid sewage treatment fees from a local government, accumulated over five years. The Chamber recommends focussed efforts to address the issue, including the launch of a special debt recovery programme to identify accounts receivable issues, develop repayment plans, ensure available sources for fiscally strained regions and incorporate debt resolution performance into local government performance evaluations.

- For more information, please refer to the *Environment Working Group Position Paper* on page 45.

Recommendations

Implement Reforms that Address Underlying Structural Issues

- Strike a balance between supply and demand.
  - Increase disposable household income to boost consumption.
  - Address structural issues, such as the insufficient social security system, that lead to high costs for housing, and child-and elderly care.
    - Raise national medical expenditure to alleviate household budgets from the risk of catastrophic health outcomes.
- Continue the transition towards a more service-based economy.
- Grant nationwide access to social security entitlements for remote workers.
- Accelerate the development of the 'silver economy'.
- Establish a coherent national framework for developing the nighttime economy.
- Address local government debt, including through a special debt-recovery programme that inventories arrears, ring-fences repayment sources for fiscally strained regions and embeds debt-resolution performance in evaluation metrics.
- Encourage local governments to focus on further developing the strengths of their specific regions instead of trying to become leaders in saturated market segments.

2. Allow Market Forces to Play the Decisive Role in Resource Allocation

At the Third Plenum of the Central Committee of the Chinese Communist Party, held in July 2024, the pledge to give the decisive role to market forces in resource allocation was reiterated.[83] First introduced in the 2013 Third Plenum *Decision*, elevating the market's role from 'basic' to 'decisive' in allocating resources was widely seen as a signal of imminent bold economic reforms.[84]

However, over the intervening 12 years, there has been a renewed advance, and support for, SOEs,

82 *Opinions on Resolving the Issue of Arrears Owed to Enterprises*, State Council, 18th October 2024, viewed 18th June 2025, <https://www.gov.cn/zhengce/202410/content_6981402.htm>

83 "We will see that the market plays the decisive role in resource allocation and that the government better fulfils its role." *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization*, Ministry of Foreign Affairs, 21st July 2024, viewed 26th June 2025, <https://www.mfa.gov.cn/eng/xw/zyxw/202407/t20240721_11457437.html>

84 Kroeber, A.R., *Xi Jinping's Ambitious Agenda Economic Reform*, Brookings, 18th November 2013, viewed 26th June 2025, <https://www.brookings.edu/articles/xi-jinpings-ambitious-agenda-economic-reform/>

to the disadvantage of many companies in the private sector.[85] The 2024 Third Plenum *Decision* also reiterated past calls for SOEs and state capital to "get stronger, do better and grow bigger".[86] This is not only seemingly at odds with the call for the market to play the decisive role, but also detrimental to China's plan to increase overall productivity, as private firms are consistently ahead of their state-owned counterparts in terms of using capital productively.[87]

A positive development in 2025 was the introduction of China's first law aimed at providing support for the private sector. The Private Economy Promotion Law, which came into effect on 20th May 2025, was borne out of the recognition that private firms have been encountering challenges with fair competition, access to production factors and various forms of support, as well as guarantees and rights protection. This new law would benefit from more specifics that could level the playing field, as in its current form it is seen by some as merely a show of intent from the Chinese Government to assuage the concerns of, and ensure continued contributions from, the private sector.[88]

The 2024 Third Plenum *Decision* also reinforces the idea that China should continue to promote investment in manufacturing as a key driver of its economic development. It further notes that state capital, "will be steered towards major industries and key fields that are vital to national security and serve as the lifeblood of the national economy, towards sectors such as public services, emergency response and public welfare[…]and toward forward-looking and strategic emerging industries."[89]

While advancing development in key, strategic areas is a reasonable goal, a balanced approach would help to avoid targeted segments becoming saturated and precipitating unsustainable competition among market participants.

A KEY AREA WHERE MARKET FORCES CAN PLAY A DECISIVE ROLE

Healthcare

China's healthcare market is dominated by public hospitals, which gives government procurement of medical devices a significant influence within the industry. Leaving this process to be driven by market forces would therefore not only be instrumental in ensuring patients' access to the highest quality care available, but also in promoting technological innovation through healthy competition. Instead, many Chamber members in the healthcare equipment sector—among whom several are global market leaders in their respective fields—face restrictions in tender processes, including limitations based on ownership, brand and nationality. These constraints limit the purchase of imported equipment and in some cases even that of products manufactured in China, undermining both fair market competition and investor confidence.

85 A semi-annual tracker produced by the Peterson Institute for International Economics (PIIE) showed that the share of the private sector among China's largest listed companies declined continuously from 2021 to 2024 – dropping from 55 per cent in mid-2021 to 33 per cent in mid-2024. Huang, T., and Véron, N., *China's share of companies in private sector saw small uptick in second half of 2024 after years of decline*, Peterson Institute for International Economics, 8th January 2025, viewed 26th June 2025, <https://www.piie.com/research/piie-charts/2025/chinas-share-companies-private-sector-saw-small-uptick-second-half-2024>

86 *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernisation,* Ministry of Foreign Affairs, 21st July 2024, viewed 26th June 2025, <https://www.mfa.gov.cn/eng/xw/zyxw/202407/t20240721_11457437.html>

87 According to empirical estimates by the International Monetary Fund, private firms are about three to four per cent more productive than SOEs. *People's Republic of China: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the People's Republic of China*, International Monetary Fund, 2nd August 2024, viewed 26th June 2025, p.33, <https://www.imf.org/en/Publications/CR/Issues/2024/08/01/Peoples-Republic-of-China-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-552803>

88 Horsley, J.P., *China's New Private Economy Promotion Law: Good Intentions Meet Weak Government Accountability,* NPC Observer, 15th May 2025, viewed 26th June 2025, <https://npcobserver.com/2025/05/china-private-economy-law-government-accountability/>

89 *Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization,* Ministry of Foreign Affairs, 21st July 2024, viewed 26th June 2025, <https://www.mfa.gov.cn/eng/xw/zyxw/202407/t20240721_11457437.html>

The European Chamber continues to advocate for the creation of a level playing field in government procurement and for clarification of what is recognised as a 'domestic product' for tender applications.

At the same time, the volume-based procurement (VBP) mechanism in the healthcare sector also poses a challenge for FIEs, as it drives price competition, compelling manufacturers to adopt irrational, non-market-driven bidding strategies to secure contracts.[90] This approach not only erodes reasonable profit margins but also systematically undermines product quality assurance,[91] supply chain stability and industry innovation.

Further complicating the situation is that geopolitical tensions, including tariff adjustments, have inflated import costs for high-value medical devices and crucial raw materials, destabilising global procurement strategies.[92] The resulting supply chain volatility threatens contractual fulfilment under VBP agreements: maintaining original bid prices risks accusations of dumping, while price hikes breach procurement contracts. This creates a situation that contravenes both the Healthy China 2030 agenda's emphasis on stable medical supply chains,[93] and the Third Plenary Session of the 20th Central Committee's 'health-first development strategy'.

Therefore, the Chamber continues to advocate for optimising the current VBP mechanism to allow market-driven competition, safeguard patients' interests, and ensure access to healthcare equipment of the highest possible quality.

- For more information, please refer to the *Healthcare Equipment Working Group Position Paper* on page 227.

While China's leadership has already acknowledged the issue of "disorderly competition at low prices", concrete steps to address the situation have been lagging.[94] The country's revised Anti-unfair Competition Law—which is due to come into effect on 15th October 2025—does contain important principles about eliminating unfair competition, but it lacks details on what steps will be taken to achieve this. When it does provide details, it narrows the scope of the anti-unfair competition work to specific areas, including e-commerce and marketing practices.[95]

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90 *[Special Research] Current Status and Issues in the Centralised Procurement of High-Value Medical Consumables, Legislation and Regulation*, 5th March 2024, viewed 27th April 2025, <https://mp.weixin.qq.com/s?_biz=Mzk0NzMxMjczMg==&mid=2247490391&idx=1&sn=065a7579f1b47a6d14aa2647d4803475&chksm=c27c90c27f42faa88e30170a09db8d5822c74de9a1ae24818ca95407dc4b349cf1361024790b#rd>

91 *Announcement on the Disqualification of Indonesia's PT. Laboratorium LENT from the Single-Focus Intraocular Lens Tender and Its Inclusion in the Violations List,* NHSA, 17th April 2025, viewed 27th April 2025, <https://www.nhsa.gov.cn/art/2025/4/17/art_187_16294.html>

92 *The Show Unfolds: Will Tariffs Take Effect? Renewed Turmoil in Medical Supply Chains,* MedTech, 2nd February 2025, viewed 27th 2025, <https://mp.weixin.qq.com/s?__biz=MzIyMTczMzk5OA==&mid=2247635637&idx=1&sn=d88638924d99c03b5996a6f6082cf320&chksm=e9ab77347fb054fe8c074767f1b5e39c4f20e0ac82fd8b9db3ffba7da4bc993517817837968a#rd>; *Which US-Imported Medical Devices Are Difficult to Replace Domestically Amid Tariff Wars?, Caixin*, 18th April 2025, viewed 27th April 2025, <https://mp.weixin.qq.com/s?__biz=MjY2NzgwMjU0MA==&mid=2650301535&idx=6&sn=07af66832641571ad644901c2fa326a6&chksm=ae9bbb897787511ad7811ce8354f83734fe744567b380b445131ab43fd58fc216d637ab2aef6#rd>

93 *Healthy China 2030*, State Council, 25th October 2016, viewed 27th April 2025, <https://www.gov.cn/zhengce/2016-10/25/content_5124174.htm>

94 Chairing a meeting of the Central Financial and Economic Commission on 1st July 2025, Chinese President Xi Jinping called for managing disorderly competition at low prices as well as promoting the orderly withdrawal of backward production capacity. These two efforts in tandem could go a long way towards market consolidation in saturated segments. Teng, H., *Deepening the promotion of the construction of a unified national market: managing low-priced and disorderly competition among enterprises in accordance with the law and regulating the behavior of the government, The Paper,* 1st July 2025, viewed 2nd July 2025, <https://www.thepaper.cn/newsDetail_forward_31076983>

95 Some of the high-level stipulations include: "The state shall establish and improve a fair competition review system, strengthen fair competition review work in accordance with the law, and ensure that all types of operators have equal access to production factors and fair participation in market competition in accordance with the law."; and "People's governments at all levels shall take measures to prevent and stop unfair competition and create a good environment and conditions for fair competition." Wininger, A., *China's National People's Congress Passes Amended Anti-Unfair Competition Law*, China IP Law Update, 27th June 2025, viewed 2nd July 2025, <https://www.chinaiplawupdate.com/2025/06/chinas-national-peoples-congress-passes-amended-anti-unfair-competition-law/>

Recommendations

Allow Market Forces to Play the Decisive Role in Resource Allocation

- Provide more targeted support for the private sector, including through promotion and optimisation of China's new Law on the Promotion of the Private Economy.
- Clarify the definition of 'domestic product' in the context of government tenders and eliminate ownership-based restrictions.
- Shift VBP criteria from lowest-price to value-based competition.
- Reduce excessive subsidisation of industries, especially at the local level.
- Strengthen competition oversight to ensure a healthy business environment.

3. Take Action to Create Equitable Trade Relationships

At the same time that the 'dual circulation' policy has successfully increased third markets' reliance on Chinese goods, China's reliance on exports as a driver of economic growth has also intensified, a point acknowledged in the Government Work Report 2025.[96&97] This rapid growth in exports has exacerbated the trade imbalances that China has with many of its key partners, which has led to many of them taking various actions in a bid to bring about a more equitable trade relationship. Such developments—most notably the tit-for-tat tariffs and non-tariff trade measures mutually imposed by the US and China in April 2025—have created unprecedented uncertainties for both domestic and foreign businesses operating in China, significantly undermining investment confidence.[98]

As US tariffs posed a threat to all major markets, there were some expectations that trade tensions with the US could push the EU and China closer together. However, while EU officials did signal an intent to strengthen relations with China, this was always caveated with the fact that long-standing issues still need to be addressed and that the relationship needs to be "fairer and more balanced".[99]

A more equitable EU-China trade relationship does not yet seem to have emerged when looking at bilateral trade after the US tariffs were imposed on Chinese goods. While the pace of China's overall export growth dropped sharply in April and May—in no small part due to a significant drop in its exports to the US—its exports to the EU actually increased, with its exports to the EU alone exceeding the total value of trade with the US during these two months.

This trend accelerated due to the *renminbi* (RMB) being closely pegged to the USD, resulting in a significant depreciation against the euro in spite of huge Chinese trade surpluses and higher economic

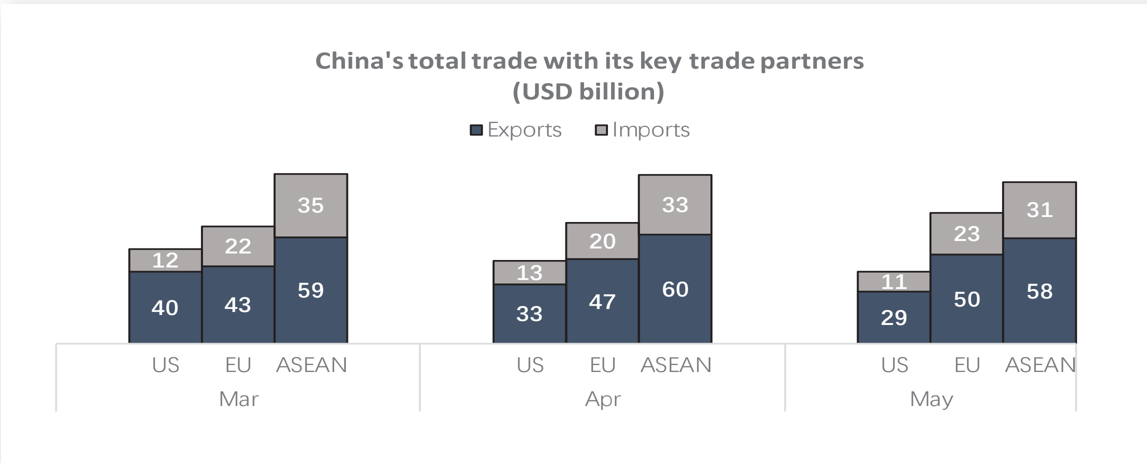
96 "Foreign trade reached a record high, and the global market share of China's exports increased steadily […] We actively fostered new growth drivers for foreign trade and steadily improved the import and export mix. These efforts enabled exports to contribute more to China's economic growth." *Full text: Report on the Work of the Government, Xinhua*, 12th March 2025, viewed 26th June 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

97 China's total 2024 foreign trade reached a record high in value terms, surpassing USD 6.1 billion, up 3.8 per cent y-o-y. Export growth, at 5.9 per cent, was over five times faster than import growth at 1.1 per cent, resulting in a trade surplus of USD 992 billion, up 20.5 per cent y-o-y.

98 The European Chamber conducted a flash survey among its members just after the US and China announced trade measures against each other in April. The survey found that while many Chamber members have been able to mitigate direct impacts of these measures due to their pragmatism and adaptability, the developments have significantly affected business confidence, both in terms of the ease of doing business now and in terms of expectations for the next two years. More than half of respondents reported that doing business has become more difficult since the beginning of 2025, and the survey identified competitive pressure and profitability as the main pain points for Chamber members. Over 60 per cent of respondents projected that competition will become even more intense, and 58 per cent expressed concerns over their company's future profitability. *Flash Survey on the US-China Trade War*, European Union Chamber of Commerce in China, 8th May 2025, viewed 26th June 2025, p.2, <https://www.europeanchamber.com.cn/en/publications-flash-survey-trade-war>

99 Fan, A., *Top EU official suggests strengthening trade ties with China as bloc faces US tariffs, Global Times*, 5th February 2025, viewed 26th June 2025, <https://www.globaltimes.cn/page/202502/1327889.shtml>

growth than Europe.[100] While this would ordinarily support an appreciation of the RMB, it depreciated because it is not freely tradeable. The almost three years of 'involution'-driven producer price deflation in China has also provided it with a distinct advantage. Thus, although a not insignificant part of China's competitiveness is due to the advanced capabilities of its manufacturers, much of it is also due to macro-economic developments resulting from policy decisions in China.



Source: General Administration of Customs

Concerns over the distortive impact of China's trade surplus with the EU have in fact intensified following the US' levying of tariffs on Chinese imports, with the EU side fearing that a potential reshuffling of trade flows could put further pressure on the EU Single Market. This has precipitated a notable deterioration of sentiment within the European Commission towards China.[101] There is a growing perception that trade with China is becoming a one-way street, with economic growth in China achieved at the expense of the European economy, European jobs and European companies.

These questions are increasingly being asked: with an ever-growing trade deficit, as imports from China continue to grow rapidly while exports to China continue to decline, *what's in it for Europe?*; and if the benefits of EU-China trade are no longer being equitably distributed, *should Europe remain as open to imports from China as it is today?*

As Commission President Ursula von der Leyen mentioned at the EU-China Summit in Beijing on 24th July 2025, trade relations are now at an inflection point. Change is increasingly a matter of urgency.[102]

AREAS WHERE TRADE FRICTIONS CAN BE IMMEDIATELY REDUCED

Rare earth minerals

On 4th April, the MOFCOM and the General Administration of Customs (GAC) announced export controls on several rare earth elements (REEs). Under these new measures, exporters are required

100 Kawai, Y, and Cho, Y., *Yuan hits 10-year low against euro, threatening trade tensions, Nikkei Asia*, 2nd May 2025, viewed 28th July 2025, <https://asia.nikkei.com/Business/Markets/Currencies/Yuan-hits-10-year-low-against-euro-threatening-trade-tensions>

101 Talking about China's trade and market practices at the Group of 7 (G7) Summit in mid-June, President Ursula von der Leyen labelled it "distortion with intent" and called them the G7's biggest collective problem. *Statement by President von der Leyen at Session I of the G7, 'Global economic outlook'*, European Commission, 16th June 2025, viewed 26th June 2025, <https://ec.europa.eu/commission/presscorner/detail/en/statement_25_1521>

102 *Statement by President von der Leyen with President Costa following the EU-China Summit,* European Commission, 24th July 2025, viewed 28th July 2025, <https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_25_1903>

to obtain licences before shipping magnets containing these elements overseas. While the export controls appear to be a reaction to US tariffs, they impact the export of rare earth elements from China to the rest of the world, including the EU.[103]

The European Chamber had several meetings with the MOFCOM to discuss the challenges posed by export controls on REEs on its member companies, after which there was some improvement in the situation. Specifically, there was an increase in the number of export approvals that European companies obtained, with China having seemingly prioritised those considered the most urgent cases—based on input from European industry—in order to avoid a major crisis. However, at the time of writing, many companies—particularly small and medium-sized enterprises (SMEs)—are still experiencing significant supply chain disruptions, and no long-term, sustainable solution has been put forward. The Chamber is in regular contact with the relevant authorities and has been developing recommendations that could eliminate the volatility that many companies are experiencing, and that will be in the mutual interests of both the EU and China.

It is positive that a work-around was agreed to during the EU-China Summit in July, with the introduction of a bottleneck mechanism to fast track applications for companies facing imminent production stoppages due to a lack of access to these minerals. At the time of writing, the efficacy of this mechanism is still under evaluation.[104]

The export control issue had been raised by von der Leyen during the G7 Summit, when she accused China of weaponising its dominant position in the global market for REEs to undermine competitors in key industries. In a joint statement issued on 17th June, the leaders of the G7 announced the launch of the G7 Critical Mineral Action Plan, which, "will focus on diversifying the responsible production and supply of critical minerals, encouraging investments in critical mineral projects and local value creation, and promoting innovation." The statement makes no direct reference to China, but includes a mention of "non-market policies and practices" in the sector that can be classified as a threat to acquiring critical minerals vital for industrial production.[105]

This illustrates how certain trade practices can lead to joint action from multiple, key trade partners, and may act as a cautionary tale, especially as China aspires to join new trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

'Buy China'

Preference for 'domestically manufactured' products in public procurement is a long-standing market access barrier for foreign companies in China, with Chamber members reporting that their products are frequently excluded from public procurement despite being developed and manufactured in China. Policy documents and tender results also demonstrate that public tenders increasingly favour Chinese-made products.[106]

103 *The Ministry of Commerce and the General Administration of Customs' Notice No. 18 of 2025 announcing the decision to implement export controls on certain medium- and heavy rare earth related items,* Ministry of Commerce, 4th April 2025, viewed 9th July 2025, <https://www.mofcom.gov.cn/zwgk/zcfb/art/2025/art_9c2108ccaf754f22a34abab2fedaa944.html>

104 *Statement by President von der Leyen with President Costa following the EU-China Summit,* European Commission, 24th July 2025, viewed 28th July 2025, <https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_25_1903>

105 *G7 Critical Minerals Action Plan*, European Council, 17th June 2025, viewed 26th June 2025, <https://www.consilium.europa.eu/media/rwkj3dls/minerals-en.pdf>

106 *Year-End Review: Who Are the Biggest Winners in the 2024 Centralised Procurement of Medical Equipment?, Mtech Home*, 27th December 2024, viewed 24th April 2025, <https://mp.weixin.qq.com/s?__biz=Mzg3NTczNDg0Mw==&mid=2247721496&idx=3&sn=00c5ba89402197a7c2c47abbdf18edd6&chksm=ce282439e17dd9e2c704a14c9b1baef115319db5dfa3566d1d940a8947e8499aec6e03998fd2#rd>

This is a major challenge for companies operating in industries for which government procurement constitutes a key—or even the main—channel for sales, such as medical devices, pharmaceuticals, information and communication technology (ICT), and rail.

In April 2024, the European Commission launched an investigation into Chinese medical devices procurement under its newly developed International Procurement Instrument (IPI), which found "clear evidence" that Chinese government measures favour domestic devices in hospital bids, restrict the procurement of imported goods or goods produced by FIEs, and additionally impose conditions through the centralised VBP system, which has compelled companies to submit extremely low and economically unfeasible bids.[107] Out of 380,000 tenders that the European Commission investigated, 87 per cent severely restricted bids from non-Chinese bidders. As a result, in June 2025, Chinese bidders were excluded from participating in EU government procurement tenders of medical devices exceeding EUR 5 million. This move was quickly met by countermeasures from the Chinese side, when on 6th July the Ministry of Finance (MOF) announced that EU medical devices companies would be excluded from Chinese government procurement tenders of over CNY 45 million.[108] In a separate statement released on 10th July, the MOF confirmed that European-invested enterprises in China—defined as "all or partly invested by EU investors and registered in China under Chinese law"—are to be exempted from the restriction. However, conditions apply: their bid for relevant tenders cannot include medical devices imported from the EU exceeding 50 per cent of the total project value.[109]

While many Chamber members report having increasingly localised their production—and in some cases their R&D—specifically to increase their chances of success in government procurement tenders, there are currently no universally applicable policies or standards that clearly define 'made in China'.[110] On 5th December 2024, China's MOF issued its *Notice on Standards for Domestic Products and Implementation Policies in Government Procurement (Draft for Comments)*[111] (*Notice*), which is aimed at providing some guidance in this regard, including requirements for components to achieve a specific localisation ratio. It is of significant concern that the *Notice* proposes a 20 per cent price evaluation preference for domestic products. If implemented this would not only further tilt the playing field in favour of domestic competitors, it would also increase tensions with trade partners as it would constitute clear discrimination through what would essentially be a 20 per cent tariff on imported products.

Given the rapid pace of product upgrades, healthcare equipment manufacturers are especially vulnerable to such policy shifts, as production localisation—especially for high-end, core components—takes considerable time and resources for companies – particularly SMEs. This means that sourcing such components locally would not be feasible in the short term.

107 *REPORT FROM THE COMMISSION: pursuant to Article 5(4) of Regulation (EU) 2022/1031 on the investigation under the International Procurement Instrument concerning measures and practices of the People's Republic of China in the public procurement market for medical devices*, European Commission, 14th January 2025, viewed 19th August 2025, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0005>

108 *Notice of the Ministry of Finance on taking relevant measures for medical devices imported from the EU in government procurement activities*, MOF, 6th July 2025, viewed 9th July 2025, <https://gks.mof.gov.cn/guizhangzhidu/202507/t20250704_3967295.htm>

109 *Policy Q&A on the Notice on Taking Relevant Measures for Medical Devices Imported from the EU in Government Procurement Activities*, MOF, 10th July 2025, viewed 18th July 2025, <https://gks.mof.gov.cn/guizhangzhidu/202507/t20250710_3967661.htm>

110 In certain sectors, there are policies that give some indications on what can be treated as a domestic product. For instance, under the current policy framework regulating the medical devices sector, any equipment produced domestically by FIEs and approved by the National Medical Products Administration (NMPA) or by local medical products administrations (MPAs), is treated as a domestic product. See: page 227 of the *Healthcare Equipment Working Group Position Paper*.

111 *Notice on Standards for Domestic Products and Implementation Policies in Government Procurement (Draft for Comment),* CCGP, 5th December 2024, viewed 27th April 2025, <https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm>

- For more information, please refer to the *Healthcare Equipment Working Group Position Paper* on page 227.

Recommendations

Take Action to Create Equitable Trade Relationships

- Address trade imbalances with key trade partners to avoid the introduction of distortive trade protection measures.
  - Work with trade partners—such as the EU—to ensure that the benefits of trade are distributed in a more equitable manner and to accommodate the legitimate concerns they have with regard to industrial resilience and economic security.
- Develop nuanced strategies for strengthening supply chains that do not err towards trade protectionism.
- Refrain from using export control frameworks or other tools to threaten, coerce or unilaterally sanction individual European countries, companies or entities.

4. Continue to Green the Economy and Ensure Environmental Sustainability

China intends to peak carbon emissions before 2030, making the 15FYP pivotal in terms of setting a clear direction—in particular urging the finalisation of concrete local and sectoral plans—for reaching this milestone on the way to the 2060 deadline for achieving carbon neutrality.[112]

The country has already made rapid progress in its green energy transition, both in terms of renewable energy investments and capacity expansion: China maintained its position as a global leader in energy transition investment in 2024, accounting for 39 per cent of the global total and two thirds of the global increase. By 2024, the country's total renewable capacity accounted for 55 per cent of total power generation capacity, with solar and wind power generation capacity surpassing China's 2030 Nationally Determined Contribution (NDC) target—its commitments under the Paris Agreement—six years early.[113] China is also a global leader in manufacturing green technologies, occupying a dominant position in the global supply chains for solar, wind, batteries and NEVs.[114]

The 14FYP had placed significant importance on energy and climate change, which was reflected in the number of indicators on economic and social development devoted to these areas. Key targets for 2025 included a 13.5 per cent reduction in total energy consumption per unit of GDP, or energy intensity, and an 18 per cent cut in carbon-dioxide (CO_2) emissions per unit of GDP, or CO_2 emissions intensity. The plan also proposed an increase in the share of non-fossil energy to around 20 per cent of the country's total energy consumption.[115]

The challenge ahead, according to expert analysis, is that China is at risk of missing both its emissions intensity reduction targets set out in the 14FYP, as well as those included in its 2030 NDC commitment, as its transition from a high- to a low-carbon economy is being kept in check by the challenge of transitioning

112 Farand, C., and Darby, M., *Xi Jinping: China will aim for carbon neutrality by 2060, Climate Home News*, 22nd September 2020, viewed 23rd June 2024, <www.climatechangenews.com/2020/09/22/xi-jinping-china-will-achieve-carbon-neutrality-2060/>

113 *Climate Action Tracker: China*, 17th June 2025, viewed 26th June 2025, <https://climateactiontracker.org/countries/china/>

114 ChinaTech Observatory – Green technology, MERICS, viewed 28th July 2025, <https://merics.org/en/china-tech-observatory/green-technology>

115 In total, four out of the 20 indicators were related to energy and climate change, which accounted for half of the binding targets. Liu, H., Liu, J., and You, X., *Q&A: What does China's 14th 'five year plan' mean for climate change?,* Carbon Brief, 12th March 2021, viewed 26th June 2025, <https://www.carbonbrief.org/qa-what-does-chinas-14th-five-year-plan-mean-for-climate-change/>

its economic growth model. A key obstacle is that energy demand is rising faster than the pace at which renewables are being integrated into the energy supply.[116]

These concerns are echoed by European businesses, most of whom cite limited access to renewable energy as a top-three barrier to decarbonising their China operations. As a result, an increasing proportion of European companies are postponing decarbonisation targets or giving up pursuing carbon neutrality in China altogether.[117]

As European companies are compelled by various factors outside of China's own sustainability drive to pursue carbon neutrality—including globally binding, corporate decarbonisation targets and EU sustainability regulations,[118] as well as growing customer demands for green products and services[119] —they are well-placed to drive China's green transition in multiple areas.

KEY AREAS FOR ACCELERATING CHINA'S GREEN TRANSITION

Modernisation of the power grid

Access to green energy is currently hindered by interprovincial transmission bottlenecks. This is partly due to transmission capacity constraints, which limit the efficient transfer of renewable energy from resource-rich western and northern regions to high-demand eastern provinces. To address this problem, there is a need for ultra-high-voltage (UHV) grid expansions. European companies could make great contributions in this regard, as many of them are already heavily involved in expanding and upgrading UHV grids in their home countries as well as across the European continent.[120]

- For more information, please refer to the *Energy Working Group Position Paper* on page 198.

Harmonisation of green energy certification with international systems

China's Green Electricity Certificates (GECs) serve as official proof of renewable energy consumption and are a valuable tool in the country's decarbonisation efforts. According to new guidelines issued by the National Development and Reform Commission (NDRC) on 18th March 2025, China aims for its GECs to be internationally applicable by 2030. This is challenged by the fact that several aspects of the GEC system currently diverge from international frameworks, which complicates compliance for European companies whose climate goals depend on internationally recognised certification. This is why it is critical for the 15FYP to set an implementation roadmap for the harmonisation of GECs with international emissions credit systems to be completed by 2030.[121]

116 *Climate Action Tracker*, 17th June 2025, viewed 26th June 2025, <https://climateactiontracker.org/countries/china/>

117 The BCS2025 found that, faced with persistent barriers to decarbonisation, a growing share of respondents (29 per cent, +5pp y-o-y) report not currently pursuing carbon neutrality in China, with roughly half of this figure (14 per cent, +6pp y-o-y) also not intending to do so in the future. *European Business in China Business Confidence Survey 2025,* European Union Chamber of Commerce in China, 28th May 2025, viewed 26th June 2025, p. 35, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

118 In this regard, the European Commission's Omnibus package, adopted in February 2025, potentially eases the compliance requirements for multinationals with its proposal to postpone the application of certain sustainability reporting requirements and reduce relevant cost burdens. *Commission simplifies rules on sustainability and EU investments, delivering over €6 billion in administrative relief,* European Commission, 26th February 2025, viewed 26th June 2025, <https://finance.ec.europa.eu/publications/commission-simplifies-rules-sustainability-and-eu-investments-delivering-over-eu6-billion_en>

119 *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Union Chamber of Commerce in China, 25th March 2022, viewed 23rd June 2025, <https://www.europeanchamber.com.cn/en/publications-carbon-neutrality-report>

120 For example, Germany's *2019–2030 Grid Development Plan* aims to provide a roadmap for grid expansions and optimisation necessary to reach the country's 2030 climate goals. Projects include upgrading national UHV direct-current transmission lines as well as interconnectors with neighbouring countries. *An electricity grid for the energy transition*, Germany's Federal Ministry for Economic Affairs and Energy, viewed 18th July 2025, <https://www.bundeswirtschaftsministerium.de/Redaktion/EN/Dossier/grids-grid-expansion.html#:~:text=Making%20the%20grids%20fit%20for,costs%20of%20the%20energy%20transition.>

121 *Opinions on Promoting the High-Quality Development of the Renewable Energy GEC Market,* NDRC, 18th March 2025, viewed 5th June 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202503/t20250318_1396627.html>

- For more information, please refer to the *Energy Working Group Position Paper* on page 198.

Green finance

As part of its green transition efforts, China is attempting to develop a multilevel and diversified green finance market, primarily centred around green loans and green bonds.[122] European financial institutions could make significant contributions in this area, given their vast green financing experience in Europe and other markets.

Currently, stringent Carbon Emission Reduction Facility (CERF) requirements and limitations on participation prevent European banks from taking part in the CERF tool despite meeting the requirements. This both limits the contributions they can make to China's emissions reduction goals, and results in significant missed business opportunities.[123]

- For more information, please refer to the *Banking and Securities Sub-working Group Position Paper* on page 348.

Circular economy

According to the NDRC, the development of the circular economy is expected to have contributed approximately 30 to 35 per cent to China's overall carbon emissions reductions during the 14FYP period.[124] By 2025, the total output value of China's resource recycling industry is projected to reach CNY 5 trillion.[125]

The 2025 Government Work Report mentioned 'recycled materials' for the first time, emphasising the importance of "enhance[ing] waste recycling, vigorously promot[ing] the use of recycled materials, and boost[ing] the development of a circular economy".[126] The topic was also discussed during the Sixth EU-China High Level Environment and Climate Dialogue held in Beijing on 14th July 2025, at a session dedicated to the circular economy. During this meeting, both sides reiterated their commitment to continued cooperation under the EU-China Memorandum of Understanding on Circular Economy, and pledged to share best practices in relevant fields, something European companies can contribute a great deal to.[127]

More action is needed to increase the currently suboptimal recycling rates of waste materials and ensure that more waste enters into 'closed-loop recycling' – a process in which used materials

122 In 2024, China made substantial progress in green finance, with its outstanding green loans increasing by 19 per cent y-o-y by Q3 2024. The green bond market did not fare as well, with the issuance volume dropping by 18 per cent y-o-y in 2024, and only accounting for a small part of the total bond market. Yue, M., and Wang, C.N., *China Green Finance Status and Trends 2024-2025*, Green Finance & Development Center, 7th March 2025, viewed 26th June 2025, <https://greenfdc.org/china-green-finance-status-and-trends-2024-2025/>

123 In the BCS2025, 87 per cent of respondents from the financial services sector reported missing business opportunities due to market access or regulatory barriers. This is in part attributable to barriers to participation in the CERF that banks and bank branches face due to the scope of projects/financing that may be covered. Currently, the scope only covers the types of loans that can only be financed by state-owned banks. *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 26th June 2025, p. 12, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

124 *Under the Dual-carbon Goals, Can the Circular Economy Become a 'Star Industry'?*, NDRC, 29th December 2021, viewed 30th June 2025, <https://www.ndrc.gov.cn/fggz/hjyzy/zyzhlyhxhjj/202112/t20211229_1315414.html>

125 *The '14th Five-Year Plan' Circular Economy Development Plan Was Officially Issued, with the Resource Recycling Industry's Output Value Projected to Reach 5 Trillion Yuan by 2025*, NDRC, 14th July 2021, viewed 30th June 2025, <https://www.ndrc.gov.cn/xwdt/ztzl/sswxhjjfzgh/202107/t20210714_1290417_ext.html>

126 *Government Work Report, Xinhua,* 12th March 2025, viewed 6th April 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm?s_channel=5&s_trans=7824452999_>

127 *Readout from the 6th EU-China High-Level Dialogue on Environment and Climate*, European Commission, 15th July 2025, viewed 16th July 2025, <https://climate.ec.europa.eu/news-other-reads/news/readout-6th-eu-china-high-level-dialogue-environment-and-climate-2025-07-15_en>

are reprocessed into products of the same type. The European Chamber is advocating for the development of a roadmap with clearly defined targets to promote applications of waste materials such as plastics, textiles and steel. One specific area where there is much potential for developing the high-value recycling of waste plastics is the utilisation of recycled polythene terephthalate (rPET). The Chamber recommends allowing the use of rPET in food contact applications and providing technical guidelines for safety assessments.

- For more information, please refer to the *Environment Working Group Position Paper* on page 45 and the *Recycling Sub-working Group Position Paper* on page 55.

Sustainable fuels for transportation and logistics

With its high capacity for green energy production and abundance of natural resources, China has the potential to become the global leader in the production of sustainable fuels like hydrogen and green methanol. However, current policies make the pathways to procure significant volumes of these fuels unclear for transportation and logistics providers.

China's *14th Five-year Special Plan for Green Development of Civil Aviation* (*Special Plan*) and the *2023–2035 Green Aviation Manufacturing Development Outline* aim to guide the sustainable development of China's civil aviation industry. The *Special Plan* targets the consumption of 50,000 tonnes of sustainable aviation fuel (SAF) between 2020 and 2025. Although Chinese airlines and airports are already participating in carbon markets and adopting measures to reduce emissions, further efforts are needed to reduce the use of traditional aviation fuel, which currently stands at 39 million tonnes annually.

Aligning international standards for SAF production is crucial to avoid disrupting the aviation ecosystem. In the long run, power-to-liquid (eSAF) and hydrogen technologies will be essential for full decarbonisation of the industry, and reviving EU-China talks on industrialising these new fuels could accelerate their deployment. A global commitment to scaling the SAF market, such as a multilateral agreement to expand production, could also help to incentivise industry players in China to invest in this sector.

Hydrogen—a potential substitute to fossil fuels for long range, uninterrupted lorry transport—presents significant challenges due to the need for substantial infrastructure investment and technological development. There is an opportunity for China to achieve global leadership in this segment, too, by investing early in the provision of sustainable supply and the rollout of adequate fuelling infrastructure.

The shipping industry is also exploring alternative fuels—including synthetic and biofuels—but these require precise, well-to-wake assessments to ensure they are truly carbon-neutral. There is an urgency for this to be carried out given the long-term investment cycles in this industry. With ships typically operating for 25 to 30 years,[128] vessels currently under construction will likely remain in service until the 2050s, making choices on future-ready fuels on commercially viable terms and technologies of critical importance. China and the EU could collaborate to ensure the adoption of global regulations that support the green transition, such as in the context of the International

128 *Do you know what happens to a ship when it's too old to sail anymore?*, Safety4sea, 4th February 2020, viewed 25th April 2025, <https://safety4sea.com/cm-do-you-know-what-happens-to-a-ship-when-its-too-old-to-sail-anymore/>

Maritime Organization (IMO), where the present convergence of Chinese and European positions gives rise to hope.

- For more information, please refer to the *Logistics Working Group Position Paper* on page 325, the *Aviation and Aerospace Working Group Position Paper* on page 291 and the *Maritime Manufacturing and Industrial Services Working Group Position Paper* on page 238.

Recommendations

Continue to Green the Economy and Ensure Environmental Sustainability

- Strengthen cooperation with the EU and European businesses on decarbonisation, especially regarding the harmonisation of standards.
  - Promote mutual recognition and alignment between Chinese and EU sustainability standards, including green taxonomies, sustainability disclosures and carbon pricing frameworks.
  - Fast-track alignment of China's GECs with internationally recognised schemes so that multinationals can count Chinese renewables toward their global climate targets.
- Establish regulatory frameworks to support the circular economy, including policies and regulations for certification of recycled materials.
  - Increase recycling rates of waste materials and ensure that more waste enters into 'closed-loop' recycling.
  - Develop a roadmap with clearly defined targets to promote applications of waste materials such as plastics, textiles and steel.
  - Allow the use of rPET in food contact applications and provide technical guidelines for safety assessments.
- Implement comprehensive policies and measures to increase corporate entities' access to sustainable sources of green energy.
  - Introduce clear policies and ensure reliable supply, as well as adequate fuelling infrastructure, to promote the transition to sustainable fuels in transportation and logistics.
  - Modernise the power grid to eliminate interprovincial transmission bottlenecks.
- Provide incentives for green power procurement (e.g., by granting targeted subsidies or prioritising companies purchasing green electricity during peak demand times and adjusting energy quotas accordingly).
- Clarify the future outlook of renewable portfolio standards for both provinces and companies.
- Strengthen green finance support for energy efficiency projects.
- Extend the CERF's scope to include European bank branches.
- Grant FIEs non-discriminatory access to green energy and green finance support, including subsidies, power purchase agreements and carbon reduction financing when participating in joint or independent renewable projects.
  - Ensure such access is based on project merit and environmental contribution, not ownership structure.
- Introduce implementable policies to accelerate the decarbonisation of high-emission segments, including clean hydrogen, ammonia, SAF and methanol production, and enhance EU-China cooperation to develop and harmonise applicable standards and frameworks for these sectors.
- Ensure that clean energy and alternative feedstock are accessible, reliable and affordable, to enable industrial transformation.

5. Advance China's Digital Transition in an Inclusive Way

The 14FYP set the target of constructing a 'digital China', including specific elements such as a digital economy, a digital society and a digital government. The national 14FYP was complemented by the *14th Five-year Plan for National Informatisation*, issued by the Central Cyberspace Affairs Commission in late 2021.[129] While the objectives and main targets are ambitious—with the aim of China becoming a global leader in terms of digital economy development and participation in the reform of the global cyberspace governance system—there is a strong emphasis placed on security too.

China has been building its cyber- and data-security framework for almost a decade, with key legislation having been enacted at the start of the period covered by the 14FYP.[130] Regulations on cross-border data transfer (CBDT) followed in 2023, with the *Provisions on Regulating and Promoting Cross-border Data Flows* (*Provisions*) finalised by the Cyberspace Administration of China in 2024. While the final version of the *Provisions* reduced some administrative burdens associated with CBDT, it still did not provide clarity over key terms such as 'important data'.[131] However, further progress was made with the release of a series of guidelines—some still in draft version, some already finalised—for CBDT and the identification of 'important data' in specific sectors, as well as the publication of negative lists and industry-based general data lists for cross-border data in some of the country's free trade zones.[132]

The *Network Data Security Management Regulations* that came into effect 1st January 2025, provide a more comprehensive framework for all aspects covered by previous legislation on data protection and cybersecurity. While the new law itself only provides a general definition of 'important data' it requires local authorities and industries to develop directories of important data.[133] This is a positive development, which will need to be followed by a harmonisation of such directories to address compliance challenges encountered by companies that have multiple business units and that operate across various regions. These companies often struggle to adapt to the various, locally-defined sub-regulations, including, for instance, the volume specified as a threshold for triggering security assessments for certain data categories.[134]

The trend of increased digitalisation combined with a rising number of related regulations puts additional pressure on MNCs because—unlike their domestic competitors—they are obliged to share various types of data with their overseas headquarters (HQs). This is further complicated by China's expanding national security framework due to the ambiguity surrounding key concepts.[135]

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129 Creemers, R., Dorwart, H., Neville, K., Schafer, K., Costigan, J., and Webster, G., *Translation: 14th Five-Year Plan for National Informatization – Dec. 2021*, Stanford University, 24th January 2022, viewed 26th June 2025, <https://digichina.stanford.edu/work/translation-14th-five-year-plan-for-national-informatization-dec-2021/>

130 The Cybersecurity Law (CSL) took effect in 2017, while the Data Security Law (DSL) and the Personal Information Protection Law (PIPL) were both enacted in 2021.

131 In particular, the increase of triggering thresholds, from 10,000 to 100,000 people, for signing standard contracts or applying for certification—as well as some exemptions from related administrative requirements—were significant improvements from the previous draft. The revision also clarified declaration standards for the assessment of cross-border data security and the scenarios in which exemptions from security appraisals would apply.

132 These include a negative list covering 13 main and 46 subcategories of data that require a safety assessment for CBDT released in May 2024 by Tianjin Pilot Free Trade Zone; a negative list covering catalogues of types and volumes of data in five industries—automotive, pharmaceuticals, civil aviation, retail and modern services, and AI training—released by the Beijing Pilot FTZ in August 2024; and three whitelists of general data for CBDT issued in May 2024 by the Lin-gang Special Area of China (Shanghai) Pilot Free Trade Zone.

133 Interesse, G., *China Issues New Regulations on Network Data Security Management, Effective January 1, 2025*, China Briefing, 2nd October 2024, viewed 26th June 2025, <https://www.china-briefing.com/news/china-issues-new-regulations-on-network-data-security-management-effective-january-1-2025/>

134 *Siloing and Diversification: One World, Two Systems*, European Union Chamber of Commerce in China, 9th January 2025, viewed 26th June 2025, p. 26, <https://www.europeanchamber.com.cn/en/publications-siloing-diversification>

135 One recent example of such ambiguity can be found in China's Law on Guarding State Secrets, which was passed by the National People's Congress Standing Committee (NPCSC) in February 2024. It references the notion of 'work secrets' without clearly defining the scope of this term. In a similar vein, China's recently amended Anti-espionage Law and the Foreign Relations Law contain references to the broader concept of 'national security', without providing guidelines on what constitutes a national secret, raising the likelihood of both inconsistent implementation and compliance issues for businesses.

Such compliance concerns compel increasing numbers of FIEs to silo their data management and information technology (IT) systems in China. This comes at a high cost, not least because it contributes to the growing disconnect between company HQs and their China operations. Furthermore, separating data pools undermines efficiency and creates barriers to companies' global innovation efforts, while establishing separate IT systems for different markets renders global systems obsolete. Overall, this puts foreign companies at a significant disadvantage to their Chinese competitors, whose systems can operate globally.[136]

While it may seem intuitive that China's digitalisation would create opportunities for foreign companies in the ICT industry, the reality is that their market access has been increasingly restricted. For example, although European firms were instrumental in the early stages of mobile network development in China, their market share dropped from around 30 per cent in the deployment of fourth generation (4G) network technology, to low single digits with the rollout of China's fifth generation (5G) network technology in 2023. A key reason for this, reported by Chamber members in the ICT sector, is the stringent localisation requirements in procurement tenders.[137] Opportunities in other ICT segments—including software development or digital solutions—are also drying up for FIEs, with A&C guidelines compelling Chinese and foreign companies alike to avoid the use of foreign technologies that the Chinese Government fears could be cut off by other countries or that may be connected or connectable to external systems.

While industrial policy support for indigenous industries is understandable within reasonable and proportionate limits, commercial markets must be free from undue localisation mandates. Ensuring market access by giving all companies fair and equal opportunities to fully contribute to market development is also crucial to maintaining and further promoting vital interdependencies.

KEY AREAS WHERE EUROPEAN COMPANIES COULD CONTRIBUTE MORE TO CHINA'S DIGITAL AGENDA

Digital healthcare and smart cities

China is actively transforming its healthcare sector through digitalisation, integrating internet technologies to improve accessibility and efficiency. The 14FYP contained provisions on internet health, including enhancing connectivity between regions and using big data for health management, R&D in the pharmaceutical sector, and medical insurance.[138] AI is playing an increasingly important role in healthcare innovation, with applications in areas such as medical imaging, diagnostics and new drug development. However, progress in this area is being impeded due to issues related to data quality and availability.[139]

Similarly, China's development of smart cities involves several advanced technologies, including AI, big data analytics and the Internet of Things (IoT). Given the focus on enhancing the sustainability of smart city solutions, in tandem with a lack of experience in some practical aspects of deployment—including construction, operation and maintenance—there is huge scope for EU-China cooperation in this area. European companies have innovative solutions to contribute based on their experiences

136 *Siloing and Diversification: One World, Two Systems*, European Union Chamber of Commerce in China, 9th January 2025, viewed 26th June 2025, pp. 26–28, <https://www.europeanchamber.com.cn/en/publications-siloing-diversification>

137 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 26th June 2025, p. 6, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

138 Rojkov, V., *Understanding China's Internet Healthcare and Opportunities for Investors*, China Briefing, viewed 10th July 2025, <https://www.china-briefing.com/doing-business-guide/china/sector-insights/understanding-china-s-internet-healthcare-and-opportunities-for-investors>

139 Shi, W., *The Future of Healthcare: How China's medical industry is adopting AI*, CKGSB Knowledge, 20th March 2025, viewed 10th July 2025, <https://english.ckgsb.edu.cn/knowledge/article/ai-applications-in-china-healthcare-system/>

working on similar projects in their home and other markets.[140]

In both areas, access to public datasets is crucial for training algorithms and developing new technologies. The European Chamber therefore advocates that the relevant Chinese authorities define the conditions for accessing public datasets in a timely manner and ensure the secure and collaborative use of such data, including through better delineation between government data, public data and non-public data, and the use of data anonymisation techniques.

- For more information, please refer to the *Information and Communication Technology Working Group Position Paper* on page 301.

Standards

In emerging ICT segments, including the IoT and commercial cryptography, many countries and regions are developing their own regulations and standards. This presents challenges to MNCs both in terms of compliance and cost, hindering their ability to increase their innovation and development capacity. It also acts as a barrier for domestic companies wanting to go global.

To address these challenges, the European Chamber advocates that the relevant Chinese authorities harmonise international and domestic standards to enable interoperability and reduce reengineering costs.

- For more information, please refer to the *Cybersecurity Sub-working Group Position Paper* on page 315.

Recommendations

Advance China's Digital Transition in an Inclusive Way

- Remove barriers to European ICT companies' market access and secure foreign investment by avoiding bifurcation of both global supply chains and the ICT ecosystem in general.
- Ensure that regulatory controls improve overall supply chain resilience, instead of pursuing self-sufficiency and localisation at the expense of long-term interdependencies and cooperation prospects.
- Review the status of market openness and market share regularly, and implement measures to ensure long-term equal treatment for FIEs in the China market.
- Define 'important data' in forthcoming rules and regulations in a narrow and precise manner.
- Harmonise the varying data management regimes across different jurisdictions, and across all industries in China, so that related measures are uniform and implementable.
- Re-evaluate the direction in which China's data management regime is headed and ensure that data protection measures are applied in a manner that is proportionate to legitimate national security and privacy risks.
- Strengthen EU-China dialogue on digital development and identify concrete areas for cooperation where possible.

140 Li, Y., *Smart City and Sustainable Urban Development in China: A Comprehensive Overview*, Swissnex, 30th May 2025, viewed 10th July 2025, <https://swissnex.org/china/news/smart-city-and-sustainable-urban-development-in-china-a-comprehensive-overview/>

- Harmonise domestic standards with international benchmarks to enable interoperability and reduce reengineering costs.
- Define the conditions for accessing public datasets in a timely manner and ensure the secure and collaborative use of such data, including through better delineation between government data, public data and non-public data, and the use of data anonymisation techniques.

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Abbreviations

14FYP	14th Five-year Plan
15FYP	15th Five-year Plan
4G	Fourth Generation
5G	Fifth Generation
A&C	Autonomous and Controllable
AI	Artificial Intelligence
BCS	Business Confidence Survey
CBDT	Cross-border Data Transfer
CERF	Carbon Emission Reduction Facility
CNY	Chinese Yuan
CO_2	Carbon Dioxide
CSL	Cybersecurity Law
DSL	Data Security Law
EBIT	Earnings Before Interest and Taxes
eSAF	Power-to-liquid
EU	European Union
EV	Electric Vehicle
FDI	Foreign Direct Investment
FIE	Foreign-invested Enterprise
FSMP	Foods for Special Medical Purposes
G7	Group of 7
GAC	General Administration of Customs
GDP	Gross Domestic Product
GEC	Green Electricity Certificate
HQ	Headquarter
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMO	International Maritime Organization
IoT	Internet of Things
IPI	International Procurement Instrument
IT	Information Technology
MIC2025	Made in China 2025
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
NDC	Nationally Determined Contribution
NDRC	National Development and Reform Commission
NEV	New Energy Vehicle
OECD	Organisation for Economic Co-operation and Development
PBOC	People's Bank of China
PIPL	Personal Information Protection Law
pp	Percentage Points
R&D	Research and Development
REE	Rare Earth Element
RMB	*renminbi*

rPET	Recycled Polythene Terephthalate
SAF	Sustainable Aviation Fuel
SME	Small and Medium-sized Enterprise
SOE	State-owned Enterprise
UHV	Ultra-high Voltage
US	United States
USD	United States Dollar
VBP	Volume-based Procurement
WTO	World Trade Organization

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2 Section Two

Horizontal Issues

Horizontal Issues

The position papers in this section address the main horizontal issues that affect European businesses in China, as covered by the following nine working groups and one sub-working group:

- Compliance and Business Ethics
- Environment
- Finance and Taxation
- Human Resources
- Intellectual Property Rights
- Inter-chamber Small and Medium-sized Enterprises
- Legal and Competition
- Research and Development
- Standards and Conformity Assessment
  - Quality and Safety Services

European companies continue to operate in a challenging environment in China. According to the *Business Confidence Survey 2025* (BCS 2025), China's economic slowdown remains the primary concern for 71 per cent of respondents.[1] Furthermore, tariff tensions caused by the United States (US) have heightened uncertainty: 47 per cent of respondents cited US-China tensions as a top-three concern—a five percentage point increase compared to last year—while 58 per cent stated that the business environment has become more challenging since 2025.[2] As a result, investor confidence has declined to a record low, with only 12 per cent of respondents ranking China as a top destination for future investments.

These rising tensions are having an indirect impact on European businesses. China's imposition of export controls on rare earths[3] in April 2025 exemplifies how the US-China trade war can have significant spillover effects on global trade, critically impacting European companies' supply chains. The Compliance and Business Ethics Working Group recommends increasing transparency and predictability in the business environment, enabling European companies to make informed investment decisions in China.[4]

European companies must also navigate an increasingly complex legal landscape, as they face new regulatory requirements from both China and the European Union (EU). Although the European Commission's 2025 omnibus package has eased many requirements under the Corporate Sustainability Due Diligence Directive (CSDDD), the need for legal certainty remains pressing. The inherent lack of legal certainty in China's legal system and the extent to which companies will be

1 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 28th July 2025, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

2 *Flash Survey on the US-China Trade War,* European Union Chamber of Commerce in China, 8th May 2025, viewed 28th July, <https://www.europeanchamber.com.cn/en/publications-flash-survey-trade-war>

3 In July 2025, the European Chamber created an Export Control Task Force to help members address China's export control measures that have been applied to an increasing number of rare earths and magnets. The task force aims to facilitate information sharing among members and the development of the Chamber's strategy positioning on this issue. See: <https://www.europeanchamber.com.cn/en/working-groups-forums-desks/85/export-control>

4 See: *Compliance and Business Ethics Working Group Position Paper 2025/2026*, p. 38

able to carry out reasonable due diligence continue to challenge businesses' ability to meet evolving compliance obligations in both the EU and China. Notably, 45 per cent of companies indicated that the EU's introduction of the CSDDD would impact their operations in China.[5]

China recently released several policies to advance its green transition, including initiatives in green finance, insurance, manufacturing and factory standards. The 2025 Government Work Report for the first time mentioned 'recycled materials', highlighting the importance of "enhance[ing] waste recycling, vigorously promot[ing] the use of recycled materials, and boost[ing] the development of a circular economy".[6] This marks a positive step towards developing a low-carbon economy, supported by longstanding recommendations from the Environment Working Group.[7] Over half (53 per cent) of our members view decarbonising their operations in China as crucial for their competitiveness, and 63 per cent are taking steps to become carbon neutral or are already carbon neutral. The Research and Development (R&D) Working Group also advocates for accelerating the green transition and pursuing carbon neutrality with increased support for green and sustainable R&D technology.[8]

China's economic slowdown is disproportionately impacting small and medium-sized enterprises (SMEs). Consequently, one in four SME members reported that they did not view China as a top-10 investment destination. The Chinese Government published several policies and regulations to address structural economic issues and to stimulate sluggish consumption. For example, the *2025 Government Work Programme*,[9] which aims to boost consumption and investment, specifically mentions the development of SMEs, notably in the context of fostering their digital transformation. Implementation will be key, and the Inter-chamber SMEs Working Group recommends tackling issues specifically impacting small businesses, such as ensuring timely payments and reducing financial burdens.[10]

The decline in the number of foreign nationals residing in China compared to pre-COVID-19 levels continues to affect the country's international business presence and global attractiveness. While the extension of visa-free entry to nationals from a range of countries is a positive development, the Human Resources Working Group recommends improving overall conditions for foreign nationals to enhance China's appeal for both short- and long-term stays.[11] Similarly, the Finance and Taxation Working Group suggests maintaining the Individual Income Tax (IIT) exemption for non-cash benefits for foreign employees in China.[12]

There is a continued need for greater alignment with international practices. The Intellectual Property Rights Working Group emphasises the importance of adopting a common global standard for recognising an 'inventive step' in patent law, as the Chinese standard is more stringent than

5 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 28th July 2025, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

6 *Government Work Report, Xinhua,* 12th March 2025, viewed 6th April 2025, <https://english.news.cn/20250312/bb9eb168edfa4e669b00b8dff4f058ad/c.html>

7 See *Environment Working Group Position Paper 2025/2026*, p.45.

8 See: *Research and Development Working Group Position Paper 2025/2026*, p.109.

9 *Full Text: Report on the Work of the Government*, State Council, 12th March 2025, viewed 22nd April 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

10 See: *Inter-chamber SMEs Working Group Position Paper 2025/2026*, p.86.

11 See: *Human Resources Working Group Position Paper 2025/2026*, p.67.

12 See: *Finance and Taxation Working Group Position Paper 2025/2026*, p.58.

those of other recognised patent offices.[13] Similarly, the Standards and Conformity Assessment Working Group advocates for increased international harmonisation of standards to boost global trade.[14]

In February 2025, the State Council released the *2025 Action Plan for Stabilising Foreign Investment* (*Action Plan*), emphasising the further opening of specific sectors of the economy. The *Action Plan's* specification that relevant authorities should focus on effective implementation is encouraging, and may indicate that this particular plan could go further than previous initiatives. A positive aspect of the *Action Plan* is its stated aim of clearly defining a 'domestic product' for government procurement and to allow foreign companies to manufacture on-site – reflecting a longstanding Chamber recommendation. However, the exclusion of imports from procurement may exacerbate trade imbalances with China's key partners. The Chamber looks forward to the release of supporting measures and timelines for implementation, and will continue its efforts to advocate for tangible benefits for European companies.

13 See: *Intellectual Property Rights Working Group Position Paper 2025/2026*, p.74.
14 See: *Standard and Conformity Assessment Working Group Position Paper 2025/2026*, p.118.

Compliance and Business Ethics Working Group

Key Recommendations

1. **Increase Industry Participation in the Formulation of Enterprise-related Legislation to Optimise the Business Environment for Foreign Investment** 2
   - Improve and institutionalise public consultation procedures before promulgating laws and regulations, and clarify when company input has been considered or adopted and the reasons underlying the foregoing decisions.
   - Establish and optimise communication channels to address the compliance challenges and other difficulties faced by foreign-invested enterprises (FIEs) in China through periodical meetings or webinars, and publish relevant updates of such communications in a timely manner.

2. **Increase the Transparency and Predictability of the Business Environment by Promoting and Clarifying Legislation and Enforcement Procedures that are Relevant to FIEs** 2
   - Collect public stakeholders' comments, questions and recommendations regarding new or amended legislation, and deliver feedback promptly and publicly.
   - Establish a scheme that systematically promotes new or amended legislation, and communicate official interpretations to the public.
   - Work with industry associations, chambers of commerce and other non-government organisations when promoting and clarifying new or amended legislation to ensure that the information is disseminated as widely as possible.
   - Review the questions and issues that were raised before the implementation of new or amended legislation, and take a proactive approach to provide both further clarification and guidance to the public when needed, and prepare for any future amendments.

3. **Foster Professional Training of Compliance Professionals in China and Establish a Mechanism for State-owned Enterprises (SOEs) and Multinational Corporations (MNCs) to Communicate and Cooperate on Compliance-related Issues** 2
   - Support the relevant institutions with adequate resources and funding to provide widely accessible and affordable professional training for future compliance professionals, including university students and those retraining.
   - Develop a compliance certification framework to provide accreditation for compliance officers or as an additional qualification for legal, management and other professionals.
   - Create a knowledge-transfer platform through which SOEs and MNCs can exchange compliance best practices.

Recent Developments

Compliance in China has evolved from the traditional areas of anti-corruption and anti-bribery to cover a much wider area, in line with the government's aim of establishing a 'rule of law' society and its increasing focus on national security. Regulatory frameworks have been expanded, with legislation being introduced or reinforced in areas including data protection, espionage and state secrets. This has increased the urgency for multinational corporations (MNCs) to improve corporate governance and strengthen compliance capabilities to mitigate related risks. A longstanding feature of the Chinese legislative environment is that new and updated legislation often includes broad and vague clauses, while lacking clear implementation guidance. This has been the top regulatory challenge faced by European businesses operating in China for the last nine consecutive years.[1] Uncertainties in the regulatory framework regarding cross-border data transfer (CBDT) and the collection and storage of artificial intelligence (AI) data creates further compliance challenges given the inconsistent enforcement of these laws. Moreover, ambiguities in the recently revised Company Law have introduced additional uncertainty for foreign enterprises operating in China.

Dual Compliance

The end of 2024 and the start of 2025 saw new administrations taking office in the European Union (EU) and the United States (US), respectively. Coupled with China's steadily more assertive regulatory framework, this confluence of events has given rise to substantial transformations in the compliance responsibilities of corporations. Whether through local establishment, trade activities or integration within China's supply chains, corporations are now operating in an environment where their obligations have significantly shifted.

On 1st December 2024, the new College of European Commissioners took office. At the European Parliament Plenary on the new College of Commissioners, President Ursula von der Leyen presented her team and a new initiative labelled the 'Competitiveness Compass', emphasising: "The compass will be built on the three pillars of the Draghi report. The first is closing the innovation gap between the US and China. The second is a joint plan for decarbonisation and competitiveness. And the third is increasing security and reducing dependencies."[2] Subsequently, the European Commission (EC) proposed its first Omnibus package on 26th February 2025, aimed at simplifying sustainability due diligence by amending the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) and the Carbon Border Adjustment Mechanism (CBAM), as well as EU rules on sustainable taxonomy.[3] On 14th April 2025, the European Council adopted the 'stop-the-clock' mechanism to delay the application of the CSRD and the CSDDD by one and two years, respectively.[4&5] The working group's previous *Position Paper* emphasised that meeting stringent compliance requirements will be challenging for companies operating in China due to conflicting legislation, the inability to conduct audits and political sensitivities. Such concerns extend to both small and medium-sized enterprises (SMEs) and large companies without direct business with the EU that supply firms that must comply with these requirements, increasing their administrative burden.

Proposed changes on the CSDDD through the Omnibus package include:[6]

- a narrowed 'stakeholder' definition;
- restrictions on Member States from introducing more stringent rules to tackle human rights and environmental violations;
- limitation of the value chain due diligence requirements to direct suppliers;
- the removal of the obligation for companies to terminate business relationships;
- a reduction in monitoring frequency from every year to once every five years;

1 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 30th May 2025, p. 19, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

2 *Speech by President von der Leyen at the European Parliament Plenary on the new College of Commissioners and its programme*, European Commission, November 27th 2024, viewed April 23rd 2025, <https://ec.europa.eu/commission/presscorner/detail/en/speech_24_6084>

3 Pankov, S, and Ölmez, Y, *The EU's Omnibus proposal: What it is aiming for and what lies ahead*, World Economic Forum, March 10th 2025, viewed April 23rd 2025, <https://www.weforum.org/stories/2025/03/eu-omnibus-proposal-what-lies-ahead/>

4 The 'stop-the-clock' mechanism was proposed by the European Commission to delay the application of specific corporate sustainability reporting and due diligence requirements. It aims to give legislators time to agree on substantive changes to the CSRD and CSDDD as part of the 'Omnibus I' package on sustainability.

5 *Simplification: Council gives final green light on the 'Stop-the-clock' mechanism to boost EU competitiveness and provide legal certainty to businesses,* European Council, 14th April 2025, viewed 21st May 2025, <https://www.consilium.europa.eu/en/press/press-releases/2025/04/14/simplification-council-gives-final-green-light-on-the-stop-the-clock-mechanism-to-boost-eu-competitiveness-and-provide-legal-certainty-to-businesses/>

6 *Omnibus explained: key changes to CSDDD,* Accountancy Europe, 4th March 2025, viewed 23rd April 2025, <https://accountancyeurope.eu/publications/omnibus-explained-key-changes-to-csddd/>

- a removal of the obligation to put into effect a transition plan;
- a revision of the financial penalties approach;
- a removal of the EU-wide civil liability regime, leaving this to the discretion of Member States;
- a removal of the requirement to file reports on financial undertakings; and
- the postponement of the application deadline, with the deadline for guidelines brought forward.

The working group welcomes efforts to simplify regulations and looks forward to observing how the amendments are practically implemented but urges an expedited conclusion to the legislative process. Postponing and altering legislation which requires long-term investment to achieve compliance, is ultimately detrimental to legal certainty. As businesses down the supply chain wait for more clarity before making potentially required investments, businesses further up the supply chain are unable to adjust their practices in preparation.

At the same time, the EU and the US continue to maintain sanctions and export restrictions for dual-purpose technologies and materials on Russia in response to its ongoing invasion of Ukraine. MNCs headquartered in Europe, together with their affiliates operating in China, need to comply with sanctions and export control requirements implemented by both the EU and the US. In parallel, China has promulgated and implemented an increasing number of sanctions and export control laws and regulations of its own, which also cover MNCs' affiliates in China. These include the Export Control Law and the Law on Countering Foreign Sanctions,[7&8] the *Provisions on the List of Unreliable Entities*,[9] the *Provisions for the Implementation of the Law on Countering Foreign Sanctions*,[10] as well as other relevant regulations on exports of technology and sensitive materials such as rare earths. Notably these export restrictions on rare earth elements have caused serious problems for European companies both in China and abroad, with thousands of applications for critical export licences with the Ministry of Commerce (MOFCOM) still pending. Additionally, given that many Chinese laws and regulations conflict with US and EU sanctions and export controls, MNC affiliates in China are encountering increasing compliance challenges. They are struggling to manage global supply chains, make timely investment decisions and maintain overall operational efficiency. Compliance requirements have been further impacted by measures implemented since the inauguration of US President Donald Trump.[11]

New and forthcoming US export control policies on advanced computing and semiconductor manufacturing are anticipated to significantly impact a substantial proportion of EU companies operating in China. Fifty-nine per cent of respondents to the European Chamber's *Business Confidence Survey 2025* indicated that they expected their China operations to be negatively impacted by the US' adoption of additional tariffs, while 37 per cent indicated the same for additional technology export controls.[12] This underscores the considerable uncertainty surrounding the enforcement of these policies. Coupled with new tariff rates levied against exports from China by the US' and China's retaliatory tariff measures, European companies' operations in China are further suffering from disruptions to their pricing mechanisms and the global supply chain.

CBDT and AI Data Storage and Collection

On 22nd March 2024, the Cyberspace Administration of China (CAC) released the *Provisions on Promoting and Regulating Cross-border Data Flows*,[13] with immediate effect. At the same time, the CAC released the *Version 2.0 Guidelines for Security Assessment* and the *Version 2.0 of Guidelines for Chinese Standard Contractual Clauses (SCCs) Filing*, which streamlined respective requirements.[14]

The CBDT provisions—aimed at alleviating the compliance burden associated with CBDT, but still leaving a few ambiguities and challenges to clarify

7 *Export Control Law*, Ministry of Commerce, 30th December 2021, viewed 23rd April 2025, <http://exportcontrol.mofcom.gov.cn/article/zcfg/gnzcfg/flfg/202111/226.html>

8 *Law on Countering Foreign Sanctions*, State Council, 11th June 2021, viewed 23rd April 2025, <https://www.gov.cn/xinwen/2021-06/11/content_5616935.htm>

9 *Provisions on the List of Unreliable Entities*, MOFCOM, 19th September 2020, viewed 23rd April 2025, <http://m.mofcom.gov.cn/article/b/fwzl/202009/20200903002593.shtml>

10 *Law on Countering Foreign Sanctions*, State Council, 11th June 2021, viewed 23rd April 2025, <https://www.gov.cn/xinwen/2021-06/11/content_5616935.htm>

11 Fortinsky, S, *Trump executive orders and actions: By the numbers*, *The Hill*, 21st January 2025, viewed 23rd April 2025, <https://thehill.com/homenews/administration/5098445-trump-executive-orders-first-day/>

12 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 30th May 2025, p. 27, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

13 *Provisions on Regulating and Promoting Cross-border Data Flows*, CAC, 22nd March 2024, viewed 23rd April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

14 *Version 2.0 of Guidelines for Security Assessment and Version 2.0 of Guidelines for SCC Filing*, CAC, 22nd March 2024, viewed 23rd April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712783131692707.htm>

and address—will prevail over existing CBDT rules or guidelines governing the security assessment, SCCs and certification, in the event of any discrepancies.

On 12th February 2025, the CAC released the *Administrative Measures for Personal Information Protection Compliance Audits*,[15] effective from 1st May 2025. These new measures provide audit thresholds and cycles to guide enterprises in fulfilling duties in the event of an information security incident. Nevertheless, there is still a lack of clarity regarding the specific audit standards and methods for different industries, as well as the qualifications required for professional audit institutions.

European companies face two key challenges. First is the disconnect between national legislation and local enforcement. Second is the insufficient consideration by some legislators of the practical needs of MNCs operating in China. These factors make compliance difficult without adversely affecting operational efficiency, particularly in human resources and information technology structures. The unpredictability of local enforcement—both in timing and scope—forces MNCs to navigate a highly complex environment, often at the expense of maximising data utility. This uncertainty impedes effective compliance planning and may place unreasonable constraints on business operations. The lack of effective communication between legislators and MNCs further compounds these issues, making it difficult to develop workable, mutually beneficial solutions.

The rapid advances in AI technology also pose new challenges to the applicability of existing legislation. The 'black-box model' of AI algorithms inherently leads to a lack of transparency, insufficient explainability and untracked data sources, which raises questions about whether enterprises are fulfilling their legal obligations to inform data subjects. Additionally, AI's reliance on data for model training and updates leads to indefinite retention periods for input data. These challenges raise questions on how enterprises can ensure the right to access, correction and deletion of information subjects in AI environments. Before further legislative clarity in the specific AI context is provided, European companies wishing to deploy AI solutions centrally (often outside of China) will face a double layer of legal ambiguities and are hence disadvantaged by hesitance to shape their AI strategy out of compliance concerns.

15 *Administrative Measures for Personal Information Protection Compliance Audits*, CAC, 14th February 2025, viewed 23rd April 2025, <https://www.cac.gov.cn/2025-02/14/c_1741233507681519.htm>

Company Law

The latest amendment to the Company Law, ratified by the Standing Committee of the 14th National People's Congress on 29th December 2023, was a significant overhaul aimed at modernising China's corporate landscape and invigorating market dynamics.[16] Effective from 1st July 2024, the new Company Law now has 15 chapters and 266 articles, including 112 newly added or revised articles. Aspects related to capital contributions, corporate governance, shareholder rights and company establishment have been added or amended, and there is now greater emphasis on the fiduciary duties of directors, supervisors and senior management, including their corresponding personal liability.

The new provisions also address various potential conflicts of interest and fraud scenarios. The fiduciary duties of directors, supervisors and senior management provided in the revised law are generally in line with the established practices of MNCs in China, but further clarification on the nature and scope of these duties is desirable. Additionally, the rules pertaining to information requests for public investigations should be clarified further.

Various unclear provisions and the one-size-fits-all approach continue to hinder the promotion of a more robust corporate governance system and disproportionally impact SMEs. This applies to the re-introduction of a five-year time limit on capital contributions and the requirement to include an employee representative on the board of directors when a company has more than 300 employees.[17] In addition, the revised law does not address the longstanding issue of the unequal legal status of foreign and domestic companies, as is also the case with the

16 *Transformative updates to China's corporate governance: A comprehensive overview of the 2023 Amendment to PRC Company Law*, King & Wood Mallesons, 29th February 2024, viewed 3rd April 2025, <https://www.kwm.com/us/en/insights/latest-thinking/transformative-updates-to-chinas-corporate-governance-a-comprehensive-overview-of-the-2023-amendment-to-prc-company-law.html>

17 The five-year time limit was likely intended to protect the interests of investors by combatting bad-faith actors who register unrealistically large sums of capital without the ability to fulfil the contributions. However, this limit applies to all limited liability companies and has a disproportionate impact on small and medium-sized enterprises (SMEs) that have limited resources to adapt to volatility. It is particularly unappealing to the China subsidiaries of European companies that rely on re-investment of retained earnings in China instead of new capital injections from abroad.

Foreign Investment Law. This distinction could further impact business confidence in China.

The working group hopes that China's legislative, judicial and law enforcement authorities will pay attention to the issues that have emerged from the Company Law and provide clarity and adequate guidance in a timely manner.

Key Recommendations

1. Increase Industry Participation in the Formulation of Enterprise-related Legislation to Optimise the Business Environment for Foreign Investment 2

Concern

The mechanism for involving foreign-invested enterprises (FIEs) in public consultations before the enactment of legislation is still inadequate and inefficient.

Assessment

Throughout 2024, China's national and local governments have continued promulgating numerous regulations focussing on stabilising foreign investment, international trade and the business environment.

However, in practice, enterprises often receive little to no feedback after submitting input to legislative bodies and government departments, frequently leaving them unable to verify whether their opinions or recommendations have been adopted or even considered and the reasons underlying such decisions. This lack of feedback discourages enterprises from participating in public consultations proactively, which hinders China's goal of creating a world-class business environment. For example, the *Provisions on Regulating and Promoting Cross-border Data Flows (Draft for Comments)* initially caused significant confusion and uncertainty for FIEs in China. It took the relevant legislative body a considerable amount of time to address concerns, resulting in unnecessary administrative challenges and additional costs for companies. While updated regulations were subsequently issued that have improved the situation for FIEs, many challenges remain.

Recommendations

- Improve and institutionalise public consultation procedures before promulgating laws and regulations, and clarify when company input has been considered or adopted and the reasons underlying the foregoing decisions.
- Establish and optimise communication channels to address the compliance challenges and other difficulties faced by FIEs in China through periodical meetings or webinars, and publish relevant updates of such communications in a timely manner.

2. Increase the Transparency and Predictability of the Business Environment by Promoting and Clarifying Legislation and Enforcement Procedures that are Relevant to FIEs 2

Concern

The lack of transparency in new regulations and laws makes China's business environment less predictable, which has resulted in FIEs becoming increasingly risk averse, with many now unable to make informed investment decisions efficiently.

Assessment

China has recently amended and promulgated many laws and regulations related to national security, such as the Counterespionage Law,[18] the Law on Foreign Relations,[19] the Guarding State Secrets Law, the new *Regulation on Export Control of Dual-use Items* and the *Dual-use Items Export Control List*,[20&21] among others. However, many of these laws and regulations have introduced very broad and vague concepts without clear definitions. For instance, these laws refer to 'national security' but there is neither a clear definition of this term nor relevant guidelines. This lack of transparency makes China's business environment less predictable, and has led to some companies looking at alternative

18 *Counterespionage Law of the People's Republic of China*, State Council, 27th April 2023, viewed 23rd April 2025, <https://www.gov.cn/yaowen/2023-04/27/content_5753385.htm>
19 *Law on Foreign Relations of the People's Republic of China*, State Council, 29th June 2023, viewed 23rd April 2025 <https://www.gov.cn/yaowen/liebiao/202306/content_6888929.htm>
20 *Law of the People's Republic of China on Guarding State Secrets*, State Council, 28th February 2024, viewed 23rd April 2025, <https://www.gov.cn/yaowen/liebiao/202402/content_6934648.htm>
21 Interesse, G, *China Issues New Export Control Regulations: What Businesses Need to Know?*, China Briefing, 19th November 2024, viewed 23rd April 2025, <https://www.china-briefing.com/news/china-issues-new-export-control-regulations>; *Regulations of the People's Republic of China on Export Control of Dual-Use Items*, State Council, 19th October 2024, viewed 23rd April 2025, <https://www.gov.cn/zhengce/content/202410/content_6981399.htm>; *Release of the Export Control List of Dual-use Items*, MOFCOM, 15th November 2024, viewed 23rd April 2025, <https://www.mofcom.gov.cn/zwgk/zcfb/art/2024/art_a429e4686e0c4df39588431afbff4b83.html>

investment destinations that they perceive to provide greater reliability and legal certainty.

Recommendations

- Collect public stakeholders' comments, questions and recommendations regarding new or amended legislation, and deliver feedback promptly and publicly.
- Establish a scheme that systematically promotes new or amended legislation, and communicate official interpretations to the public.
- Work with industry associations, chambers of commerce and other non-government organisations when promoting and clarifying new or amended legislation to ensure that the information is disseminated as widely as possible.
- Review the questions and issues that were raised before the implementation of new or amended legislation, and take a proactive approach to provide both further clarification and guidance to the public when needed, and prepare for any future amendments.

3. Foster Professional Training of Compliance Professionals in China and Establish a Mechanism for SOEs and MNCs to Communicate and Cooperate on Compliance-related Issues 2

Concern

The lack of adequately trained professionals and limited knowledge sharing among stakeholders hinders effective compliance risk management.

Assessment

There is currently a strong demand for experienced compliance professionals in the Chinese market, in particular due to significant developments over the past few years in China's regulatory landscape and market, as highlighted in this position paper. These changes have had a profound impact in a number of areas, including supply chain management; environmental, social and governance monitoring; conflict-of-interest rules; fiduciary duties; and data processing, storage and transfer across borders, as well as export controls. Moreover, policies at the national level in China require state-owned enterprises (SOEs) to establish compliance programs.

In contrast, the development of expertise in compliance management among MNCs began several years ago, driven by the necessity to adhere to diverse laws and regulations across multiple jurisdictions. Many of these regulations are broad in scope. They can impose serious consequences for non-compliance, such as the US' Foreign Corrupt Practices Act,[22] the United Kingdom's Bribery Act and the EU's General Data Protection Regulation.[23&24]

Chinese enterprises, including SOEs, are rapidly expanding their global presence, a trend expected to accelerate in the coming years. As these companies navigate increasingly complex international regulatory environments, the demand for qualified compliance professionals will only intensify.

In recent years, several impactful initiatives have emerged to enhance compliance expertise in China. For example, the China Council for the Promotion of International Trade (CCPIT) has introduced training programmes for compliance professionals and leading academic institutions, such as East China Normal University and Tsinghua University, have developed research and training initiatives. The State-owned Assets Supervision and Administration Commission (SASAC) also regularly invites selected MNCs to participate in compliance-related training and exchange programmes with SOEs.

Despite these positive steps, the supply of well-trained compliance professionals continues to lag behind market demand. The working group recommends academies, the CCPIT and other stakeholders with sufficient resources and funding, develop and provide widely accessible and affordable professional training to future compliance professionals. Such training should target both university students and current professionals seeking retraining. Additionally, the working group proposes the creation of a structured mechanism for regular communication and knowledge-sharing between SOEs that are expanding internationally and MNCs operating in China. This would enable the exchange of expertise and best practices in addressing compliance challenges in both the Chinese and global contexts.

22 *Foreign Corrupt Practices Act of 1977*, US Department of Justice, 9th January 2025, viewed 23rd April 2025, <https://www.justice.gov/criminal/criminal-fraud/foreign-corrupt-practices-act>

23 *United Kingdom Bribery Act 2010*, UK Legislation, 2010, viewed 23rd April 2025, <https://www.legislation.gov.uk/ukpga/2010/23/contents>

24 *Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation)*, EUR-lex, 27th April 2016, viewed April 23rd 2025, <https://eur-lex.europa.eu/eli/reg/2016/679/oj/eng>

European Chamber
中国欧盟商会

Recommendations

- Support the relevant institutions with adequate resources and funding to provide widely accessible and affordable professional training for future compliance professionals, including university students and those retraining.
- Develop a compliance certification framework to provide accreditation for compliance officers or as an additional qualification for legal, management and other professionals.
- Create a knowledge-transfer platform through which SOEs and MNCs can exchange compliance best practices.

Abbreviations

AI	Artificial Intelligence
CAC	Cyberspace Administration of China
CBAM	Carbon Border Adjustment Mechanism
CBDT	Cross-border Data Transfer
CCPIT	China Council for the Promotion of International Trade
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
EU	European Union
FIE	Foreign-invested Enterprise
MNCs	Multinational Corporations
MOFCOM	Ministry of Commerce
SASAC	State-owned Assets Supervision and Administration Commission
SCCs	Chinese Standard Contractual Clauses
SMEs	Small and Medium Enterprises
SOE	State-owned Enterprise
US	United States

Environment Working Group

Key Recommendations

1. Establish a Holistic Resource Management System to Address the Plastic Pollution Crisis Within a Circular Economy Concept 4

- Develop a roadmap with clearly defined targets to consolidate and formalise the scrap collection and recycling system to ensure that recyclable materials in residual waste are sorted before incineration and recycled at the highest possible quality.
- Set up a clear waste management hierarchy, clearly define terms such as ‘circular economy’, ‘resource utilisation’ and ‘comprehensive utilisation’, and differentiate ‘recycling’ from ‘energy recovery' (i.e. waste incineration).
- Accelerate the packaging and packaging waste policymaking process, and consider using models such as the European Union’s Extended Producer Responsibility mechanism and Packaging and Packaging Waste Regulation.
- Allow food-grade recycled plastic materials, such as recycled polyethene terephthalate (rPET), to be used in food contact applications by establishing relevant petition and approval processes and developing industrial standards on recycled materials as soon as possible.
- Give rewards to encourage recycling, such as vouchers for individuals and communities or payments to end-users.
- Collaborate with chambers of commerce, industry organisations and relevant taskforces to strengthen consumer awareness of the benefits of establishing a plastics circular economy.

2. Improve the Incentive Policy to Support Textile Waste Collection and Sorting, as well as to Promote Textile-to-textile Recycling 2

- Expand collection channels from residents to places such as schools, hotels and government agencies, and include these waste textiles into the whole recycling system.
- Pilot integrated automated sorting equipment into existing sorting centres in selected cities.
- Allocate subsidies to logistics service providers and recyclers in the textile recycling industry.
- Enhance publicity through multiple channels to raise consumer awareness of textile waste recycling and encourage broader public participation in recycling initiatives.
- Offer specific social recognition and tax incentives to recyclers to encourage more industry players to enter China’s textile waste recycling industry.

3. Provide Comprehensive Policy Guidance on the Decarbonisation of the Steel Industry

- Develop a peak-carbon and neutrality implementation roadmap for the steel sector with phased emissions reduction targets and technology pathways.
- Provide preferential policies regarding production capacity quotas, land use and financing credits to encourage the low-carbon transition in the steel industry.
- Build a standardised and traceable national scrap steel collection and distribution network.
- Develop a real-time monitoring and information disclosure mechanism of carbon emission data from steel enterprises.

- Conduct awareness campaigns, capacity-building and green public procurement policies to encourage green steel products.

4. Tackle the Accounts Receivable Issue in China's Environmental Services Industry

- Launch a special debt recovery programme by establishing an inter-ministerial task force, providing fiscal transfers and evaluating the debt resolution performance of local governments.
- Extend the duration of subsidy programmes or phase out subsidy policies in a gradual way.
- Establish a rapid response mechanism for complaints on accounts receivable.
  - Create a streamlined complaint resolution system to promptly address and mediate payment disputes.

Recycling Sub-working Group

1. Allow the Use of rPET in Food Contact Applications as Soon as Possible and Provide Guidelines for the Safety Assessment of Recycling Technologies and Processes

- Develop industrial guidance policies for recycled materials to promote the application of food-grade recycled plastics, and establish targets for the proportion of recycled plastics in packaging.
- Clarify safety review procedures for food-contact recycled plastics through coordinated efforts between health administrations and food safety regulatory agencies, establishing a robust production and operation supervision framework.
- Develop technical standards for recycled plastics and processing technologies to enable domestic market applications while ensuring food safety compliance.
- Enhance regulatory frameworks to address domestic oversight gaps and export compliance risks, thereby facilitating investments and international trade.
- Launch consumer education initiatives to promote sustainable consumption and establish public acceptance of recycled plastic food-contact packaging.
- Incorporate food-grade applications of rPET into the EU-China circular economy cooperation mechanism, while enhancing private sector engagement in bilateral dialogues and collaborative initiatives.

Recent Developments

Comprehensive Green Transition

In July 2024, China's State Council issued a policy to accelerate the green transition, focussing on green production and consumption, pollution and carbon reduction, and resource efficiency.[1] This was followed by the *2024 Green Technology Promotion Catalogue* issued by the National Development and Reform Commission (NDRC) and seven other ministries, listing key eco-friendly technologies.[2] Pilot green development zones are now operational in Beijing-Tianjin-Hebei and other regions.[3]

China accelerated its green transition in 2024 with

1 *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development*, State Council, 11th August 2024, viewed 6th April 2025, <https://www.mee.gov.cn/zcwj/zyygwj/202409/t20240911_1085676.shtml>

2 *Green Technology Promotion Catalogue (2024 Edition)*, NDRC, 20th January 2025, viewed 6th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202501/t20250120_1395788.html>

3 *Three green cities rise in Beijing-Tianjin-Hebei: Beijing sub-center, Tianjin Eco-cityBeijing Daily*, 28th October 2024, viewed 28th April 2025, <https://www.beijing.gov.cn/ywdt/yaowen/202410/t20241028_3928639.html>

comprehensive policies covering green finance,[4&5] insurance,[6] manufacturing[7] and factory standards.[8] The Ministry of Industry and Information Technology (MIIT) also issued sector-specific regulations and case studies for high-pollution industries (e.g., building materials, dyeing and smelting), outlining practical green development pathways.[9,10&11]

Resource Recycling

In February 2024, the State Council issued waste recycling guidelines to support its goals of peaking carbon emissions before 2030 and achieving carbon neutrality by 2060 (30/60 goals) through the improvement of utilisation rates of key renewable resources, including scrap steel, non-ferrous scrap metal, wastepaper and plastics.[12]

In October 2024, China established its first central state-owned resource recycling giant, China Resources Recycling Group, marking a strong circular economy push. Within six months, it founded nine subsidiaries specialising in sectors including plastics, power batteries, waste textiles and non-ferrous metals.[13]

The 2025 Government Work Report for the first time mentioned 'recycled materials', emphasising the importance of "enhance[ing] waste recycling, vigorously promot[ing] the use of recycled materials, and boost[ing] the development of a circular economy".[14] The working group regards this as a positive signal of China's commitment to resource recycling, carrying significant guiding implications for developing a green, low-carbon economy. For further details, please refer to Key Recommendations 1, 2 and 3.

On 30th April 2025, China released its draft *Ecological Environment Code*, featuring a groundbreaking chapter on green and low-carbon development that integrates provisions from multiple environmental laws. The code prioritises three circular economy pillars: cleaner production, waste recycling and green consumption.[15]

In March 2024, the State Council released the *Promoting Large-scale Equipment Upgrades and Consumer Goods Trade-ins Action Plan* focussing on four areas: equipment renewal, trade-ins, recycling and standards.[16] Key ministries—including the Ministry of Commerce, the Ministry of Finance (MOF), the State Administration for Market Regulation (SAMR), and the NDRC—then rolled out supporting measures, providing funding,[17,18&19] setting standards[20] and building recycling infrastructure.[21,22&23]

4 *Guidelines on Further Strengthening Financial Support for Green and Low-Carbon Development,* People's Bank of China (PBOC), 27th March 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202404/content_6944452.htm>

5 *Guidelines on Leveraging Green Finance to Support the Building of a Beautiful China*, PBOC, 12th October 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202410/content_6979595.htm>

6 *Guidelines on Promoting the High-Quality Development of Green Insurance*, National Financial Regulatory Administration, 20th April 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202404/content_6947537.htm>

7 *Guidelines on Accelerating the Green Transformation of the Manufacturing Sector,* MIIT, 29th February 2024, viewed 6th April 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/yj/art/2024/art_f1be5a86074d46c99c20be36713f6838.html>

8 *Interim Measures for the Graded Cultivation and Management of Green Factories*, MIIT, 30th January 2024, viewed 6th April 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_aab179dea60b4b77a05070e796c4c994.html>

9 *Implementation Plan for High-Quality Development of the Building Materials Industry,* MIIT, 10th January 2024, viewed 6th April 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_6b27bcb8916f4d739984e63b124a1c45.html>

10 *Technical Guidelines for Green and Low-Carbon Development in the Dyeing and Printing Industry (2024 Edition),* MIIT, 8th October 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202410/content_6979287.htm>

11 *Cleaner Production Evaluation Indicator System for Copper Smelting and Other Two Industries*, MIIT, 22nd February 2024, viewed 6th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202402/t20240222_1364189.html>

12 *Guidelines on Accelerating the Establishment of a Waste Recycling System*, State Council, 9th February 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202402/content_6931080.htm>

13 *China Resources Recycling Group Announces Establishment of 9 Subsidiaries, Beijing Daily*, 19th April 2025, viewed 6th May 2025, <https://baijiahao.baidu.com/s?id=1829803997547574178&wfr=spider&for=pc>

14 *Government Work Report, Xinhua News,* 12th March 2025, viewed 6th April 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm?s_channel=5&s_trans=7824452999_>

15 *Ecological Environment Code (Draft for Public Consultation)*, National People's Congress of China, 30th April 2025, viewed 16th May 2025, <http://www.npc.gov.cn/npc/c2/kgfb/202504/t20250430_445089.html>

16 *Action Plan for Promoting Large-Scale Equipment Upgrades and Consumer Goods Trade-Ins,* State Council, 18th March 2024, viewed 6th April 2025, <https://www.mee.gov.cn/zcwj/gwywj/202403/t20240318_1068594.shtml>

17 *Circular on Improving the Renewable Resource Recycling System to Support Trade-in Programs for Home Appliances and Other Durable Consumer Goods,* Ministry of Commerce (MOFCOM) and MOF, 10th May 2024, viewed 6th April 2025, <https://www.mofcom.gov.cn/zcfb/gnmygl/art/2024/art_7357279c2b814ef0984b02bd4af5d6a7.html>

18 *Several Measures on Strengthening Support for Large-Scale Equipment Renewal and Consumer Goods Trade-In,* NDRC and MOF, 25th July 2024, viewed 6th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202407/t20240725_1391941.html>

19 *Notice on Expanding and Enhancing the Large-Scale Equipment Renewal and Consumer Goods Trade-In Policy in 2025*, NDRC and MOF, 5th January 2025, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202501/content_6997129.htm>

20 *Action Plan for Driving Equipment Renewal and Consumer Goods Trade-In Through Standards Upgrading*, SAMR, 27th March 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202404/content_6944404.htm>

21 *Notice on Strengthening the Supervision and Management of End-of-Life Motor Vehicle Recycling,* MOFCOM, 29th September 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202410/content_6981542.htm>

22 *Notice for Public Solicitation of Opinions on the Industry Standards of Green Recycling Standards for Renewable Resources (Draft for Comments), Internet + Recycling Service Management Standards (Draft for Comments), and Guidelines for Waste Plastic Recycling (Draft for Comments),* MOFCOM, 14th January 2025, viewed 6th April 2025, <https://ltfzs.mofcom.gov.cn/gztz/art/2025/art_932337934fd948fd906c0f18f3ff91e7.html>

23 *Notice for Public Solicitation of Opinions on the Construction and Management Standards for Renewable Resource Recycling Sites (Draft for Comments) and the Classification and Grading Standards for Waste Paper (Draft for Comments),* MOFCOM, 7th February 2025, viewed 6th April 2025, <https://ltfzs.mofcom.gov.cn/gztz/art/2025/art_de63771cce96415bbaf0c153f42941e5.html>

Carbon Emission Control and Sustainability Disclosure

In May 2024, the State Council issued the *2024–2025 Energy Conservation and Carbon Reduction Action Plan*, targeting fossil fuel use and emission intensity.[24] In August 2024, it issued another plan to accelerate the development of a dual-control system for both total carbon emissions and intensity.[25]

Throughout 2024, the NDRC, the Ministry of Ecology and Environment (MEE), the SAMR, the MIIT and other relevant ministries issued policies to strengthen environmental governance systems, covering: carbon neutrality standards;[26&27] emissions accounting;[28,29&30] carbon footprint management[31,32&33] and emissions trading.[34]

In November 2024, the MOF and eight other government bodies issued the *Corporate Sustainability Disclosure Standards – Basic Standard (Trial)*, mandating listed companies to disclose sustainability reports by 2026.[35] In January 2025, China's three stock exchanges released reporting guidelines, forming a preliminary disclosure framework.[36] In April, the MOF and the MEE called for public feedback on the nation's first climate-specific sustainability disclosure standard.[37]

Pollution Control and Climate Change Response

From 2024 to 2025, China intensified pollution control through comprehensive regulations targeting air, water, solid waste, soil and noise pollution. These measures—spanning discharge permits, environmental assessments and waste management—reinforced the national environmental governance framework.[38,39&40]

China participated in the fifth session of the Intergovernmental Negotiating Committee (INC-5) Plastics Treaty negotiations in November 2024, and will join the 2025 INC-5.2 session.[41] The working group closely tracks key issues like preventing environmental leakage and enhancing Extended Producer Responsibility (EPR) systems. For further details, please refer to Key Recommendation 1.

In April 2025, China participated in three negotiations on international chemical conventions (Basel, Rotterdam and Stockholm), with the Basel Convention updating electronic waste and plastic waste guidelines to regulate global waste transfers.[42] That same month, China's MEE and four other ministries issued the

24 *Energy Conservation and Carbon Reduction Action Plan for 2024–2025*, State Council, 30th May 2024, viewed 6th April 2025, <https://www.mee.gov.cn/zcwj/gwywj/202405/t20240530_1074495.shtml>

25 *Work Plan for Accelerating the Establishment of a Dual-Control System for Carbon Emissions*, State Council, 6th August 2024, viewed 6th April 2025, <https://www.mee.gov.cn/zcwj/gwywj/202408/t20240806_1083433.shtml>

26 *Guidelines for Building the Carbon Peak and Carbon Neutrality Standard System in the Industrial Sector*, MIIT, 21st February 2024, viewed 6th April 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_0d2f46b823ed4fcd93d2422ac6a4852e.html>

27 *Notice on the Action Plan for Further Strengthening the Carbon Peak and Carbon Neutrality Standardisation and Metrology System (2024-2025),* NDRC, 8th August 2024, viewed 6th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202408/t20240808_1392291.html>

28 *Work Plan for Improving the Carbon Emission Statistical Accounting System*, NDRC, 8th October 2024, viewed 6th April 2025, <https://zfxxgk.ndrc.gov.cn/web/iteminfo.jsp?id=20449>

29 Guidelines for Developing Product Carbon Footprint Accounting Standards, MEE, 2nd January 2025, viewed 6th April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202501/t20250106_1099994.html>

30 *Guidelines for Developing Carbon Footprint Accounting Standards for Key Industrial Products,* MIIT, 6th November 2024, viewed 6th April 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_37f0001416b14bd58eca681aec9f1f37.html>

31 *Implementation Plan for Establishing a Carbon Footprint Management System*, MEE, 22nd May 2024, viewed 6th April 2025, <https://www.gov.cn/gongbao/2024/issue_11506/202408/content_6966477.html>

32 *Notice on Launching Pilot Projects for Product Carbon Footprint Labelling and Certification,* SAMR, 9th September 2024, viewed 6th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/rzjgs/art/2024/art_b2119112323f4e02bb93de3cb48619a2.html>

33 *Announcement on Issuing the General Implementation Rules for Product Carbon Footprint Labelling and Certification (Trial),* China National Certification and Accreditation Administration (CNCA), 20th March 2025, viewed 6th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/rzjgs/art/2025/art_7a0ac3998d06423bba72720b03c6af82.html>

34 *Work Plan for Inclusion of Steel, Cement and Aluminum Smelting Industries in the National Carbon Emissions Trading Market,* MEE, 21st March 2025, viewed 6th April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202503/t20250326_1104736.html>

35 *Corporate Sustainability Disclosure Standards – Basic Standard (Trial),* MOF, 20th November 2024, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6993358.htm>

36 *Three Major Stock Exchanges Issue Sustainability Report Preparation Guidelines to Support High-Quality Development of Listed Companies, The Beijing News*, 18th January 2025, viewed 6th April 2025, <https://baijiahao.baidu.com/s?id=1821594589329941094&wfr=spider&for=pc>

37 *Notice for Public Solicitation on Corporate Sustainability Disclosure Standard No. 1 – Climate (Trial) (Draft for Comments),* MOF and MEE, 30th April 2025, viewed 6th May 2025, <https://kjs.mof.gov.cn/gongzuotongzhi/202504/t20250429_3962990.htm>

38 *Implementation Plan for the Comprehensive Enforcement of the Pollutant Discharge Permit System*, MEE, 3rd November 2024, 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202411/content_6985219.htm>

39 *Notice on Further Reforming the Environmental Impact Assessment System*, MEE, 14th September 2024, viewed 6th April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202409/t20240920_1086348.html>

40 Guidelines on Strengthening Environmental Management of Hazardous Waste and Rigorously Preventing Environmental Risks, MEE, 5th February 2025, viewed 6th April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202502/t20250211_1102036.html>

41 *New Round of United Nations Plastic Pollution Negotiations Adjourned, Xinhua Net*, 2nd December 2024, viewed 6th April 2025, <https://www.news.cn/world/20241202/03e193b1e26f44109077f2fd57715607/c.html>

42 *2025 Meetings of the Conferences of the Parties to the Basel, Rotterdam and Stockholm Conventions Conclude in Geneva, China Environment News*, 15th May 2025, viewed 20th May 2025, <https://www.cenews.com.cn/news.html?aid=1333631>

2025–2030 Montreal Protocol Implementation Plan,[43] and committed to announcing a comprehensive 2035 Nationally Determined Contribution covering all greenhouse gases prior to the United Nations Climate Change Conference in Belém.[44]

China has since established green development dialogues with the European Union (EU), Germany, Spain and Finland.[45,46,47&48] The working group welcomes these initiatives and seeks to enhance EU-China climate cooperation through policy exchanges and joint projects.

Key Recommendations

1. Establish a Holistic Resource Management System to Address the Plastic Pollution Crisis Within a Circular Economy Concept

4

Concern

Insufficient incentives and a lack of a holistic approach on plastic waste collection and recycling deter companies from investing in the industry.

Assessment

China was the world's largest producer, consumer and exporter of plastics in 2024, generating over 77 million metric tonnes, or around one third of global plastic production.[49] However, China's plastic waste recycling rate remains relatively low at 31 per cent, with a large amount of plastic waste being disposed of through incineration or sent to landfill.[50]

To enhance plastic pollution governance and promote a circular economy, China has enacted a series of regulatory measures. The *14th Five-year Action Plan for Plastic Pollution Control* outlined measures to cut the production and use of plastics, reduce environmental leakage and expedite regulated recycling and treatment of plastic waste from 2021 to 2025.[51] In the *14th Five-year Plan (FYP) on Domestic Waste Management*, China mandated a 60 per cent 'resource utilisation' rate for domestic waste by 2025.[52]

China's plastic recycling industry is not well regulated and lacks a holistic resource management system, which often results in secondary pollution and unnecessary downcycling. While recent policies aim to formalise recycling, key gaps persist — notably, the 14th FYP classifies waste incineration as 'resource utilisation', despite its inefficiency. Burning mixed post-consumer plastics recovers minimal energy while wasting material value and decarbonisation potential, contradicting circular economy principles.

Unlike many governments around the world,[53] China has not set quantified targets for the use of recycled plastics, which could result in an unstable scale of recycled plastic demand. Without strict mandates, recycled plastic production fluctuates with market conditions – like when falling oil prices make virgin plastics cheaper, reducing demand for recycled alternatives.

The plastic recycling sector suffers from misaligned incentives: upstream recyclers get tax breaks while downstream brand owners lack support to adopt recycled materials. Moreover, while multinationals embrace recycled plastics for environmental, social and

43 *National Implementation Plan for China's Compliance with the Montreal Protocol on Substances that Deplete the Ozone Layer (2025–2030)*, MEE, 9th April 2025, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/202504/content_7021651.htm>

44 *Xi Jinping delivers a speech to the Leaders' Summit on Climate and Just Transition, Xinhua News Agency,* 23rd April 2025, viewed 6th May 2025, <https://www.gov.cn/yaowen/liebiao/202504/content_7020616.htm>

45 *China-EU Circular Economy Transition Symposium Successfully Held in Beijing*, NDRC, 22nd May 2024, viewed 6th April 2025, <https://www.ndrc.gov.cn/fggz/hjyzy/zyzhlyhxhjj/202405/t20240522_1386410.html>

46 *China, Germany hold dialogue on climate change and green transition, CGTN*, 23rd June 2024, viewed 6th April 2025, <https://news.cgtn.com/news/2024-06-23/China-Germany-hold-dialogue-on-climate-change-and-green-transition-1uFl8O44afm/p.html>

47 *NDRC and Spanish Ministry for Ecological Transition and Demographic Challenge Sign Memorandum of Understanding on Green Development Cooperation,* NDRC, 12th September 2024, viewed 6th April 2025, <https://www.ndrc.gov.cn/fzggw/wld/zsj/zyhd/202409/t20240912_1392969_ext.html>

48 *Joint Work Plan Between China and Finland on Advancing the Future-Orientated New-Type Partnership (2025–2029) (Full Text), Xinhua News Agency*, 30th October 2024, viewed 6th April 2025, <https://www.gov.cn/yaowen/liebiao/202410/content_6983804.htm>

49 *Production Status of the Plastic Products Industry (January–December 2024)*, MIIT, 11th February 2025, viewed 6th May 2025, <https://www.miit.gov.cn/jgsj/xfpgys/qg/art/2025/art_fbef1f1d791b4b24ac82361af9627fdb.html>

50 *2024 Development Report of China Plastic Recycling Industry*, China National Resources Recycling Association, 14th April 2025, viewed 16th May, <https://baijiahao.baidu.com/s?id=1829371561408280514&wfr=spider&for=pc>

51 *Notice on Issuing the 14th Five-year Action Plan for Plastic Pollution Control,* NDRC and MEE, 8th September 2021, viewed 6th May 2025, <https://www.gov.cn/zhengce/zhengceku/2021-09/16/content_5637606.htm>

52 The 14th Five-Year Plan for the Development of Domestic Waste Classification and Treatment Facilities in Urban Areas, National Development and Reform Commission (NDRC) and Ministry of Housing and Urban-Rural Development (MOHURD), 6th May 2021, viewed 27th May 2025, <https://www.gov.cn/zhengce/zhengceku/2021-05/14/content_5606349.htm>

53 For example, the EU's PPWR, which entered into force in February 2025, sets mandatory requirements on manufacturers to use 25 per cent recyclable raw materials in PET beverage bottles by 2025, 30 per cent by 2030, and 65 per cent by 2040. *Directive (EU) 2019/904 on the reduction of the impact of certain plastic products on the environment,* EUR-Lex, 12th June 2019, viewed 13th May 2024, <https://eur-lex.europa.eu/eli/dir/2019/904/oj>

governance goals, domestic brands show little initiative, stunting industry growth.

Besides, China's domestic policy formulation on the utilisation of food-grade recycled plastics—for instance, rPET—is lagging, hindering development of high-value-added recycling of waste plastics. For further details on this issue, see the *Recycling Sub-working Group Position Paper 2025/2026.*

China's *14th Five-year Plan for Circular Economy* aims for full implementation of circular production by 2025.[54] To achieve plastic circularity, formalised and centralised collection and sorting are crucial – particularly through a deposit and return system (DRS) for single-use plastic bottles and cans, which ensures high recovery rates and material quality. The EU's Packaging and Packaging Waste Regulation (PPWR) endorses DRSs as a key tool for 'closed-loop recycling', where used materials are reprocessed into products of the same type.[55] Beyond improving traceability and stabilising supply chains, DRSs also generate green jobs and formalise unofficial or part-time waste-picker roles.

Improved product design is vital for 'reduce, reuse and recycle' success. The EU's EPR policy—charging producers for product end-of-life costs—effectively incentivises recyclable design, offering China a proven model. With Germany (68 per cent recycling rate) and many EU states already surpassing China's target of 60 per cent urban waste reuse, such EU expertise could accelerate China's circular economy transition.

Recommendations

- Develop a roadmap with clearly defined targets to consolidate and formalise the scrap collection and recycling system to ensure that recyclable materials in residual waste are sorted before incineration and recycled at the highest possible quality.
- Set up a clear waste management hierarchy, clearly define terms such as 'circular economy', 'resource utilisation' and 'comprehensive utilisation', and differentiate 'recycling' from 'energy recovery' (i.e. waste incineration).
- Accelerate the packaging and packaging waste policymaking process, and consider using models such as the European Union's Extended Producer Responsibility mechanism and Packaging and Packaging Waste Regulation.
- Allow food-grade recycled plastic materials, such as rPET, to be used in food contact applications by establishing relevant petition and approval processes and developing industrial standards on recycled materials as soon as possible.
- Give rewards to encourage recycling, such as vouchers for individuals and communities or payments to end-users.
- Collaborate with chambers of commerce, industry organisations and relevant taskforces to strengthen consumer awareness of the benefits of establishing a plastics circular economy.

2. Improve the Incentive Policy to Support Textile Waste Collection and Sorting, as well as to Promote Textile-to-textile Recycling 2

Concern

There has been no improvement in the utilisation of post-consumer textiles due to a lack of incentive policies, underdeveloped collection and sorting systems, and low public awareness.

Assessment

China is the world's largest producer, consumer and exporter of textiles and garments, and generates a large amount of waste textiles annually.[56] In 2023, only 23 per cent of the 23.3 million tonnes of waste textiles generated in China was recycled, with vast quantities of discarded fabrics ending up in incineration or landfills.[57] Of the recycled post-consumer garments, the majority are either exported overseas as second-hand clothing or downcycled into lower-value products, such as automotive soundproofing, mops and work gloves, with only a minimal portion entering the 'fibre-to-fibre' recycling process.[58]

54 *Notice on Issuing the 14th Five-year Plan for Circular Economy Development*, NDRC, 1st July 2021, viewed 6th April 2025, <https://www.gov.cn/zhengce/zhengceku/2021-07/07/content_5623077.htm>

55 Packaging waste, European Commission, viewed 6th April 2025, <https://environment.ec.europa.eu/topics/waste-and-recycling/packaging-waste_en>

56 *Production in Full Swing: China Ranks as World's Top Textile and Apparel Producer & Exporter, CCTV*, 10th February 2025, viewed 6th April 2025, <https://finance.cctv.cn/2025/02/10/ARTIgv0kcnNyMG4q2ANXTaTz250210.shtml>

57 *China's Practices and Business Approaches in the Recycling of Waste Textiles*, World Trade Organization, 11th March 2025, viewed 6th April 2025, <https://www.wto.org/english/tratop_e/tessd_e/09_circ_economy_presentation_by_china.pdf>

58 Fibre-to-fibre recycling, also known as closed-loop recycling of textiles, refers to a process of transforming textile waste into new, usable fibres, which are then used to create new garments or other textile products. This process can help reduce the incineration and landfilling of textiles to the minimum.

China prioritises the development of a waste material recycling system, with used textiles a key recyclable resource within this framework. In early 2022, the NDRC issued guidelines on accelerating the construction of waste recycling systems in 60 cities with over 1,000 green sorting centres nationwide by 2050, highlighting the need to professionalise waste textile recycling processes and to strengthen industry supervision.[59] Encouragingly, this was followed by another NDRC policy, which emphasises improving the recycling system for waste textiles and setting a goal for China to reuse and recycle 25 per cent of used textiles by 2025, and 30 per cent by 2030.[60] In February 2024, the State Council issued a policy which provided a top-level design and overall planning for the systematic development of a resource recycling framework in China. In addition, the 2025 Government Work Report states that China will "strengthen waste recycling" and "improve the incentive mechanism for green consumption". The report also mentions, for the first time, the need to "comprehensively expand the application of recycled materials."[61]

In July 2024, the EU officially enacted the Ecodesign for Sustainable Products Regulation (ESPR), a cornerstone policy of its strategy, adopted in 2022, for sustainable and circular textiles. Under this regulation, eco-design requirements for textiles are to be set in mid-2025, mandating a significant increase in recycled textile fibres.[62&63] Following the implementation of the ESPR, the total market demand for post-consumer recycled fabrics is forecast to significantly increase by 2030, and circular textiles are expected to become a trend in the fashion industry.[64] Many European fashion brands have set ambitious sustainability goals, including increasing the use of recycled content in their products and transitioning to more sustainable materials.[65]

Though textile waste recycling has huge market potential, clear policy guidance and strong business momentum, challenges exist. These include inefficient and costly waste recycling, underdeveloped collection and sorting systems, and low public awareness. The current cost of 'fibre-to-fibre' recycling for waste textiles is unsustainable for both brand owners and recyclers, when factoring in infrastructure investment, labour costs (the sorting of waste textiles relies primarily on manual labour) and logistics expenses. Without additional incentive policies, businesses cannot scale up production of recycled textiles, let alone closed-loop garments for a circular economy. The working group therefore recommends expanding collection channels, improving waste textile sorting infrastructure, introducing government subsidies for logistics and recycling, and increasing public engagement.

Recommendations

- Expand collection channels from residents to places such as schools, hotels and government agencies, and include these waste textiles into the whole recycling system.
- Pilot integrated automated sorting equipment into existing sorting centres in selected cities.
- Allocate subsidies to logistics service providers and recyclers in the textile recycling industry.
- Enhance publicity through multiple channels to raise consumer awareness of textile waste recycling and encourage broader public participation in recycling initiatives.
- Offer specific social recognition and tax incentives to recyclers to encourage more industry players to enter China's textile waste recycling industry.

3. Provide Comprehensive Policy Guidance on the Decarbonisation of the Steel Industry

Concern

A lack of a clear roadmap, volatile pricing and unstable supply, as well as inconsistent accounting and certification mechanisms for low-carbon steel products in China, hinder European companies from meeting their global green procurement targets and

59 *Guidelines on Accelerating the Construction of a Waste Materials Recycling System*, NDRC, 21st January 2022, viewed 15th May 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202201/t20220121_1312656.html>

60 *Implementation Suggestion to Accelerate the Use of Recycled Textile Waste*, NDRC, 11th April 2022, viewed 6th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202204/t20220411_1321822.html>

61 *2025 Government Work Report, State Council*, 12th March 2025, viewed 15th May 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm>

62 *Ecodesign for Sustainable Products Regulation*, European Commission, viewed 16th May 2025, <https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/ecodesign-sustainable-products-regulation_en>

63 *EU strategy for sustainable and circular textiles*, European Commission, viewed 16th May 2025, <https://environment.ec.europa.eu/strategy/textiles-strategy_en>

64 In 2024, a European Chamber member company procured about 300,000 tonnes of recycled fabrics, of which only 6 per cent came from post-consumer waste textiles, with most from recycled PET bottles. It is estimated that the total demand of this company for waste textiles will increase to 36 per cent by 2030.

65 *Top 10: Sustainability Strategies of Luxury Fashion Brands, Sustainability Magazine*, 21st February 2024, viewed 17th May, <https://sustainabilitymag.com/sustainability/top-10-sustainability-strategies-of-luxury-fashion-brands>

erode business confidence in investing in low-carbon technologies.

Assessment

The steel industry is one of the most carbon-intensive sectors in China, contributing approximately 15 per cent to the country's total carbon dioxide emissions. With China producing over half of the world's steel, its decarbonisation is not only critical to achieving its 30/60 goals but also to advancing global climate action.

China has introduced a range of policies aimed at improving energy efficiency and introducing advanced low-carbon technologies in the steelmaking industry.[66&67] It is worth noting that in an action plan for steelmaking decarbonisation,[68] China prioritises lower-emission technologies such as short-process electric arc furnaces (EAFs)[69] and aims to increase the proportion of EAF steel production to 15 per cent of total crude steel output.[70] It is also encouraging that China officially included the iron and steel sector, along with two other high-emission sectors, in its national carbon emissions market in March 2025. This marked China's transition from a single-power-sector carbon market to a multi-sector collaborative emissions reduction system.[71]

Notwithstanding established technological readiness and well-defined policy directives, the industry's transition in China is still in the early stages, with high-emission steelmaking routes dominating and EAF routes contributing to less than 10 per cent of steel production, well below the global average of 30 per cent. Green steel certification schemes in China remain fragmented and are not yet harmonised with global standards, restricting international recognition of low-carbon steel products. European companies with a large supply chain footprint in steel-related industries face challenges meeting their climate goals, due to the following:

- Regulatory uncertainty due to a lack of a clear decarbonisation roadmap results in local companies lacking confidence to invest in low-carbon technologies.[72]
- A shortage of scrap steel supply and volatile pricing restrict the expansion of EAF capacity.
- Emerging low-carbon technologies, such as hydrogen direct reduction or carbon capture and storage, are capital-intensive and commercially unviable at scale in China.
- The lack of harmonisation between China's green steel certification and carbon reporting frameworks with international standards prevent EU-based companies in China from meeting their global green procurement targets as they struggle to confidently incorporate locally sourced, low-emission steel into their supply chains for global clients.
- Underdeveloped market demand for low-carbon steel further weakens incentives for the industry's green transformation.

Recommendations

- Develop a peak-carbon and neutrality implementation roadmap for the steel sector with phased emissions reduction targets and technology pathways.
- Provide preferential policies regarding production capacity quotas, land use and financing credits to encourage the low-carbon transition in the steel industry.
- Build a standardised and traceable national scrap steel collection and distribution network.
- Develop a real-time monitoring and information disclosure mechanism of carbon emission data from steel enterprises.
- Conduct awareness campaigns, capacity-building and green public procurement policies to encourage green steel products.

66 *Notice on Issuing the 14th Five-Year Action Plan for the Raw Materials Industry Development*, MIIT, Ministry of Science and Technology and Ministry of Natural Resources, 21st December 2021, viewed 16th May 2025, <https://www.gov.cn/zhengce/zhengceku/2021-12/29/content_5665166.htm>

67 *Guiding Opinions on Promoting High-Quality Development of the Iron and Steel Industry*, MIIT, 20th January 2022, viewed 16th May 2025, <https://www.gov.cn/zhengce/zhengceku/2022-02/08/content_5672513.htm?ivk_sa=1023197a>

68 *Notice on Issuing the Action Plan for Energy Conservation and Carbon Reduction in the Iron and Steel Industry,* NDRC and other relevant ministries, 27th May 2024, viewed 16th May 2025, <https://www.gov.cn/zhengce/zhengceku/202406/content_6956307.htm>

69 Compared to the BF-BOF route, EAF steelmaking reduces carbon dioxide emissions by approximately 1.5 tonnes per tonne of steel produced, an 80 per cent reduction in carbon footprint. *Short-process steelmaking offers significant potential for energy conservation and carbon reduction, People's Daily,* 7th August 2024, viewed 21st May 2025, <https://baijiahao.baidu.com/s?id=1806679213829940944&wfr=spider&for=pc>

70 *Notice on Issuing the Action Plan for Energy Conservation and Carbon Reduction in the Iron and Steel Industry,* NDRC and other ministries, 27th May 2024, viewed 16th May 2025, <https://www.gov.cn/zhengce/zhengceku/202406/content_6956307.htm>

71 *National Carbon Emission Trading Market Coverage Plan for the Steel, Cement, and Aluminum Smelting Industries,* MEE, 20th March 2025, viewed 16th May 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202503/t20250326_1104736.html>

72 At the time of writing, the profitability of electric furnace plants is limited, and most steel mills are still in wait-and-see mode regarding investment in the low-carbon transformation.

4. Tackle the Accounts Receivable Issue in China's Environmental Services Industry

Concern

China's environmental services industry suffers from significant accounts receivable challenges in the construction and operation of environmental infrastructure projects, which hinders the high-quality and sustainable development of the industry and undermines the investment confidence of European companies, thereby holding back China's green transformation.

Assessment

China's environmental industry has developed rapidly and enjoyed strong policy support in recent years. Many environmental infrastructure projects have been carried out through public-private partnerships or pollution treatment outsourcing models, primarily involving local governments or large state-owned enterprises as partners. However, China's economic slowdown and increasing fiscal pressures on local governments have resulted in severe and persistent problems with accounts receivable.

Despite the Chinese Government issuing the *Guidelines on Addressing Arrears to Enterprises* in the second half of 2024,[73] the industry continues to face severe cash flow pressures. Data from industry observers reveals that as of the first half of 2024, the accounts receivable of listed environmental protection companies reached a staggering Chinese yuan (CNY) 349.6 billion, marking a 15 per cent year-on-year increase. Alarmingly, the receivable-to-revenue ratio stands at 114 per cent.[74]

Taking wastewater treatment projects as an example, most receivables of Chinese water utilities companies stem from sewage treatment fees, with local governments being the primary debtors. Such projects typically require substantial upfront investment and have long payback periods. During the construction and initial operation phases, companies must make massive capital expenditures involving complex industrial chains, including infrastructure construction and equipment procurement.

73 *Opinions on Resolving the Issue of Arrears Owed to Enterprises*, State Council, 18th October 2024, viewed 18th June 2025, <https://www.gov.cn/zhengce/202410/content_6981402.htm>

74 *Interpretation of the 2024 Half-yearly Report of the Environmental Protection Industry, Is It Still Worth Sticking to It?, The Paper*, 5th September 2024, viewed 6th April 2025, <https://www.thepaper.cn/newsDetail_forward_28644249>

Prolonged delays in payments from local governments create severe cash flow pressures for companies and generate spillover effects. For example, one European company is owed over CNY 400 million in unpaid sewage treatment fees from a local government, accumulated over five years. This has severely impacted the company's financial health and constrained its ability to introduce advanced treatment technologies.

The waste-to-energy sector faces similar challenges. Waste-to-energy plants rely mainly on waste disposal fees and power tariffs, which include government subsidies. However, China's waste disposal fees remain persistently low, averaging just CNY 70–80 per tonne, which is less than one-tenth of the rates in EU countries. Meanwhile, waste-to-energy projects, classified as biomass power generation, are heavily affected by subsidy reductions and payment delays. It is estimated that China's biomass power sector has accumulated a subsidy gap of CNY 40–50 billion in recent years. These factors have rendered many waste-to-energy projects economically unviable, with some even failing to cover operational costs and incurring losses.

The working group recommends launching a special debt recovery programme, including actions to:

- establish an inter-ministerial task force to conduct comprehensive investigations and targeted clearance of accounts receivable in the environmental sector, and to develop differentiated repayment plans;
- provide central fiscal transfers to fiscally strained regions while requiring local governments to formulate feasible repayment schedules; and
- incorporate debt resolution performance into local government performance evaluations and conduct accountability interviews with underperforming regions and departments.

The working group also recommends that the withdrawal of subsidy policies be carefully paced to prevent waste-to-energy enterprises from becoming financially unviable due to abrupt subsidy reductions or suspensions. It would also be advisable to appropriately extend the duration of subsidy programmes. A streamlined complaint resolution system could be established to promptly address and mediate payment disputes.

Recommendations

- Launch a special debt recovery programme by establishing an inter-ministerial task force, providing fiscal transfers and evaluating the debt resolution performance of local governments.
- Extend the duration of subsidy programmes or phase out subsidy policies in a gradual way.
- Establish a rapid response mechanism for complaints on accounts receivable.
  - Create a streamlined complaint resolution system to promptly address and mediate payment disputes.

Abbreviations

CNY	Chinese Yuan
DRS	Deposit and Return System
EAF	Electric Arc Furnace
EU	European Union
MEE	Ministry of Ecology and Environment
MOF	Ministry of Finance
NDRC	National Development and Reform Commission
rPET	Recycled Polyethene Terephthalate

Recycling Sub-working Group

Recent Developments

In recent years, Chinese authorities have conducted risk assessments and technical evaluations on food-grade recycled plastics. Domestic research institutions, referencing standards from the United States (US) Food and Drug Administration and the European Food Safety Authority, have performed rigorous testing on food-grade recycled polyethene terephthalate (rPET) tailored to China's conditions, including surveys on contamination levels, challenge tests and studies on contaminants' migration.

In 2024, the China National Center for Food Safety Risk Assessment (CFSA) reviewed and approved a report on food safety risk assessment on food-grade rPET.[1] Subsequently, the National Health Commission issued a letter confirming that, under China's existing recycling system, domestic enterprises are capable of producing safe, food-contact-grade rPET pellets from post-consumer polythene terephthalate (PET) bottles with standardised processes. The sub-working group is encouraged to know that the CFSA is conducting technical evaluations and drafting the technical assessment guidelines for recycled plastic materials and products for food contact to lay the groundwork for future regulatory measures.

The 2025 Government Work Report, presented by Premier Li Qiang at China's annual legislative session, noted that China will promote waste recycling and the application of recycled materials to contribute towards the goal of establishing a green, low-carbon economy. This marks the first mention of 'recycled materials' in a government work report, and has provided significant policy momentum to related industries.

1 *Food-grade Recycled Plastics Are Proven Safe, and the Industry Recommends Accelerating Domestic Recycling Implementation, The Beijing News,* 14th March 2024, viewed 15th May 2025, <https://baijiahao.baidu.com/s?id=1793508523759439116&wfr=spider&for=pc>

Key Recommendation

1. Allow the Use of rPET in Food Contact Applications as Soon as Possible and Provide Guidelines for the Safety Assessment of Recycling Technologies and Processes

Concern

The absence of certification for and regulation of the use of recycled plastics for food-contact purposes in China raises compliance challenges for both recyclers that have domestic operations and exporters of food products, and hinders international food and beverage brands from delivering on their sustainability commitments.

Assessment

With the global consensus on the need to reduce plastic pollution, major economies except China have already permitted the use of recycled plastics in food-contact packaging. In many regions, such as the EU, the United Kingdom, India, Indonesia, South Africa, Peru and certain states in the US, legislation has been enacted mandating minimum recycled plastic content in food and beverage packaging.

China's regulatory approach towards the use of recycled plastics for food-contact use has evolved from explicit prohibition to one sole specific licence, resulting in an undefined regulatory status. Previous departmental regulations, issued by China's former health and quality supervision authorities, contained explicit bans on the use of recycled materials in food-contact plastic packaging. With the revocation of these regulations in 2010 and 2018, the statutory prohibitions were consequently abolished.[2]

2 In 1990, the former Ministry of Health issued a regulation which explicitly prohibited the use of recycled plastics in food utensils, containers and packaging materials (Article 7). This regulation was repealed in 2010. In July 2006, the former General Administration of Quality Supervision, Inspection and Quarantine stipulated in the *Detailed Rules for the Licensing of Plastic Packaging, Containers and Utensils for Food Use* (*Section 2(2)4.1.4*) that "raw materials must not include recycled or contaminated materials." This provision was replaced in December 2018, by the *Implementation Rules for the Licensing of Food-Related Products Such as Plastic Packaging, Containers and Utensils* issued by the newly established State Administration for Market Regulation, which omitted any mention of recycled plastics.

In 2008, China granted approval to a Chinese recycling company to produce food-grade rPET, but the licence later expired due to factory relocation.[3] Relevant management measures have since become more ambiguous. For example, in November 2018, the State Administration for Market Regulation issued a document regarding the production licensing of food packaging and related products, explicitly stating that suppliers "should not use recycled materials for production."[4] While China's foundational legislation, such as the Food Safety Law, broadly covers food-contact materials, there is still a lack of clear, detailed regulations and industry standards specifically permitting recycled plastics in food packaging.

In December 2024, the Council of the EU adopted the *Packaging and Packaging Waste Regulation (EU) 2025/40*, which requires food packaging to contain 30 per cent recycled plastic by 2030. However, China's progress in the high-value utilisation of recycled plastics has fallen short of expectations, with related policy developments remaining relatively slow. This poses challenges for multinational companies in fulfilling their sustainable packaging commitments, for Chinese and foreign enterprises engaged in export trade, and for national regulators overseeing imported food packaging. The key challenges include:

First, multinational food and beverage brands face difficulties meeting their sustainability commitments. Many international and domestic food and beverage companies are committed to reducing plastic packaging, with industry leaders pledging to incorporate recycled content. However, due to the lack of clear regulations and industry standards for food-contact recycled plastics in China, these brands cannot yet use such materials in China to fulfil their sustainability commitments, presenting a significant challenge.

Exporters also face compliance risks. Due to China's lagging regulatory framework for food-grade recycled plastics, domestically produced products in this category cannot enter the local market and are currently limited to export-only status.

China's PET recycling technology—including both mechanical and chemical recycling—has already reached maturity, with domestically produced food-grade recycled plastic products demonstrating strong competitiveness in European and American markets. This sector also has potential to become a new growth driver for China's exports. However, according to the newly revised *Commission Regulation (EU) 2022/1616* on recycled plastic materials intended for food-contact purposes, exporters must obtain locally valid certification from the country of origin. Since China lacks relevant policies and regulations, exporters in China cannot provide such valid certification, thereby exposing them to compliance risks. Additionally, the EU has raised concerns about China's overcapacity in food-grade recycled plastics.

Furthermore, with the number of economies permitting the use of food-grade recycled plastics growing, the likelihood of imports of food products packaged with recycled materials entering the China market is increasing. However, China currently lacks the regulatory capacity to oversee imported food-grade recycled plastic products entering its market, thereby leaving these products unregulated and creating potential food safety risks.

China's rPET industry is transitioning from achieving high utilisation rates to focussing on high-value applications. Recent studies show that China's PET bottle collection rate has reached 97 per cent,[5] yet over 80 per cent of the collected post-consumer PET bottles are downcycled for textile use.[6] Compared to downcycling, food-grade packaging through bottle-to-bottle recycling could extend the lifespan of rPET by at least three reuse cycles, reducing petroleum consumption and greenhouse gas emissions. Chamber members are encouraged to learn that China is advancing the application of recycled materials, with cross-ministerial research and field studies likely to follow. The sub-working group recommends that relevant government authorities introduce policies to encourage the development of food-grade recycled plastics, clarify safety assessment procedures for food-contact recycled materials, and

3 *Incom Secures FDA Grade C Certification for Food-Grade rPET in China,* Incom Resources, 14th August 2021, viewed 15th May 2025, <http://www.incomresources.com/news/yingchuanghuodeguoneishipinjirpetlingyushouzhangfda-cjirenzheng.html>

4 *Notice on Matters Related to the Implementation of Informed Commitment for Production Licensing of Food-Related Products*, Fujian Provincial Market Supervision Administration, 4th December 2018, viewed 15th May 2025, <http://scjgj.fujian.gov.cn/zt/gyxkgg/zzwj/201812/t20181204_5292372.htm>

5 Ren, J, et al., *Study on the Recycling Level of PET Beverage Packaging in China (2021-2023)*, Beverage Industry, April 2025, viewed 29th April 2025, <https://www.cnki.com.cn/Article/CJFDTotal-RYLG202502001.htm>

6 Downcycling refers to the process in which recycled materials are reused in products with lower quality or functionality than the original material. By contrast, closed-loop recycling involves reprocessing waste materials into new products of equivalent quality and purpose as the original.

establish standards for recycled materials and related processing technologies. Experts predict that if policies and regulations were approved, the demand for food-grade rPET applications in China could reach two million tonnes by 2025.[7]

Since China and the EU renewed the *Memorandum of Understanding on Circular Economy Cooperation* in September 2023, multiple high-level discussions on circular economy transition have been held, bringing together government agencies, academic institutions, industry associations and businesses. Plastic products represent a key area for circular economy cooperation between the two sides. The EU has established mature policy frameworks and market mechanisms for food-contact recycled plastics, while China possesses significant production capacity and market potential, making rPET likely to become a focal topic in bilateral cooperation. Therefore, the sub-working group recommends incorporating food-grade applications of rPET into the EU-China circular economy cooperation mechanism, and also enhancing private sector engagement in bilateral dialogues and collaborative initiatives.

Recommendations

- Develop industrial guidance policies for recycled materials to promote the application of food-grade recycled plastics, and establish targets for the proportion of recycled plastics in packaging.
- Clarify safety review procedures for food-contact recycled plastics through coordinated efforts between health administrations and food safety regulatory agencies, establishing a robust production and operation supervision framework.
- Develop technical standards for recycled plastics and processing technologies to enable domestic market applications while ensuring food safety compliance.
- Enhance regulatory frameworks to address domestic oversight gaps and export compliance risks, thereby facilitating investments and international trade.
- Launch consumer education initiatives to promote sustainable consumption and establish public acceptance of recycled plastic food-contact packaging.
- Incorporate food-grade applications of rPET into the EU-China circular economy cooperation mechanism, while enhancing private sector engagement in bilateral dialogues and collaborative initiatives.

7 *Sun Baoguo: Removing Policy Barriers to Promote Closed-Loop Recycling of Recycled Plastics for Food Packaging, China Food News*, 10th March 2025, viewed 21st April 2025, <https://www.cnfood.cn/article?id=1898913974172356610>

Abbreviations

EU	European Union
CFSA	China National Center for Food Safety Risk Assessment
PET	Polythene Terephthalate
rPET	Recycled Polythene Terephthalate
US	United States

European Chamber
中国欧盟商会

Finance and Taxation Working Group

Key Recommendations

1. Optimise the Value-added Tax (VAT) Law and Prevailing Regulations 10

- Retain the 'exclusive usage' condition for disallowing the deduction of input tax arising from fixed assets, intangible assets and immovable property.
- Further optimise China's VAT place-of-supply rules in the VAT Law.
- Optimise the prevailing export VAT refund system.
- Expand the scope of zero-rating of exported services.
- Enable non-resident taxpayers to register for VAT in China.
- Allow all taxpayers to claim the input VAT incurred on loan interest.

2. Enhance the Attractiveness of the Business Environment and Increase Administrative Efficiency for Multinational Companies Investing in China

- Revise the wording of Article 8 of the *Public Announcement Regarding the 'Special Tax Treatment' on Equity Transfer Transactions by Non-resident Enterprises* and limit the application to situations in which the tax treaty with the country of the transferee provides more favourable conditions.
  - Specify the term 'undistributed profit' as the amount formally determined in the latest annual audit report as of 31st December of the prior year.
- Revise the *Notice on the Pre-tax Deduction Policy for Enterprise Asset Losses* to allow for special tax treatment that permits a transfer of shares in Chinese entities from the direct foreign parent company to the grandparent company up the shareholder chain.
- Strengthen the message in the *Announcement on Several Issues Relating to Corporate Income Tax on Gains from Indirect Transfer of Assets by Non-resident Enterprises* (*Public Notice No. 7*) that only abusive transactions[1] should be covered to prevent the local practice whereby regular commercial transactions become subject to Chinese taxation.
  - Clarify the mechanics of how the step up in investment costs could be enjoyed in cases in which capital gains taxation is triggered under *Public Notice No. 7.*
- Limit the need for tracking unlevied withholding tax on dividends under the *Circular on Expanding the Applicable Scope of the Policy of Temporarily Not Levying the Withholding Tax on Distributed Profits Used by Overseas Investors for Direct Investment* to a reasonable period (e.g., three years).
- Offer a way for foreign investors with Chinese subsidiaries under multiple shareholders to enjoy the benefits of reinvestments into China.
- Allow for consolidated tax filing (e.g., the annual corporate income tax) for Chinese holding companies and their 100-per-cent-owned Chinese subsidiaries.

3. Take Prudent Steps in Consumption Tax Reform 12

- Involve industry and tax experts in discussions on standards and measurements and, where necessary, review and re-determine the scope of taxation and the tax point in the supply

1 Abusive transactions refer to transactions made to evade the obligation of paying corporate income tax by implementing arrangements that are not for bona fide commercial purposes.

chain with the aim of boosting domestic circulation.

- Review the applicable tax threshold, tax rates and taxation method to facilitate the macro-development strategies of specific industries in line with China's consumption reality and to better reflect international best practices.
- Publish in a timely manner the timetable and implementation rules for the various sectors participating in the Consumption Law reform pilot and provide a sufficient transition period.
- Accelerate the development of the Hainan Free Trade Port's (FTP's) sales tax regime, integrate it into China's existing consumption tax regime, solicit public opinions and promote its smooth transition to contribute to the success of the FTP.

4. Provide Companies with an Early Commitment to Retain the Individual Income Tax (IIT) Exemption for Non-cash Benefits for Foreign Employees in China

- Give an early signal to employers and their foreign employees that China remains committed to the IIT exemption for selected non-cash benefits for foreign employees like relocation costs, housing and children's tuition.

Recent Developments

The Finance and Taxation Working Group established a regular dialogue mechanism with the State Taxation Administration (STA) in February 2024, under the umbrella of the Tax Express initiative. This has already proved to be a highly effective platform for exchanges on the tax-related experiences and challenges faced by European investors in China.

On 27th August 2024, the Ministry of Finance (MOF) and the STA issued the *Announcement on Stamp Duty Policies Concerning Enterprise Restructuring and Reorganisation and the Reform of Public Institutions (Announcement [2024] No. 14)*.[2] This new policy removes duplicative stamp duty on share capital and property transfers in restructuring situations, representing the development of a more efficient tax environment for enterprises in China.

On 25th December 2024, the Standing Committee of the National People's Congress (NPC) enacted the new Value-added Tax (VAT) Law. It will become effective on 1st January 2026,[3] replacing the provisional VAT regulations. This is a welcome step towards streamlining regulations and strengthening legislation. The Finance and Taxation Working Group encourages the authorities to leverage the legislative process to further optimise the efficiency of the VAT system for enterprises in China.

Key Recommendations

1. Optimise the VAT Law and Prevailing Regulations 10

Concern

The prevailing VAT policies do not accommodate a diverse range of business models, resulting in increased VAT costs.

Assessment

The VAT Law was announced on 25th December 2024, and will take effect on 1st January 2026. While it represents progress, the Finance and Taxation Working Group would like to make the following recommendations to further enhance China's VAT system.

2 *Announcement on Stamp Duty Policies Concerning Enterprise Restructuring and Reorganisation and the Reform of Public Institutions (Announcement [2024] No. 14)*, MOF and STA, 4th September 2024, viewed 6th May 2025, <https://szs.mof.gov.cn/zhengcefabu/202409/t20240903_3943038.htm>

3 *Value Added Tax Law of People's Republic of China*, NPC, 25th December 2024, viewed 6th May 2025, <http://www.npc.gov.cn/c2/c30834/202412/t20241225_442038.html>

Retain the 'Exclusive Usage' Condition for Disallowing the Deduction of Input Tax Arising from Fixed Assets, Intangible Assets and Immovable Property

According to the current VAT regulations, special treatment is applied to the deduction of input VAT on fixed assets, intangible assets and immovable property. This treatment allows a taxpayer to claim a deduction of the total amount of the input VAT arising from the acquisition of the abovementioned assets, rental of fixed assets and real estate – provided the asset was used simultaneously for non-deductible items and taxable items.

However, the VAT Law seems to remove this 'exclusive usage' condition. This being the case, the taxpayer would need to develop a reasonable method to apportion the input VAT from the above assets between the two items, and only the input VAT attributable to the taxable item would be deductible. This will incur additional VAT costs for taxpayers that are mainly engaged in VAT-exempt business, such as indirect exporters, toll manufacturers and providers of VAT-exempted services. This will discourage such enterprises from expanding their asset investments and exacerbate the challenges of having different VAT treatments for VAT-exempted exports and VAT zero-rated exports.

Further Optimise the Chinese VAT Place-of-Supply Rules in the VAT Law

VAT neutrality in cross-border trade follows the 'destination' principle in the Organisation for Economic Co-operation and Development's *International VAT/ Goods and Services Taxes Guidelines*, which state that taxes should be collected in the country where the service is consumed.[4]

According to the VAT Law, supplies of services and intangible assets would be subject to VAT in China if the suppliers are domestic entities or individuals, or if the services and intangible assets are consumed in China. Under this law, exported services provided by Chinese suppliers are still subject to VAT unless they meet the criteria for zero-rated or VAT exemption treatments. The working group suggests further optimising the VAT Law by referencing general international practice.

For example, the primary place of supply for standard business-to-business services is usually defined as the place where the customer is located. In addition, exceptions should be included for services deemed to be consumed in China, such as real estate-related, transportation and entertainment services. This would mean that the standard services provided by Chinese suppliers to overseas entities would generally not be subject to Chinese VAT. For business-to-customer services, the working group recommends that the primary place of supply be defined as where the supplier is established. However, exceptions should be included for services deemed to be consumed in the country where the customer is located, such as telecommunications and electronically provided services, as well as transportation and entertainment services.

Optimise the Prevailing Export VAT Refund System

Enterprises' business activities have become increasingly diversified due to advances in technology and changes in consumer demand. The current export VAT refund policies have yet to adapt to these diversified business models, raising the tax burden on exporting enterprises. Increasing numbers of manufacturing enterprises not only carry out manufacturing activities but also purchase goods from other suppliers for sale to their overseas customers to better accommodate their diversified needs. Under China's prevailing tax regulations, such exporters are only eligible for an 'exempt, credit, refund' for export of purchased goods, under certain strict conditions. In many cases, the conditions cannot be satisfied. Therefore, the working group recommends abandoning or relaxing the strict conditions to allow more manufacturing enterprises to enjoy export VAT refund treatment on the exportation of purchased goods.

Export VAT refund policies differ for manufacturing and trading enterprises. Trading companies are eligible for refunds on input VAT arising from the procurement of exported merchandise. However, they cannot claim refunds on other input VAT, such as that on testing equipment, consulting services, rentals and other operating costs. Some working group members report having been required by the Chinese tax authorities to transfer these types of input VAT out as costs. This leads to inequity of the VAT burden between manufacturing and trading enterprises. Therefore, the working group recommends revising the current tax

4 Accordingly, the draft VAT Law provides that services are subject to VAT in China if either the service provider is in China or the service is consumed in China. This proposition differs from the current rule in which either the service provider or service recipient in China shall be subject to VAT (with an exclusion where the service wholly occurs outside of China).

regulations to apply the exemption, credit and refund policy to both manufacturing and trading companies.

Indirect export is a convenient customs measure provided to enterprises that engage in processing trade relief (PTR) activities with the intention of selling the bonded finished goods to other PTR enterprises in China for further processing.[5] From a customs perspective, indirect export is considered an export transaction, although the goods are not shipped out of China. However, for VAT purposes, indirect exports are not eligible for export VAT refunds. In addition, VAT treatment varies in different locations. For example, indirect exports are VAT exempted in South China, meaning the associated input VAT is not deductible and becomes a VAT cost.

Expand the Scope of Zero-rating of Exported Services
The VAT Law states that onshore VAT taxpayers can apply VAT at a zero rate for exported services within the scope allowed by the State Council. However, the law does not provide a detailed list of eligible exported services. Currently, the rules for zero-rating services and goods are applicable to certain supplies of services that could meet the relevant strict criteria. The working group recommends implementing a zero per cent VAT rate for all services provided to overseas customers, except those consumed inside China.[6]

Enable Non-resident Taxpayers to Register for VAT in China
To align the VAT position of Chinese companies with overseas companies, the working group recommends allowing non-resident taxpayers to register for VAT in China. This would enable overseas entities to claim back Chinese input VAT and ensure fair competition on pricing between Chinese and overseas companies from a VAT perspective. Several other jurisdictions—such as Singapore and Thailand—have started putting in place simplified VAT registration mechanisms designed explicitly for taxing electronically supplied services by overseas entities.[7] The working group therefore recommends exploring the feasibility of implementing a similar mechanism in China.

Allow all Taxpayers to Claim the Input VAT Incurred on Loan Interest
The working group notes that in the VAT Law, the disallowance of claiming input VAT credits on loan interest has been removed, which has been welcomed by the market. However, many businesses consider that uncertainty remains on this matter, as claiming input VAT credits on loan interest may still be disallowed by way of subsequent tax circulars. An early clarification in this regard would help relieve businesses' concerns.

Recommendations

- Retain the 'exclusive usage' condition for disallowing the deduction of input tax arising from fixed assets, intangible assets and immovable property.
- Further optimise the prevailing export VAT refund system.
- Expand the scope of zero-rating of exported services.
- Enable non-resident taxpayers to register for VAT in China.
- Allow all taxpayers to claim the input VAT incurred on loan interest.

2. Enhance the Attractiveness of the Business Environment and Increase Administrative Efficiency for Multinational Companies Investing in China

Concern

Multinational companies face a range of regulatory and administrative inefficiencies in China when it comes to tax-efficient investments, tax filings, legal reorganisations, interactions with authorities and international tax principles.

Assessment

For transfers of shares in Chinese entities from a foreign shareholder (transferor) to a 100-per-cent directly owned foreign subsidiary (transferee), Article 7 of the *Notice of the Ministry of Finance and the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax Treatment of Corporate Restructurings* (*Circular No. 59*) allows for preferential tax treatment based on net book value if certain criteria are fulfilled.[8] This allows foreign

5 Also known as deep processing transit or factory transfer.

6 See the earlier recommendation on place-of-supply rules.

7 *Thailand's application of VAT on digital services (e-services) provided by foreign operators will apply as of 1 September 2021*, EY Global, 9th August 2021, viewed 16th May 2025, <https://taxnews.ey.com/news/2021-1481-thailands-application-of-vat-on-digital-services-e-services-provided-by-foreign-operators-will-apply-as-of-1-september-2021>

8 Notice of the Ministry of Finance and the State Administration of Taxation on Several Issues Concerning the Enterprise Income Tax Treatment of Corporate Restructurings, MOF, 16th April, 2009, viewed 28th April 2025, <https://www.mof.gov.cn/gkml/caizhengwengao/2009niancaizhengbuwengao/caizhengwengaodiwuqi/200908/t20090825_198378.htm>

investors to move their Chinese shareholdings down to the next shareholding layer in the case of reasonable commercial need without a prohibitive tax cost.

Article 8 of the *Public Announcement Regarding the 'Special Tax Treatment' on Equity Transfer Transactions by Non-resident Enterprises*[9] issued by the STA, however, stipulates that when a transferor and transferee are not in the same country or region, the undistributed profits shown in the Chinese entity before the equity transfer could not enjoy the preferential dividend withholding tax rate stipulated under the tax treaty with the country of the transferee. This has several implications.

First, when tax treaties between China and the country of the transferor, as well as China and the country of the transferee, provide the same preferential dividend withholding tax rate under the same preconditions, there can be no unreasonable tax benefit for the taxpayer, so there is no good reason for Article 8 to disallow treaty protection for the transferee.

Second, even when tax treaties between China and the country of the transferor and the country of the transferee provide different treatment, Article 8 is not specific on whether the undistributed profit before equity transfer would refer to the amount formally determined in the latest annual audit report as of 31st December in the prior year, or a 'deemed' amount based on internal financial statements as of the equity transfer date. While both the wording and the logic of Article 8 seem to refer to the former, in practice, the tax authorities may take the latter interpretation. This would basically mean that the taxpayer would have no realistic chance to distribute the full undistributed profit before equity transfer to the transferor, leaving it for distribution to the transferee without treaty protection after the equity transfer.

Finally, tax treaties should protect overseas taxpayers from excessive taxation and, therefore, supersede national tax rules – except in cases of tax avoidance, which does not appear to apply in the two situations mentioned above.

For transfers of shares in Chinese entities from a foreign shareholder (transferor) to a foreign grandparent (transferee) up the shareholder chain, *Circular No. 59* does not allow special tax treatment for any scenario. This represents a significant hurdle to foreign investors, for example, in situations in which the shareholding in a Chinese subsidiary moves closer to the headquarters and ultimate parent without triggering prohibitive tax costs.

With regard to indirect transfers of shares in Chinese entities, the *Announcement on Several Issues Relating to Corporate Income Tax on Gains from Indirect Transfer of Assets by Non-resident Enterprises* (*Public Notice No. 7*), issued by the STA, provides detailed guidance under which criteria a taxation of capital gains in China shall be considered.[10] From a legacy perspective, *Public Notice No. 7* is an anti-avoidance regulation intended to prevent artificial structures being established specifically for the purpose of circumventing Chinese capital gains taxes. However, in practice, the criteria related to the 'China value' of the transfer package mentioned in *Public Notice No. 7* are strictly applied by local authorities, without due consideration given to whether the transaction is intended to circumvent Chinese taxes or is a genuine commercial transaction. In addition, it remains unclear to what extent any capital gains taxation under *Public Notice No. 7* would result in a step up of investment costs for the Chinese entity and, if so, at what shareholder level. This brings a high level of uncertainty to foreign shareholders when shares in Chinese subsidiaries are indirectly transferred.

With regard to reinvested dividends, the *Circular on Expanding the Applicable Scope of the Policy of Temporarily Not Levying the Withholding Tax on Distributed Profits Used by Overseas Investors for Direct Investment* temporarily allows withholding tax to not be levied on dividends if they are used for new investments in China.[11] However, withholding tax will be levied once the new investment is disposed of or liquidated. In practice, particularly for strategic investors, it would usually take a very long time—

9 *The Public Announcement Regarding the 'Special Tax Treatment' on Equity Transfer Transactions by Non-resident Enterprises*, STA, 12th December 2013, viewed on 11th August, 2025, <https://www.chinatax.gov.cn/chinatax/n810341/n810765/n812146/201312/c1080130/content.html>

10 *Public Notice of the State Administration of Taxation on Certain Issues Concerning Enterprise Income Tax on Indirect Transfer of Property by Non-Resident Enterprises*, STA, 3rd February 2015, viewed 28th April 2025, <https://guangdong.chinatax.gov.cn/gdsw/zjfg/2015-02/07/content_3c36b9278a174ee4b881441f8b670774.shtml>

11 *Notice on the Expansion of the Scope of Application of the Policy of Temporary Non-collection of Withholding Income Tax on Direct Investment by Overseas Investors with Distributed Profits*, MOF, 29th September 2018, viewed 28th April 2025, <https://www.gov.cn/zhengce/zhengceku/2018-12/31/content_5441290.htm>

maybe from 30 to 50 years—for disposal or liquidation to be considered. This can make it very difficult to keep track of the temporarily unlevied withholding tax to allow for a compliant levy upon disposal. In addition, the scope of direct reinvestment by the direct shareholder is a narrow concept which causes added difficulties for foreign investors that are structured in different business units with different direct shareholders from their Chinese subsidiaries.

Finally, the 2025 *Action Plan for Stabilising Foreign Investment*,[12] issued by the Ministry of Commerce and the National Development and Reform Commission, further encourages the establishment of China holding company (CHC) structures. A major breakthrough in this regard would be to allow for a consolidated corporate income tax filing for CHCs and their 100-per-cent-owned Chinese subsidiaries. Other jurisdictions allow for consolidated tax filings for different taxes, such as corporate income tax and VAT, which helps to reduce the tax filing burden placed on taxpayers. If China followed suit, it would help to further modernise the country's tax filing system, while reducing the administrative burden on companies.

Recommendations

- Revise the wording of Article 8 of the *Public Announcement Regarding the 'Special Tax Treatment' on Equity Transfer Transactions by Non-resident Enterprises* and limit the application to situations in which the tax treaty with the country of the transferee provides more favourable conditions.
  - Specify the term 'undistributed profit' as the amount formally determined in the latest annual audit report as of 31st December of the prior year.
- Revise the *Notice on the Pre-tax Deduction Policy for Enterprise Asset Losses* to allow for special tax treatment that permits a transfer of shares in Chinese entities from the direct foreign parent company to the grandparent company up the shareholder chain.
- Strengthen the message in *Public Notice No. 7* that only abusive transactions should be covered to prevent the local practice whereby regular commercial transactions become subject to Chinese taxation.
  - Clarify the mechanics of how the step up in investment costs could be enjoyed in cases in which capital gains taxation is triggered under *Public Notice No. 7*.
- Limit the need for tracking unlevied withholding tax on dividends under the *Circular on Expanding the Applicable Scope of the Policy of Temporarily Not Levying the Withholding Tax on Distributed Profits Used by Overseas Investors for Direct Investment* to a reasonable period (e.g., three years).
- Offer a way for foreign investors with Chinese subsidiaries under multiple shareholders to enjoy the benefits of reinvestments into China.
- Allow for consolidated tax filing (e.g., the annual corporate income tax) for Chinese holding companies and their 100-per-cent-owned Chinese subsidiaries.

3. Take Prudent Steps in Consumption Tax Reform 12

Concern

Consumption tax regulations do not adequately reflect China's current economic development and consumer habits, as evidenced by the scope, tax base and tax collection channels lagging behind the real economy, which results in uncertainty for different industries.

Assessment

China first imposed a consumption tax in 1994 on a selection of products, many of which were aligned with how excise duty was imposed in other countries.[13] Over the last three decades, the consumption tax has been reformed several times to reflect China's economic development and to guide consumer behaviour.

In December 2019, the draft Consumption Tax Law was released for public consultation. In March 2021, the 14th Five-year Plan proposed to "adjust and optimise the scope and tax rate of consumption tax, move the taxation point to a later phase and gradually transfer to local authorities".[14] In November 2022, China introduced a consumption tax on e-cigarettes to curb their use, as

12 *Action Plan for Stabilising Foreign Investment*, State Council, 19th February 2025, viewed 28th April 2025, <https://www.gov.cn/zhengce/content/202502/content_7004409.htm>

13 *The Interim Regulations on Consumption Tax of the PRC (Revised)*, State Council, 10th November 2008, viewed 16th May 2025, <https://www.chinatax.gov.cn/n810341/n810765/n812171/n812680/c1190924/content.html>; *Basic Consumption Tax Law framework remains stable*, State Council, 4th December 2019, viewed 16th May 2025, <https://www.gov.cn/xinwen/2019-12/04/content_5458219.htm>

14 *Outline of the 14th Five-year Plan for National Economic and Social Development of the People's Republic of China and Long-Range Goals for 2035*, State Council, 13th March 2021, viewed 16th May 2025, <http://www.gov.cn/xinwen/2021-03/13/content_5592681.htm>

these products may affect the health of teenagers.[15] In September 2023, the 14th NPC Standing Committee legislative plan stated that the Consumption Tax Law would be included as a first-category item, meaning it was a law proposal submitted for deliberation. However, the finer details of the law have yet to be confirmed.[16] In a July 2024 announcement at the Third Plenary Session, the government provided guidance on the future direction of consumption tax policy, reconfirming that the collection point will be moving from the production and import stage to the sales stage; that the sharing ratio of central and local taxes will be optimised based upon the division of central and local revenues, tax collection and administrative capacity, and other factors; and that the reform will progress on an item-by-item and step-by-step basis.[17]

While the working group welcomes these developments, further reforms should be implemented to adequately reflect China's economic development. Such reforms should prioritise increasing efficiency and equality, particularly in support of China's common prosperity goals.

One significant update is the indication from the State Council that a pilot reform for a consumption tax is to be implemented. The pilot reform programme was introduced in detail in the *State Council Notice on the Issuance of Adjustment of Revenue Division Reform between the Central and Local Governments after the Implementation of Larger Tax Cuts and Fee Reductions* (*Guo Fa [2019] No. 21*),[18] which stipulates that it is to be applied to selected sectors to adjust the tax scope, rates and taxation points. The main purpose is for the consumption taxation point for some items, currently implemented at the production (import) stage, to be gradually moved down to the wholesale or retail stages, on the premise of controllable collection and management. The aim is to elevate local revenue sources and improve local consumption. However, to date, no clear timetable for this pilot programme has been issued, nor a list of items that will be included, although high-end watches and jewellery are mentioned as examples in *Guo Fa [2019] No. 21*.[19]

Previous rounds of consumption tax reform were accompanied by little to no transition period from the old to the new policy. This lack of a transition period causes companies a great deal of uncertainty, as they do not know if or when their products will be impacted, making it difficult for them to perform accurate stock management and planning. For example, for high-end consumer goods with a longer sales cycle, it may take years between a batch being imported and the same batch being sold. If a batch of such goods is imported before the consumption tax pilot reform takes effect, consumption tax will be paid when it is processed by customs (this portion of the tax revenue goes directly to the national treasury), and if the reform or pilot reform launches before the entire batch is 'consumed' at retail points, the remaining goods will have to be taxed again individually (this part of the tax revenue goes to the local tax office). In other words, the same batch of goods would be subject to double consumption taxation. Moreover, the additional consumption tax would need to be reflected in the retail price, thereby transferring the additional cost to consumers, damaging sales revenues, and ultimately making the Chinese market less competitive and less attractive for foreign investment.

Therefore, the working group recommends issuing a clear timetable and a reasonable transition period for the pilot programme as soon as possible to allow companies to prepare for the changes accordingly. Furthermore, in amending the draft Consumption Law, underlying problems in the national and local tax systems should be addressed to introduce a new set of clear and effective measures and systems for consumption tax collection.

The working group also recommends that the tax threshold on certain goods be re-assessed and re-adjusted to ensure it aligns with the country's economic development.

15 *Announcement of the State Administration of Taxation on Matters Related to the Collection and Administration of E-cigarette Consumption Tax*, Beijing Municipal Tax Service of STA, 27th October 2022, viewed on 16th May 2025, <https://www.chinatax.gov.cn/chinatax/n810341/n810760/c5182407/content.html>

16 *The 14th National People's Congress Standing Committee legislative plan*, National People's Congress, 8th September 2023, viewed 16th May 2025, <http://www.npc.gov.cn/npc/c2/c30834/202309/t20230908_431613.html>

17 *Decision of the Central Committee of the Communist Party of China on Further Comprehensively Deepening Reform and Promoting Chinese-style Modernisation*, State Council, 21st July 2024, viewed on 16th May 2025, <https://www.gov.cn/zhengce/202407/content_6963770.htm>

18 *State Council Notice on the Issuance of Adjustment of Revenue Division Reform between the Central and Local Governments after the Implementation of Larger Tax Cuts and Fee Reductions,* State Council, 9th October 2019, viewed 16th May 2025, <http://www.gov.cn/zhengce/content/2019-10/09/content_5437544.htm>

19 *Ibid.*

In addition, the design of Hainan Free Trade Port's sales tax regime is still under development, and the tax regime transition with the mainland consumption tax regime, the tax regime for new business types, preferential policies and the scope of taxpayers remain unclear. Therefore, finalising the relevant policies as soon as possible is recommended.

Finally, the working group urges efforts to speed up the implementation of green transformation principles (for example, the reuse of plastic waste as a raw material) through tax incentives.[20] This could include a consumption tax exemption on refined oil products (ROPs) made from recycled waste plastic, and 100 per cent VAT refunds on ROPs or chemical products made from waste plastics.

Recommendations

- Involve industry and tax experts in discussions on standards and measurements and, where necessary, review and re-determine the scope of taxation and the tax point in the supply chain with the aim of boosting domestic circulation.
- Review the applicable tax threshold, tax rates and taxation method to facilitate the macro-development strategies of specific industries in line with China's consumption reality and to better reflect international best practices.
- Publish in a timely manner the timetable and implementation rules for the various sectors participating in the Consumption Law reform pilot and provide a sufficient transition period.
- Improve the effectiveness of the nationwide tax system and synchronise tax administration and collection systems at central and local levels.
- Accelerate the development of the Hainan FTP's sales tax regime, integrate it into China's existing consumption tax regime, solicit public opinions and promote its smooth transition to contribute to the success of the FTP.

20 In the European Chamber's report on carbon neutrality, 22 per cent of European companies said they hoped to receive tax incentives for decarbonisation initiatives. See: *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Union Chamber of Commerce in China, 25th May 2022, viewed 22nd April 2024, p. 8, <https://www.europeanchamber.com.cn/en/publications-archive/974/Carbon_Neutrality_The_Role_of_European_Business_in_China's_Race_to_2060>

4. Provide Companies with an Early Commitment to Retain the IIT Exemption for Non-cash Benefits for Foreign Employees in China

Concern

Without an early commitment that the tax exemption for selected non-cash benefits, including relocation, housing and children's tuition, will be continued after 2027, multinational investors may struggle to attract and retain the international talent they need to strengthen their Chinese operations beyond this date.

Assessment

In their *Announcement of the Ministry of Finance and the State Taxation Administration on Extending the Individual Income Tax Policy With Respect to Allowances and Subsidies for Foreign Individuals,* the MOF and the STA prolonged the preferential treatment of selected non-cash benefits for foreign employees in China until 31st December 2027.[21] This extremely welcome and broadly appreciated initiative helped to secure a reasonable average taxation level for international talent in China.

With an individual income tax (IIT) rate of 45 per cent on income exceeding Chinese yuan 80,000 (around euro 9,500) per month, typical non-cash benefits, like relocation, housing and children's tuition, would easily fall within the highest tax bracket if fully taxed. This is significant as a tax burden of 45 per cent would significantly impact the net income of many foreign professionals working in China.

Any employers of foreign employees that are willing to take over the extra tax burden on behalf of their employees, however, would face a 'grossed-up' tax impact given that the tax taken over 'on behalf' of the individual would also be considered as part of the taxable income. This would result in a significant cost increase of an additional 81 per cent on the cost of such non-cash benefits for the employer.

For foreign schools in China—which are vital to the long-term residence of foreign nationals with children—the taxation of non-cash benefits would result in a tremendous cost increase due to the need for a large

21 *Announcement of the Ministry of Finance and the State Taxation Administration on Extending the Individual Income Tax Policy With Respect to Allowances and Subsidies for Foreign Individuals*, STA, 18th August 2023, viewed 9th August 2025, <https://fgk.chinatax.gov.cn/zcfgk/c102416/c5211526/content.html>

population of foreign teachers. While foreign schools would need to bear the 'grossed-up' tax burden on behalf of their teachers, school fees for regular students would sky-rocket, and worsen the tax impact on employers, employees and schools.

Decisions on staff secondment and family relocation are typically prepared and taken around 12 months in advance and all relevant factors are considered at an early stage of this process. Therefore, an early commitment to retaining the IIT exemption for selected non-cash benefits for foreign employees would help both employers and employees to plan for the long term.

Recommendation

- Give an early signal to employers and their foreign employees that China remains committed to the IIT exemption for selected non-cash benefits like relocation costs, housing and children's tuition.

Abbreviations

CHC	China Holding Company
FTP	Free Trade Port
IIT	Individual Income Tax
MOF	Ministry of Finance
NPC	National People's Congress
PTR	Processing Trade Relief
STA	State Taxation Administration
VAT	Value-added Tax

Human Resources Working Group

Key Recommendations

1. Optimise Workforce Flexibility and Modernise Chinese Labour Laws 11

- Revise existing labour laws and related regulations to accommodate flexible work arrangements.
- Develop practical solutions for employers to provide social security for employees working in locations that are different to where the company is registered.
- Apply the same statutory standards to all employees and ensure consistent interpretation of labour laws and regulations nationwide.

2. Improve Overall Conditions for Foreign Nationals to Make China a More Attractive Destination for Employees on Both Long- and Short-term Work Assignments 2

- Optimise the Permanent Resident Identification Card's (PR Card's) functions by consulting PR Card holders to address existing limitations.
- Streamline the employment transfer process in China to expedite employee acquisition, mitigate immigration and employment risks, and bridge administrative gaps to enable seamless employment transitions.
- Develop further resources that provide guidance to foreign nationals working in or visiting China on daily living activities and necessary administrative tasks.
- Apply the best practices of International Services Shanghai to more Chinese cities to enhance the quality of life for foreign nationals living in China.
- Issue bilateral agreements with more European Union (EU) Member States and simplify relevant application procedures to increase talent exchanges and internship programmes between the EU and China.

3. Invest More in and Transform the Development of Practical Knowledge and Soft Skills in Vocational Schools, and Increase Access to Vocational Training Institutions and Trainee Programmes 7

- Improve vocational education and help graduates find suitable jobs within a reasonable timescale of finishing university.
- Increase access to vocational training schools.
- Update both the curricula taught at vocational schools and the training provided at technical schools, colleges and universities, to include courses on digitalisation, intelligent manufacturing, advanced operations, green technologies and management practices.

Recent Developments

Employment Targets Remain Conservative

On 5th March 2025, China's Premier Li Qiang noted in the 2025 Government Work Report that in 2024 China had 12.56 million new urban jobs and an average urban survey unemployment rate of 5.1 per cent. Li announced new targets of around 5.5 per cent for urban survey unemployment and more than 12 million new jobs for 2025.[1] These targets are in line with those set in the 2024 Government Work Report.[2]

The Chinese Government continues to regard stable employment as its priority, and the Government Work Report states that it will encourage support for labour-intensive industries to absorb and stabilise employment.[3] Relevant guidelines have also been issued focussing on social insurance, social welfare, employment security and other issues related to promoting employment.[4]

Visa-free Policies and Increasing Convenience for Foreign Nationals Living in or Visiting China

On 17th December 2024, China's National Immigration Administration (NIA) announced a significant extension to the country's visa-free transit policy. The permitted duration of stay for foreign nationals in transit has been increased from 72 or 144 hours to 240 hours (10 days).[5] Additionally, 21 new ports of entry and exit have been designated for visa-free transit, expanding the total to 60 ports across 24 provinces, autonomous regions and municipalities. As a result, nationals from 54 countries that transit from China to a third country or region can now enter China visa-free through any of these ports and remain in designated areas for up to 240 hours. China's authorities also recently emphasised that hotels must not refuse to accommodate foreign nationals on the grounds that they lack the capacity to process related paperwork.[6]

On 8th April 2025, the Ministry of Commerce (MOFCOM) released *A Guide to Working and Living in China as Business Expatriates (2025 Edition)*.[7] It includes four parts: Dos and Don'ts, Daily Life Services, Services for Stay and Residence in China, and Relevant Services for Work in China. The guide covers matters such as residence registration, social insurance, mobile payments, transportation, payment of individual income tax, and obtaining SIM cards, bank cards, residence permits and work permits. The aim is to update the guide annually to reflect changes in relevant policies and procedures. Beijing also rolled out a '10-measure initiative' aimed at attracting more overseas talent to study and work in China.[8] One of the measures included is the rescindment of the two-year work experience requirement for obtaining work permits.[9]

Gradual Increase of Statutory Retirement Age

On 1st January 2025, new policies were implemented to gradually raise the statutory retirement age, as outlined in the *Decision of the Standing Committee of the National People's Congress on the implementation of the gradual postponement of the statutory retirement age* and the *Notice of the Ministry of Human Resources and Social Security, the Organisation Department of the Central Committee of the Communist Party of China, and the Ministry of Finance on Printing and Distributing the Interim Measures for the Implementation of the Flexible Retirement System* (collectively, the 'New

1 *Report on the Work of the Government 2025,* State Council, 12th March 2025, viewed 10th June 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm?s_channel=5&s_trans=7824452999>

2 *Report on the Work of the Government 2024*, State Council, 12th March 2024, viewed 10th June 2025, <https://www.gov.cn/yaowen/liebiao/202403/content_6939153.htm>

3 *Report on the Work of the Government 2025*, State Council, 12th March 2025, viewed 10th June 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm?s_channel=5&s_trans=7824452999>

4 *Opinions on further safeguarding and improving people's livelihoods and striving to solve the urgent problems and worries of the masses,* General Office of the Central Committee of the Communist Party of China and General Office of the State Council, 9th June 2025, viewed 10th June 2025, <https://www.gov.cn/zhengce/202506/content_7027015.htm>

5 *Announcement of the National Immigration Administration on Further Relaxation and Optimisation of the Transit Visa-free Policy for Foreigners*, NIA, 17th December 2024, viewed 27th April 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6993191.htm>

6 Yang, Z, and Si, C, *Hotels told not to turn away foreign guests, China Daily*, 28th May 2024, viewed 29th May 2025, <https://www.chinadaily.com.cn/a/202405/28/WS6655f606a31082fc043c9a3e.html>

7 *A Guide to Working and Living in China as Business Expatriates (2025 Edition)*, MOFCOM, 8th April 2025, viewed 27th April 2025, <https://wzs.mofcom.gov.cn/cms_files/filemanager/195082220/attach/20253/cb94471552aa4e93acb76ee0ba6c5dd1.pdf?fileName=%E3%80%8A%E5%A4%96%E5%9B%BD%E5%95%86%E5%8A%A1%E4%BA%BA%E5%A3%AB%E5%9C%A8%E5%8D%8E%E5%B7%A5%E4%BD%9C%E7%94%9F%E6%B4%BB%E6%8C%87%E5%BC%95%EF%BC%882025%E5%B9%B4%E7%89%88%EF%BC%89%E3%80%8B%E8%8B%B1%E6%96%87%E7%89%88.pdf>

8 *Beijing Launches 'Study in Beijing+' Initiative with 10 Facilitation Measures to Promote Innovation and Entrepreneurship among International Students, People's Daily*, 29th April 2025, viewed 26th May 2025, <http://bj.people.com.cn/n2/2024/0429/c82841-40829050.html>

9 Wang, X, *China's Capital Loosens Work Permit Requirements to Attract Overseas Talent, Caixin Global*, 17th May 2024, viewed 27th April 2025, <https://www.caixinglobal.com/2024-05-17/chinas-capital-loosens-work-permit-requirements-to-attract-overseas-talent-102197464.html>

Retirement Policies').[10&11] According to the New Retirement Policies, the statutory retirement age (previously 60 for men and 55 for women) will be progressively raised by one month every four months, ultimately reaching 63 for men and 58 for women. For female workers whose original statutory retirement age was 50, the age will be increased by one month every two months, eventually reaching 55 years.

In addition, from 1st January 2030, the minimum contribution period required to qualify for pension benefits will be increased gradually from 15 to 20 years, with a six-month increase each year. According to the New Retirement Policies, employees who have fulfilled the minimum pension contribution period may also voluntarily choose early retirement, up to three years before reaching the statutory retirement age, by providing written notice at least three months in advance. Conversely, employees who reach the new statutory retirement age may, by mutual agreement with their employer, postpone retirement for up to three additional years.

Longer Public Holidays

The State Council amended the *Measures for National Public Holidays and Memorial Days*,[12] which came into effect on 1st January 2025. From this date, the number of public holidays in China will be increased by two days, from 11 to 13 days per year. According to this new policy, the Chinese New Year's Eve will be a public holiday, and one more public holiday will be added to International Labour Day on 2nd May. Also, the number of adjusted consecutive working days shall generally not exceed six days.[13]

In 2025, the Chinese Government aims to adjust the working days and rest days before and after public holidays to enable employees to take longer and uninterrupted holidays.[14] The increase in public holidays reduces the standard annual working days for employees from 250 to 248, which will affect the calculation of working hours and overtime for those under the comprehensive working hour system. According to the provisions of the Labour Law, overtime pay on newly added holidays shall be paid at 300 per cent of the employee's daily or hourly wage base.[15] The standard monthly payroll benchmark remains unchanged at 21.75 days, meaning that employers will not incur additional costs for sick leave or untaken annual leave as a result of the increase in public holidays.

Key Recommendations

1. Optimise Workforce Flexibility and Modernise Chinese Labour Laws

11

Concern

Current labour laws and regulations are no longer fit for purpose, resulting in both human resources management challenges and employees missing out on employment benefits, while hindering business expansion through remote engagement.

Assessment

The evolution of technology and shifting workforce dynamics has resulted in employers needing to implement more flexible work arrangements. Based on business requirements or customer demands, there is an increasing need to engage dispatched labour or part-time employees for specific projects, arrange for employees to work either onsite or remotely from different locations, and adjust working hours. However, while the government theoretically permits flexible work arrangements, China's existing labour laws and regulations do not adequately address the practical implications. For example, the lack of a clear legal framework for remote or hybrid work leaves both employers and employees uncertain about their specific rights and obligations, and adjusting standard working hours can lead to overtime payment liabilities.

10 *Decision of the Standing Committee of the National People's Congress on the implementation of the gradual postponement of the statutory retirement age*, State Council, 13th September 2024, viewed 27th April 2025, <https://www.gov.cn/yaowen/liebiao/202409/content_6974294.htm>

11 *Notice of the Ministry of Human Resources and Social Security, the Organisation Department of the Central Committee of the Communist Party of China, and the Ministry of Finance on Printing and Distributing the Interim Measures for the Implementation of the Flexible Retirement System*, State Council, 31st December 2024, viewed 27th April 2025, <https://www.gov.cn/zhengce/zhengceku/202501/content_6995747.htm>

12 *Measures of the State Council for National Public Holidays and Memorial Days*, State Council, 12th November 2024, viewed 27th April 2025, <https://www.gov.cn/zhengce/zhengceku/202411/content_6986381.htm>

13 *Ibid.*

14 *Notice of the Partial Holidays Schedule for 2025*, State Council, 12th November 2024, viewed 10th June 2025, <https://www.gov.cn/zhengce/content/202411/content_6986382.htm>

15 *The Labor Law of the People's Republic of China*, Standing Committee of the National People's Congress of the People's Republic of China, 1st January 1995, viewed 18th June 2025,<https://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/fl/202011/t20201102_394625.html>

China's social security system also does not facilitate remote working conditions. The Social Insurance Law and relevant regulations require employers to provide social security for employees at the locations where the enterprise's business units are registered, regardless of employees' actual work locations.[16] Although the Chinese Government has taken measures to facilitate the transfer of employees' social insurance nationwide, remote workers still miss out on some benefits and welfare in their place of residence and work. This not only impacts employee entitlements but also hinders business expansion through remote engagement.

On top of this, interpretations of labour laws and regulations can vary across different jurisdictions in China, and may even conflict with each other. This adds further complexity to the management of remote employees. For example, while the law requires employers to provide social insurance based on the location where the employer is registered, employees' leave entitlement follows the local policies where she/he actually works. As a result, remote workers may not receive their full maternity leave allowance, for example, if the policy where their employer is registered provides a shorter leave entitlement than where the employee works.

Employees paying into a pension fund at the employer's registered location may also encounter difficulties claiming their pension benefits once they reach statutory retirement age, and differing court decisions also add to management complexities.[17]

Recommendations

- Revise existing labour laws and related regulations to accommodate flexible work arrangements.
- Develop practical solutions for employers to provide social security for employees working in locations that are different to where the company is registered.
- Apply the same statutory standards to all employees and ensure consistent interpretation of labour laws and regulations nationwide.

16 *Social Insurance Law of the People's Republic of China,* Ministry of Human Resources and Social Security, 29th December 2018, viewed 27th April 2025, <https://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/fl/202011/t20201102_394629.html>

17 For example, while the Shanghai Higher People's Court permits termination without specifying a reason after the second fixed-term contract has expired, Beijing Higher People's Court denies this right. See: Zhang, F, and Zhou, Q, *What Should Employers Pay Attention to When an Employee's Labor Contract is About to Expire*, China Briefing, 7th April 2022, viewed 27th April 2025, <https://www.china-briefing.com/news/china-end-fixed-term-labor-contract-employment-management-best-practices-compliance-guidelines>

2. Improve Overall Conditions for Foreign Nationals to Make China a More Attractive Destination for Employees on Both Long- and Short-term Work Assignments 2

Concern

The lack of convenient work and living conditions for foreign nationals makes China less attractive as a destination for both long- and short-term work assignments.

Assessment

According to statistics released by the NIA on 15th April 2025,[18] in the first quarter (Q1) of 2025, a total of 163 million entries and exits to and from the Chinese mainland were recorded—including over 17 million foreign nationals—representing a year-on-year increase of just over 33 per cent.[19] The number of foreign nationals in Q1 was boosted by new policies and measures introduced by the NIA regarding entry/exit services, including visa exemptions for entry and transit for certain nationalities, and visas on arrival ('port visas'). According to NIA statistics, a total of 316,000 visas were issued to foreign nationals, and nearly 6.5 million foreign nationals entered China via the visa exemption programme.[20]

China has unilaterally granted visa-free access to 38 countries, extended visa-free transit to 54 countries for 240 hours, and rolled out a series of policies that have improved the convenience of living in and visiting China. Despite the positive impact that these new entry/exit policies have had—particularly on short-term travellers from the currently visa-exempt countries—in order to attract and retain foreign nationals, especially talent that China needs, there is a need to further refine the current immigration system while introducing new policies that can create more comfortable and convenient working and living environments. The working group recommends introducing policies and support in the following areas, in order to increase China's attractiveness as a destination for both long- and short-term work assignments:

18 *Press Conference on Key Data and Effectiveness of Migration Management in the First Quarter of 2025*, NIA, 15th April 2025, viewed 24th April 2025, <https://www.nia.gov.cn/n741435/n1194535/n1712065/index.html>

19 *Ibid.*

20 *Ibid.*

1) China Foreign Permanent Resident Identification Card (PR Card)

Although China's PR Card is regarded as one of the most difficult permanent resident cards to obtain, the associated benefits have not been developed sufficiently to reflect their perceived value.

For example, some banks do not allow foreign nationals to purchase foreign currency or transfer remittances via mobile phone or computer-based online portals using their PR Card for identification. There are also challenges binding foreign credit cards to WeChat or AliPay for banks using PR Card information. Some PR Card holders also face difficulties using the card to buy property, obtain financial services, apply for driving licences and file individual income tax to enrol in social security. These functions are administered by different government bodies and organisations in a decentralised manner, which makes related procedures extremely burdensome.

2) Employer Transfer Processes For Foreign Nationals

Foreign nationals working in China face challenges when changing employers. According to the current procedure, the existing work permit needs to be cancelled before a new work permit can be applied for. However, because all the work permit-related applications are filed with one nationwide online platform, the administrative process is inefficient and time-consuming. Foreign nationals can only legally work with complete documentation—containing both a work permit and a residence permit—which leads to an unnecessary gap from both an employment and immigration perspective.

The authorities, particularly the local exit and entry administrations of Public Security Bureaus, do not have clear guidelines on how to deal with the interim period, during which the employer transfer process is underway but before the issuance of both a new work permit and residence permit (typically one to two months). This creates a significant burden for companies when arranging foreign nationals' onboarding and work activities during the transitional phase, even after the employment contract has taken effect.

3) Living Convenience for Short-term Travellers

Short-term travellers to China often arrange accommodation independently or with assistance from colleagues or friends. However, they face challenges due to fragmented and/or inaccessible information and limited support. The International Services Shanghai website contains comprehensive information for foreign nationals who want to do business, work, travel, study or shop in Shanghai.[21] There are also one-stop service centres for foreign nationals available at major international airports.[22,23&24] However, while these are helpful guides they are not very well known to either the foreign community in China or overseas. The working group therefore recommends increasing promotion of these resources across multiple channels to ensure they reach a wider audience. The working group further recommends that other Chinese cities—particularly those that are popular work and travel destinations—also develop similar resources to Shanghai's to help guide foreign nationals.

4) Talent Exchanges and Internship Programmes for Young Professionals

After experiencing a significant loss of foreign nationals due to COVID-19 restrictions, companies operating in China are in dire need of a new generation of foreign talent that can bring fresh ideas, boost innovation and become future leaders. Programmes that promote talent exchanges and internships are one of the best ways for foreign students and graduates to obtain first-hand experience of the Chinese market, and to encourage them to seek long-term employment in China. These young people can become future 'ambassadors' that can help bridge some of the perception gaps that have developed between the European Union (EU) and China.

However, there is currently a lack of policy support in this regard. At present, China only has bilateral agreements with two EU Member States—Germany and France—to facilitate mutual visits and internships

21 *International Services Shanghai*, Shanghai Municipal People's Government, viewed 24th April 2025, <https://english.shanghai.gov.cn/>

22 *Beijing opens airport service counters for foreign travellers, Xinhua*, 9th January 2025, viewed 7th May 2025, <https://en.people.cn/n3/2025/0109/c90000-20263638.html>

23 *One-stop Integrated Service Centre for Expatriates Fully Opened at Shanghai Airports*, Shanghai Municipal Government, 14th October 2024, viewed 7th May 2025, <https://www.shanghai.gov.cn/nw31406/20241014/df3423f1516141139b7c4a58ba24f38a.html>

24 *Guangzhou Baiyun Airport Integrated Service Centre for Overseas Chinese Officially Commences Operation, China News Service*, 16th October 2024, viewed 25th June 2025, <http://travel.china.com.cn/txt/2024-10/16/content_117487383.shtml>

for students and other young people. The working group notes that while the existing Sino-French and Sino-German programmes are positive in theory, applicants are subject to complex requirements and visa procedures. It would therefore be beneficial to streamline the related administrative requirements to make applying for these programmes more convenient, while expanding such agreements to more EU Member States.

Recommendations

- Optimise the PR Card's functions by consulting PR Card holders to address existing limitations.
- Streamline the employment transfer process in China to expedite employee acquisition, mitigate immigration and employment risks, and bridge administrative gaps to enable seamless employment transitions.
- Develop further resources that provide guidance to foreign nationals working in or visiting China on daily living activities and necessary administrative tasks.
- Apply the best practices of International Services Shanghai to more Chinese cities to enhance the quality of life for foreign nationals living in China.
- Issue bilateral agreements with more EU Member States and simplify relevant application procedures to increase talent exchanges and internship programmes between the EU and China.

3. Invest More in and Transform the Development of Practical Knowledge and Soft Skills in Vocational Schools, and Increase Access to Vocational Training Institutions and Trainee Programmes 7

Concern

The current labour market cannot meet the growing need for highly skilled workers as a result of the rapid rate of modernisation in the manufacturing industry.

Assessment

Vocational schools in China offer courses covering topics including supply chain management, lean manufacturing, cost basics, total productive maintenance, production material control, purchasing management, information technology application in manufacturing and leadership. However, while companies are looking for graduates with a mixture of practical and soft skills that can be applied in the workplace, the primary focus of these courses is on general, theoretical training. In light of this, the Human Resources Working Group recommends that the standards of vocational education and teaching, as well as guidance on the design of teaching materials, be updated in accordance with the Vocational Education Law.[25] The aim of this is to ensure that vocational training courses ultimately become more aligned with industry needs.

Recent graduates in China who wish to pursue a career in technical fields generally start from entry-level positions as basic operators. Working group members report that this is necessary because—despite the fact that graduates are often unwilling to take such positions—upon graduation technicians are often ill-equipped to carry out their first job with efficiency and quality. Companies report that they generally need to provide graduates with a minimum of one year of additional training, focussing on areas such as machinery, electronics, automation, environment, and health and safety, for them to meet the required standard.

Article 5 of the Made in China 2025 initiative, released on 8th May 2015, highlights the need to establish a comprehensive multi-level talent development system.[26&27] It emphasises the strengthening of vocational education and skills training and encourages the establishment of international training bases. However, the current gap between the abilities of vocational students trained in China and the needs of enterprises indicates that policies are not being implemented effectively. With the milestone realisation of Made in China 2025, 'new productive forces' and 'dual

25 *Vocational Education Law of the People's Republic of China*, National People's Congress, 20th April 2022, viewed 27th April 2025, <http://en.npc.gov.cn.cdurl.cn/2022-04/20/c_909970.htm>

26 Made in China 2025 is one part of a long-term strategy designed to carry China to a high degree of self-reliance and leadership in strategic technologies, or even self-sufficiency in some cases. See: *Made in China 2025: The Cost of Technological Leadership*, European Union Chamber of Commerce in China, 16th April 2025, viewed 27th June 2025, pp. 3–5, <https://www.europeanchamber.com.cn/en/china-manufacturing-2025>

27 *Circular of the State Council on Printing and Distributing Made in China 2025*, State Council, 19th May 2015, viewed 27th April 2025, <https://www.gov.cn/zhengce/content/2015-05/19/content_9784.htm>

circulation' require a leap in vocational training.[28&29]

By contrast, European companies have demonstrated good practices and mechanisms in this regard – gained from their experiences in European countries that recognise the crucial role that exchanges on and promotion of vocational education play in achieving long-term development goals. Improving collaboration and communication in vocational-technical sectors, along with experience-sharing seminars, will bring benefits to both individual enterprises and whole industries. Vocational courses can provide training in vital areas such as electrical engineering, machining and assembly, Industry 4.0, technology upgrading and manufacturing standards. Employees that receive vocational education are more likely to become skilled technical specialists and go on to find work in various technical sectors.

The 2024–2035 Master Plan on Building China into a Leading Country in Education was jointly issued by the Communist Party of China Central Committee and the State Council on 19th January 2025.[30] China aims to promote artificial intelligence (AI) in aiding the country's education reform, highlighting the cultivation of students' critical thinking, problem-solving abilities and practical skills, while accelerating digital transformation across the sector, according to the *Opinions of the Ministry of Education and nine other departments on accelerating the digitalisation of education*.[31] Recent policies emphasise building an AI-based education system that integrates smart technologies into teaching, learning, assessment and academic research.

Finally, with the EU and China both viewing the development and implementation of green technologies and management practices as imperative, vocational schools also need to ensure that these fields become a central part of their updated curricula.

Recommendations

- Improve vocational education and help graduates find suitable jobs within a reasonable timescale of finishing university.
- Increase access to vocational training schools.
- Update both the curricula taught at vocational schools and the training provided at technical schools, colleges and universities, to include courses on digitalisation, intelligent manufacturing, advanced operations, green technologies and management practices.

Abbreviations

AI	Artificial Intelligence
EU	European Union
MOFCOM	Ministry of Commerce
NIA	National Immigration Administration
PR Card	China Foreign Permanent Resident Identification Card

28 Introduced in September 2023, new productive forces refer to those that emerge from continuous breakthroughs in science and technology, driving strategic future and emerging industries that may introduce disruptive technological advancements in an era of intelligent information." See: *Made in China 2025: The Cost of Technological Leadership*, European Union Chamber of Commerce in China, 16th April 2025, viewed 27th June 2025, pp. 3–5, <https://www.europeanchamber.com.cn/en/china-manufacturing-2025>

29 The 14th Five-year Plan (2021–2025) explicitly outlined the need for China to reduce its reliance on the global economy and increase its self-reliance. See: *Ibid.*

30 *The 2024-2035 Master Plan on Building China into a Leading Country in Education*, State Council, 19th January 2025, viewed 27th April 2025, <https://www.gov.cn/zhengce/202501/content_6999913.htm>

31 *Opinions of the Ministry of Education and nine other departments on accelerating the digitalisation of education*, Ministry of Education, 15th April 2025, viewed 27th April 2025, <http://www.moe.gov.cn/srcsite/A01/s7048/202504/t20250416_1187476.html>

Intellectual Property Rights Working Group

Key Recommendations

1. Patents

1.1 Apply the Global Common Standard of 'Inventive Step' Adopted by Most Patent Offices, Particularly the Other Intellectual Property 5 (IP5) Patent Offices in Patent Examination and Invalidation Proceedings 3

- Apply a global common standard of 'inventive step' in patent examination and invalidation proceedings, based on the uniqueness of each industry, to ensure consistency of the patent practices adopted by most patent offices, particularly the other IP5 patent offices.

1.2 Establish a National Intellectual Property (IP) Court Based on the IP Tribunal of the Supreme People's Court (SPC) 2

- Establish a national IP court to handle appeals concerning professional and technical IP disputes, as well as cases related to monopolies, ensuring both consistency of trial standards and efficiency of trial processes.

1.3 Implement an Official System of Appeal Against, or Review of, Unfavourable Patent Evaluation Reports for Utility Model Patents or Design Patents 3

- Establish a review or appeal system that allows patentees to contest initial unfavourable patent evaluation reports issued by the China National Intellectual Property Administration (CNIPA).

2. Trademarks

2.1 Replace the Requirement for Applicants to Submit Preliminary Evidence of Non-use with a Requirement to Justify their Legitimate Interest in Filing the Revocation Request

- Replace the requirement to submit preliminary evidence of non-use, imposed on the applicants requesting the revocation of a trademark based on non-use, with a requirement to justify their interest in filing the request.

2.2 Avoid Citing Article 10.1.7 of the Trademark Law as an Alternative to Article 11 When Refusing the Registration of a Trademark 3

- In cases where lack of distinctiveness and descriptiveness is the primary issue, Article 11 should be cited as the basis for refusal, rather than Article 10.1.7

2.3 Facilitate the Registration of New Trademarks Refused on Relative Grounds by Allowing a Joint Adjudication of All Conflicts Between the Applied and Cited Trademarks, or Accepting Coexistence Agreements 3

- Revise the Trademark Law to reflect that when a trademark application is refused on the grounds of pre-existing trademarks that have been registered for a period exceeding three years, the trademark applicant may file a review against this refusal by requesting the registrants of the pre-existing trademarks to submit proof of their trademarks' use.
- Revise the Trademark Law to include that any disputes raised by the applicant of a new trademark against the holders of pre-existing trademarks—in the context of a refusal of the new application—shall be settled concurrently with the review of the appeal against the trademark application's refusal.

- Provide that when a trademark is invalidated on the grounds of bad faith, the court shall have the power to order the owner of the invalidated trademark to pay the legal costs incurred by the applicant of the invalidation.
- Accept letters of consent.

2.4 Allow People's Courts to Accept Claims Filed Against a Registered Trademark and Suspend the Case Until the Trademark has been Invalidated 2

- Allow People's Courts to accept a claim against a registered trademark and to suspend the case until the completion of the invalidation procedure for the trademark in question.

2.5 Allow for the Effective Registration of Three-dimensional (3D) Trademarks and Recognition of Well-known Trademarks, Ensuring Full Implementation of the Law in Practice.

- Ensure the effective registration of 3D trademarks and recognition of well-known trademarks by the CNIPA as provided by the existing Trademark Law.

3. Access to Law

3.1 Specify That When the Circumstances for Punitive Damages in Litigation are Met, the Amount Shall be Decided Without Regard for the Amount of Damage Claimed by the Plaintiff, and Amend Article 211 of the Civil Procedure Code Accordingly 3

- Grant courts full discretion to award punitive damages within legal limits, regardless of the damages claimed by the plaintiff, and amend Article 211 of the Civil Procedure Code accordingly.

3.2 Make All Court Decisions Publicly Available

- Improve the openness and transparency of China's court system by ensuring all court decisions are publicly available.

3.3 Rectify Arbitrary Charges in IP Criminal Cases and the Illegal Charging of Law Enforcement Costs

- Strengthen existing legal frameworks, introducing specific provisions that prohibit the transfer of law enforcement costs to complainants and impose penalties on law enforcement agencies that violate these provisions.
- Enforce the principle of state-funded law enforcement, and ensure that all law enforcement activities related to IP protection are fully funded; this includes covering all costs associated with investigations, storage, transportation, forensic appraisals and detention.
- Establish a robust oversight mechanism to monitor and ensure compliance with the principle of state-funded law enforcement.

4. Online IP Protection

4.1 Enhance Regulation to Optimise the Baseline Responsibilities of Internet Platform Enterprises with Regard to Addressing IP Infringement Concerns 2

- Issue regulations, guidelines and standards to develop baseline requirements and standardised best practices for platform operators to follow in combating online IP infringement.
- Mandate that each platform operator conduct an annual self-assessment regarding the scope and seriousness of IP infringement on its platform, evaluate the effectiveness of its IP protection measures and submit these assessments to the relevant regulatory authority.
- Provide better and more rapid escalation and remedial measures if platform operators fail to combat intellectual property rights (IPR) infringement.
- Enhance penalties for platform operators that fail to meet the baseline requirements for effectively managing IPR infringement.

4.2 Strengthen the Supervision of Counterfeit Posting, IP Infringement and Novel Forms of Online Infringement 2

- Establish a dedicated regulatory body, task force or coordination committee under the supervision of the Cyberspace Administration of China, the CNIPA and the State Administration for Market Regulation (SAMR) to oversee and safeguard online IP protection.
- Release annual reports detailing the IPR initiatives undertaken by online platforms and their effectiveness, based on the data provided in the annual submissions of these platform operators.
- Launch campaigns to combat online IPR infringement and to raise public awareness about the significance of IPR protection.

5. Trade Secrets

5.1 Clarify and Specify the Standards for Proving a Trade Secret is Protectable

- Clarify and specify the standards for proving a trade secret is protectable, particularly for proving a trade secret is 'not known to the public'.

5.2 Clarify the 'Prima Facie Evidence' Standard for Proving Trade Secret Infringements

- Clarify the criteria for establishing 'prima facie evidence' and unify the interpretations among different courts and judges.

6. Geographical Indications (GIs)

6.1 Enact a Law that Provides Effective Protection for Registered GI Products 2

- Enact specific legislation concerning the registration and protection of GIs.
- Direct the SAMR to issue regulations delineating the powers of administrative enforcement authorities, which should include enforcing GI rights through the ability to confiscate and destroy infringing products and impose sanctions.

Recent Developments

In 2024 and early 2025, China continued to improve intellectual property (IP) protection by improving procedural clarity, enforcement efficiency and administrative coordination.

Judicial Protection:

In April 2025, the new judicial interpretation on criminal IP cases detailed thresholds for 'serious' and 'particularly serious' circumstances in trade secret and copyright infringement crimes, clarified platform liability and refined standards for calculating illegal gains in trademark counterfeiting.[1] Nine typical cases were publicised for reference.[2]

1 *Judicial Interpretation on the Application of Law in Handling Criminal Cases Involving IP Infringement*, SPC News Bureau, 24th April 2025, viewed 30th April 2025, <https://www.court.gov.cn/zixun/xiangqing/463291.html>

2 *Typical Criminal Cases on IP Protection Released by the Supreme People's Court and Supreme People's Procuratorate,* SPC News Bureau, 24th April 2025, viewed 30th April 2025, <https://www.court.gov.cn/zixun/xiangqing/463311.html>

Patents:

The amended *Implementing Rules of the Patent Law*[3] granted administrative adjudication authority to district-level IP bureaus in municipalities. Notably, a Shanghai district-level IP office successfully handled a standard essential patent dispute in early 2024.

Trademark:

On 16th April 2024, the State Administration for Market Regulation (SAMR) launched a two-year special enforcement campaign targeting IP infringements involving foreign-invested enterprises.[4]

3 *Decision of the State Council on Amending the Implementing Regulations of the Patent Law of the People's Republic of China*, State Council, 11th December 2023, viewed 30th April 2025, <https://www.gov.cn/zhengce/content/202312/content_6921633.htm>

4 *SAMR Launches the Nationwide "Protecting Intellectual Property" Special Enforcement Campaign,* SAMR, 25th April 2024, viewed 30th April 2025, <https://www.samr.gov.cn/xw/mtjj/art/2024/art_9e019e2660f741f29c6031dc8b2f246f.html>

Meanwhile, the latest amendment to the Trademark Law[5] remains under revision. China National Intellectual Property Administration's (CNIPA's) 2024 annual guidelines[6] reaffirmed the intent to advance amendments to both the law and its implementing regulations. China's *2025 Legislative Work Plan*[7] also explained that the process will be expedited to refine registration procedures, rights verification, service efficiency and enforcement of exclusive trademark rights.

The practice of trademark revocation based on non-use is also evolving. On 26th May 2025, the new CNIPA guidelines on non-use revocation took effect, requiring revocation applicants to submit preliminary evidence for trademarks that have not been used for three consecutive years. This reverses the previous no-evidence-needed approach.[8]

Online IP Protection:
In 2024, China launched an initiative hoping to standardise online IP enforcement by encouraging major platforms to improve notice and takedown procedures, merchant accountability and cooperation with rights holders.[9]

Trade Secrets:
Since 2023, the working group has been highlighting the need to develop clear criteria for determining whether a technical feature constitutes the owner's trade secret or public information. A clear answer was provided by the Supreme People's Court (SPC) in a ruling in October 2024. The decision clarified that whether a technical feature is publicly known should be assessed independently from patent novelty and inventiveness criteria. It also emphasised that unpatentable features do not automatically constitute public information.[10]

5 The Trademark Law underwent its most recent and extensive revision process beginning in January 2023.
6 *Notice of CNIPA on Issuing the 2024 Annual Guidelines for Promoting High-Quality Development of Intellectual Property,* CNIPA, 29th March 2024, viewed 30th April 2025, <https://www.cnipa.gov.cn/art/2024/4/10/art_551_191492.html>
7 *National Intellectual Property Administration's Legislative Work Plan for 2025,* CNIPA, 25th April 2024, viewed 30th April 2025, <https://www.cnipa.gov.cn/art/2025/4/25/art_75_199276.html>
8 *The Trademark Office has revised and improved the Guidelines for Revocation of Applications for Registered Trademarks that Have Not Been Used for Three Consecutive Years,* CNIPA, 26th May 2025, viewed 13th June 2025, <https://www.cnipa.gov.cn/art/2025/5/30/art_55_199891.html>
9 *National E commerce Platform Intellectual Property Protection Self discipline Convention*, SAMR, 20th September 2024, viewed 9th June, 2025, <https://www.samr.gov.cn/xw/zj/art/2024/art_fa3d6f3ca83844a8a719dc5137dff53b.html>
10 *A Brief Analysis of the Changes in Trade Secret Infringement Determination Rules in the Supreme People's Court's Revised Judgment,* Jingtian & Gongcheng, 30th April 2025, viewed 9th June 2025 <https://www.jingtian.com/Content/2025/05-06/1643005241.html>

Geographical indications (GIs):
In December 2024, China introduced a unified GI recognition system to streamline lifecycle management and align it with the trademark system.[11] The working group welcomes such optimisation but continues to call for dedicated GI legislation.

Key Recommendations

1. Patents

1.1 Apply the Global Common Standard of 'Inventive Step' Adopted by Most Patent Offices, Particularly the Other IP5 Patent Offices in Patent Examination and Invalidation Proceedings 3

Concern

The basis for determining 'inventive step' in patent applications goes beyond reasonable scope, where 'common knowledge' is used without any uniform and defined standard.

Assessment

Many patent applicants and patentees have reported a noticeable increase in the number of patent applications rejected and existing patents invalidated by the CNIPA[12] on the grounds of 'inventive step', where a claimed technical solution is easily determined as obvious.[13] Compared with the global common patent practices adopted by most patent offices, particularly the other four Intellectual Property 5 (IP5)[14] patent offices, the bar for 'skills' and 'knowledge' attributed to 'a person skilled in the art' seems to be set high, potentially encompassing a vast array of prior art. This has the effect of making the standard for inventive step more stringent for patent applicants and patent holders alike, across both invention patents and utility model patents. Consequently, applicants find securing and maintaining patent rights in China increasingly challenging.

11 *Implementation Plan for the Unified Recognition System of Geographical Indications Issued Jointly by Two Authorities (Published in China Intellectual Property News), China Intellectual Property News,* 18th December 2024, viewed 30th April 2025, <https://www.cnipa.gov.cn/art/2024/12/18/art_55_196706.html>
12 CNIPA is often known internationally as the China Patent Office.
13 "Patent obviousness is the idea that if an invention is obvious to either experts or the general public, it cannot be patented. Obviousness is one of the defining factors on how to patent an idea and whether or not an idea or invention is patentable. It is one of the hardest concepts to understand since it is often subjective and even arbitrary." See: *Patent Obviousness: Everything You Need To Know*, Upcounsel, 1st January 2024, viewed 19th April 2025, <https://www.upcounsel.com/patent-obviousness>
14 The IP5 offices refer to the five largest intellectual property offices in China, the United States, Europe, Japan and South Korea. They are the China National Intellectual Property Administration (CNIPA), the United States Patent and Trademark Office, the European Patent Office, the Japan Patent Office and the Korean Intellectual Property Office.

Recommendation

- Apply a global common standard of 'inventive step' in patent examination and invalidation proceedings, based on the uniqueness of each industry, to ensure consistency of the patent practices adopted by most patent offices, particularly the other IP5 patent offices.

1.2 Establish a National IP Court Based on the IP Tribunal of the SPC 2

Concern

The IP Court of the SPC has been unable to meet the current demand for processing the growing number of IP cases, especially those that are technologically complex.

Assessment

As of 31st December 2023, the IP Court of the SPC of China had cumulatively accepted 18,924 cases over the five years since its establishment, with 7,776 cases being accepted in 2023 alone.[15] This has resulted in the IP Court being confronted with a substantial workload, which risks leading to a backlog in the court's proceedings. As a consequence, the SPC may struggle to fulfil its other critical functions, such as developing judicial policies, enhancing trial supervision and guidance, and standardising trial practices.

Recommendation

- Establish a national IP court to handle appeals concerning professional and technical IP disputes, as well as cases related to monopolies, ensuring both consistency of trial standards and efficiency of trial processes.

1.3 Implement an Official System of Appeal Against, or Review of, Unfavourable Patent Evaluation Reports for Utility Model Patents or Design Patents 3

Concern

While patent evaluation reports issued by the CNIPA are generally required for enforcement of utility model patent or design patent rights, in the event of an unfavourable report, there is no recourse of appeal beyond the CNIPA, which renders the rights potentially unenforceable.

Assessment

Article 66 of the Patent Law provides that either courts or authorities may ask the patentee to provide a utility model patent evaluation report or design patent evaluation report issued by the CNIPA as evidence for examining a patent infringement. This is required because such patents do not undergo substantive examination before being granted.

In practice, not only are such evaluation reports invariably required for enforcement of utility model patents and design patents, but also the content of such reports can directly impact the views of the courts or the administrative enforcement authorities on the enforceability and strength of the patentee's claims.

During the process of examining applications for invention patents, unfavourable decisions made by the CNIPA as to the validity of the patent can be appealed against by the applicant. In Part V, Chapter 10 of the *Patent Examination Guidelines,* Section 6 'Correction of Patent Evaluation Report' focusses mainly on formalities. However, there is no recourse for the patentee of a utility model patent or design patent to appeal against unfavourable findings by the CNIPA on the validity of the patent as set out in the patent evaluation reports. The lack of such an official appeal or review system could substantially undermine the patentee's ability to enforce the patent.

Recommendation

- Establish a review or appeal system that allows patentees to contest initial unfavourable patent evaluation reports issued by the CNIPA.

2. Trademarks

2.1 Replace the Requirement for Applicants to Submit Preliminary Evidence of Non-use with a Requirement to Justify their Legitimate Interest in Filing the Revocation Request.

Concern

In CNIPA's new guidelines on requesting the revocation of registered trademarks that have not been used for three consecutive years, the submission of preliminary evidence of non-use is required, imposing a new

15 Zhang, S, *Supreme Court Intellectual Property Court Concludes 15,710 Cases in Five Years of Establishment, CCTV,* 22nd February 2024, viewed 19th April 2025, <https://news.cctv.com/2024/02/22/ARTIn815KxQmZ1qv2GauZ67V240222.shtml>

evidentiary burden on all applicants.[16]

Assessment

Pursuant to Article 49 of the Trademark Law,[17] "…Where a registered trademark […] has not been put in use for three consecutive years without a justifiable reason, any entity or individual may apply to the Trademark Office for its revocation…". Due to widespread trademark hoarding, which has led to a large number of unused trademarks, mass filings of revocation applications has become a new trend. Many of the filings are driven purely by profit-seeking motives rather than genuine trademark use concerns.

In its recent guidelines, CNIPA requires all applicants to submit preliminary evidence of non-use, placing an unjust burden for those who have a legitimate reason to request the revocation of a prior trademark which constitutes an obstacle to their own trademark application.

Recommendation

- Replace the requirement to submit preliminary evidence of non-use, imposed on the applicants requesting the revocation of a trademark based on non-use, with a requirement to justify their interest in filing the request.

2.2 Avoid Citing Article 10.1.7 of the Trademark Law as an Alternative to Article 11 When Refusing the Registration of a Trademark 3

Concern

The increase in instances of the CNIPA refusing trademark applications based on absolute grounds[18] is causing significant issues for legitimate trademark applicants.

Assessment

From 2022 to 2023, trademark applications dropped by four per cent[19] while trademark registrations fell by 29 per cent.[20] This gap is due to a change in the trademark examination practice when citing grounds of the Trademark Law.[21]

Examiners are increasingly citing absolute grounds under Article 10[22] (for example, 'being deceptive') to refuse the registration of trademarks. This has serious consequences because when a trademark is rejected on such absolute grounds, it becomes illegal and its use is prohibited.

Previously, refusals were mostly based on Article 11[23] (lacking distinctiveness or descriptiveness). In such cases, the sign could not be registered initially, but its use was still permitted. The applicant could later refile the trademark and argue that it had acquired the necessary distinctiveness through use.

The above change of examination practice harms legitimate applicants by denying both registration and lawful use of their marks.

Recommendation

- In cases where lack of distinctiveness and descriptiveness is the primary issue, Article 11 should be cited as the basis for refusal, rather than Article 10.1.7.

2.3 Facilitate the Registration of New Trademarks Refused on Relative Grounds by Allowing a Joint Adjudication of All Conflicts Between the Applied and Cited Trademarks, or Accepting Coexistence Agreements 3

Concern

Procedures resulting from trademark refusals based on relative grounds are time-consuming and costly for trademark applicants while carrying no penalties for bad-faith trademark registrants.

16 The new guidelines went into effect officially on 26th May 2025. See: *The Trademark Office has revised and improved the Guidelines for Revocation of Applications for Registered Trademarks that Have Not Been Used for Three Consecutive Years*, CNIPA, 30th May 2025, viewed 13th June 2025, <https://www.cnipa.gov.cn/art/2025/5/30/art_55_199891.html>

17 *Trademark Law of the People's Republic of China*, National People's Congress (NPC), 30th July 2019, viewed 8th May 2025, <https://www.gov.cn/guoqing/2020-12/24/content_5572941.htm>

18 Absolute grounds for refusal refer to reasons for rejecting a trademark application that are based on the intrinsic characteristics of the mark itself, such as whether it is distinctive, descriptive, misleading or contrary to public order, regardless of who is applying or whether similar trademarks exist. These grounds are typically set out in Articles 10 and 11 of China's Trademark Law.

19 *Ibid.*

20 *National Intellectual Property Administration 2023 Annual Report*, CNIPA, 3rd September 2024, viewed 8th May 2025, <https://www.cnipa.gov.cn/col/col3430/index.html>

21 *Trademark Law of the People's Republic of China*, NPC, 24th December 2020, viewed 8th May 2025, <https://www.gov.cn/guoqing/2020-12/24/content_5572941.htm>

22 Article 10 prohibits the use of trademarks that may mislead the public, damage public interest or social morality, or improperly use official symbols such as national flags, emblems or names of government institutions. See: *Ibid.*

23 Article 11 restricts the registration of trademarks that lack distinctiveness, such as those consisting only of generic terms or directly descriptive features – unless they have acquired distinctiveness through use. See: *Ibid.*

Assessment

When a trademark application is refused by the examiner on account of one (or more) prior 'cited' trademark(s), the applicant is often obliged to file a request for review while challenging the validity of the cited trademark(s). Suspension of the review process during the procedure or procedures against the cited trademark(s) is often refused, which forces the applicant to continue with registration before the courts to keep the application 'alive'. In the meantime, the trademark applicant must challenge the prior trademarks by initiating separate procedures (oppositions or invalidation). It is only after these procedures have been completed and the prior 'obstacle' trademarks eliminated that the new trademark application can proceed to registration.

These procedures are conducted in accordance with the Administrative Procedure Law,[24] which does not provide for the possibility of claiming compensation for costs against the losing party. In certain cases, these procedures could be avoided altogether by friendly negotiation leading to a coexistence agreement, but such agreements are currently not accepted.

If a trademark owner agrees that its trademark can coexist with another trademark without risk of confusion, it means that their interests are not threatened by such coexistence, nor are the interests of the public. Therefore, there should be no grounds to refuse the registration of a trademark that has been consented to, in a 'letter of consent', by a prior trademark owner.

Recommendations

- Revise the Trademark Law to reflect that when a trademark application is refused on the grounds of pre-existing trademarks that have been registered for a period exceeding three years, the trademark applicant may file a review against this refusal by requesting the registrants of the pre-existing trademarks to submit proof of their trademarks' use.
- Revise the Trademark Law to include that any disputes raised by the applicant of a new trademark against the holders of pre-existing trademarks—in the context of a refusal of the new application—shall be settled concurrently with the review of the appeal against the trademark application's refusal.
- Provide that when a trademark is invalidated on the grounds of bad faith, the court shall have the power to order the owner of the invalidated trademark to pay the legal costs incurred by the applicant of the invalidation.
- Accept letters of consent.

2.4 Allow People's Courts to Accept Claims Filed Against a Registered Trademark and Suspend the Case Until the Trademark has been Invalidated 3

Concern

The 2008 ruling by the SPC, which prevents legal action against registered trademarks, constitutes a significant barrier to fighting against bad-faith trademark applications.[25]

Assessment

Because of this prohibition, the plaintiff must first request invalidation of the litigious trademark, while the registrant of the said trademark is still allowed to claim that it has the 'right to use' for the duration of the invalidation procedure. Trademark registration does not confer a right to use the trademark, but only the right to prevent others from using it. The draft revision of the law even specifies that the acts of infringement committed before the invalidation shall only be taken into consideration when calculating damages if bad faith is proved. Therefore, the result of the prohibition to sue a registered trademark for infringement is that registration is equivalent to an authorisation to infringe.

The plaintiff should be allowed to act without waiting for the invalidation and the court should be allowed to accept the case and suspend the procedure until the invalidation procedure has been completed.

Recommendation

- Allow People's Courts to accept a claim against a registered trademark and to suspend the case until the completion of the invalidation procedure for the trademark in question.

24 *Administrative Procedure Law of the People's Republic of China*, NPC, 27th June 2017, viewed 13th June 2025, <https://www.spp.gov.cn/spp/fl/201802/t20180207_365256.shtml>

25 *Provisions on the Trial of Cases Civil Disputes over Trademark Conflicts with Prior Rights*, The People's Court Press, 18th February 2008, viewed 19th April 2025, <http://gongbao.court.gov.cn/Details/5394144fe9f15cc7b5f6e50b3d6317.html>

2.5 Allow for the Registration of 3D Trademarks and Recognition of Well-known Trademarks, Ensuring Full Implementation of the Law in Practice

Concern

Applications based on Articles 8 and 13 of the Trademark Law[26] are almost systematically refused, although they allow, in principle, to register a three-dimensional (3D) sign as a trademark (Article 8) or an unregistered or registered trademark to be recognised as 'well known' (Article 13).

Assessment

When a product's shape becomes so widely recognised by the public and linked to its producer, the shape fulfils the primary function of a trademark – distinguishing the goods of one enterprise from another.[27] Therefore, it should be admissible for registration as a 3D trademark under Article 8 of the Trademark Law.[28]

However, the registration of such shapes as a 3D trademark is systematically refused. The reasoning behind these refusals is that the producer is unable to demonstrate that the shape alone (for example, a bottle without any other sign of identification, or a single lock without the bag[29]) has acquired through use the level of distinctiveness required for being approved as a trademark.

Such an argument implies that to acquire the required distinctiveness for the shape, the producer should market its products without any identification, which is contrary to any commercial common sense.

As to whether or not a trademark can be considered 'well known', while in theory the People's Court can recognise a trademark as well known when duly justified by the trademark owners, it has become nearly impossible to obtain such recognition by the CNIPA in recent years.

Recommendation

- Ensure the registration of 3D trademarks and recognition of well-known trademarks by the CNIPA as provided by the existing Trademark law.

3. Access to Law

3.1 Specify That When the Circumstances for Punitive Damages in Litigation are Met, the Amount Shall be Decided Without Regard for the Amount of Damage Claimed by the Plaintiff, and Amend Article 211 of the Civil Procedure Code Accordingly 3

Concern

The essence of punitive damages, which is the equivalent of a penalty, is often misconstrued as being part of the compensation claim.

Assessment

Punitive damages are a Common Law concept, whereby the court, or a jury, may award damages for an amount in excess of the actual prejudice justified and claimed by the plaintiff. Even though they are paid to the plaintiff, the punitive damages are a penalty for bad behaviour, not the compensation of a prejudice. However, in civil law jurisdictions like China, judges are typically constrained from awarding damages that exceed the plaintiff's claim. Article 211 of the Civil Procedure Code stipulates that the People's Court should conduct a re-trial if the original judgment or ruling has omitted or exceeded a claim, leading courts to view punitive damages as additional and thus cap them at the amount claimed. This limitation often prevents courts from imposing the full penalty they deem appropriate, as they are constrained by the plaintiff's stated claim amount.

Recommendation

- Grant courts full discretion to award punitive damages within legal limits, regardless of the

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26 *Trademark Law of the People's Republic of China*, NPC, 30th July 2019, viewed 8th May 2025, <https://www.gov.cn/guoqing/2020-12/24/content_5572941.htm>

27 Stated in Article 15 of the Agreement on Trade-related Aspects of Intellectual Property Rights. See: *The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)*, WTO, viewed 8th May 2025, <https://www.wto.org/english/docs_e/legal_e/31bis_trips_04_e.htm#2>

28 Article 8 of the Trademark Law stipulates that any sign capable of distinguishing the goods or services of one entity from those of another may be registered as a trademark. Eligible signs include words, figures, letters, numbers, three-dimensional shapes, combinations of colours, sounds, and combinations thereof. The key requirement is that the sign must possess distinctiveness and be capable of being recognised and remembered by the public as identifying the source of goods or services. See: *Trademark Law of the People's Republic of China*, NPC, 30th July 2019, viewed 8th May 2025, <https://www.gov.cn/guoqing/2020-12/24/content_5572941.htm>

29 For example, the Hermès Birkin bag features a highly distinctive metal lock. If an applicant wishes to register only the shape of the lock as a three-dimensional trademark, rather than the entire design of the handbag, they must demonstrate that the lock alone has acquired distinctiveness through extensive use. In other words, consumers should be able to identify the Hermès brand just by seeing the shape of the lock, without the need for a brand name, logo or other design elements. If the applicant cannot prove that the shape itself is distinctive enough to indicate the source of the product, the application is likely to be rejected, because the shape alone lacks the ability to function as a trademark and distinguish the origin of the goods.

damages claimed by the plaintiff, and amend Article 211 of the Civil Procedure Code accordingly.

3.2 Make All Court Decisions Publicly Available

Concern

The number of published court decisions has been decreasing for years, which is not in line with China's overall goal of creating a more transparent legal environment.

Assessment

The number of published court decisions on IP-related cases has been declining over the past few years, particularly for patent-related cases. According to the annual white paper *Intellectual Property Protection by Chinese Courts*, published by the SPC, the number of patent-related cases accepted by the courts at all levels below the SPC steadily increased from 23,235 cases in 2018 to 40,846 cases in 2022, an increase of approximately 75 per cent. Similarly, the total number of IP-related cases decided by the courts also increased by around 70 per cent, from 319,651 cases in 2018 to 543,379 cases in 2022.[30] However, the number of published court decisions for patent-related cases available on official or commercial databases has dropped significantly. For instance, China Judgements Online, a SPC-operated platform, went from 20,672 cases in 2017 to 11,098 cases in 2022.[31] Likewise, PKULAW.COM, a major commercial database, has reported a decline from 20,181 cases in 2018 to 12,428 cases in 2022.[32&33] The reduction in the publication of court decisions may impede transparency in the legal system, which is of critical importance for guiding future IP litigation and reinforcing legal certainty within the business community. No updated statistics have been published since 2022.

Recommendation

- Improve the openness and transparency of China's court system by ensuring all court decisions are publicly available.

30 *Intellectual Property Protection by Chinese Courts (2018)*, The People's Court Press, 29th June 2023, viewed 19th April 2024, <https://www.beijingeastip.com/type-publications/intellectual-property-protection-chinese-courts-2018/>

31 *Ibid.*

32 *Court Decisions from Beijing Peking University Yinghua Technology Co Ltd*, PKULAW, viewed 19th April 2024, <https://home.pkulaw.com/about?name=%E5%85%AC%E5%8F%B8%E4%BB%8B%E7%BB%8D>

33 For more details, please refer to the *Legal and Competition Working Group Position Paper 2025/2026*.

3.3 Rectify Arbitrary Charges in IP Criminal Cases and Illegal Charging of Law Enforcement Costs

Concern

Local police in multiple jurisdictions continue to require IP rights holders to bear enforcement costs, contradicting state-funded law enforcement principles and creating financial and ethical burdens that discourage legitimate criminal remedies.

Assessment

Local police departments in multiple jurisdictions continue to demand that IP rights holders bear expenses such as travel costs for investigative activities, storage and transportation fees for seized counterfeit goods, forensic appraisal fees for criminal evidence and detention-related costs for suspects. Such practices violate the principle of 'state-funded law enforcement'[34] and impose financial burdens and ethical risks on complainants, discouraging rights holders from pursuing legitimate criminal remedies.

Recommendations

- Strengthen existing legal frameworks, introducing specific provisions that prohibit the transfer of law enforcement costs to complainants and impose penalties on law enforcement agencies that violate these provisions.
- Enforce the principle of state-funded law enforcement and ensure that all law enforcement activities related to IP protection are fully funded; this includes covering all costs associated with investigations, storage, transportation, forensic appraisals and detention.
- Establish a robust oversight mechanism to monitor and ensure compliance with the principle of state-funded law enforcement. This could include regular audits, inspections, and the establishment of a complaint mechanism for IP rights holders to report any violations.

34 *Measures on the Payment of Litigation Costs*, State Council, 19th December 2006, viewed 9th June 2025, <https://www.gov.cn/flfg/2006-12/29/content_483682.htm?>

4. Online IP Protection

4.1 Enhance Regulation to Optimise the Baseline Responsibilities of Internet Platform Enterprises with Regard to Addressing IP Infringement Concerns 2

Concern

Online IP infringement remains widespread, with some platforms taking insufficient action to address the problem and facing little accountability.

Assessment

The existing legal framework requires that e-commerce platforms collaborate with IP rights owners, yet it lacks specific guidance on how to implement this collaboration effectively. While some platforms adopt proactive measures—such as filtering infringing links and targeting malicious actors—others are far less engaged, resulting in persistent intellectual property rights (IPR) infringement on their platforms.

Large platforms, equipped with advanced technology and substantial resources, are well-positioned to take decisive action to protect IP and foster a better online environment. However, certain platforms exploit counterfeit products to bolster their business, utilising their algorithm to facilitate the sale of such items to domestic customers. These same platforms do not offer the same number of counterfeit products on their overseas subsidiaries' platforms, suggesting that a higher level of compliance is achievable. The current regulatory environment does not provide adequate oversight to prevent such conduct by platform operators.

Recommendations

- Issue regulations, guidelines and standards to develop baseline requirements and standardised best practices for platform operators to follow in combating online IP infringement.
- Mandate that each platform operator conduct an annual self-assessment regarding the scope and seriousness of IP infringement on its platform, evaluate the effectiveness of its IP protection measures, and submit these assessments to the relevant regulatory authority.
- Provide better and more rapid escalation and remedial measures if platform operators fail to combat IPR infringement.
- Enhance penalties for platform operators that fail to meet the baseline requirements for effectively managing IPR infringement.

4.2 Strengthen the Supervision of Counterfeit Posting, IP Infringement and Novel Forms of Online Infringement 2

Concern

There is insufficient monitoring and prevention of IP infringement under the current regulations, which renders complaints by rights holders ineffective.

Assessment

When IP rights owners encounter difficulties in combating online infringement, there are limited channels available for escalating or reporting the issue to competent authorities. IP rights owners often must take legal action against specific links or sellers, whereas large platforms are seldom held liable. Current regulations primarily focus on the liability of individual sellers, and platform operators can often avoid responsibility by demonstrating that they have fulfilled basic notice-and-takedown obligations.

Administrative authorities should play a more significant role in overseeing and regulating the operations of major platforms. They could assess and address new forms of infringement, evaluate the performance and effectiveness of platforms' efforts and encourage them to enhance their initiatives. This proactive approach could drive the creation of a cleaner online market.

Recommendations

- Establish a dedicated regulatory body, task force or coordination committee under the supervision of the Cyberspace Administration of China, the CNIPA and the SAMR to oversee and safeguard online IP protection.
- Release annual reports detailing the IPR initiatives undertaken by online platforms and their effectiveness, based on the data provided in the annual submissions of these platform operators.
- Launch campaigns to combat online IPR infringement and to raise public awareness about the significance of IPR protection.

5. Trade Secrets

5.1 Clarify and Specify the Standards for Proving a Trade Secret is Protectable

Concern

The stringent standards for proving a trade secret protectable in administrative and criminal enforcement make it challenging for companies to defend themselves in trade secret infringement cases.

Assessment

China's legal framework offers civil, administrative and criminal protection for trade secret cases. However, in practice, rights holders face a high threshold in proving that a trade secret is 'not known to the public'[35] when filing administrative complaints or initiating criminal cases with authorities such as the SAMR or the Public Security Bureau.

In 2025, significant progress was made in the determination of what constitutes trade secret infringement. On 24th April, the SPC and the Supreme People's Procuratorate jointly issued a judicial interpretation clarifying what constitutes improper means (e.g. theft, electronic intrusion) and 'serious circumstances', and standards for calculating losses and illegal gains.[36] The next day, the SAMR released the draft *Provisions on Trade Secret Protection* for public consultation.[37] While both documents list conditions under which information may be considered 'generally known', the criteria for determining whether information is 'not readily accessible' remain unclear.

Recommendations

- Clarify and specify the standards for proving a trade secret is protectable, particularly for proving a trade secret is 'not known to the public'.

5.2 Clarify the 'Prima Facie Evidence' Standard for Proving Trade Secret Infringements

Concern

The lack of clarity regarding the 'prima facie evidence' standard increases the evidentiary burden on trade secret owners.

Assessment

Article 32 of the Anti-unfair Competition Law elaborated on the transfer of the burden of proof, through which, as long as a right holder provides 'prima facie evidence', the burden can be shifted to the defendant. However, the definition of what constitutes 'prima facie evidence' has yet to be clarified and is currently subject to different interpretations among different courts and judges.

Recommendation

- Clarify the criteria for establishing 'prima facie evidence' and unify the interpretations among different courts and judges.

6. Geographical Indications (GIs)

6.1 Enact a Law that Provides Effective Protection for Registered GI Products 2

Concern

The amendments to the *Measures for the Protection of Geographical Indications* (*Measures*)[38] still lack a provision for rights enforcement and make it difficult for GI product owners to protect their rights through administrative actions.

Assessment

The *2020 Civil Code of China*, which absorbed the 2017 *General Provisions of the Civil Law of China*, includes GIs among IP rights for the first time.[39] The effective enforcement of such rights can only be achieved through the enactment of specific legislation, upon which the CNIPA and the People's Courts can base their decisions. However, unlike other IP rights—such as trademarks, patents and trade secrets, which are governed by specific laws—there is currently no specific law dedicated to GIs. A GI law could potentially mirror provisions from the Trademark Law regarding the enforcement of trademarks, including the powers of the local offices of the SAMR to confiscate and destroy infringing products, impose sanctions and classify serious infringements as criminal offences. A draft regulation issued in 2020 proposed some of these

35 'Not known to the public' means that the information is neither generally known nor readily accessible to persons within the relevant field.

36 *Judicial Interpretation on the Application of Law in Handling Criminal Cases Involving IP Infringement*, 24th April 2025, viewed 30th April 2025, <https://www.court.gov.cn/zixun/xiangqing/463291.html>

37 *SAMR's Public Consultation Announcement on the Draft Regulations on Trade Secret Protection*, 25th April 2025, viewed 6th May 2025, <https://www.samr.gov.cn/hd/zjdc/art/2025/art_0eb6d32af2e3486e98a8543d5447a314.html>

38 *Measures for the Protection of Geographical Indication Products*, CNIPA, 29th December 2023, viewed 30th April 2025, <https://www.cnipa.gov.cn/art/2024/1/2/art_526_189473.html>

39 *Civil Code of the People's Republic of China*, 1st June 2020, viewed 17th June 2024, <https://www.court.gov.cn/zixun/xiangqing/233181.html>

measures, but unfortunately, these provisions were omitted in the latest *Measures* promulgated by the CNIPA on 29th December 2023.

Recommendations

- Enact specific legislation concerning the registration and protection of GIs.
- Direct the SAMR to issue regulations delineating the powers of administrative enforcement authorities, which should include enforcing GI rights through the ability to confiscate and destroy infringing products and impose sanctions.

Abbreviations

3D	Three-dimensional
CNIPA	China National Intellectual Property Administration
GI	Geographical Indication
IP	Intellectual Property
IP5	Intellectual Property 5
IPR	Intellectual Property Rights
NPC	National People's Congress
SAMR	State Administration for Market Regulation
SPC	Supreme People's Court

European Chamber
中国欧盟商会

Inter-chamber Small and Medium-sized Enterprise Working Group

1. Ensure Reasonable Payment Terms and Enforce Timely Payments for Small and Medium-Sized Enterprises (SMEs) 11

- Implement effective industry supervision measures to ensure that state-owned enterprises (SOEs), their subsidiaries and private sector players respect contractual payment terms when dealing with SMEs.
- Set a maximum payment term that is lawfully allowed to be included in contracts.
- Ensure that SOEs sign contracts with SMEs that have reasonable payment terms.
- Improve legal debt collection procedures.
- Provide debt collection support or funds for SMEs to collect their debts through legal action.

2. Reduce the Financial Burden of SMEs to the Greatest Extent Possible, Including Through Measures Like Cutting Education and Healthcare Expenses for Foreign National Employees 11

- Accelerate the processing of SMEs' applications for tax incentives.
- Reduce the cost of living for foreign nationals, including education and healthcare (especially commercial insurance) expenses.
- Extend the Individual Income Tax (IIT) subsidy policies to more regions and expand eligibility to include a broader range of skilled professionals.
- Improve the Greater Bay Area IIT subsidy policy's transparency by providing clear, publicly accessible guidelines, and streamline application procedures through digital platforms.

3. Provide European SMEs in China with Better Access to Financing 11

- Increase foreign SMEs' access to government incentives and funding instruments from local administrations.
- Enhance the implementation of lending strategies to assist all SMEs—both European and Chinese—operating in China, particularly those that face challenges due to lack of collateral.
- Enhance the transparency and availability of information in English and in Chinese linked to access to financing, including in areas like standards and criteria to obtain loans from domestic Chinese banks.
- Publish specialised credit risk assessment procedures or systems for providing both local and international SMEs with loans, while strengthening the financing guarantee system.
- Relax foreign exchange debt quota requirements to remove regulatory obstacles that limit SMEs', especially foreign-invested enterprises' (FIEs'), access to credit financing.
- Encourage financial institutions to leverage data exchange platforms to make lending decisions, provide financing solutions to SMEs based on accounts receivable and establish new mechanisms to provide capital and collect returns.
- Develop a regulatory framework that encourages alternative financing channels for SMEs, such as fintech and non-banking financial institutions (NBFIs), while limiting potential financial risks.

4. Promote Coordination Among Different Administrative Departments and Improve the Transparency, Clarity and Integrity of All Relevant Regulations for SMEs 11

- Implement 'one-stop' service desks in provincial/regional administrative departments to support all SMEs, both foreign and Chinese, in fulfilling their multiple registration and regulatory obligations, as well as matters related to their daily operations.
- Establish a regular policy briefing mechanism in English to enhance communication channels and ensure timely updates.
- Continue efforts to alleviate administrative burdens for SMEs by reducing the number of government approvals required, simplifying the remaining approval and filing procedures and carrying out more administrative processes online.
- Develop mechanisms that allow FIEs in general, and SMEs in particular, to raise their issues and concerns with the relevant local government authorities.
- Facilitate work permit and residence permit applications to support foreign companies in attracting and retaining recent graduates and foreign employees.
- Update the qualification criteria for assessing senior talent in order to better match the expertise of foreign professionals, while taking practical action, such as allocating preferential housing quotas to foreign national employees with families.

5. Promote the Value of Intellectual Property Rights (IPR) Protection and Enforcement Mechanisms at the Business, Local Government, Court and China National Intellectual Property Administration Levels 10

- Update the E-commerce Law to better protect IPR holders and regulate infringements.
- Engage local enforcement agencies, customs authorities and courts to take effective action against counterfeiting.
- Strengthen the powers of the State Administration for Market Regulation (SAMR) to ensure forced technology transfers will not take place.
- Strengthen consistency of intellectual property (IP) enforcement during trade fairs.
- Expand specialised IP courts to more cities and enable faster resolution of IP infringement cases.
- Increase the SAMR's power to enforce the EU-China Geographic Indications (GI) Agreement.
- Issue specific regulations for the protection of foreign GIs.

EU SME Projects in China Implemented by the European Chamber

The EU SME Centre (Phase Four) started in July 2022 and will run until 2025. Its main objectives are: assisting European small and medium-sized enterprises (SMEs) to establish and develop a commercial presence in the Chinese market by providing European Union (EU) value-added support services; improving corporate synergies and increasing best practice-sharing at the national and regional EU business association level; and strengthening advocacy efforts on behalf of the European business community to help create a better business environment in China.[1] Another notable EU SME project in China is the China Intellectual Property (IP) SME Helpdesk, which supports European SMEs in protecting and enforcing their intellectual property rights (IPR) in or with relation to the Chinese mainland, Hong Kong, Macao and Taiwan, through the provision of free information and services.[2]

1 *About EU SME Centre*, EU SME Centre, viewed 22nd April 2025, <https://www.eusmecentre.org.cn/the-centre>
2 *China IP SME Helpdesk*, European Commission, viewed 21st April 2025, <https://intellectual-property-helpdesk.ec.europa.eu/regional-helpdesks/china-ip-sme-helpdesk_en>

European Chamber
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Section Two: Horizontal Issues

Recent Developments

China's Economic Slowdown and its Impact on SMEs and Foreign Business Sentiment

In 2024, the Chinese economy continued to develop, albeit at a slower pace, with gross domestic product (GDP) growth at five per cent according to Chinese government figures.[3] In the first quarter of 2025, China's GDP expanded 5.4 per cent.[4]

Data from the China Association for SME's SME Development Index (SMEDI) indicates that smaller players in China continue to struggle. Although the SMEDI registered a few spikes throughout 2024 and early 2025, resulting from support policies, the average for 2024 (89.05) remained not only below the 100-point threshold that divides stagnation and low vitality from positive business performance, but also lower than 2019 levels (92.85).[5]

Meanwhile, European business sentiment deteriorated further in 2024 on a number of metrics. According to the *European Business in China Business Confidence Survey 2025* (BCS 2025), 73 per cent of respondents reported that doing business in China had become more difficult.[6] Investor sentiment was particularly low for small and medium-sized enterprise (SME) respondents, with one in four indicating that they do not view China as a top-10 investment destination. SMEs were also less likely than larger companies to expand their China operations in 2025, with 34 per cent of small company respondents indicating their willingness to do so compared to 42 per cent of large companies. Competitive pressure derived from both economic headwinds and industry development continues to be keenly felt by European companies in China. According to a survey conducted throughout April and early May 2025 to gather data for this position paper (*Information Gathering Survey 2025/2026*), approximately 50 per cent of respondents listed competition from Chinese companies as either a 'significant' or 'critical' challenge.[7]

Policy Priorities and Support Measures

Throughout the second half of 2024, the Chinese Government rolled out a series of policies and regulations aiming to address some of the structural issues in the economy. Of particular note was the Chinese yuan (CNY) 300-billion increase in the amount allocated for China's consumer goods trade-in programme in August 2024, and a series of policies announced throughout September and November 2024, including a debt swap programme and measures to support the property sector.[8]

In the 2025 Government Work Report, boosting consumption and investment were identified as the top priorities, and initiatives were announced like the extension of the consumer trade-in programme; measures to strengthen the annual leave system and increase the supply of social support services; and the earmarking of CNY 735 billion of the central government budget for investment.[9] SMEs are specifically mentioned in the context of promoting the development of small players using advanced technologies to develop niche products, as well as in the context of fostering the digital transformation of SMEs.

Several follow-up policies were rolled out after the publication of the Government Work Report, further fleshing out some of the abovementioned overarching goals. Of particular note is the March 2025 *Action Plan for Boosting Consumption*, which includes measures such as increasing wages and preventing late payments to SMEs, expanding social welfare subsidies and services, strengthening consumer and employee rights,

3 *Full Text: Report on the Work of the Government*, State Council, 12th March 2025, viewed 3rd June 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

4 *China's GDP expands 5.4 pct year on year in Q1*, State Council, 16th April 2025, viewed 3rd June 2025, <https://english.www.gov.cn/archive/statistics/202504/16/content_WS67ff43ccc6d0868f4e8f1bed.html>

5 The SME Development Index is a composite index reflecting the economic performance of SMEs. It is compiled based on surveys of 3,000 SMEs across eight major industries, with scores ranging from 0 to 200 (with numbers between 100 and 200 indicating expansion). It serves as a comprehensive indicator of SMEs' economic conditions. See: *China's SME Development Index rises sharply in Q1 2025*, CASME, 10th April 2025, viewed 25th April 2025, <https://www.ca-sme.org/content/Content/index/id/95412>

6 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 3rd June 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

7 This survey was conducted throughout April and early May 2025. It had a total of 95 respondents, 50 of whom were identified as SMEs. See: *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper*, EU SME Centre, 26th May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

8 *Unlocking Domestic Demand Key to Reviving Growth Momentum in China – World Bank Economic Update*, World Bank, 26th December 2024, viewed 24th April 2025, <https://www.worldbank.org/en/news/press-release/2024/12/26/unlocking-domestic-demand-key-to-reviving-growth-momentum-in-china-world-bank-economic-update>

9 *Full Text: Report on the Work of the Government*, State Council, 12th March 2025, viewed 22nd April 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

and promoting big-ticket consumption for products like cars.[10]

Key Recommendations

1. Ensure Reasonable Payment Terms and Enforce Timely Payments for Small and Medium-sized Enterprises (SMEs) 11

Concern

Non-fulfilment of maximum contractual payment terms, non-negotiable payment terms and late/non-payments from clients are increasingly negatively impacting the operations of European SMEs.

Assessment

Late Payments and Unreasonable Payment Terms

Usually, SMEs have limited bargaining power compared to larger players during payment negotiations with clients, often resulting in onerous contractual payment terms being imposed. In addition, many customers simply do not comply with these terms and pay late. Since access to financing remains limited in China for foreign SMEs, any disruptions to their cash flow will have a disproportionately negative impact on their operations. According to the *Information Gathering Survey 2025/2026*, 37 per cent of SME respondents list late payments and other cashflow issues as a 'significant' or 'critical' issue, compared to 25 per cent of respondents from larger companies; 40 per cent of SME respondents indicate that they experience late payments from private companies; while 22 per cent report late payments from state-owned enterprises and 20 per cent from local governments.[11]

In China, most industries lack guidelines to ensure that market players respect contractual payment terms, and so enterprises set a maximum payment term to be included in contracts. Unlike in the European Union (EU), Chinese law in the past had limited provisions on late payments (existing ones are mostly referred to the Supreme Court's *Interpretation on the Adjudication of Contract Disputes* and the Civil Procedure Law).[12&13] Debt collection services are available but are often not practical given the time and, most importantly, the high costs involved.

The working group has been encouraged by the developments in China's regulatory framework for tackling late payments since the publication on 1st July 2020 of the State Council's *Regulations on Ensuring Payments to Small and Medium-sized Enterprises* (*Regulations*).[14] In October 2024, the Communist Party of China Central Committee and the State Council published the *Guidelines on Resolving Overdue Payments to Enterprises*, which mandates stricter enforcement against payment delays to SMEs, especially by government projects and large enterprises, through measures such as enhanced audit oversight. The amended *Regulations* were then published in March 2025, with the entry into force date set for 1st June 2025. The updated document requires large and listed enterprises to include information related to overdue payments to SMEs in their annual reports and the National Enterprise Credit System, and it details specific credit penalties associated with payment delays.[15] As of late April 2025, there were 97,934 creditors registered on the Ministry of Industry and Information Technology's dedicated platform for reporting late payments, with 342,916 reports recorded on the website.[16] The working group calls on the Chinese authorities at the national and local level to effectively and swiftly enforce these and other measures to prevent and address late payments.

Recommendations

- Implement effective industry supervision measures to ensure that state-owned enterprises (SOEs), their subsidiaries and private sector players respect contractual payment terms when dealing with SMEs.

10 *The General Office of the Central Committee of the Communist Party of China and the General Office of the State Council Issue the 'Action Plan for Boosting Consumption'*, Central People's Government of the People's Republic of China (gov.cn), 16th March 2025, viewed 22nd April 2025, <https://www.gov.cn/zhengce/202503/content_7013808.htm>

11 *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper,* EU SME Centre, 2nd May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

12 *Supreme Court's Interpretation on the Adjudication of Contract Disputes,* Hualv.com, 8th January 2019, viewed 22nd April 2025, <https://www.66law.cn/laws/131741.aspx>

13 The major flaw is that while the debtor may not dispute the debt, they may refuse to pay and then bring a claim that does not have to be substantiated in order for the court to dismiss the case, which leaves the creditor to pursue their claim through regular court proceedings. See: *Civil Procedure Law of the People's Republic of China (2023 amendment),* Peking University, viewed 22nd April 2025, <https://www.pkulaw.com/en_law/3ce82cb92ee006b6bdfb.html>

14 *Regulations on the Protection of Payments to Small and Medium-sized Enterprises*, State Council, 14th July 2020, viewed 22nd April 2025, <http://www.gov.cn/zhengce/content/2020-07/14/content_5526768.htm>

15 *Regulations on the Protection of Payments to Small and Medium-sized Enterprises*, State Council, 17th March 2025, viewed 22nd April 2025, <https://www.gov.cn/gongbao/2025/issue_11966/202504/content_7017465.html>

16 Registration (Complaints) Platform for Defaulting on Payments to SMEs, viewed 28th April 2025, <https://sme-dj.miit.gov.cn/#/>

- Set a maximum payment term that is lawfully allowed to be included in contracts.
- Ensure that SOEs sign contracts with SMEs that have reasonable payment terms.
- Improve legal debt collection procedures.
- Provide debt collection support or funds for SMEs to collect their debts through legal action.

2. Reduce the Financial Burden of SMEs to the Greatest Extent Possible, Including Through Measures Like Cutting Education and Healthcare Expenses for Foreign National Employees 11

Concern

It is increasingly challenging for European SMEs to shoulder the financial burdens associated with doing business in China.

Assessment

European SMEs report that actions taken by the Chinese Government to reduce the financial burden on small businesses have generally yielded positive results. The working group welcomes the extension of multiple preferential tax policies for small businesses to the end of 2027, including corporate income tax, value-added tax, 'six taxes and two fees', and individual income tax.[17] However, three persistent operational challenges are highlighted by small European companies. The first is frequent policy changes in combination with limited official communication channels, which creates barriers for SMEs in terms of access to information. The second is that delays are still experienced in the processing of applications. Third, foreign SMEs face higher operational costs due to factors such as the application of stricter compliance standards and discrepancies in suppliers' pricing, which result in reduced competitiveness in the market for European small players.

European businesses were encouraged by the four-year extension of the individual income tax benefits for foreign nationals. It will be important that there is an early indication that this policy will continue beyond the 2027 deadline to help them plan accordingly. At the local level, the working group welcomes the extension of the *Income Tax Subsidy Policy for High-end and Critical Skills Talent in the Guangdong-Hong Kong-Macao Greater Bay Area* (*GBA IIT Subsidy Policy*).[18] However, there have been a number of issues in the implementation stage that have hindered its effectiveness. These include a lack of transparency on eligibility criteria and inconsistent information across different cities; complex application processes; the narrow scope of the policy in terms of potential beneficiaries; and delayed implementation in different cities.

In addition, a lack of quality education for children at an affordable price and lack of quality healthcare facilities are still issues, especially for senior-level foreign employees who are more likely to bring their children.[19] Meanwhile, SMEs in Tianjin report that providing high-end commercial health insurance is necessary for them to attract and retain foreign employees, but rising costs have made this an increasingly significant financial burden.

Recommendations

- Accelerate the processing of SMEs' applications for tax incentives.
- Reduce the cost of living for foreign nationals, including education and healthcare (especially commercial insurance) expenses.
- Extend the Individual Income Tax (IIT) subsidy policies to more regions and expand eligibility to include a broader range of skilled professionals.
- Improve the Greater Bay Area IIT subsidy policy's transparency by providing clear, publicly accessible guidelines, and streamline application procedures through digital platforms.

3. Provide European SMEs in China with Better Access to Financing 11

Concern

European SMEs operating in China still struggle to access financing, an obstacle that prevents them from reaching their full potential and limits their ability to further contribute to China's economy.

17 The 'six taxes and two fees' include resources tax, urban maintenance and construction tax, property tax, urban land use tax, stamp tax (excluding stamp tax for securities trading), and arable land occupation tax, along with surcharges for education and local education. See: Zhou, Q, *China Extends Multiple Tax Incentives for Small Businesses to the End of 2027*, China Briefing from Dezan Shira and Associates, 2nd August 2023, viewed 22nd April 2025, <https://www.china-briefing.com/news/china-extends-multiple-tax-incentives-for-small-businesses-to-the-end-of-2027/>

18 *Notice of the Ministry of Finance and The State Administration of Taxation on the Continuation of the Implementation of the Individual Income Tax Preferential Policies in the Guangdong-Hong Kong-Macao Greater Bay Area,* Guangdong Provincial Tax Service, State Taxation Administration, 18th August 2023, viewed 28th April 2025, <https://guangdong.chinatax.gov.cn/gdsw/zjfg/2023-08/29/content_2cffb276964a468e974bddfb58307816.shtml>

19 For senior foreign national employees with children, it is important to ensure the continuity of their children's study paths.

Assessment

According to the most recent data, China's micro, small and medium-sized enterprise (MSME) financing gap stands at 19.7 per cent as a share of GDP, while the number of financially constrained enterprises represents 42 per cent of enterprises of the same size.[20] While China has registered improvements in access to financing, particularly in terms of supply and volume of financing, SMEs in China—especially foreign ones—still face more challenges in this regard compared to larger companies.[21]

A key first step to facilitate SMEs' access to financing is ensuring the accessibility and availability of relevant information. For instance, in loan application processes, encouraging the disclosure of eligibility criteria to applicants from the outset would increase transparency, enhance the efficiency of the process and ensure that, if rejected, companies can better prepare for future applications.

Another common issue is that foreign SMEs in China lack guidance in English and major EU languages for the latest relevant policies. For instance, although the State Council issued in April 2024 the *Implementation Plan for Coordinated Development of Financing Credit Service Platforms to Enhance Financing Accessibility for Small and Medium-sized Enterprises*, and set up a national online platform for financing SMEs in China (the National Integrated Financing Credit Service Platform), the lack of information in foreign languages and/or insufficient dissemination means that a limited number of foreign SMEs will be aware of this platform and therefore use it.[22&23] Increasing the number of English-language materials would help raise awareness among SMEs of these services. Similarly, major Chinese banks could expand and further integrate these and other services into their digital platforms to facilitate access to information for foreign industry players.

Finally, trade fairs are an avenue to enhance information availability for foreign SMEs. As these are often initial entry points for European SMEs looking to do business in China, further strengthening the presence of lenders in these fairs can contribute to a smoother and more efficient flow of information at these events.

Public Financing

Public funding programmes and subsidies are open to qualifying foreign-invested enterprises (FIEs) in China. However, European companies' access to these opportunities remains limited, particularly for SMEs. According to the Chamber's and EU SME Centre's April and May 2025 survey, limited access to government incentives and funding was listed as a challenge linked to access to financing by 36 per cent of SME respondents.[24] Data from past Chamber reports also shows that access to government support for research and development (R&D) in particular remains limited for small players compared to bigger companies.[25] For instance, companies in South China state that local R&D funds have high thresholds and are complicated to apply for. Instead, they can sometimes obtain subsidies for good performance, or acquire 'high and new technology enterprise' status from the relevant local government.

Private Financing

While regulators have in the past years stepped up their efforts to expand access to financing for small businesses through measures like encouraging the handing out of inclusive loans, SMEs are generally considered high-risk/low-return clients.[26]

For foreign SMEs, financing options are considerably more limited despite the theoretical availability of

20 The SME Finance Forum is a network of 300+ members and affiliates with a coverage spanning 190+ countries. The members are primarily financial services providers such as banks, fintechs, non-banking financial institutions, development finance institutions, credit guarantee companies, and microfinance institutions. The affiliates consist of policy advocacy groups, academia, SME and banking associations, training providers and non-profit organizations. The SME Finance Forum was established in 2012 by the G20 and is managed by the IFC with a core objective to scale financial services for SMEs. As the leading SME finance network globally, the forum steers industry innovations, supports replication of best practices, recognises global champions, drives thought leadership, convenes influential stakeholders and fosters global knowledge transfer. See: *MSME Finance Gap*, SME Finance Forum, March 2025, viewed 27th April 2025, <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

21 *MSME Finance Gap: An updated Estimation and Evolution of the Micro, Small and Medium Enterprises (MSME) Gap in Emerging and Developing markets,* International Finance Centre, March 2025, viewed 27th April 2025, <https://www.smefinanceforum.org/data-sites/msme-finance-gap>

22 *Implementation Plan for Coordinated Development of Financing Credit Service Platforms to Enhance Financing Accessibility for Small and Medium-sized Enterprises,* State Council, 2nd April 2024, viewed 24th April 2025, <https://www.gov.cn/zhengce/content/202404/content_6943103.htm>

23 *National Integrated Financing Credit Service Platform,* NDRC, viewed 12th May 2025, <https://xyd.creditchina.gov.cn/>

24 *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper,* EU SME Centre, 26th May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

25 *China's Innovation Ecosystem: The Localisation Dilemma,* European Chamber, 4th April 2024, viewed 27th April 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1077/China_s_Innovation_Ecosystem_the_localisation_dilemma>

26 *The outstanding balance of inclusive loans to small and micro enterprises reached 33.3 trillion yuan by the end of 2024*, Government of the People's Republic of China (gov.cn), 21st February 2025, viewed 24th April 2025, <https://www.gov.cn/lianbo/bumen/202502/content_7004928.htm>

funds back in their home countries. Access to loans from Chinese banks is the top challenge linked to access to financing for European SMEs, according to the *Information Gathering Survey 2025/2026*.[27] For example, bank loans for FIEs are generally obtained against guarantees from banks outside of China, which typically require further risk assessment by European headquarters. In addition, foreign exchange loans, which should be easier for FIEs to access, are limited by the so-called 'borrowing gap' – the difference between the total amount invested and the registered capital.[28]

Other Types of Financing

According to an April 2025 survey by Tencent on the business conditions and digital transformation of MSMEs, in the first quarter of 2025, 52.6 per cent of surveyed companies used non-bank financing channels compared to 36.8 per cent that used banking channels.[29] This showcases the importance of alternative financing channels for SMEs.

In this context, non-banking financial institutions (NBFIs) play a key role as a source of alternative financing for SMEs. According to a report by the China Leasing Business Association, in 2024, SMEs accounted for 82.21 per cent of all lessees, with micro and small companies representing 65.97 per cent.[30] Given the relevance of NBFIs to SME financing, developing a regulatory framework that contributes to the improvement of the operating conditions for all NBFIs, including European and foreign players, can help enhance small companies' access to financing.[31]

One area in which China excels globally, and which could potentially ease the financing difficulties of SMEs operating in the country, is alternative online financing. Several studies have shown the benefits of digital financing and financial technology (fintech) solutions, both on their own and integrated into the traditional banking system, in terms of easing the financing constraints of small businesses in China.[32&33] In this context, relaxing some of the restrictions linked to cloud and data localisation, and further facilitating cross-border data transfers for foreign financial institutions would contribute to improving the integration of digital solutions in banking.[34] This could, in turn, have a beneficial impact downstream and enhance foreign SMEs' access to financing.

Recommendations

- Increase foreign SMEs' access to government incentives and funding instruments from local administrations.
- Enhance the implementation of lending strategies to assist all SMEs—both European and Chinese—operating in China, particularly those that face challenges due to lack of collateral.
- Enhance the transparency and availability of information in English and in Chinese linked to access to financing, including in areas like standards and criteria to obtain loans from domestic Chinese banks.
- Publish specialised credit risk assessment procedures or systems for providing both local and international SMEs with loans, while strengthening the financing guarantee system.
- Relax foreign exchange debt quota requirements to remove regulatory obstacles that limit SMEs', especially foreign-invested enterprises' (FIEs'), access to credit financing.
- Encourage financial institutions to leverage data exchange platforms to make lending decisions, provide financing solutions to SMEs based on accounts receivable, and establish new mechanisms to provide capital and collect returns.
- Develop a regulatory framework that encourages alternative financing channels for SMEs, such as fintech and non-banking financial institutions (NBFIs), while limiting potential financial risks.

27 *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper,* EU SME Centre, 26th May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

28 For more information on funding limitations for foreign banks, please refer to Key Recommendation 1.1 of the *Banking and Securities Sub-working Group Position Paper 2025/2026*.

29 *Research Report on Business Conditions and Digital Transformation of Micro, Small and Medium Enterprises (Q1 2025),* Tencent Research Institute, 24th April 2025, viewed 25th April 2025, <https://news.qq.com/rain/a/20250424A06HNR00>

30 *Overview of Financial Leasing Registrations in 2024,* China Leasing Business Association, 13th March 2025, viewed 24th April 2025, <https://www.clba.org.cn/newsinfo/8125878.html>

31 For more information on steps the government could take to support NBFIs, please refer to the *Non-banking Financial Institutions Working Group Position Paper 2025/2026.*

32 Gan, S, Shang, Q, Sun, R, and Zu, A, *How does digital finance affect financing constraints of SMEs? Evidence from China*, Taylor and Francis, 23rd January 2025, viewed 24th April 2025, <https://www.tandfonline.com/doi/full/10.1080/00036846.2025.2453248>

33 Ming, L, Wu, Y, Yang, S, and Yang, X, *Fintech and large banks for SME financing: Evidence from China,* Wiley, 9th January 2025, viewed 25th April 2025, <https://onlinelibrary.wiley.com/doi/10.1111/acfi.13395>

34 For more information, please refer to Key Recommendations 3.1 and 3.2 of the *Banking and Securities Sub-working Group Position Paper 2025/2026.*

4. Promote Coordination Among Different Administrative Departments and Improve the Transparency, Clarity and Integrity of All Relevant Regulations for SMEs 11

Concern

Despite recent policy developments, China's regulatory and licence approval system—particularly at the implementation level—is still extremely burdensome for international SMEs in China, which limits their development.

Assessment

Thanks to a number of measures aimed at improving the business environment rolled out over the past few years, foreign SMEs have reported advances in areas such as a reduction in the time required for registering or closing operations. On 6th September 2024, the National Development and Reform Commission (NDRC) announced the newest version of the *Special Administrative Measures on Foreign Investment Access (2024) (Negative List)*, which came into effect on 1st November 2024. It removed all investment restrictions in the manufacturing industry in order to channel more foreign investment to advanced manufacturing and high-end technologies.[35]

Positive measures have also been introduced to facilitate travel to China by foreign citizens. In particular, the working group welcomes the visa-free policy launched by China's Ministry of Public Security in December 2023, which allows up to 30-day stays in China without a visa for citizens from selected countries. This significantly reduces the administrative burden on foreign companies whose employees are eligible. As of April 2025, 32 European countries are included in the visa-free policy.[36]

Despite this positive development in terms of short-term travel to China, 30 per cent of SME respondents to the *Information Gathering Survey 2025/2026* list talent attraction and retention as a significant or critical challenge.[37] Attracting international talent is still a challenge for European companies due to China's visa and work permit policies, which vary across regions and cities. In particular, younger foreign professionals face difficulties obtaining work permits.

There is also still room for improvement in terms of increasing the transparency, predictability and efficiency of administrative procedures both at the national and local levels. For example, although business registration processes established at the national level have generally improved, the time required to set up a business is still relatively long. This process is especially difficult for smaller enterprises and can create additional costs, such as having to pay for office rental while licence applications are still pending. Another example of areas to improve at the local level is the case of Guangdong Province, where the incorporation process for domestic companies can be done online, while FIEs are still required to file the documents in person at the local Administration for Market Regulation (AMR). More widespread implementation of 'one-stop' service desks (such as those set up by the Chengdu Municipal Government and promoted by the Tianjin Municipal Government) and digitalising administrative procedures could help in this regard.[38]

Recommendations

- Implement 'one-stop' service desks in provincial/regional administrative departments to support all SMEs, both foreign and Chinese, in fulfilling their multiple registration and regulatory obligations, as well as matters related to their daily operations.
- Establish a regular policy briefing mechanism in English to enhance communication channels and ensure timely updates.
- Continue efforts to alleviate administrative burdens for SMEs by reducing the number of government approvals required, simplifying the remaining approval and filing procedures and carrying out more administrative processes online.
- Develop mechanisms that allow FIEs in general, and SMEs in particular, to raise their issues and concerns with the relevant local authorities.
- Facilitate work permit and residence permit applications to support foreign companies in attracting and retaining recent graduates and foreign employees.
- Update the qualification criteria for assessing senior talent in order to better match the expertise of foreign

35 *The Special Administrative Measures for Foreign Investment Access (Negative List)*, NDRC, 6th September 2024, viewed 22nd April 2025, <https://zfxxgk.ndrc.gov.cn/web/iteminfo.jsp?id=20435>

36 *List of Countries with Unilateral Visa-Free Access to China*, State Council, viewed 22nd April 2025, <https://www.nia.gov.cn/n741440/n741577/c1731154/content.html>

37 *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper,* EU SME Centre, 26th May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

38 *Southwest China Position Paper 2021/2022,* European Union Chamber of Commerce in China, 20th April 2022, viewed 25th April 2024, <https://www.europeanchamber.com.cn/en/publications-archive/971/Southwest_China_Position_Paper_2021_2022>

professionals, while taking practical action, such as allocating preferential housing quotas to foreign national employees with families.

5. Promote the Value of Intellectual Property Rights (IPR) Protection and Enforcement Mechanisms at the Business, Local Government, Court and China National Intellectual Property Administration Levels 10

Concern

Ineffective IPR enforcement continues to limit the impact of recent positive changes to China's IPR legislative environment.[39]

Assessment

China's intellectual property (IP) landscape has significantly improved in recent years as the country reviewed and updated its major IP laws to bring the IP system more in line with international norms. Nonetheless, according to the European Chamber's BCS 2025, 40 per cent of respondents reported they had experienced intellectual property rights (IPR) infringements, with 57 per cent indicating this had taken place in the past two years.[40] Challenges linked to IPR protection also differ for companies depending on their size. For instance, according to the *Information Gathering Survey 2025/2026*, the high cost of IPR protection is the top issue for SME respondents, while it is the fifth for larger companies.[41]

Trademarks

On the trademark front, the proposed draft amendments to the Trademark Law, put forward in January 2023, would further strengthen the law on bad-faith trademark applications by broadening the definition of malicious trademark applications, thus providing rights owners with additional means to challenge bad-faith trademark applications.[42] The proposed amendments also allow a prior rights holder to challenge a bad-faith trademark registration and request its transfer. The transfer of malicious trademarks to the rights holder will save the rights holder enforcement costs. However, in recent practice, the China National Intellectual Property Administration (CNIPA) has refused to approve the transfer of bad-faith trademarks and has not provided a systematic solution for the right holder.

In addition, the rules forbidding trademark agencies from engaging in trademark squatting have been further strengthened by the *Provisions on Supervision and Administration of Trademark Agency*.[43] Full implementation will be key to ensuring the additional amendments are successful at tackling bad-faith trademark applications. In addition, the CNIPA further reduced administrative and litigation burdens on rights holders by allowing the suspension of certain trademark cases upon request.[44]

Copyright and Patents

Copyright and patent protection have also been strengthened by amendments to the Copyright Law and the Patent Law,[45&46] both of which became effective in June 2021. These amendments significantly adjust the amount of damages infringers must pay, modifications similar to those implemented in the Trademark Law and the Civil Code. Regardless, there is still room for improvement, as in large-scale infringements, the damages granted by the courts generally do not cover the actual losses suffered by enterprises. The calculation of statutory damages often seems arbitrary to many European companies, which they report makes it difficult for them to accurately carry out risk assessment and management.[47]

39 For more information on intellectual property issues affecting European businesses, please refer to the *Intellectual Property Rights Working Group Position Paper 2025/2026*.

40 *European Business in China Business Confidence Survey 2025,* European Union Chamber of Commerce in China, 28th May 2025, viewed 3rd June 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

41 *Survey Key Findings: Information Gathering Survey for the 2025/2026 Inter-Chamber SME WG Position Paper,* EU SME Centre, 26th May 2025, viewed 3rd June 2025, <https://www.eusmecentre.org.cn/publications/survey-findings-2025-2026-information-gathering-sme-position-paper/>

42 *Draft Amendments to the Trademark Law,* CNIPA, 13th January 2023, viewed 22nd April 2025, <https://www.cnipa.gov.cn/art/2023/1/13/art_75_181410.html>

43 *Provisions on Supervision and Administration of Trademark Agency*, CNIPA, 1st November 2023, viewed 22nd April 2025, <https://sbj.cnipa.gov.cn/sbj/zcwj/202211/t20221110_23355.html>

44 *Explanation to the Guidelines for Suspension of Cases Examined by the Trademark Review and Adjudication Board*, CNIPA, 13th June 2023, viewed 22nd April 2025, <https://sbj.cnipa.gov.cn/sbj/ssbj_gzdt/202306/t20230613_27700.html>

45 *Copyright Law*, National People's Congress (NPC), 19th November 2020, viewed 22nd April 2025, <http://www.npc.gov.cn/npc/c2/c30834/202011/t20201119_308796.html>

46 *Decision of the Standing Committee of the National People's Congress on Amending the Patent Law of the People's Republic of China,* NPC, 18th October 2020, viewed 22nd April 2025, <http://www.gov.cn/xinwen/2020-10/18/content_5552102.htm>

47 "It is difficult for the right holder to prove his rights by means of litigation, which leads to the absolute dominant position in the application of statutory compensation rules. However, the scope of the amount of compensation awarded in the statutory compensation rules is determined by judicial discretion, which is uncertain for the protection of the rights and interests of the right holder. Although the loss rules and the benefits rules are feasible in theory, few cases apply to them because the right holder cannot obtain the relevant evidence. The loss rules, which require the right holder to collect evidence, are expensive for small and medium enterprises." See: Zhang, J, *China's Patent Law has Changed: How to understand and apply infringement damages under the new rules*, Swiss Chinese Law Review Journal, 19th April 2021, viewed 22nd April 2025, <https://scla.world/understanding-and-applying-the-infringement-damages-article-of-chinas-2020-patent-law/>

E-commerce

China's E-commerce Law, which came into effect on 1st January 2019, strengthens IPR enforcement on e-commerce platforms.[48] However, the notice-and-take-down procedures allow bad-faith online sellers to provide a statement of not having committed an offence. While not negative *per se*, such statements mandate the platforms to end the measures taken against the seller unless the claimant starts administrative or legal actions within 15 days, which imposes significant costs on rights holders. Moreover, the draft amendments include a provision allowing sellers to provide a guarantee to the platforms for the amount of the estimated sales, to temporarily avoid restrictions imposed by the platforms while the notice-and-take-down procedure is pending.[49] In practice, this significantly reduces the efficiency of the procedure during special sale promotions, when sales numbers are impossible to estimate, but are likely to be extraordinarily high. With e-commerce expanding rapidly in China, e-commerce platforms have become one of the most popular targets for IP infringers, raising the necessity for related legislation that can better protect rights holders. The working group therefore recommends that all e-commerce platforms take more proactive measures, such as blacklisting infringers and banning them from selling on the platforms, using artificial intelligence to detect and remove listings of fake products, and imposing fines on infringers. Some platforms have implemented these measures, but such measures are not yet mandatory. The proposed amendments to the E-commerce Law will need to address these and other key issues. Furthermore, local AMRs should be given the power to proactively enforce the envisioned rules.

Counterfeiting

Despite improvements to China's IP system, counterfeiting in general remains a major issue. According to the European Commission's Directorate-General for Taxation and Customs Union and the EU Intellectual Property Office, China remained the originator of the majority of fake goods entering the EU in 2023, with more than 67 per cent of the volume of IPR-infringing goods entering the EU coming from China.[50]

Forced Technology Transfers

On the political front, there have been several high-level statements regarding the protection of IP in China,[51] and, more concretely, the condemnation of unfair technology transfers. Yet, in practice, policy guidance, legal instruments and practices (including joint venture requirements and equity caps), authorisation or licensing procedures in different sectors requiring extensive documentation, and insufficient protection of IPR or trade secrets, continue to compel technology transfers.[52]

IP Protection Mechanisms in Trade Fairs

When encountering IPR infringements during trade fairs in China, the IPR owners can seek assistance directly from the IP complaint centres organised by the trade fairs. However, there are inconsistencies in the way IPR infringements are handled. Different trade fairs have different rules on when and whether European companies should provide notarised and certified copies of their business licence. It is also unclear which documents should be provided in relation to copyright infringement. Consistency in IP enforcement at different trade fairs in China would make it easier for IPR owners to deal with potential infringements.

IP Courts and IP Infringement Procedures

Starting in 2014, China set up specialised IP courts in Beijing, Shanghai and Guangzhou to resolve IP disputes. With the rapid development of innovation in China, there has been an increase in IP-related disputes in different provinces. If the IP dispute takes place in other cities, or the defendant is not located in one of the abovementioned three cities, it is unlikely that the IP court system can be utilised. Consideration should therefore be given to establishing IP courts in more cities. In addition, although the *Hague Convention on Abolishing the Requirement of Legalisation for Foreign Public Documents*, which China joined in 2023, cuts the amount of time foreign companies need to prepare to participate in litigation, it still takes a long time to resolve IP infringement cases.[53]

48 *E-Commerce Law,* NPC, 31st August 2018, viewed 15th April 2025, <http://www.npc.gov.cn/zgrdw/npc/lfzt/rlyw/2018-08/31/content_2060827.htm>

49 *Public Consultation on the Decision on Amending the E-commerce Law of the People's Republic of China (Draft),* State Council, 5th September 2021, viewed 15th April 2025, <https://www.gov.cn/xinwen/2021-09/05/content_5635537.htm>

50 *Report on the EU enforcement of intellectual property rights: results at the EU border and in the EU internal market 2023*, DG TAXUD and EUIPO, November 2024, viewed 22nd April 2025, <https://euipo.europa.eu/tunnel-web/secure/webdav/guest/document_library/observatory/documents/reports/2024_EU_Detentions/2024_EU_Enforcement_of_IPRs_FullR_en.pdf >

51 *14th Five-Year Plan for the National Economic and Social Development and the Long-Range Objectives Through the Year 2035,* National Development and Reform Commission, 23rd March 2021, viewed 22nd April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/ghwb/202103/P020210313315693279320.pdf>

52 *Commission releases its Report on Intellectual Property Rights in Third Countries,* European Commission, May 2023, 22nd April 2025, <https://policy.trade.ec.europa.eu/news/commission-releases-its-report-intellectual-property-rights-third-countries-2023-05-17_en>

53 *China joins Apostille Convention – no legalization for public documents,* HFG Law & Intellectual Property, 14th March 2023, viewed 27th April 2025, <https://www.hfgip.com/news/china-joins-apostille-convention-no-legalization-public-documents>

Geographical Indications (GIs)

The EU-China Agreement on GIs, which came into force in March 2021, was an important step for the protection of GIs within the China market. However, some EU GIs may be excluded from acquiring protection because of their generic names (for example, claims outside of the EU that 'feta' has become the generic name for a white cheese aged in brine) or prior trademarks.[54] These two exceptions can potentially endanger the success of future EU GI registrations. Furthermore, the proposed amendments to the Trademark Law allowing exceptions against claims of trademark infringement based on the use of names of geographical locations and generic names further exacerbate the fears of EU rights holders. Therefore, strengthening the State Administration for Market Regulation's (SAMR's) powers to enforce the EU-China GI Agreement will be crucial to the success of the initiative.[55] On 1st February 2024, the *Regulations on the Protection of Geographical Indication Products* came into force.[56] However, these do not include overseas GIs, meaning the CNIPA will need to issue an additional provision or regulation.

Recommendations

- Update the E-commerce Law to better protect IPR holders and regulate infringements.
- Engage local enforcement agencies, customs authorities and courts to take effective action against counterfeiting.
- Strengthen the powers of the State Administration for Market Regulation (SAMR) to ensure forced technology transfers will not take place.
- Strengthen consistency in intellectual property (IP) enforcement during trade fairs.
- Expand specialised IP courts to more cities and enable faster resolution of IP infringement cases.
- Increase the SAMR's power to enforce the EU-China Geographic Indications (GI) Agreement.
- Issue specific regulations for the protection of foreign GIs.

54 GIs identified as potentially problematic include: Perigord, Szegedi teliszalami/Szegedi szalami, Prosciutto Toscano, Fontina, Munster, Nurnberger Bratwurste, Jambon de Bayonne and Beaufort. See: Hu, W, *Dinner for three: EU, China and the US Around the geographical indications table*, Centre for European Policy Research, April 2020, viewed 22nd April 2025, <https://www.ceps.eu/wp-content/uploads/2020/04/PI2020-07_EU-China-and-the-US-around-the-geographical-indications-table.pdf>

55 For more information on GI rights enforcement, please refer to the *Intellectual Property Rights Working Group Position Paper 2025/2026.*

56 *Regulations on the Protection of Geographical Indication Products*, CNIPA, 2nd January 2024, viewed 22nd April 2025, <https://www.cnipa.gov.cn/art/2024/1/2/art_3324_189481.html>

Abbreviations

AMR	Administration for Market Regulation
BCS	Business Confidence Survey
CNIPA	China National Intellectual Property Administration
CNY	Chinese Yuan
EU	European Union
FIE	Foreign-invested Enterprise
Fintech	Financial Technology
GDP	Gross Domestic Product
GI	Geographical Indication
IP	Intellectual Property
IPR	Intellectual Property Rights
IIT	Individual Income Tax
MSME	Micro, Small, and Medium-sized Enterprises
NBFI	Non-banking Financial Institution
NDRC	National Development and Reform Commission
NPC	National People's Congress
R&D	Research and Development
SAMR	State Administration for Market Regulation
SME	Small and Medium-sized Enterprise
SMEDI	SME Development Index
SOE	State-owned Enterprise

Legal and Competition Working Group

Key Recommendations

1. Continue to Strengthen the Rule of Law to Foster a Predictable Legal System for Foreign Investors 5

- Continue to advance the rule of law and implement a fair competition review (FCR) system to support investor confidence.
- Improve legal predictability by publishing regulatory updates in advance.
- Enhance legislative quality by enforcing consistent laws and regulations across all levels of government to provide a stable and predictable legal environment for businesses.
- Standardise enforcement to eliminate discretionary application and ensure equitable, transparent and impartial implementation of laws nationwide.
- Ensure prompt, comprehensive and correct enforcement of judicial decisions and arbitral awards by disclosing the trial process, judgment documents and enforcement proceedings, and setting up effective communication channels among interested parties.
- Enhance compliance with terms and deadlines in court and administrative procedures.
- Standardise the public consultation process.
- Continue to publish all judicial decisions to enhance the transparency and predictability of the system.
- Recognise and support the contributions of both domestic and foreign legal professionals to the development of a reliable legal environment and to promote foreign direct investment in China.
- Ensure equal treatment for foreign-invested enterprises in the commercial sector by eliminating discriminatory restrictions and guaranteeing fair access to all legally permitted business activities.

2. Establish a More Comprehensive Legal Framework to Manage Risks Brought by Rapid Technological Advancements, such as Artificial Intelligence (AI), and Promote Data Exchange between China and Europe 2

Build a More Comprehensive Legal Framework

- Establish a dedicated governance body and framework on AI ethical guidelines that ensure policy development and enforcement is risk-based and centred on transparency, accountability, fairness, non-discrimination and adherence to international norms.
- Clarify rules on data ownership and control, establish mechanisms for obtaining informed consent for data usage, and ensure that data used to train AI models is secure and respects privacy by tailoring data protection and privacy laws to challenges specifically related to AI.

Promote Data Exchange Between China and Europe

- Align key data protection laws, such as on anonymisation, cross-border data flows and personal information rights, through bilateral agreements to streamline secure data exchange.
- Foster China-Europe collaboration on harmonising AI regulatory standards by fostering China-

Europe collaboration between companies and research institutions to align key areas such as algorithm transparency, safety and ethics and encourage joint research and development initiatives.
- Establish mutual recognition frameworks for AI certifications between China and Europe to enable automatic recognition of certified products and services across regions, facilitate cross-border AI deployment, and reduce business compliance burdens.

3. Eliminate Restrictions on the Legal Services that Foreign Law Firms Can Provide 14

- Allow foreign law firms to fully practice Chinese law in commercial areas through the employment of individuals who are qualified and licensed to do so.
- Allow lawyers in foreign law firms to fully represent their clients before Chinese Government authorities if they have the proper powers of attorney, particularly in non-judicial or administrative proceedings.
- Ensure consistent and transparent implementation and enforcement of laws and regulations pertaining to foreign investment.
- Establish channels for dialogue between foreign legal professionals and supervising authorities to foster mutual understanding and promote modernisation of the legal system.
- Streamline the registration procedures, including reducing the time required for registration and requirements for foreign lawyers.
- Allow foreign law firms to establish themselves in China using the same legal forms as domestic law firms.

4. Enforce the Anti-monopoly Law (AML) in China without Political Influence to Ensure Fair Treatment of All Businesses

- Ensure that geopolitical factors do not influence AML enforcement by the State Administration for Market Regulation (SAMR) and its local counterparts, and implement safeguards to ensure this does not occur.

5. Continue to Strengthen the FCR System

- Continue thorough implementation of the FCR policy.
- Refine the system for complaints by market players.

6. Ensure that Shareholders of Limited Liability Companies are not Coerced into Exceeding their Legal Obligations Through Exit Bans on Legal Representatives or Principals 2

- Ensure that restrictions on personal freedom are never improperly used, in order to protect the integrity of the limited liability system.

Recent Developments

From January to November 2024, Chinese courts published over 8.1 million new court cases on the China Judgments Online platform, representing a significant 67.3 per cent year-on-year increase.[1] The Supreme People's Court (SPC) also released a five-year reform plan,[2] one aim of which is to improve the mechanisms for publicising judicial information.[3] While these recent efforts to enhance judicial transparency in China represent a welcome step forward, foreign investors still face significant challenges in navigating the Chinese legal environment. Remaining inconsistencies in the enforcement of laws and judicial proceedings, as well as limited access to comprehensive case information, continue to hinder the ability of European businesses to verify their compliance with complex regulations across multiple jurisdictions.

Although the European Commission's 2025 Omnibus package has eased many compliance requirements under the Corporate Sustainability Due Diligence Directive,[4] European investors' need for legal certainty in China remains pressing. The inherent lack of legal certainty in China's legal system and the extent to which companies will be able to carry out reasonable due diligence continues to leave businesses questioning their ability to meet evolving compliance obligations in both the EU and China.

Reassuring foreign investors

On 8th September 2024, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) jointly issued the *Special Administrative Measures for Foreign Investment Market Access*.[5] These measures reduce the number of areas of the economy which are off-limits to foreign investors from 31 to 29. As a result, all restrictions on access to the manufacturing sector have been removed.

On 22nd February 2025, the Chinese State Council released the *2025 Action Plan for Stabilising Foreign Investment*,[6] emphasising the further opening of specific sectors following the current ongoing trial programmes. A positive aspect of the plan is its call to clearly define 'domestic product' for government procurement and to ensure foreign firms manufacturing in China receive equal access.[7] This could benefit foreign companies that have localised production to meet 'Made in China' standards.[8] However, excluding imports from procurement may worsen trade imbalances with China's key partners. The Legal and Competition Working Group looks forward to concrete action that can create a more predictable, transparent and fair business environment.

Revised Company Law

A significantly revised version of the Company Law entered into force on 1st July 2024.[9] Right before its effective date, on 29th June 2024, the SPC issued a judicial interpretation, in which Article 88 shall apply retroactively to all transfers of equity interests, including those that took place before the implementation of the new Company Law.[10]

The revised Company Law presents several requirements for businesses, including updates to capital contribution rules for limited liability companies (LLCs); new due diligence requirements; and the requirement to have an employee representative on the board of directors of companies with more than 300 employees, unless

1 *Over 8.1 million new judgment documents published online in Jan-Nov in 2024: China's top court, Global Times,* 27th December 2024, viewed 16th April 2025, <http://en.people.cn/n3/2024/1227/c90000-20259267.html>

2 *The Sixth Five-year Reform Outline of the People's Courts*, Supreme People's Court of China, 27th December 2024, viewed 16th April 2025, <https://ipc.court.gov.cn/zh-cn/news/view-3793.html>

3 *More court judgments available for public search in China,* State Council, 27th December 2024, viewed 16th April 2025, <http://english.scio.gov.cn/pressroom/2024-12/27/content_117632400.html>

4 *Questions and answers on simplification omnibus I and II,* European Union Commission, 26th February 2025, viewed 16th April 2025, <https://ec.europa.eu/commission/presscorner/detail/en/qanda_25_615>

5 Glück, U, and Munzinger, M, *New Negative List 2024 - China abolishes all restrictions on foreign investment in the manufacturing sector*, 18th September 2024, viewed 27th April 2025, <https://cms.law/en/chn/news-information/new-negative-list-2024-china-abolishes-all-restrictions-on-foreign-investment-in-the-manufacturing-sector>

6 *2025 Action Plan for Stabilising Foreign Investment,* State Council, 22nd February 2025, viewed 16th April 2025, <https://english.www.gov.cn/news/202502/22/content_WS67b9044dc6d0868f4e8efdff.html>

7 Article 17 says that the NDRC and the MOFCOM will speed up developing and issuing relevant documents to specify the standards of domestic products in government procurement and ensure that products produced by enterprises of different ownerships within China participate equally in government procurement activities. See: *Ibid.*

8 The 'Made in China' standards focus on ensuring that products genuinely manufactured and substantially transformed within China, with significant domestic content and key processes localised, qualify as domestic products for government procurement purposes, thereby supporting local industry and foreign investors who produce locally.

9 *Company Law of the People's Republic of China, Xinhua,* 29th December 2023, viewed 19th April 2024, <http://www.news.cn/politics/20231230/e6964c1620e04f3a94989df81581389f/c.html>

10 *Supreme People's Court Issues Judicial Interpretation on the Temporal Effect of Applicable Company Laws*, Information Bureau of the Supreme People's Court, 30th June 2024, viewed 15th May 2025, <https://www.court.gov.cn/fabu/xiangqing/436481.html>

the company already has a board of supervisors with an employee representative. It also includes new allowances for certain companies to have no supervisor; the option for an audit committee in lieu of a supervisory board or individual supervisors for LLCs; and greater freedom to choose which personnel can serve as legal representatives.[11]

Private Economy Promotion Law

On 30th April 2025, the National People's Congress Standing Committee released the Private Economy Promotion Law.[12]

First introduced in October 2024, the bill emphasises promoting the private sector, ensuring fair competition, improving the investment and financing environment, supporting technological innovation, providing regulatory guidance, optimising services, strengthening rights protection and enhancing legal responsibilities.[13] The working group looks forward to a thorough enactment and implementation in practice, which would benefit EU companies in China by ensuring a fair and transparent business environment.

Key Recommendations

1. Continue to Strengthen the Rule of Law to Foster a Predictable Legal System for Foreign Investors 5

Concern

Unpredictable policy changes and inconsistent enforcement concern European investors, who demand a stable legal framework, fair dispute systems and equal treatment with local companies.

Assessment

China has made significant progress in improving its legal system since joining the World Trade Organization in December 2001. However, there are still challenges in relation to the predictability, consistency, transparency and impartiality of the system in certain areas of trade and investment. Such features are fundamental for further developing the economy and supporting domestic and foreign investor confidence.

1) On fairness, equality and non-discrimination

A level playing field for foreign-invested enterprises (FIEs)

China's ambition to create a fair and united market was outlined in the *Opinions on Accelerating the Establishment of a Unified Domestic Market* (*Opinions*), and the various measures to promote the confidence of foreign investors that were issued in both 2024 and 2025.[14,15&16] These documents acknowledge that improvements are needed in specific areas and sectors. Fully implementing them would help ensure a level playing field and non-discriminatory market access for FIEs, but would require the elimination of policies hindering fair competition in public procurement, standards formulation and participation in industry dialogues.

Standardise enforcement of laws and regulations

Despite significant improvements, European companies still encounter regional inconsistencies in the application and enforcement of laws and regulations. Discretionary enforcement, often shaped by local political or economic priorities, creates fragmentation and legal uncertainty. These inconsistencies are compounded by unannounced policy shifts which disrupt business planning and increase compliance risks. The working group expects the government to continue standardising all judicial and administrative proceedings to create a more predictable, transparent and impartial legal system. To achieve this, the authorities will need to reduce the adoption and application of ambiguous and open-ended clauses in legislation, publish details on enforcement and related decision-making processes, and enhance and expand existing law enforcement monitoring and reporting systems.

2) On legal certainty

Inconsistencies within laws and regulations

Consistency within the legal framework is fundamental for planning business operations and exercising legal

11 See the *Compliance and Business Ethics Working Group Position Paper 2025/2026* for more information.

12 *Private Economy Promotion Law of the People's Republic of China*, Standing Committee of the National People's Congress, 30th April 2025, viewed 15th May 2025, <https://www.gov.cn/yaowen/liebiao/202504/content_7022018.htm>

13 *Questions and answers on the draft of the Private Economy Promotion Law*, Bureau of Private Economy, 10th October 2024, viewed 27th April 2025, <https://www.ndrc.gov.cn/xwdt/xwfb/202410/t20241010_1393551.html>

14 *Opinions on Accelerating the Establishment of a Unified Domestic Market*, State Council, 10th April 2022, viewed 23rd April 2024, <http://www.gov.cn/xinwen/2022-04/10/content_5684388.htm>

15 *Ibid.*

16 *Ibid.*

rights. However, stipulations in Chinese legislation are often inconsistent with or even contradictory to their upper-level laws or regulations. Stricter and timelier enforcement of the Legislation Law and the associated legislative review would reduce contradictions and inconsistencies within laws and regulations.[17] This is essential for creating a stable and coherent legal environment for companies.

Enforcement of judgments and awards

Despite reforms, challenges remain in the effective enforcement of judicial rulings and arbitral awards, as the People's Courts and the winning parties in proceedings are often not provided with adequate means to follow up on enforcement proceedings. Enhancing the transparency of the trial process and judgement documents, ensuring enforcement timelines and procedures for post-judgment action are clear and setting up effective communication channels among the interested parties would strengthen confidence in the finality and effectiveness of legal remedies in China.

Procedural justice

Clearly stipulated terms and deadlines in court and administrative procedures are crucial for companies navigating complex disputes. Uncertainty in judicial and administrative proceedings not only increases litigation costs, but also discourages companies from seeking timely redress. The working group hopes that measures will be taken by the relevant authorities to ensure stricter adherence to terms and deadlines and make remedial mechanisms available to resolve non-compliance issues.

Public consultation

Public consultation[18] is a crucial element in the lawmaking process, as it facilitates the resolution of potential problems in the practical implementation of laws before their official promulgation, thereby ensuring better legislation. Efforts have been made to improve transparency through the work of the Ministry of Justice (MOJ) and other ministries and commissions to maintain their public consultation website. However, there are still many occasions—especially at the municipal level and below—when a period of at least 30 days for public consultation on draft regulations is not strictly implemented as required by the Legislation Law.[19] Legislators should strictly enforce the stipulated period or timeline, while also improving transparency by publishing major contributions received from stakeholders, together with feedback from regulators on the stakeholders' comments, in a manner similar to that on the European Commission website.[20]

Access to judicial procedures and decisions

China's constitution prescribes that all court cases will be heard in public, except in special circumstances.[21] However, to attend trials that are available to the public, foreign nationals must go through a lengthy approval process that often prevents them from attending in practice. The working group suggests that—as is common practice in European jurisdictions—foreign nationals be given full public access to commercial and civil hearings in the People's Courts without the need to pre-register or receive special authorisation.

Similarly, while European businesses welcome the publication of court judgments and improvements to the websites of the SPC and local courts,[22&23] only a limited number of decisions are 'approved for publication'. Similarly, the working group fully supports the SPC's intention to ensure that business secrets and other potentially confidential bits of information are removed before the publication of judgments. However, this process should be driven by the requests of the involved parties and be reasonably quick. The working group recommends that, in principle, all judgments across China be published in a single, publicly accessible database within a short timeframe after judgments have been made. Judicial decisions and precedents are crucial in both common law and civil law systems not only for the academic study of the law, but also

17 The Legislation Law (amended in March 2015) requires amendment or repeal of lower-level laws/regulations that contradict with upper-level ones (Art. 96) and provides a legislative review process for consistency checking (Articles 68, 72 and Chapter 5): *The Legislation Law of the People's Republic of China, Xinhua,* 14th March 2023, viewed 18th April 2024, <https://www.gov.cn/xinwen/2023-03/14/content_5746569.htm>

18 See the *Compliance & Business Ethics Position Paper 2025/2026* for more information.

19 *The Legislation Law of the People's Republic of China, Xinhua*, 14th March 2023, viewed 18th April 2024, <https://www.gov.cn/xinwen/2023-03/14/content_5746569.htm>

20 *Have Your Say on Europe and its policies*, Directorate-General for Communication, European Commission, viewed 23rd April 2024, <https://have-your-say.ec.europa.eu/index_en>

21 *Constitution of the People's Republic of China,* State Council, 20th November 2019, viewed 18th April 2024, <https://english.www.gov.cn/archive/lawsregulations/201911/20/content_WS5ed8856ec6d0b3f0e9499913.html>

22 People's courts' decisions database, SPC, viewed 23rd April 2024, <https://rmfyalk.court.gov.cn>

23 Beijing courts, 2025, Beijing High People's Court, viewed 23rd April 2024, <https://bjgy.bjcourt.gov.cn/index.shtml>

for the establishment of a transparent and predictable system for businesses. This holds particularly true in the enforcement of China's Anti-monopoly Law (AML), where detailed, factual and even economic analysis on a case-by-case basis is fundamentally important. It is therefore crucial that all judgements are published in a timely manner so that companies may inform themselves of their rights and obligations.

3) Promote the role of domestic and foreign lawyers, and enhance personnel mobility and exchange

Legal professionals—including private practice lawyers and in-house counsels, as well as domestic and foreign lawyers—play a pivotal role in enhancing and strengthening the rule of law, both domestically and internationally. As global legal challenges become more complex, it is increasingly important to foster international legal cooperation and to ensure that foreign lawyers are able to act on behalf of European investors in China within reasonable parameters. This will help companies navigate the legal system more effectively and reduce misunderstandings that could lead to disputes.

Recommendations

- Continue to advance the rule of law and implement a FCR system to support investor confidence.
- Improve legal predictability by publishing regulatory updates in advance.
- Enhance legislative quality by enforcing consistent laws and regulations across all levels of government to provide a stable and predictable legal environment for businesses.
- Standardise enforcement to eliminate discretionary application and ensure equitable, transparent and impartial implementation of laws nationwide.
- Ensure prompt, comprehensive and correct enforcement of judicial decisions and arbitral awards by disclosing the trial process, judgment documents and enforcement proceedings, and setting up effective communication channels among interested parties.
- Enhance compliance with terms and deadlines in court and administrative procedures.
- Standardise the public consultation process.
- Continue to publish all judicial decisions to enhance the transparency and predictability of the system.
- Recognise and support the contributions of both domestic and foreign legal professionals to the development of a reliable legal environment and to promote foreign direct investment in China.
- Ensure equal treatment for foreign-invested enterprises in the commercial sector by eliminating discriminatory restrictions and guaranteeing fair access to all legally permitted business activities.

2. Establish a More Comprehensive Legal Framework to Manage Risks Brought by Rapid Technological Advancement, such as AI, and Promote Data Exchange between China and Europe 1

Concern

The rapid advancement of artificial intelligence (AI) and other emerging technologies outpaces China's fragmented legislative framework, which lacks both a comprehensive legal framework and a nationwide system for business data exchange between Chinese and European businesses.

Assessment

The rapid advancement of AI and its associated technologies has raised concerns about how current legal frameworks, particularly in China, address the emerging challenges of regulating AI, data privacy and cross-border data flow. At the centre of these concerns are issues related to national security, intellectual property rights and the risk of misuse of AI technologies. These technologies, particularly when used in areas like facial recognition, deep learning and big data analytics, can infringe on privacy rights and lead to potential discrimination, bias, and other unintended consequences and existing regulations may no longer be sufficient to address these new challenges.

Regulations and issues in China

The development of AI technologies involves significant data collection, processing and analysis, which carries significant implications for privacy, security and public trust. China has been particularly proactive in regulating data usage within its borders, through policies such as the Data Security Law (DSL),[24] the Personal Information

24 *Data Security Law of the People's Republic of China*, National People's Congress, 10th June 2021, viewed 27th April 2025, <http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html>

Protection Law (PIPL),[25] and the Cybersecurity Law.[26] However, these ambitious regulations have raised concerns about their ability to balance innovation with rights to privacy and the cross-border aspects of AI development.

For instance, the DSL, implemented in September 2021, establishes comprehensive regulations on data collection, processing and storage.[27] The law classifies data into different categories based on its importance to national security, with restrictions on the export of data deemed critical. Similarly, the PIPL was introduced to safeguard citizens' personal information, providing a framework for data privacy and protection.[28] The *Regulations to Promote and Standardise Cross-border Data Flows*,[29] which came into force on 22nd March 2024, aim to provide some clarity by increasing data volume thresholds for compliance, expanding exemptions and streamlining approval processes for data transfers out of China, but concerns remain.

Conflict with EU laws

As AI becomes integral to national defence, healthcare, finance and other critical sectors, the risk of data leakage or misuse increases. China's stringent data export controls, which limit the transfer of sensitive data outside its borders, are often viewed as a way to protect national security. However, these controls could potentially hinder international collaboration, particularly with Western markets such as the EU, which also has its own regulatory frameworks for AI and data protection. Notably, this includes the General Data Protection Regulation,[30] applicable since 25th May 2018, and the AI Act,[31] which entered into force on 1st August 2024. The latter will have far-reaching implications for all businesses that place AI systems on the EU market, including Chinese companies. Even companies operating outside of the EU may fall within the scope of the legislation if their AI systems are used in the EU or affect individuals located there. These challenges underscore the need for enhanced regulatory cooperation and dialogue between Chinese authorities and their European counterparts.

Opportunities for improvement

To enhance the mutual benefits of business collaboration between China and the EU—where efficient data flow is essential—it is imperative to reassess China's current legislative framework on AI and data export controls. This evaluation should ensure that existing laws are adequate for maintaining competitiveness in the global AI landscape by establishing ethical guidelines, adopting a risk-based approach to AI regulation and enhancing data privacy protections. While China's data export controls aim to secure sensitive information, they can hinder cross-border collaboration in AI research and development, particularly with regions like Europe that have different regulatory approaches.

Recommendations

Build a More Comprehensive Legal Framework

- Establish a dedicated governance body and framework on AI ethical guidelines that ensure policy development and enforcement is risk-based and centred on transparency, accountability, fairness, non-discrimination and adherence to international norms.
- Clarify rules on data ownership and control, establish mechanisms for obtaining informed consent for data usage, and ensure that data used to train AI models is secure and respects privacy by tailoring data protection and privacy laws to challenges specifically related to AI.

Promote Data Exchange Between China and Europe

- Align key data protection laws, such as on anonymisation, cross-border data flows and personal information rights, through bilateral agreements to streamline secure data exchange.
- Foster China-Europe collaboration on harmonising AI regulatory standards by fostering China-Europe collaboration between companies and research institutions to align key areas such as algorithm transparency, safety and ethics and encourage joint research and development initiatives.
- Establish mutual recognition frameworks for AI certifications between China and Europe to enable automatic recognition of certified products and

25 *Personal Information Protection Law of the People's Republic of China*, the National People's Congress of the People's Republic of China, 29th December 2021, viewed 27th April 2025, <http://en.npc.gov.cn.cdurl.cn/2021-12/29/c_694559.htm>

26 *Cyber Security Law of the People's Republic of China, Xinhua*, 7th November 2016, viewed 27th April 2025, <https://www.gov.cn/xinwen/2016-11/07/content_5129723.htm>

27 *Ibid.*

28 *Ibid.*

29 *Regulations to Promote and Standardise Cross-Border Data Flows*, Cyberspace Administration of China, 22nd March 2024, viewed 27th April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

30 *General Data Protection Regulation*, intersoft consulting, 25th May 2018, viewed 27th April 2025, <https://gdpr-info.eu/>

31 *High-level summary of the AI Act*, EU Artificial Intelligence Act, 27th Feb 2024, viewed 27th April 2025, <https://artificialintelligenceact.eu/high-level-summary/>

services across regions, facilitate cross-border AI deployment, and reduce business compliance burdens.

3. Eliminate Restrictions on the Legal Services that Foreign Law Firms Can Provide 14

Concern

Foreign law firms in China face restrictive market access rules that limit their capacity to deliver the necessary cross-border legal services, compounded by prohibitions on locally qualified lawyers practising in foreign firms.

Assessment

While the registration and management of foreign law firms and lawyers by the MOJ is a step in the right direction,[32] significant restrictions remain on the scope of legal services that foreign firms can provide. These include restrictions in the areas of foreign investment and business law, especially in the commercial area. Moreover, foreign law firms continue to face constraints on employing Chinese-licensed lawyers. These limitations hinder the capacity of foreign law firms to provide integrated cross-border legal services, weaken talent development and diminish China's attractiveness as a global legal hub.

A more reciprocal approach to access in the field of business law—where foreign law firms operating in China are granted comparable rights to those enjoyed by Chinese firms in Europe—would demonstrate a strong commitment to fair competition and mutual benefit. This is particularly relevant as China seeks to further attract European investment and strengthen legal alignment in emerging sectors such as green finance, digital trade and AI governance.

1) Employment of Chinese-licensed lawyers by European law firms and foreign partners of Chinese firms

When European law firms in the Chinese mainland hire licensed People's Republic of China (PRC) lawyers, those individuals' qualifications and licences to practice PRC law in non-contentious areas are suspended. At the same time, foreign lawyers are not allowed to become partners of Chinese law firms. Removing these restrictions would provide faster, more cost-effective and more efficient access to legal advice for both Chinese and foreign clients, both locally and internationally. It would also broaden the career prospects of both PRC and EU lawyers, allowing them to grow and gain expertise in local and international environments – benefiting cross-border investors from both China and the EU and advancing China's broader goals of legal modernisation and business environment optimisation.

Given China's growing participation in bilateral and multilateral agreements with high-standard legal provisions, legal professionals need exposure to both local and international frameworks. Integrated team structures within firms would significantly enhance talent development, reduce legal fragmentation, and help harmonise regulatory interpretation in areas like sustainability disclosures, digital governance and data security.

As environmental, social and governance requirements, carbon disclosure regulations, and digital economy legislation grow increasingly complex and globally intertwined, cross-border investors urgently need coherent and seamless legal services that can interpret both Chinese and international rules. Restrictive legal service access hinders such compliance and increases legal and operational risks for multinational businesses.

2) Participation of lawyers from foreign law firms in Chinese government meetings

Lawyers from foreign law firms, including PRC-licensed lawyers, have occasionally been permitted to appear, participate and represent their clients before Chinese government authorities and other public, non-judicial authorities on a case-by-case basis. However, the lack of transparent and inconsistently enforced access and representation rights for lawyers working in foreign law firms reduces the quality of information exchanged with Chinese authorities and limits the sharing of experience by foreign law firms with European investors.

This does not promote trust among foreign investors towards Chinese authorities and can result in misunderstandings that lead to European investors having difficulties in finalising, or even postponing, business decisions for the Chinese market.

32 *Procedure for practice approval of representatives of foreign law firms in China*, MOJ, 27th June 2019, viewed 3rd June 2025, <http://en.moj.gov.cn/2019-06/27/c_384695.htm>

This issue is especially relevant in newer regulatory fields such as AI governance, carbon trading compliance and cross-border data transfers, where legal obligations remain fluid and require continual dialogue between regulators and legal counsel. Allowing foreign law firm lawyers to participate consistently and transparently in such engagements would improve investor confidence and promote more legally robust ecosystems for innovation.

3) Developing relationships and dialogues with supervising authorities

In almost all jurisdictions, lawyers and firms are registered as 'special professionals', with stricter codes of conduct and special requirements for practice. For registered lawyers and representatives of firms registered in the EU, it is essential to have guidance from and dialogue with EU supervisory authorities at the central level.

In a similar spirit, registered lawyers and representatives of EU firms operating in China would like to have exchanges with the MOJ and other competent departments at the central level in China. They would also benefit from the creation of open channels that enable exchanges among professionals who are practising law in different areas, including private practitioners, in-house counsels, and public administration and legislative bodies, either foreign or Chinese.

As legal norms evolve in areas like sustainability, anti-greenwashing enforcement, AI ethics and cybersecurity, continuous legal-regulatory dialogue becomes essential. International law firms are often early observers of cross-border trends and can share comparative insights from jurisdictions like the EU, where regulatory enforcement is maturing rapidly. Institutionalising these exchanges in China could promote mutual learning, build regulatory foresight and contribute to the legal modernisation process.

4) Access to joint venture (JV) firms

Since the introduction of pilot joint operation schemes in 2015, China has made some progress in exploring new models of cooperation between Chinese and foreign law firms. Nonetheless, the actual progress and overall impact of these pilot programmes remain minimal. The current 'one office, two brands' model under the joint operation framework does not allow for full integration of resources and expertise, and the number of successful JV registrations remains small compared to foreign law firms established in China.

In light of these limitations, the focus should shift toward expanding the scope of services that foreign law firms may provide directly, especially in the areas of commercial law. Enabling foreign firms to operate with greater flexibility would allow them to better meet the legal needs of both Chinese and international clients engaged in cross-border transactions. At the same time, such measures would align with China's broader commitments to improving the business environment and promoting legal certainty for foreign investors.

Consideration should be given to starting to allow qualified foreign lawyers to become partners in Chinese law firms at the local level in pilot locations.

5) Registration procedures and requirements

The registration process for a new foreign lawyer in China can take several months, as it involves local and central registration. Additionally, the requirements for a chief representative to have at least three years of foreign bar registration and six months of domicile in the PRC are more stringent than the immigration requirements for foreign representatives working in other sectors. Foreign-owned law firms are also required to have at least two foreign representatives to fulfil establishment procedures.

Compared with other professional sectors that support foreign investment (such as consulting, audit and engineering), the onboarding procedures for foreign legal professionals remain disproportionately slow and resource-intensive. Streamlining these procedures—especially for lawyers supporting international arbitration, digital trade and climate-related finance—would enhance China's attractiveness as a regional hub for legal services.

Consideration could also be given to creating a fast track or digitalised registration pathway for lawyers from jurisdictions with bilateral legal cooperation agreements or comparable professional standards.

Moreover, the working group would like to see foreign law firms in China allowed to adopt the same legal forms as domestic Chinese law firms, rather than being limited to opening representative offices. Given the many special regulations imposed on representative offices, this limitation hinders their development and restricts their operational flexibility.

Recommendations

- Allow foreign law firms to fully practice Chinese law in commercial areas through the employment of individuals who are qualified and licensed to do so.
- Allow lawyers in foreign law firms to fully represent their clients before Chinese government authorities if they have the proper powers of attorney, particularly in non-judicial or administrative proceedings.
- Ensure consistent and transparent implementation and enforcement of laws and regulations pertaining to foreign investment.
- Establish channels for dialogue between foreign legal professionals and supervising authorities to foster mutual understanding and promote modernisation of the legal system.
- Streamline the registration procedures, including reducing the time required for registration and requirements for foreign lawyers.
- Allow foreign law firms to establish themselves in China using the same legal forms as domestic law firms.

4. Enforce the AML in China without Political Influence to Ensure Fair Treatment of All Businesses

Concern

There is a risk that the enforcement of the AML in China could be influenced by geopolitical considerations amid increasing restrictions on cross-border trade, which would undermine the Chinese Government's commitment to transparent and fair competition among all market players.

Assessment

Globally, enforcement of competition rules such as the AML is subject to detailed, fact-specific and technical analysis. The AML has established a comprehensive and suitable framework for competition law enforcement. The State Administration for Market Regulation (SAMR), together with its provincial counterparts, has grown to become a mature and responsible competition law enforcer.

However, as governments around the world leverage their regulatory toolbox to address broader geopolitical and trade objectives, the Legal and Competition Working Group believes it is essential that the SAMR prioritises a business-centric approach in enforcing the AML. Competition law enforcement must continue to revolve around the well-established principles of competition law enforcement, which are shared by the international competition law community. Geopolitical considerations should not be included in such technical analysis.

Recommendation

- Ensure that geopolitical factors do not influence AML enforcement by the SAMR and its local counterparts, and implement safeguards to ensure this does not occur.

5. Continue to Strengthen the FCR System

Concern

Despite the recognised value of the fair competition review (FCR) system, its robust implementation by the SAMR and stakeholders may be hindered by the pressures and uncertainties of the current complex geopolitical environment.

Assessment

In 2022, the FCR system was incorporated into the AML framework and in August 2024, the State Council issued formal regulations on the FCR.[33] This integration underscored the FCR's importance to both national and international stakeholders, reinforcing its role as a key policy to promote transparent and fair competition, benefiting all market players, including EU companies operating in China.

However, the evolving geopolitical landscape and increasing cross-border trade restrictions pose challenges to the sustained momentum of FCR implementation. These external pressures may reduce the incentives for the SAMR and other stakeholders to vigorously enforce the FCR policy, risking a slowdown in progress despite its clear economic benefits.

To address this, the working group recommends that the thorough implementation of the FCR policy be

33 *The Regulations on Fair Competition Review,* State Council, 6th June 2024, viewed 27th April 2025, <https://www.gov.cn/zhengce/zhengceku/202406/content_6957050.htm?xxgkhide=1>

maintained and strengthened. Additionally, mechanisms should be established to facilitate market players' ability to file complaints or provide feedback on governmental rules or practices that may undermine fair competition, ensuring confidentiality to protect complainants' identities when requested. These steps would enhance market transparency and fairness, fostering a more competitive business environment overall.

Recommendations

- Continue thorough implementation of the FCR policy.
- Refine the system for complaints by market players.

6. Ensure that Shareholders of Limited Liability Companies are not Coerced into Exceeding their Legal Obligations Through Exit Bans on Legal Representatives or Principals 2

Concern

Legal representatives and principals can be prevented from leaving China due to unsettled civil cases, which can coerce shareholders into making payments exceeding their registered capital obligations under the Company Law to have the exit ban lifted.

Assessment

Several provisions under the Chinese regulations allow courts to restrict individuals with unsettled civil cases from leaving China. During civil procedures, foreigners who meet the following three conditions will be subject to an exit ban: [34,35,36&37]

1) The person must be party to an unsettled civil or commercial case or the legal representative or principal of the party in the event of a legal person;
2) The party may evade litigation or evade the performance of legal obligations; and,
3) Failure to impose an exit ban may make the case difficult to adjudicate or impossible to enforce.

In civil enforcement procedures, if the company subject to enforcement refuses to comply with the obligations set forth in the judgment, the same exit ban may be imposed on its legal representative or principal. The exit ban can be lifted if the company provides an adequate and effective guarantee.

Exit bans may also be imposed on the legal representatives and principals of companies in bankruptcy proceedings or with unsettled tax obligations.[38&39]

While exit bans are a serious consequence for both Chinese and foreign nationals, they disproportionately impact foreign nationals. Under an exit ban, foreign nationals are more likely to be deprived of seeing family or be otherwise negatively impacted by being unable to return to the country of their nationality. When the personal freedom of one of their employees is restricted due to an unsettled civil case, shareholders are rushed to settle the civil case and coerced into assuming payment or other obligations that might exceed their liability under the limited liability system. This effectively shifts the balance of negotiating power, raises concerns about doing business in China, undermines the limited liability system—which is the basis for all economic activity—and overshadows other efforts by the Chinese Government to attract foreign investment and talent.

Recommendation

- Ensure that restrictions on personal freedom are never improperly used, in order to protect the integrity of the limited liability system.

34 *Guiding Opinions of the Supreme People's Court on Further Improving the Trial of Foreign-Related Civil and Commercial Cases in Border Areas*, Supreme People's Court, 8th December 2010, viewed 3rd April 2025, <https://www.court.gov.cn/fabu/xiangqing/2481.html>

35 *Interpretation of Supreme People's Court on Certain Issues concerning the Application of Enforcement Procedures under the Civil Procedure Law*, Supreme People's Court, National Laws and Regulation Database, 29th December 2020, viewed 3rd April 2025, <https://flk.npc.gov.cn/detail2.html?ZmY4MDgxODE3OWY1ZDI0ODAxNzlmYTRjMGNjYjA0OTI%3D>.

36 *Law on Administration of Embarkation and Disembarkation,* China Consular Affairs, 30th June 2012, viewed 3rd April 2025, <http://cs.mfa.gov.cn/wgrlh/flfg/201307/t20130701_961407.shtml>

37 *Several Provisions on Lawfully Restricting the Entry and Exit of Aliens and Chinese Citizens, Supreme People's Court,* Supreme People's Procuratorate, Ministry of Public Security and PKU Law, 10th March 1987, viewed 3rd April 2025, <https://www.pkulaw.com/chl/ade2bf2e1b59757bbdfb.html?keyword=%E5%85%B3%E4%BA%8E%E4%BE%9D%E6%B3%95%E9%99%90%E5%88%B6%E5%A4%96%E5%9B%BD%E4%BA%BA%E5%92%8C%E4%B8%AD%E5%9B%BD%E5%85%AC%E6%B0%91%E5%87%BA%E5%A2%83%E9%97%AE%E9%A2%98%E7%9A%84%E8%8B%A5%E5%B9%B2%E8%A7%84%E5%AE%9A&way=listView>

38 *Enterprise Bankruptcy Law of the People's Republic of China,* National People's Congress, 27th August 2006, viewed 3rd April 2025, <https://english.www.gov.cn/services/doingbusiness/202102/24/content_WS6035f009c6d0719374af97ad.html>

39 *Law of the People's Republic of China on the Administration of Tax Collection,* National People's Congress, 24th April 2015, viewed 3rd April 2025, <http://lawinfochina.com/display.aspx?id=19781&lib=law>

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Abbreviations

AI	Artificial Intelligence
AML	Anti-monopoly Law
DSL	Data Security Law
FCR	Fair Competition Review
FIE	Foreign-invested Enterprise
JV	Joint Venture
LLC	Limited Liability Company
MOJ	Ministry of Justice
PIPL	Personal Information Protection Law
PRC	People's Republic of China
SPC	Supreme People's Court

Research and Development Working Group

Key Recommendations

1. Support Green and Sustainable Technology Research and Development (R&D) to Accelerate Progress Towards Realising Carbon Neutrality and China's other Environmental Goals 7

- Increase dialogues and strategic partnerships between government, academia and business, and promote social and technological innovation on low-carbon and circular technologies, especially at universities, in collaboration with industry, start-ups, and social and public organisations.
- Create a supportive regulatory environment for new technologies and overall technology openness.
- Guarantee freedom of research by facilitating the creation of regulatory sandboxes for pilots in low-carbon, circular and sustainable technologies, and their scale-up and commercialisation.
- Provide an attractive catalogue of measures to support the long-term development of green, low-carbon and circular technologies.
- Provide more transparency for China's carbon technology roadmap and R&D programmes.
- Close the financial gap that is caused by economies of scale differences between established traditional solutions and new green alternatives.

2. Create an Ecosystem that Supports Multinational Corporations' Digital Innovation in China 6

- Simplify data transfer regulations and increase access to open data resources.
- Publish a list of open databases that foreign enterprises can access and clarify whether foreign-invested enterprises (FIEs) can establish and manage their public databases independently.

3. Strengthen the Protection of R&D—Including Intellectual Property (IP)-related Aspects—to Develop a World-class Innovation Environment 7

- Consult with universities, foreign and national research institutions, and Chinese and international companies' R&D departments, when drafting innovation and intellectual property rights (IPR) protection policies.
- Increase technical expertise and standardise judgements in IP cases related to innovation and R&D by centralising jurisdiction in top-tier locations with access to highly competent relevant legal and scientific authorities.
- Enhance the enforcement of IPR legislation to prevent compelled technology transfers or technology transfer difficulties.
- Allow the co-ownership of IP between the parent company and local affiliates (or ownership of the parent company) in R&D projects funded by the Chinese Government.

4. Encourage FIEs to Contribute to R&D in China by Optimising the Financial Incentives Framework and Improving International R&D Cooperation 7

- Establish a common, reciprocal, transparent and efficient mechanism to facilitate EU-China R&D

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cooperation with the participation of European companies based in China.

- Give fair notice about R&D funds and grant applications, allowing an appropriate response period for all stakeholders.
- Remove restrictions that hinder FIEs from applying for China's High and New Technology Enterprise status.
- Develop comprehensive regulations based on local governments' best practices that encourage the development of foreign-funded R&D centres.
- Explore further the role of FIEs in maintaining economic stability, enhancing global competitiveness and contributing to low-carbon sustainable development in China.

5. Create an Ecosystem that Supports the Mobility of International Talent to and from China 7

- Streamline the regulatory framework for talent acquisition.
- Establish clear, inclusive criteria for foreign intern recruitment.
- Expand visa accessibility for qualified young professionals from European institutions.

Recent Developments

Over the past year, the Chinese Government introduced a series of policies and guidelines, aimed at boosting investment in research and development (R&D) and attracting R&D activities to China. These include tax reductions, incentives for researchers, and subsidies from both central and local governments.

In 2025, the government released circulars on R&D expense tax deductions for the integrated circuits and software industry,[1] as well as the industrial machine tools industry.[2] These complement the 2023 *Implementation Guidance on Additional Deduction of R&D Expense Policy*.[3&4]

1 *Circular of the National Development and Reform Commission and Other Departments on the Formulation of the List of Integrated Circuit Enterprises or Projects and Software Enterprises Enjoying Additional Deduction of R&D Expense Policy in 2025,* State Taxation Administration, 27th March 2025, viewed 21st April 2025, <https://fgk.chinatax.gov.cn/zcfgk/c100013/c5239410/content.html>

2 *Circular of the Ministry of Industry and Information Technology National Development and Reform Commission, Ministry of Finance, and State Taxation Administration on the Formulation of the List of Industrial Machine Tool Enterprises Enjoying Additional Deduction of R&D Expense Policy for the Year 2024,* State Taxation Administration, 5th March 2025, viewed 21st April 2025, <https://fgk.chinatax.gov.cn/zcfgk/c100013/c5238774/content.html>

3 Super deduction is a tax scheme that permits businesses to deduct more than 100 per cent of their eligible expenses from their taxable income. As such, the super-deduction is effectively a subsidy for certain costs.

4 *Execution Guidance on Additional Deduction of R&D Expense Policy (Ver. 2.0),* Ministry of Science and Technology, 7th July 2023, viewed 25th April 2024, <https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/zcjd/202307/t20230707_186911.html>

On 22nd February 2025, the State Council released 20 measures in the *2025 Action Plan for Stabilising Foreign Investment* (*Plan*).[5] The *Plan* aims to enhance the environment for foreign-invested enterprises (FIEs') activities in China in key high-tech sectors such as telecommunications, healthcare and biopharmaceuticals, which are R&D-intensive sectors. The working group welcomes this support for foreign-funded R&D activities and looks forward to detailed implementation guidelines.

The State Council's *Action Plan for Special Action on Patent Conversion and Utilisation (2023–2025)*,[6] aims to promote the industrialisation of patents, boost the real economy and optimise the domestic innovation ecosystem by taking advantage of the new National Patent-intensive Product Registration and Recognition Platform and tapping into the advantages of China's market size. As a result, in the first 10 months of 2024, there were 92,000 foreign invention patents authorised in China, up 5.3 per cent year-on-year, and 121,000 trademark registrations, up 13.1 per cent year-on-year.[7]

5 *2025 Action Plan for Stabilising Foreign Investment,* State Council, 22nd February 2025, viewed 21st April 2025, <https://english.www.gov.cn/news/202502/22/content_WS67b9044dc6d0868f4e8efdff.html>

6 *Action Plan for Special Action on Patent Conversion and Utilisation (2023–2025),* State Council, 19th October 2023, viewed 25th April 2025, <https://www.gov.cn/zhengce/content/202310/content_6910281.htm>

7 Li, S, *As of the end of October, the number of valid domestic invention patents reached 4.66 million - a new breakthrough in the construction of a strong intellectual property country, Economic Daily,* 30th November 2024, viewed 21st April 2025, <https://www.gov.cn/lianbo/bumen/202411/content_6990221.htm>

On 21st December 2023, the National People's Congress revised the *Implementing Rules for the Patent Law of the People's Republic of China*. This revision adds a patent term compensation system to the fourth amendment of the Patent Law; a special chapter has also been included on specific provisions. The revised law aims to provide the legal framework to address the needs of innovative entities and solve practical problems.[8] In 2024, around 1.05 million invention patents were granted in China, an increase of 13.5 per cent year-on-year.[9] On 5th January 2024, the State Data Bureau and 16 other departments released the *Three Year Action Plan on 'Data X' (2024–2026)* with the aim of accelerating the utilisation of data resources in 12 key areas. The plan contains details on supporting technological innovation with scientific data, focussing on biological breeding, new material creation, drug R&D and other fields, and accelerating technological innovation and industrial upgrading through the integration of digital intelligence.[10]

On 1st March 2024, the Shanghai Municipal Government published the *Plan for the Enhancement of Foreign-funded R&D Centres in Shanghai*,[11] with the aim of elevating Shanghai's status as a centre for international science and technology innovation. As of February 2025, there were 597 foreign-invested R&D centres in Shanghai, making the city the top destination for foreign R&D centres in China.[12]

8 *Implementing Rules for the Patent Law of the People's Republic of China (Revised 2023)*, China National Intellectual Property Administration, 21st December 2023, viewed 25th April 2024, <https://www.cnipa.gov.cn/art/2023/12/21/art_98_189197.html>

9 *Briefing by the State Council Information Office on the progress of intellectual property rights work in 2024*, State Council, 15th January 2025, viewed 22nd April 2025, <https://www.gov.cn/lianbo/fabu/202501/content_6998991.htm>

10 *Three Year Action Plan on "Data X" (2024-2026)*, Cyberspace Administration of China, 5th January 2024, viewed 24th April 2025, <https://www.cac.gov.cn/2024-01/05/c_1706119078060945.htm>

11 *Circular of the General Office of Shanghai Municipal People's Government on the Issuance of the Plan for the Enhancement of Foreign-funded R&D Centres in Shanghai*, Shanghai Municipal Government, 12th March 2024, viewed 21st April 2025, <https://www.shanghai.gov.cn/nw12344/20240312/8496fe67c56f4dc4b60ee5dc7810d698.html>

12 *A new batch of regional headquarters of multinational corporations and foreign-funded R&D centres were awarded certificates! Foreign investors: China market is becoming more and more important*, China (Shanghai) Pilot Free Trade Zone Administration, 21st March 2025, viewed 21st April 2025, <https://www.pudong.gov.cn/china-shftz/qydt/20250321/803669.html>

Key Recommendations

1. Support Green and Sustainable Technology R&D to Accelerate Progress Towards Realising Carbon Neutrality and China's other Environmental Goals

7

Concern

Current economic incentives in China prioritise gross domestic product-boosting technologies rather than those focussed on sustainability, which undermines efforts to promote environmental protection and achieve national decarbonisation goals.

Assessment

The Chinese Government has stated its commitment to advance economic, ecological and social sustainability, as reflected in its published policies and strategic roadmaps,[13] such as the overarching policy document that outlines the principles and tasks to achieve the '30/60' goals.[14] However, more targeted support in sustainability-related sectors is needed for emerging green technologies to bridge the financial gap with established traditional industries. This gap largely results from differences in economies of scale, which disadvantage new sustainable solutions compared to mature conventional options.

While China has vowed to achieve global leadership in green innovation, incentives need to be applicable to the wider R&D sector to help accelerate the transition towards a greener economy, where domestic and foreign entities could jointly play a pioneering role.

To realise this potential, the R&D Working Group encourages the introduction of further detailed implementation guidelines and dialogue with relevant government departments. This would enable FIEs to take a more active part in science and technology innovation for decarbonisation, thereby contributing to China's dual carbon goals.

13 *China's Progress Report on Implementation of the 2030 Agenda for Sustainable Development (2023)*, Centre for International Knowledge on Development, 18th October 2023, viewed 12th May 2025, <https://www.mfa.gov.cn/web/ziliao_674904/zt_674979/dnzt_674981/qtzt/2030kcxfzyc_686343/yw/202310/P020231018367257234614.pdf>

14 *Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy*, National Development and Reform Commission, 27th October 2021, viewed 3rd June 2025, <https://en.ndrc.gov.cn/policies/202110/t20211024_1300725.html>

The working group welcomes the establishment of various national and local incentives and funding programmes for low-carbon technologies R&D. Given that significant investment is required in these areas, additional public funding and tax incentives can encourage companies to increase R&D and accelerate the application of breakthrough low-carbon, circular and clean technologies. It is recommended that China provide more transparency and open access for European Union (EU) companies to such R&D funding programmes.

The ongoing EU-China cooperation on climate change, the EU-China flagship initiative on climate change and biodiversity, and various bilateral cooperation mechanisms between EU countries and China on the R&D of decarbonisation technology are also welcomed. The working group recommends that the EU and China further enhance intergovernmental collaboration and establish a better platform for commercial cooperation in these areas.

Recommendations

- Increase dialogues and strategic partnerships between government, academia and business, and promote social and technological innovation on low-carbon and circular technologies, especially at universities, in collaboration with industry, start-ups, and social and public organisations.
- Create a supportive regulatory environment for new technologies and overall technology openness.
- Guarantee freedom of research by facilitating the creation of regulatory sandboxes for pilots in low-carbon, circular and sustainable technologies, and their scale-up and commercialisation.
- Provide an attractive catalogue of measures to support the long-term development of green, low-carbon and circular technologies.
- Provide more transparency for China's carbon technology roadmap and R&D programmes.
- Close the financial gap that is caused by economies of scale differences between established traditional solutions and new green alternatives.

2. Create an Ecosystem that Supports Multinational Corporations' Digital Innovation in China 6

Concern

China's current data and information technology (IT) regulations and divergence from global standards hinder the operations of multinational corporations (MNCs).

Assessment

China has achieved notable breakthroughs in artificial intelligence (AI) and digitalisation, as the development of DeepSeek illustrates. Despite these advancements, China's digital R&D ecosystem still faces policy hurdles, particularly regarding data access and localisation requirements.

China's digital R&D landscape presents substantial market opportunities for MNCs, yet companies face multiple regulatory challenges, including limited access to open data sources, mandatory in-country storage of critical data, and complicated cross-border data transfer processes. These regulatory challenges result in high compliance costs and risks, thereby disincentivising MNCs from investing in local digital R&D activities.

In January 2024, the State Data Bureau and 16 other departments released the *Three Year Action Plan on 'Data X' (2024–2026)* with the aim of accelerating the utilisation of data resources in 12 key areas. The plan includes measures to promote the "sharing of science data" and "provide high-quality data resources" for R&D to companies in a number of industries including pharmaceuticals and advanced materials.[15] However, no clear guidelines exist on how FIEs can access and use such data resources.

In March 2024, China released the *Rules to Facilitate and Regulate Cross-border Data Transfer,* which has relaxed, to some extent, regulatory restrictions on non-sensitive data by non-sensitive data processors with scenario-based and volume-based exemptions.[16] Nevertheless, enterprises in industries such as healthcare, information and communications technology, and other key sectors are still subject to regular security audits and backup requirements.

The main reason for these audits and requirements is ambiguous regulatory definitions and the absence of clear sector-specific guidelines, which further

15 *The Three Year Action Plan on 'Data X' (2024–2026)*, Cyberspace Administration of China, 5th January 2024, viewed 24th April 2025, <https://www.cac.gov.cn/2024-01/05/c_1706119078060945.htm>

16 *Rules to Facilitate and Regulate Cross-border Data Transfer*, Cyberspace Administration of China, 22nd March 2024, viewed 30th April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

complicates compliance. It leaves many companies uncertain about whether their data is subject to strict export controls. The subjective threshold for triggering security assessments (such as biometric data versus employment records) also contributes to compliance uncertainty and hesitancy.

Exemption mechanisms, such as the 'Negative List' in several pilot free trade zones, the conditional exemptions in the Greater Bay Area's 'Data Hub',[17] and the Lingang 'White List' in Shanghai,[18] are steps in the right direction, but their scope remains limited and implementation is inconsistent across regions.

Furthermore, China's data rules are not fully aligned with global and regional frameworks, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the General Data Protection Regulation, or the Asia-Pacific Economic Cooperation Cross-Border Privacy Rules. As a result, MNCs are often required to maintain parallel compliance systems, creating inefficiencies for companies in managing several systems, impeding their strive for innovation and ultimately their competitiveness.

European businesses acknowledge the Chinese Government's objective of safeguarding national data security. Yet, the current regulatory environment raises legitimate concerns among businesses, particularly that implementing these measures may impede cross-border R&D-related data flows and increase operational costs.[19]

Therefore, the working group recommends that China publish a list of open databases that foreign enterprises can access and introduce a more holistic exemption of cross-border data transfer requirements to facilitate cross-border R&D-related data flows. Simplifying these regulations and increasing access to open data resources can help foster a better eco-system for MNCs' digital innovation in China.

17 *Facilitation Measure of "Standard Contract for the Cross-boundary Flow of Personal Information within the Guangdong-Hong Kong-Macao Greater Bay Area (Mainland, Hong Kong)*, Digital Policy Office of the Government of the Hong Kong Special Administrative Region of the People's Republic of China, viewed 30th April 2025, <https://www.digitalpolicy.gov.hk/en/our_work/digital_infrastructure/mainland/cross-boundary_data_flow/>

18 Hu, X, *Lingang Debuts Cross-border Data 'White List' The first batch of 11 scenarios covering intelligent connected vehicles, public funds, and biomedicine, which received a lot of attention from multinational corporations and are highly welcomed, Jiefang Daily,* 18th May 2024, viewed 12th May 2025, <https://www.shanghai.gov.cn/nw4411/20240518/9ad0a4be255642f2a179c0f413bbd3c6.html>

19 For more information, please see the Cybersecurity Sub-working Group Position Paper 2025/2026.

Recommendations

- Simplify data transfer regulations and increase access to open data resources.
- Publish a list of open databases that foreign enterprises can access and clarify whether FIEs can establish and manage their public databases independently.

3. Strengthen the Protection of R&D—Including IP-related Aspects—to Develop a World-class Innovation Environment 7

Concern

European companies are still struggling to protect their intellectual property rights (IPR) related to R&D in China, which discourages them from investing in cutting-edge technological innovation.

Assessment

To further encourage European companies to invest in cutting-edge technology in China, it is important to understand the differences between IPR strategies in European countries and China. The core question is how to protect IPR related to R&D while maintaining a positive environment for innovation without overregulation.

To address this issue, China introduced a new Patent Law, which went into force on 1st June 2021,[20] and a revised Science and Technology Progress Law, officially promulgated on 24th December 2021.[21] This was followed by the revised *Implementing Rules for the Patent Law* on 21st December 2023.[22] These legislative actions aim to establish and improve China's intellectual property (IP) system, boosting social awareness of and protecting IPR, and encourage independent innovation. Tasked with optimising their respective business environments, many local governments are carrying out their own actions to strengthen IP enforcement.

To further China's goal of creating a better innovation environment, the function, value and impact of the patent system needs to be adjusted to balance the needs of existing IP holders with those of new market

20 *Patent Law of the People's Republic of China (2020 Revision)*, National People's Congress, 19th November 2020, viewed 16th April 2025, <http://www.npc.gov.cn/npc/c2/c30834/202011/t20201119_308800.html >

21 *Science and Technology Progress Law of the People's Republic of China*, Ministry of Science and Technology, 24th December 2021, viewed 16th April 2024, <http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/flfg/202201/t20220118_179043.html>

22 *Implementing Rules for the Patent Law of the People's Republic of China (Revised in 2023)*, China National Intellectual Property Administration, 21st December 2023, viewed 25th April 2024, <https://www.cnipa.gov.cn/art/2023/12/21/art_98_189197.html>

Section Two: Horizontal Issues

entrants. Fostering R&D in new technologies, such as biotechnology and AI, requires that the related IP legal framework and patent system can swiftly and strategically respond to the challenges that arise. Consulting with experts from the private sector, academics and scientific communities can help realise these changes effectively. For instance, the interpretation of the revised Patent Law should be strengthened before being actively communicated to local governments and enforcement authorities, with widely accepted practical case studies and rulings supporting the revisions. This will help ensure the quality of judgements in IPR-related cases across jurisdictions.

More complex cases require a higher level of judicial and technical competence to provide the best outcome. Although China has established several specialised IP courts, courts outside Tier 1 cities without this high degree of expertise may require a different approach, like holding court cases or hearings remotely via video link. A more centralised system for adjudication could expand the range of IPR cases that can be heard, alleviate pressure in technologically complex cases and standardise IPR rulings at the national level. In addition, establishing a complete expert hearing system would also improve the court system's ability to hear IP-related cases, while promoting the progress of IP-related cases nationwide.

For FIEs, IPR protection is expensive, time-consuming and offers only low compensation to victims. Due to courts excessively applying the "statutory compensation" standard to determine the amount of compensation, rights holders often lose more than they gain both because of the cost of providing proof and the length of the trial period. At the same time, the concept of punitive damages is still unclear.[23] Another issue is a defendant's ability to suspend litigation by initiating the invalidity confirmation procedure.

Technology transfers from FIEs to "indigenous" Chinese companies and vice versa also continue to be an issue. On 2nd March 2019, the State Council repealed three controversial articles within the *Technology Import and Export Administrative Regulation*,[24] a positive development in controlling compelled technology transfer from a legal perspective. However, repealing these articles does not automatically mean that compelled technology transfers are not still taking place. It remains of significant concern to the working group that European companies are still being compelled to transfer technology to maintain market access – as reported by 17 per cent of respondents to the European Chamber's *Business Confidence Survey 2024*.[25] Additional measures may be deemed necessary to address the core problem, as modern transfers are compelled by means of market access rather than unnecessary administrative requirements. There is therefore still a clear need to further optimise IPR-related legislation. Integrating international companies' feedback can help in this respect,[26] while also encouraging investment in R&D, which will boost China's innovation capacity.

The process for transferring IP from Chinese firms to foreign parties has become progressively tighter, with transfers being strictly reviewed if they are deemed to affect national security or core technology in strategic fields.[27] New IP produced by projects that receive Chinese state funding requires: 1) approval from the relevant government authorities if IP is to be transferred or exclusively licensed to non-Chinese entities, including international project partners that contribute background IP; and 2) that the first licensed user of the newly produced IP is in China. A certain degree of relaxation of such restrictions can incentivise FIEs to participate in China's innovation projects, as IP owned by FIEs could prove essential background IP in some projects. For example, enterprises are not eligible for China's High and New Technology Enterprise (HNTE) benefits without self-owned IP rights, due to the patent requirement.[28]

23 For more information, please see: *Intellectual Property Rights Working Group Position Paper 2024/2025*, European Union Chamber of Commerce, 11th September 2024, viewed 10th July 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1239/Intellectual_Property_Rights_Working_Group_Position_Paper_2024_2025>

24 *Administrative Decree No. 709*, State Council, 18th March 2019, viewed 23rd April 2024, <http://www.gov.cn/zhengce/content/2019-03/18/content_5374723.htm>

25 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2024, viewed 1st August 2025, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

26 For more information, please see the *Intellectual Property Rights Working Group Paper 2024/2025*, 11th September 2024, viewed 10th July 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1239/Intellectual_Property_Rights_Working_Group_Position_Paper_2024_2025>.

27 *External Transfer of Intellectual Property Rights Measures (Trial Implementation)*, State Council, 29th March 2018, viewed 23rd April 2024, <https://www.gov.cn/zhengce/content/2018-03/29/content_5278276.htm>

28 *Measures for the Administration of Recognition of High-tech Enterprises*, Ministry of Science and Technology, 28th April 2008, viewed 6th July 2024, <http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2010before/200811/t20081129_65744.html>

Recommendations

- Consult with universities, foreign and national research institutions, and Chinese and international companies' R&D departments, when drafting innovation and IPR protection policies.
- Increase technical expertise and standardise judgements in IP cases related to innovation and R&D by centralising jurisdiction in top-tier locations with access to highly competent relevant legal and scientific authorities.
- Enhance the enforcement of IPR legislation to prevent compelled technology transfers or technology transfer difficulties.
- Allow the co-ownership of IP between the parent company and local affiliates (or ownership of the parent company) in R&D projects funded by the Chinese Government.

4. Encourage FIEs to Contribute to R&D in China by Optimising the Financial Incentives Framework and Improving International R&D Cooperation 7

Concern

FIEs face significant challenges in acquiring HNTE status and accessing public funding and grants for R&D.

Assessment

China has well-developed incentives to stimulate innovation, including 'strategic support' (long-term structural incentives like HNTE status and a super deduction scheme for reducing costs) and 'tactical support' (focussed grants for projects with a definite scope and target). HNTE status—one of the most important criteria—was revised in 2016 by the Ministry of Science and Technology, the Ministry of Finance and the State Taxation Administration.[29] Although specific requirements were relaxed, such as the minimum R&D expense ratio and the level of academic qualifications of technical personnel, those relating to IP ownership were tightened, with the applicant needing to own the core IP of their product or service within China. Although FIEs run some of China's largest R&D operations, in many cases, their core technologies were initially developed outside of China thus they lack IP ownership within China. This situation leads to significant difficulties for FIEs in meeting the requirements to acquire and maintain HNTE status. Moreover, even if FIEs are willing to reregister patents in China, patent priority will only be granted if applicants submit the relevant applications within 12 months of the date when the patent was first filed, and only if the country in which it was first filed has an agreement signed or an international treaty with China. Applicants must also submit examination information from the country of origin within a prescribed time limit, or the application will be deemed withdrawn. This results in increased operating costs for FIEs and raises the risk of infringement. Given these challenges, the working group recommends that the authorities agree to accept globally registered patents as part of the HNTE application process.

Frameworks allowing international R&D cooperation between China and other countries exist in abundance, for example, the EU-China Research and Innovation Co-Funding Mechanism,[30] through which academic and industry members from Europe and China have jointly developed innovative technologies of common interest. However, there has been a lack of coordination between the Chinese Government and the EU regarding funding, project timelines and approval processes. FIEs often face opaque or unclear application information and procedures for relevant programmes. R&D cooperation between the EU and China has great potential; for example, in the fields of agriculture, food and biotechnology, climate change, circular economy and biodiversity, the two sides share the same goals. Strengthening scientific research cooperation between the EU and China would help to integrate existing resources and encourage researchers on both sides. China and the EU are also important trading partners to each other. Strengthening relevant scientific research cooperation would facilitate quicker commercialisation of research results. To further promote international R&D cooperation, China and the EU should also hold open discussions on establishing a common, reciprocal, transparent and efficient mechanism.

The State Council's *Several Measures on Further Encouraging Foreign Investment to Establish R&D Centres*[31] and the *Opinions on Further Optimising the*

29 *Criteria for High and New Technology Enterprises,* Ministry of Science and Technology, 8th June 2020, viewed 21st April 2024, <https://www.gov.cn/fuwu/2020-06/08/content_5518015.htm>

30 *China and EU Sign New Round of Joint Research Funding Agreement*, Ministry of Science and Technology, 26th April 2022, viewed 28th April 2024, <http://www.most.gov.cn/kjbgz/202204/t20220426_180342.html>

31 *Several Measures on Further Encouraging Foreign Investment to Establish R&D Centres,* Ministry of Science and Technology, 19th January 2023, viewed 17th April 2024, <https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/zcjd/202301/t20230119_184334.html>

Foreign Investment Environment and Increasing the Attractiveness of Foreign Investment, released in 2023, are positive developments for R&D centres in China.[32] The measures directly address some of the concerns the working group has had for many years, and, since their release, member companies have reported some improvements when applying for related projects. Local R&D support mechanisms have also been greatly simplified, such as the *Programme of Collaborative Innovation with Foreign-funded R&D Institutions* under the *2023 Shanghai Action Plan for Science, Technology and Innovation*.[33] While there is still room for improvement compared to the treatment given to 'domestic champions', it is encouraging to see such support mechanisms for FIEs. The working group hopes to see similar initiatives expanded throughout China in the long-term.

Recommendations

- Establish a common, reciprocal, transparent and efficient mechanism to facilitate EU-China R&D cooperation with the participation of European companies based in China.
- Give fair notice about R&D funds and grant applications, allowing an appropriate response period for all stakeholders.
- Remove restrictions that hinder FIEs from applying for High and New Technology Enterprise status.
- Develop comprehensive regulations based on local governments' best practices that encourage the development of foreign-funded R&D centres.
- Explore further the role of FIEs in maintaining economic stability, enhancing global competitiveness and contributing to low-carbon sustainable development in China.

5. Create an Ecosystem that Supports the Mobility of International Talent to and from China 7

Concern

International enterprises struggle to attract and retain global research talent—especially in emerging fields—hindering knowledge transfer, cross-border innovation and local development of cutting-edge technologies.

Assessment

The Chinese Government has introduced a range of policies to support R&D development through foreign talent acquisition.[34] While these initiatives reflect China's efforts to facilitate international collaboration, challenges remain for European companies navigating the multi-agency regulatory framework. At the local level, this framework involves the Human Resources and Social Security Bureau, the Science and Technology Commission's Talent Service Office, and the Foreign Expert Office – each with distinct procedures, requirements and timelines. The lack of coordination among these agencies often leads to administrative delays, inconsistent interpretations of policies, and increased compliance burdens, making it difficult for European companies to efficiently manage talent acquisition, visa processing and R&D approvals.

Recent policy developments in 2024 and 2025—such as expanded visa-free arrangements for several European countries and streamlined application procedures—show progress in facilitating international mobility.[35] Nevertheless, regulations related to the recruitment of R&D talent require further clarification and refinement. For example, the qualification criteria for hiring foreign interns, particularly the definition of a 'well-known domestic enterprise', remain unclear and potentially restrictive for European enterprises.

Additionally, the current talent acquisition system tends to favour narrowly defined categories, such as graduates from leading global institutions, highly accomplished senior experts and new graduates. While this approach maintains high standards, it risks excluding mid-career professionals and emerging talent from European institutions that could significantly contribute to China's innovation ecosystem.

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32 *Opinions on Further Optimising the Foreign Investment Environment and Increasing the Attractiveness of Foreign Investment,* State Council, 13th August 2023, viewed 25th April 2024, <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

33 *Programme of Collaborative Innovation with Foreign-Funded R&D Institutions under the 2023 Shanghai Action Plan for Science, Technology and Innovation,* S&T Commission of Shanghai Municipality, 21st March 2023, viewed 17th April 2024, <https://www.shanghai.gov.cn/gwk/search/content/20f388085f014ce68365d2115b078920>

34 Across China, in major first and second-tier cities, action plans have been released to facilitate foreign investment, which place emphasis on foreign-invested R&D centres and talent acquisition. In Beijing, see: *Circular of Beijing Municipal Bureau of Economy and Information Technology on the Issuance of Beijing Municipal Action Plan for Promoting High-level Opening-up of High Precision Industries to the World (2025)*, Beijing Bureau of Economy and Information Technology, 23rd May 2025, viewed 30th May 2025, <https://www.beijing.gov.cn/zhengce/zhengcefagui/202505/t20250528_4101014.html>; In Shanghai, see: *Circular of the General Office of Shanghai Municipal People's Government on the Issuance of the Shanghai Foreign-funded R&D Centre Enhancement Plan*, General Office of Shanghai Municipal Government, 12th March 2024, viewed 30th May 2025, <https://www.shanghai.gov.cn/nw12344/20240312/8496fe67c56f4dc4b60ee5dc7810d698.html>

35 For more information, please see the *Human Resources Working Group Position Paper 2025/2026*.

Recommendations

- Streamline the regulatory framework for talent acquisition.
- Establish clear, inclusive criteria for foreign intern recruitment.
- Expand visa accessibility for qualified young professionals from European institutions.

Abbreviations

AI	Artificial Intelligence
EU	European Union
FIE	Foreign-invested Enterprise
HNTE	High and New Technology Enterprise
IP	Intellectual Property
IPR	Intellectual Property Rights
MNC	Multinational Corporation
R&D	Research and Development

Standards and Conformity Assessment Working Group

Key Recommendations

1. Enhance Transparency in China's Standardisation System by Properly Notifying Mandatory and de Facto Mandatory Standards to World Trade Organization Technical Barriers to Trade (WTO/TBT) and by Providing More Information to Industry Players 2

- Ensure transparency with regard to information sharing on important standards, the allocation of standardisation projects to Technical Committees (TCs), disclosure of financial information, participation or sponsorship fees, membership requirements and set-up processes for expert groups.
- Provide timely feedback on applications to join TCs, increasing the availability of information on application criteria and reasoning behind decisions.
- Increase communication with relevant industries when mandatory standards are proposed to understand the challenges and whether they are feasible.
- Ensure proper notification of all mandatory standards that may impact market access, and increase the scope to cover all mandatory market access requirements.
- Follow the same notification procedure for mandatory standards when recommended national standards, industry standards or social organisation standards must be implemented as mandatory.

2. Ensure All Relevant Stakeholders Have Equal Access to and Participation Rights in Standardisation Work 2

- Grant fair access for interested stakeholders to all standardisation development organisations, including social organisations.
- Ensure equal, open and extensive industry involvement in all types of standardisation work.
- Allow commercial organisations that meet accreditation requirements to participate in market surveillance.

3. Continue to Optimise China's Standardisation System by Ensuring a Predictable Policy and Regulatory Framework with Clear, Well-defined and Reasonable Processes, Backed by Effective Enforcement 2

Mandatory standards and certification schemes

- Continue to limit the scope of technical regulations and mandatory standards to issues related to protection of the environment, health and safety (EHS), in accordance with the WTO/ TBT Agreement.
- Optimise the synchronisation of mandatory standards, compulsory certification schemes and administrative licensing schemes, and ensure all mandatory type-approval schemes for market access are based only on national mandatory standards.
- Introduce reasonable transition periods for mandatory standards in a transparent manner and adopt European best practices on transition periods in more industries.
- Avoid different implementation dates for national mandatory standards at both the local and national levels.

- Ensure that when establishing transition periods for standards impacting several industries, due consideration is given to the impacts on all industries affected.
- Avoid referring to recommended standards in mandatory standards.
- Avoid implementing recommended standards as mandatory standards, and provide sufficient transition periods when recommended standards must be implemented as mandatory.

Social organisation standards

- Develop and implement proper procedures to facilitate the transformation of social organisation standards into national and industry standards.
- Set up an inclusive, public consultation process prior to the adoption of social organisation standards to improve their quality and enhance their subsequent application.

Market surveillance

- Avoid referring to recommended standards in law enforcement and market surveillance, and limit market surveillance to mandatory requirements.
- Increase the number of consumer product categories to be checked in the market, especially for consumer products not covered by mandatory certification or energy labelling requirements.
- Limit the number of testing samples and the number of checks for large equipment and high-value products.
- Ascertain the veracity of health-related and other product claims by companies in order to prevent consumer fraud and mitigate safety issues.
- Conduct checks on products used in engineering projects to ensure they meet mandatory requirements.
- Intensify follow-up market checks, and develop processes and penalties that serve as effective deterrents.
- Guarantee the right to appeal and due process for all companies in cases of disputes.
- Ensure proportionality in the adjudication of penalties and consistency across jurisdictions.
- Provide diverse channels for reporting non-compliance of consumer products.

4. Strengthen International Standardisation Work and Increase Harmonisation of Domestic and International Standards and Conformity Assessment Schemes, Particularly in Areas Linked to the Green and Digital Transitions

2

- Continue participating in international standard-setting activities and increase the adoption rate of identical international standards.
- Support the recognition of test reports at both the national and international levels.
- Ensure China's unified green development standards and conformity assessment schemes are harmonised with international practices to minimise companies' financial risks under various carbon tariff plans.
- Support the mutual recognition of green certificates.
- Improve coordination among different ministries and departments on artificial intelligence (AI) standardisation and governance, and engage with other governments and relevant actors to develop international standards and boost harmonisation.
- Cooperate with international stakeholders to develop international standards and boost harmonisation in the fields of digital transformation of quality infrastructure, digital product labelling, the internet of things and data-driven industrial transformation.
- Specify in the Product Quality Law that digital labelling and user manuals for products will be allowed.

Quality and Safety Services Sub-working Group

1. Ensure Equal and Fair Treatment in Government Procurement Activities for Foreign-invested Testing, Inspection and Certification (TIC) Agencies 6

- Promote market-orientated reforms of government-affiliated TIC agencies and provide equal access to government procurement activities for foreign-invested TIC agencies to encourage fair competition.
- Remove all conditions unrelated to the capabilities required to perform a bid in the qualification process.
- Further regulate government procurement by establishing a fair, transparent, impartial and efficient management system.

2. Allow Foreign-invested TIC Agencies to Provide Container Inspection Services 6

- Encourage fair market competition by allowing foreign-invested TIC agencies to provide statutory inspection services for domestic and foreign containers.

3. Create the Conditions to Allow Foreign-invested TIC Agencies to Fully Contribute to China's 30/60 Goals 1

- Provide more policy guidance to facilitate foreign-invested agencies' contribution to China's 30/60 goals, and ensure equal market access for foreign-invested TIC agencies.
- Create a platform for foreign-invested TIC agencies and Chinese stakeholders to jointly contribute to China's 30/60 goals.

4. Allow TIC Companies to Benefit from Relevant Industrial Support Policies at All Levels

- Revise the *Strategic Emerging Industries Classification* and establish a sub-category under the 'High-technology Services' section titled 'Testing, Inspection and Certification' to reflect the sector's advanced development needs.
- Build a dedicated policy support framework for the TIC sector.
  - Create an annual National Quality Infrastructure special fund with priority funding for smart laboratory equipment upgrades.
  - Introduce accelerated depreciation subsidies for testing equipment.
  - Extend an immediate value-added tax rebate on TIC service revenues, to support its development as one of the science and technology service industries, modelled on the research and development super-deduction policy.

Recent Developments

According to the Standardisation Administration of China's (SAC's) National Public Service Platform for Standards Information, at the time of writing China had released 2,138 national standards (of which 154 were mandatory), 4,023 industry standards and 11,433 local standards. As of late April 2025, 104,500 social organisation standards were publicised on the platform (of which 104,472 were in effect). Meanwhile, as of February 2025, there were 563,045 enterprise standards.[1]

1 *Monthly Statistical Report on Enterprise Standard Declaration Data (February 2025)*, Enterprise Standards Information Public Service Platform, 5th March 2025, viewed 22nd April 2025, <https://www.qybz.org.cn/user/monthlyDetail/5be67d2c678644a3a4b40d763c40c5c9>

Since early 2025, several key guiding documents linked to standardisation have been published. These include the State Administration for Market Regulation's (SAMR's) and other ministries' *Guiding Opinions on Strengthening Supervision of Standard Formulation and Implementation*, which provides guidance linked to strengthening the formulation, implementation and supervision of the various categories of standards.[2] Another relevant document linked to standardisation work in key industries is the Ministry of Industry and Information Technology's (MIIT's) *Circular on the Issuance of the Key Points of Industry and Information Technology Standard Work in 2025*. It encourages the development of more than 1,800 industry standards in 2025, the establishment of more than five new technical committees (TCs) for emerging and future industries, support for the development of more than 100 international standards led by Chinese players, and achieving an 88 per cent adoption rate of international standards.[3]

According to the SAMR's *Key Legislative Tasks for 2025*, in addition to the entry into force of the *Measures for the Adoption of International Standards*, other key pieces of legislation relevant to the Standards and Conformity Assessment Working Group include the *Certification and Accreditation Regulations*.[4]

Key Recommendations

1. Enhance Transparency in China's Standardisation System by Properly Notifying Mandatory and de Facto Mandatory Standards to World Trade Organization Technical Barriers to Trade (WTO/TBT) and by Providing More Information to Industry Players 2

Concern

Enhanced transparency in China's standardisation system at all levels is needed to reduce unnecessary obstacles to trade, and increase openness and inclusiveness.

Assessment

Unclear access procedures and the lack of information remain the main barriers preventing European companies from participating in standardisation activities in China.[5] In some cases, applications for TC membership go unanswered, which means that applicants do not know what the criteria for approval are or why they have not been considered. The lack of such feedback means that they are unable to better prepare for future applications.

Availability of information is also essential for companies to be able to adopt important (particularly mandatory) standards. More outreach efforts by relevant authorities would help companies understand the key contents of these standards before implementing them.

The need to improve transparency also applies to China's engagement with international bodies like the World Trade Organization (WTO). Government bodies of signatory countries and regions to the WTO Technical Barriers to Trade (TBT) Agreement are obliged to notify other WTO members about proposed technical regulations and conformity assessment procedures at an early stage to avoid unnecessary and/or protectionist obstacles to trade. While the working group recognises the progress made by China, there have still been many cases in which either no notification was given or the information was incomplete.

Currently, many mandatory market access schemes in China have still not been notified to the WTO even though they affect market access for the products they cover, and there are still instances of voluntary standards acting as *de facto* mandatory market access barriers that are also not being notified to the WTO. The working group has also noted that in cases when such notice has been given to the WTO, the implementation date is not always indicated. The working group recommends that Chinese authorities further improve their notification framework and ensure that the WTO/TBT public notices contain all required information, including the implementation date of the standard.

Recommendations

- Ensure transparency with regard to information sharing on important standards, the allocation of

2 *Guiding Opinions on Strengthening Supervision of Standard Formulation and Implementation*, National Standardization Administration, 2nd January 2025, viewed 22nd April 2025, <https://www.sac.gov.cn/xxgk/zcwj/art/2025/art_6428bd84e733412f85158f3e73046bbc.html>

3 *Circular on the Issuance of the Key Points of Industry and Information Technology Standard Work in 2025,* MIIT, 8th April 2025, viewed 22nd April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2025/art_02f418da5c244531b408b1eac63f1cf8.html>

4 *The State Administration for Market Regulation (SAMR) outlines its key legislative tasks for 2025*, SAMR, 21st March 2025, viewed 22nd April 2025, <https://www.samr.gov.cn/xw/zj/art/2025/art_f4c6c21f93eb4e418bd5333ddd847a5b.html>

5 *Siloing and Diversification: One World, Two Systems,* European Union Chamber of Commerce in China, 9th January 2025, viewed 22nd April 2025, pp. 32–37, <https://www.europeanchamber.com.cn/en/publications-archive/1272/Siloing_and_Diversification_One_World_Two_Systems>

standardisation projects to TCs, disclosure of financial information, participation or sponsorship fees, membership requirements and set-up processes for expert groups.
- Provide timely feedback on applications to join TCs, increasing the availability of information on application criteria and reasoning behind decisions.
- Increase communication with relevant industries when mandatory standards are proposed to understand the challenges and whether they are feasible.
- Ensure proper notification of all mandatory standards that may impact market access, and increase the scope to cover all mandatory market access requirements.
- Follow the same notification procedure for mandatory standards when recommended national standards, industry standards or social organisation standards must be implemented as mandatory.

2. Ensure All Relevant Stakeholders Have Equal Access to and Participation Rights in Standardisation Work 2

Concern

Although it has been stipulated in numerous pieces of Chinese legislation—including the Foreign Investment Law—that all relevant stakeholders shall be granted equal access to and participation rights in standardisation work, there is still a substantial gap in implementation.

Assessment

The Foreign Investment Law, the *National Standardisation Development Outline* and other relevant regulations and guidelines commit to ensuring open, inclusive and transparent standardisation processes for all stakeholders.[6&7] However, according to a survey conducted in late 2024 for the European Chamber's report *Siloing and Diversification: One World, Two Systems*, over a quarter of respondents reported no change to their access to standardisation and six per cent noted a deterioration.[8] For those reporting access issues, the barriers are increasingly indirect.[9] In addition to those linked to transparency and availability of information mentioned in Key Recommendation 1, Chamber members report other issues, such as an inability to become a top drafter for a standard and being blocked by competitors that are already part of the standardisation body.

In addition, as industrial supply and value chains become increasingly intertwined, standards and regulations developed in a given industry may have an impact on companies up and downstream of their respective supply chains. A new challenge to participation resulting from this is companies being unable to engage in standardisation bodies that are not directly under the scope of their industry focus, even when standards developed might still have an impact on them.

The Chinese Government should continue to step up its efforts to promote foreign-invested enterprises' (FIEs') equal participation in domestic standardisation activities. This includes encouraging interested stakeholders (regardless of nationality and size) to be involved in pilot and demonstration projects involving social organisation standards; providing feedback on major standardisation strategies; and allowing FIEs to hold the secretariat of a TC, lead the drafting of Chinese standards, participate in or lead China's international standardisation activities in certain technical fields, and access incentive policies from government at all levels. In addition, the behaviour of groups developing social organisation standards—such as associations, industry alliances and federations—should be supervised to ensure fair and equal access, and participation rights, for all stakeholders.[10] In addition, industry players should be allowed to participate in standardisation bodies not directly under their industry scope to ensure that potential impacts are pre-empted and addressed.

Finally, the working group believes that, provided they meet the accreditation requirements, FIEs should

6 *Foreign Investment Law of the People's Republic of China*, NDRC, 24th February 2021, viewed 13th June 2025, <https://en.ndrc.gov.cn/policies/202105/t20210527_1281403.html>

7 *National Standardisation Development Outline*, State Council, 10th October 2021, viewed 22nd April 2024, <https://www.gov.cn/zhengce/2021-10/10/content_5641727.htm>

8 *Siloing and Diversification: One World, Two Systems*, European Union Chamber of Commerce in China, 9th January 2025, viewed 22nd April 2025, pp. 32–37, <https://www.europeanchamber.com.cn/en/publications-archive/1272/Siloing_and_Diversification_One_World_Two_Systems>

9 Rühlig, T, *The Shape of Things to Come: The Race to Control Technical Standardisation*, European Union Chamber of Commerce in China and the Swedish Institute of International Affairs, 2nd December 2021, viewed 22nd April 2025, <https://www.europeanchamber.com.cn/en/publications-standardisation-report>

10 For more sector-specific information on European businesses' access to and participation in standardisation activities in China, please refer to Key Recommendation 4 of the *2025/2026 Rail Working Group Position Paper*; Key Recommendation 4.2 of the *2025/2026 Cosmetics Working Group Position Paper*; and Key Recommendation 2 of the *2025/2026 Information Communication Technology Working Group Position Paper*.

also be given the same opportunities as domestic organisations to participate in market surveillance, including conducting product sampling and other activities.

Recommendations

- Grant fair access for interested stakeholders to all standardisation development organisations, including social organisations.
- Ensure equal, open and extensive industry involvement in all types of standardisation work.
- Allow commercial organisations that meet accreditation requirements to participate in market surveillance.

3. Continue to Optimise China's Standardisation System by Ensuring a Predictable Policy and Regulatory Framework with Clear, Well-defined and Reasonable Processes, Backed by Effective Enforcement 2

Concern

More work needs to be done by regulators to ensure a well-defined, predictable and streamlined standardisation system, in terms of both policy design and implementation.

Assessment

Mandatory standards and certification schemes

Firstly, looking at scope, the WTO/TBT Agreement allows countries to take necessary measures to fulfil legitimate objectives, such as ensuring national security, preventing deceptive practices and protecting the environment, health and safety. In recent policy documents, Chinese regulators reiterate their commitment to limiting the scope of mandatory standards to these objectives.[11] This should be done by rescinding mandatory industry standards or converting them to either recommended or mandatory national standards, such as with the updates to the *Network Critical Equipment and Security-specific Product Catalogue*.[12]

Secondly, according to the Standardisation Law, many products must comply with mandatory standards.[13] In addition, other regulations require certain products to comply with specific mandatory certification schemes and individual administrative licensing schemes. However, the lack of coordination between these regulations and the ministries that formulate them results in overlapping testing requirements, which leads to additional costs for manufacturers and can even delay product launches. Improved coordination among relevant authorities would help to eliminate these overlaps or conflicts and could ensure these schemes are only based on mandatory standards. It would also reduce waiting times for companies to access the latest technologies and increase manufacturing efficiency.

Thirdly, a reasonable transition period is essential for companies to be able to properly dispose of products manufactured under an old standard and to be fully prepared for the implementation of a new standard. The working group recommends adopting best practices such as taking the implementation date of the new mandatory standard as the time at which production is switched, rather than the time to switch products being sold, or combining the grace period with an additional transition period for sales.

The working group has observed that in some cases, the officially released standard specifies a shorter transition period than the previous draft. This can result in a variety of problems, including insufficient lead time for companies to comply with mandatory requirements and subsequent delays in the import of affected products. To avoid these issues, greater consistency and predictability in standard setting are required. In addition, given that the green and digital transitions will result in increasing cross-pollination of different industries and sectors, the working group recommends that when establishing transition periods for standards, due consideration is given to the implications for all industries that may be impacted.

Working group members have also reported that the implementation dates of certain regulations differ at the

11 *Guiding Opinions on Strengthening Supervision of Standard Formulation and Implementation*, National Standardization Administration, 2nd January 2025, viewed 22nd April 2025, <https://www.sac.gov.cn/xxgk/zcwj/art/2025/art_6428bd84e733412f85158f3e73046bbc.html>

12 *Network Critical Equipment and Security-specific Product Catalogue*, Ministry of Industry and Information Technology, 4th July 2023, viewed 22nd April 2025, <https://www.miit.gov.cn/jgsj/waj/wjfb/art/2023/art_9080a8689c58416eaf56f88649c242d3.html>

13 *Standardisation Law of the People's Republic of China (PRC)*, National People's Congress, 4th November 2017, viewed 22nd April 2025, <http://www.npc.gov.cn/zgrdw/npc/xinwen/2017-11/04/content_2031446.htm>

local and national levels.[14] This creates uncertainty for companies when they try to make product adaptation plans. The working group therefore recommends enforcing consistent implementation dates throughout China.

Finally, in the past few years, some recommended standards have been directly adopted as *de facto* mandatory requirements without relevant stakeholders being clearly notified or given a sufficient transition period. The result is that recommended standards become market access requirements. If recommended standards are utilised, the working group recommends that sufficient industry research and the same notification procedure for mandatory standards be carried out before implementation, and that a reasonable transition period be provided.

a) Social organisation standards (also known as association/group standards)

In several fields related to emerging technologies, such as intelligent connected vehicles, standards can be first developed as social organisation standards and then tested through pilot and demonstration projects before being adopted as national standards. The working group supports this approach as, when properly implemented (with full participation of all interested stakeholders during the testing stage) it can ensure there is sound validation of the corresponding technical specifications; can help authorities identify potential problems linked to the standard in advance; and can allow sufficient preparation period for companies to make relevant plans and adjustments.

The working group also recommends that authorities ensure that processes related to the transformation of social organisation standards into mandatory or recommended national standards, or industry standards, are conducted in a fair, open and transparent way, and that sufficient feedback and transition periods are provided to industry.

Finally, despite the government's increasing adoption of social organisation standards—as well as those related to decarbonisation efforts—for areas key to industrial development, an inclusive, public consultation process would improve their quality and subsequent application by engaging a broader range of stakeholders in their development.

b) Market surveillance

While the working group recognises that product quality surveillance and inspection in China is becoming more standardised and systematic, in practice, market surveillance activities do not strictly follow the principle that only mandatory market access requirements need to be checked. In fact, voluntary requirements defined in various recommended national or industry standards—which are more similar to performance standards—are often checked. This happens more in provincial, city or county-level surveillance.

In addition to such instances of overreach, cases of insufficient surveillance are also common, which can have negative spillover effects in terms of product quality and safety. For instance, requirements not covered by mandatory certification are often overlooked, and it is difficult to check for non-compliance without professional testing tools. Under such circumstances, government surveillance plays a key role. However, in China, the working group has noticed that such surveillance checks are insufficient. For example, although the mandatory standard *GB 24906-2010* establishes safety requirements for lightbulbs, these are overlooked by the market surveillance authority because lightbulbs are not under the scope of the China Compulsory Certification (CCC) scheme.[15] The working group recommends avoiding market surveillance of voluntary requirements while strengthening market surveillance of professional mandatory certification.

Moreover, authorities should take into consideration that for certain products, especially for large equipment or high-value products, the high number of required testing samples and the sample fees resulting from market surveillance are usually burdensome for enterprises.

In addition, while the Product Quality Law requires all companies to state which standards their products are compliant with, checking that manufacturers are

14 An example is the implementation date of Emission Regulation (CN6) in Beijing (1st January 2020) and at the national level (1st July 2023): *Beijing implements National VI motor vehicle emission standards ahead of schedule*, Beijing Municipal Government, 28th June 2019, viewed 22nd April 2025, <https://www.beijing.gov.cn/zhengce/zcjd/201907/t20190701_99924.html>; *Announcement on Matters Relating to the Implementation of National VI Emission Standard for Motor Vehicles*, Ministry of Ecology and Environment, 8th May 2023, viewed 22nd April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk01/202305/t20230509_1029448.html>

15 *Standard number: GB 24906-2010, National Standardisation Full Text Disclosure*, SAC, 30th June 2010, viewed 23rd April 2025, <https://openstd.samr.gov.cn/bzgk/gb/newGbInfo?hcno=CE96FF0C3C824C9ACAE3F331B3CF82FB>

in fact compliant is often overlooked.[16] There is also room for improvement when it comes to spot checks. For consumer products, the industry recommends that spot checks focus on the origin of the supply chain (e.g. raw materials safety) since many issues cannot be identified on a final product. Moreover, there are also many quality issues with products used in engineering projects, which is a significant issue given that the quality of the entire project is potentially dependent on such products being compliant with relevant mandatory standards and requirements. Finally, industry observes instances of performance/safety features of products sold in the market differing from the samples sent for testing.

Many of the above issues highlight the need to allocate more resources for compliance checks. One way of addressing this could be, as mentioned in Key Recommendation 2, allowing FIEs and other commercial organisations meeting relevant accreditation requirements to conduct activities linked to market surveillance. Meanwhile, the authorities could also consider developing diverse channels to identify more non-compliant products on the market such as developing online platforms that allow consumers and other relevant stakeholders to report non-compliant products on the market. This practice has provided positive results in international markets like India.

In cases of disputes, companies should have the right to appeal. Authorities should ensure such processes are open and transparent, and extend the appeal period for cases that may require thorough research and investigations. The working group further recommends that the appeal process not be linked to penalties.

In addition, more proportionality is needed when it comes to penalty adjudication for different types of non-compliance, as well as consistency for penalty adjudication in different jurisdictions. Currently, companies can receive the same penalties for products not conforming to voluntary requirements as for products violating mandatory standards, and the severity of the penalty for the same issue is not consistent, varying at the provincial, city and county levels.

16 For example, some of these claims are related to consumer health (e.g., companies using labels advertising the health benefits of their products without linking these claims to proven scientific findings or relevant standards) and may therefore mislead consumers.

Recommendations

Mandatory standards and certification schemes

- Continue to limit the scope of technical regulations and mandatory standards to issues related to protection of the environment, health, and safety (EHS), in accordance with the WTO/ TBT Agreement.
- Optimise the synchronisation of mandatory standards, compulsory certification schemes and administrative licensing schemes, and ensure all mandatory type-approval schemes for market access are based only on national mandatory standards.
- Introduce reasonable transition periods for mandatory standards in a transparent manner and adopt European best practices on transition periods in more industries.
- Avoid different implementation dates for national mandatory standards at both the local and national levels.
- Ensure that, when establishing transition periods for standards impacting several industries, due consideration is given to the impacts on all industries affected.
- Avoid referring to recommended standards in mandatory standards.
- Avoid implementing recommended standards as mandatory standards, and provide sufficient transition periods for cases when recommended standards must be implemented as mandatory.

Social organisation standards

- Develop and implement proper procedures to facilitate the transformation of social organisation standards into national and industry standards.
- Set up an inclusive, public consultation process prior to the adoption of social organisation standards to improve their quality and enhance their subsequent application.

Market surveillance

- Avoid referring to recommended standards in law enforcement and market surveillance, and limit market surveillance to mandatory requirements.
- Increase the number of consumer product categories to be checked in the market, especially for consumer products not covered by mandatory certification or energy labelling requirements.
- Limit the number of testing samples and the number of checks for large equipment and high-value products.
- Ascertain the veracity of health-related and other product claims by companies to prevent consumer fraud and mitigate safety issues.

- Conduct checks on products used in engineering projects to ensure that they meet mandatory requirements.
- Intensify follow-up market checks, and develop processes and penalties that serve as effective deterrents.
- Guarantee the right to appeal and due process for all companies in cases of disputes.
- Ensure proportionality in the adjudication of penalties and consistency across jurisdictions.
- Provide diverse channels for reporting non-compliance of consumer products.

4. Strengthen International Standardisation Work and Increase Harmonisation of Domestic and International Standards and Conformity Assessment Schemes, Particularly in Areas Linked to the Green and Digital Transitions 2

Concern

International harmonisation of standards and conformity assessment schemes is key not only to facilitating international trade but also to advancing the green and digital transitions.

Assessment

a) International standards[17]

Key policy documents like the Standardisation Law and the *National Standardisation Development Outline* have consistently pointed towards the Chinese Government's willingness to increase its participation in international standardisation activities and to adopt international standards. The working group recommends that the authorities continue to increase the issuance and the identical adoption rate of international standards, which fell slightly in 2024.[18] The authorities should also clarify the methodology of the calculations used to establish the adoption rate of international standards to enhance transparency and accountability.

The working group recommends that the authorities promote an international mutual recognition mechanism for standardisation work, actively adopt internationally influential standards and ensure compatibility between national and international standards. Such actions can help build a predictable regulatory environment that will attract foreign investment to China by reducing entry costs. In this regard, the inclusion of wording on increasing the adoption of international standards and mutual recognition in recently published guidelines and regulations was a welcome development.[19,20&21]

b) Conformity assessment schemes

There are various unified testing and certification schemes for different products in China. Some of them adopt the same technical standards as international certification systems, for example, the CCC for explosion-proof products and equipment for potentially explosive atmospheres. However, European companies still find that some test reports issued by testing laboratories are not accepted by other testing laboratories for identical tests of the same product. This means manufacturers have to re-test their products, which wastes company resources and ultimately results in delayed product launches, increased costs and reduced efficiency.

Ensuring nationwide recognition of test reports for the same technical qualifications would avoid product test repetition and facilitate business at both national and international levels. This would require certain testing requirements to be clearly defined, to ensure testing equivalence across China. The procedures already established for existing international certification bodies could act as models for China to follow in this regard.

c) Green and low-carbon transition

Globally, companies are utilising different methods to calculate their organisational and product carbon footprints. Different policy and standardisation frameworks are also being developed in different jurisdictions and internationally, which can lead to

17 For more sector-specific recommendations on the adoption of international standards, please see Key Recommendation 4.2 of the *2025/2026 Cosmetics Working Group Position Paper*; Key Recommendations 2.1 and 2.2 of the *2025/2026 Auto Components Working Group Position Paper*; and Key Recommendation 4 of the *2025/2026 Rail Working Group Position Paper*.

18 See the graph 'Percentage of adopted international standards vs national standards (2010–2024)' in the Recent Developments section. This graph was developed by collecting data on national standards published on the SAC's National Public Service Platform for Standards Information. See: National Public Service Platform for Standards Information, SAC, viewed 23rd April 2025, <https://std.samr.gov.cn/>

19 *Management Measures for the Adoption of International Standards*, SAMR, 21st April 2025, viewed 22nd April 2025, <https://www.samr.gov.cn/xw/zj/art/2025/art_cceebd5bd7014018a221eff040da3f62.html>

20 *Guiding Opinions on Strengthening Supervision of Standard Formulation and Implementation*, National Standardization Administration, 2nd January 2025, viewed 22nd April 2025, <https://www.sac.gov.cn/xxgk/zcwj/art/2025/art_6428bd84e733412f85158f3e73046bbc.html>

21 *Circular on the Issuance of the Key Points of Industry and Information Technology Standard Work in 2025*, MIIT, 8th April 2025, viewed 22nd April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2025/art_02f418da5c244531b408b1eac63f1cf8.html>

inconsistencies and inefficiencies.[22]

In China, the policy and regulatory framework for decarbonisation and carbon footprint accounting continued to develop in 2024 and 2025.[23] As of April 2025, the national public service platform for standards information shows that four national standards for product carbon footprints have been issued and four more are about to be implemented, while in 2024 and early 2025, two industry standards were published out of a total of six.[24] As of mid-June 2025, 459 social organisation standards for product carbon footprints have been released, up from 180 in April 2024.[25]

In the European Union (EU), the Commission proposed in March 2025, as part of its Omnibus package, a simplification of the Carbon Border Adjustment Mechanism, which requires non-EU companies to pay a carbon tariff for certain emission-intensive products when they enter the EU to compensate for the difference between carbon prices in their country of origin and the EU's Emissions Trading System.[26] In addition, other regulations, such as the *Batteries Regulation* and the *Ecodesign for Sustainable Products Regulation,* also put forward clear requirements for the carbon footprint and recycled raw materials of an increasingly wide range of products.[27&28]

Because of these rapid, and often complex, developments in such an important area, it would make sense for China and the EU to actively promote the harmonisation and mutual recognition of product carbon footprint accounting standards, carbon footprint databases, rules and certification systems, to facilitate international trade and minimise businesses' financial risks.[29]

d) Green certificates

The Green Electricity Certificate (GEC) is the basic certificate for renewable electricity consumption, and the Chinese Government has been developing the regulatory framework surrounding GECs in the past years.[30] The working group supports the convergence of green certificates with carbon emission accounting methods, carbon footprint management and carbon market management, and recommends aligning the issuance, measurement and trading frameworks of Chinese GECs with international standards, as well as accelerating the global recognition/acceptance of GECs.[31]

e) Digital transition

As the digital transformation accelerates globally,[32] deeper integration of digital technology and the real economy will increasingly become an important economic growth point. At present, a wide variety of stakeholders from industry, civil society and academia are actively promoting the development of a data space to promote the flow of information between participants across the entire supply chain. In order to achieve international interoperability of the data space, the working group recommends that China actively participates in the formulation of international data space standards and rules, promotes the harmonisation of standards, and ensures there is a balance between data governance and data development and utilisation.

22 Internationally, the *ISO 14064-1 Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals* and the *ISO 14067 Greenhouse gases Carbon footprint of products Requirements and guidelines for quantification* set guidelines at the organisation and product level. *Specification with Guidance at the Organization Level for Quantification and Reporting of Greenhouse Gas Emissions and Removals*, International Organization for Standardization (ISO), 2018, viewed 23rd April 2025, <https://www.iso.org/standard/66453.html> ; *ISO 14067:2018 Greenhouse gases — Carbon footprint of products — Requirements and guidelines for quantification*, International Organization for Standardization, 2018, viewed 23rd April 2025 <https://www.iso.org/standard/71206.html>

23 Some of the major policies and regulations rolled out throughout 2024 and 2025 include the following: *Notice on Further Strengthening the Action Plan for the Construction of Carbon Peak and Carbon Neutrality Standard Measurement System (2024–2025)*, SAMR, 8th August 2024, viewed 23rd April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/jls/art/2024/art_ee06c4728b4245e1943b63f0cb391b92.html>; *Guidelines for Developing Product Carbon Footprint Accounting Standards*, MEE, 2nd January 2025, viewed 23rd April 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202501/t20250106_1099994.html>

24 National Standards Advanced Query, SAC, viewed 23rd April 2025, <https://std.samr.gov.cn/gb/search/gbAdvancedSearch?type=std>

25 National Social Organisation Standards Information Platform, viewed 23rd April 2025, <https://www.ttbz.org.cn/>

26 *CBAM: new Commission proposal will simplify and strengthen*, European Commission, 26th February 2025, viewed 23rd April 2025 <https://taxation-customs.ec.europa.eu/news/cbam-new-commission-proposal-will-simplify-and-strengthen-2025-02-26_en>

27 Batteries, European Commission, viewed 22nd April 2025 <https://environment.ec.europa.eu/topics/waste-and-recycling/batteries_en>

28 *Ecodesign for Sustainable Products Regulation*, European Commission, viewed 22nd April 2025, <https://commission.europa.eu/energy-climate-change-environment/standards-tools-and-labels/products-labelling-rules-and-requirements/sustainable-products/ecodesign-sustainable-products-regulation_en>

29 For more information on international harmonisation and mutual recognition of standards and carbon footprint of products (CFP) certification for hydrogen, please refer to Key Recommendation 2.1. of the *2025/2026 Energy Working Group Position Paper*.

30 *Notice on Strengthening the Convergence of Green Power Certificates and Energy Conservation and Carbon Reduction Policies to Vigorously Promote Non-Fossil Energy Consumption*, NDRC, 27th January 2024, viewed on 22nd April 2025, <https://www.gov.cn/zhengce/zhengceku/202402/content_6929877.htm>

31 For more information on international harmonisation and mutual recognition of standards linked to green certificates please refer to Key Recommendation 1.1. of the *2025/2026 Energy Working Group Position Paper*.

32 For more information on the international harmonisation of standards linked to digital and emerging technologies and data, please refer to Key Recommendations 1, 2 and 3 of the *2025/2026 Information and Communication Technology Working Group Position Paper*.

The evolving regulatory framework for commercial cryptography in China has sparked international stakeholder attention regarding its potential impact on open-market industries. While recognising the importance of cybersecurity and domestic innovation, industry concerns focus on unnecessary compliance burdens that could emerge should requirements expand beyond critical sectors.[33] Foreign businesses hope to see clear, proportional rules that maintain interoperability with global ecosystems, facilitate inclusive standard-setting participation and prevent overlapping evaluations with existing cybersecurity reviews.

Meanwhile, there is insufficient coordination and harmonisation between domestic standards and international standards in artificial intelligence (AI). For example, in areas such as data privacy and algorithm transparency, there are differences in risk assessment requirements between the EU and China, which may affect the compliance costs of multinational companies. Although China has taken the leading role in the formulation of international standards in some areas of AI, such as AI terminals and large model platforms, there is still a lack of coordination in terms of developing a global AI ethical framework.[34] Industry recommends that the EU and China explore at the bilateral and multilateral levels the potential harmonisation of standards in the above-mentioned areas linked to AI.

The digitalisation of quality infrastructure is currently being actively explored, including in the realm of the digitalisation of standards, conformity assessment, metrology and product identification. If properly harnessed, this can contribute positively to cost reduction and efficiency increases, as well as the low-carbon development of society overall. However, to ensure that international trade can continue without disruption, interoperability between different countries' and regions' digital quality infrastructure is essential. The working group therefore recommends that China and the EU establish a long-term communication and cooperation mechanism on this topic, at both the government and expert level, and jointly promote the formulation and coordination of international standards and rules.

Finally, as global industry players advance the implementation of digital solutions and services into their products, the working group recommends that Chinese regulators incorporate international trends on digital labelling into the Chinese context. A first step could be to clarify in the final version of the Product Quality Law that these practices will be allowed.

Recommendations

- Continue participating in international standard-setting activities and increase the adoption rate of identical international standards.
- Support the recognition of test reports at both the national and international levels.
- Ensure China's unified green development standards and conformity assessment schemes are harmonised with international practices to minimise companies' financial risks under various carbon tariff plans.
- Support the mutual recognition of green certificates.
- Improve coordination among different ministries and departments on AI standardisation and governance, and engage with other governments and relevant actors to develop international standards and boost harmonisation.
- Cooperate with international stakeholders to develop international standards and boost harmonisation in the fields of digital transformation of quality infrastructure, digital product labelling, the internet of things and data-driven industrial transformation.
- Specify in the Product Quality Law that digital labelling and user manuals for products will be allowed.

33 An example is the development of dual standards for cryptographic algorithms (e.g., SM series versus international norms). ShangMi or SM (商密) are a series of cryptographic algorithms developed by the Chinese Government for use in secure communications, data protection and national security applications.

34 *China Academy of Information and Communications Technology Successfully Establishes International Standards for Big Model Platforms, Generative Artificial Intelligence Applications and Automated Machine Learning Platforms at ITU*, CWW, 21st August 2023, viewed 23rd April 2025, <https://www.cww.net.cn/article?id=581626>

Abbreviations

AI	Artificial Intelligence
CCC	China Compulsory Certification
EHS	Environment, Health and Safety
EU	European Union
FIE	Foreign-invested Enterprise
GEC	Green Electricity Certificate
MIIT	Ministry of Industry and Information Technology
SAC	Standardisation Administration of China
SAMR	State Administration for Market Regulation
TBT	Technical Barriers to Trade
TC	Technical Committee
WTO	World Trade Organization

Quality and Safety Services Sub-working Group

Recent Developments

Regulatory Developments

In September 2024, the National Certification and Accreditation Administration (CNCA) issued the *Action Plan for High-level Opening-up of Certification and Accreditation (2024–2030)*, aimed at deepening mutual recognition of testing, inspection and certification (TIC) results in China and overseas markets; establishing 'green channels' for cross-border regulatory and standards acceptance; streamlining requirements for foreign TIC companies; and promoting international cooperation in certification and accreditation.[1]

Since the CNCA's introduction of industry-specific accreditation standards in March 2012, the Chinese authorities have approved over 500 related industry standards.[2] To enhance end-to-end oversight, in March 2025, the State Administration for Market Regulation (SAMR) replaced the original *Procedures for the Development and Revision of Accreditation Standards* with the more comprehensive *Regulations on Management of Accreditation Industry Standards*. The new measure tightens prohibitions on drafting inappropriate standards, mandates evaluation of implementation outcomes and clarifies enforcement responsibilities.[3]

TIC Policies on Carbon Peaking and Carbon Neutrality

In January 2025, the SAMR and several other ministries published the first *Pilot List for Product Carbon Footprint Label Certification*, launching China's national certification system for carbon footprints. Twenty-five provinces and municipalities will pilot certification for 10 product categories that are critical to industries under strong pressure to reduce emissions, such as transport equipment manufacturing, energy infrastructure and electronics.[4]

This pilot reflects a broader government-led, low-carbon industrial transformation and aligns closely with the European Union's (EU's) Carbon Border Adjustment Mechanism, which simplifies carbon-footprint verification for exports to the EU. In the *Selection Results for Pilot-participating Bodies*, which accompanies the *Pilot List for Product Carbon Footprint Label Certification*, the sub-working group is encouraged to see several foreign-invested accreditation companies included, indicating that China is committed to opening its certification market.[5] In March 2025, the CNCA further solidified this framework by issuing the *General Implementation Rules for Product Carbon Footprint Label Certification (Trial)*.[6]

Building on the 2024 rollout of the validation of China Certified Emission Reduction projects and the verification of emissions reduction quantities, the CNCA in March 2025 began accrediting a second cohort of validation and verification bodies, expanding both the industries covered and the number of authorised companies.[7] The sub-working group welcomes these efforts to broaden and deepen policies for voluntary greenhouse gas reduction projects and will continue to monitor forthcoming regulatory updates.

1 *Action Plan for Accelerating High-Level Opening-Up of Certification and Accreditation (2024–2030),* CNCA, 14th September 2024, viewed 22nd April 2025, <https://www.cnca.gov.cn/zwxx/tz/2024/art/2024/art_c6a114779f604bac861aa4569d5b47db.html>

2 *Regulations on the Management of Accreditation Industry Standards Revised and Published*, SAMR, 28th March 2025, viewed 7th July 2025, <https://www.gov.cn/lianbo/bumen/202503/content_7016115.htm>

3 *Announcement of the State Administration for Market Regulation on Issuing the Regulations on the Management of Accreditation Industry Standards,* SAMR, 27th March 2025, viewed 22nd April 2025, <https://www.cnca.gov.cn/zwxx/gg/zjgg/art/2025/art_e47d66dd1e2f49568305c0ea60a1f93f.html>

4 *Notice of the State Administration for Market Regulation and Other Ministries on Publishing the Pilot List for Product Carbon Footprint Label Certification*, SAMR, 7th January 2025, viewed 22nd April 2025, <https://www.cnca.gov.cn/zwxx/tz/2024/art/2025/art_a7a908bf7f2d475daef8ee3d3274af71.html>

5 *Notice of the Secretariat of the National Certification and Accreditation Administration on the Selection Results for Pilot-Participating Bodies under the Product Carbon Footprint Label Certification Scheme*, CNCA, 7th January 2025, 22nd April 2025, <https://www.cnca.gov.cn/zwxx/tz/2024/art/2025/art_5605cfc80d754086a57c426e2b7632ce.html>

6 *Announcement of the National Certification and Accreditation Administration on Issuing the General Implementation Rules for Product Carbon Footprint Label Certification (Trial),* CNCA, 20th March 2025, viewed 22nd April 2025, <https://www.cnca.gov.cn/zwxx/gg/2025/art/2025/art_5fc5d46ee1fc4ae7bbfbd55b11572496.html>

7 *Announcement on the Qualification Approval for the Second Batch of China Certified Emission Reduction Reduction Project Validation and Emission Reduction Verification Bodies,* CNCA, 18th March 2025, viewed 22nd April 2025, <https://www.cnca.gov.cn/zwxx/gg/2025/art/2025/art_683ed655d3cd4304b2c4138f8ee64573.html>

Key Recommendations

1. Ensure Equal and Fair Treatment in Government Procurement Activities for Foreign-invested TIC Agencies 6

Concern

Certain unreasonable conditions set in government procurement activities and insufficient marketisation of government-affiliated TIC agencies constitute invisible barriers that exclude foreign-invested TIC agencies from obtaining equal and fair treatment during the procurement process.

Assessment

China has stated its commitment to and has achieved notable results in establishing a government procurement system that provides equal and fair treatment for domestic enterprises and foreign-invested enterprises (FIEs).[8] In line with both the *Plan for Deepening the Reform of the Government Procurement Mechanism* and the *Notice by the General Office of the State Council on Focussing on Enterprises' Concerns and Further Promoting the Implementation of Policies to Optimise the Business Environment,*[9&10] the Ministry of Finance (MOF) issued the *Notice on Promoting Fair Competition in Government Procurement and Optimising the Business Environment* in July 2019.[11] The notice requires relevant government authorities to eliminate any practices and regulations that restrict fair competition in the field of government procurement and refrain from publishing government procurement tenders that have not undergone a fair competition review process.

On 26th October 2021, the MOF released the *Notice on the Implementation of Policies Relating to the Equal Treatment of Domestic and Foreign Enterprises in Government Procurement Activities*,[12] which requires equal access and opportunities in government procurement for both domestic and foreign enterprises. This includes ensuring equal access to bidding information and setting reasonable requirements and evaluation criteria for suppliers. As a result, more third-party TIC agencies have had the opportunity to participate in government quality sampling and inspection activities.

The Chinese authorities introduced a series of policies and regulations in the past two years aimed at further addressing unfair market competition in government procurement activities. In both the *Opinions on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment* issued in August 2023, and the *Action Plan for Solidly Promoting High-level Opening to the Outside World and Making Greater Efforts to Attract and Utilise Foreign Investment* issued in March 2024,[13&14] FIEs' equal access to the bidding and tendering process of government procurement activities has been emphasised. One of the ways this is supposed to happen is through regular investigations into cases of prominent discriminatory practices in government bidding and tendering processes. In addition, in March 2024, the National Development and Reform Commission (NDRC) issued guidelines that prohibit discrimination based on ownership in government procurement activities.[15]

The sub-working group expects tangible progress to be made under the guidance of the above regulatory developments in the near future. However, in practice, some local governments still adopt terms or conditions that could exclude suppliers or restrict competition in bidding processes. Public bidding and competitive negotiation are the two statutory methods of government procurement most commonly adopted

8 *China Commits to Establishment of Government Procurement System Ensuring Fair Competition,* Gov.cn, 29th October 2019, viewed 22nd April 2025, <https://www.gov.cn/xinwen/2019-10/29/content_5446385.htm>

9 *Central Committee for Deepening Overall Reform adopted the Plan for Deepening the Reform of the Government Procurement Mechanism*, China Government Procurement Network, 15th November 2018, viewed 22nd April 2025, <http://www.cgpnews.cn/articles/46544>

10 *Notice of the State Council General Office on Focussing on Enterprises' Concerns and Further Promoting the Implementation of Policies to Optimise the Business Environment*, State Council General Office, 8th November 2018, viewed 22nd April 2025, <http://www.gov.cn/zhengce/content/2018-11/08/content_5338451.htm>

11 *Notice of the Ministry of Finance on Promoting Fair Competition in Government Procurement and Optimising the Business Environment,* MOF, 30th December 2019, viewed 22nd April 2025, <http://www.mof.gov.cn/gkml/caizhengwengao/wg201901/wg201908/201912/t20191230_3452065.htm>

12 *Notice on the Implementation of Policies Relating to the Equal Treatment of Domestic and Foreign Enterprises in Government Procurement Activities*, MOF, 13th October 2021, viewed 22nd April 2025, <http://www.gov.cn/zhengce/zhengceku/2021-10/26/content_5644953.htm

13 *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment,* State Council, 13th August 2023, viewed 22nd April 2025, <https://www.gov.cn/zhengce/zhengceku/202308/content_6898049.htm>

14 *Action Plan for Solidly Promoting High-level Opening to the Outside World and Making Greater Efforts to Attract and Utilise Foreign Investment,* State Council General Office, 19th March 2024, viewed 22nd April 2025, <https://www.gov.cn/zhengce/content/202403/content_6940154.htm>

15 *Review Rules for Fair Competition in Tendering and Bidding,* NDRC, 25th March 2024, viewed 22nd April 2025, <https://zfxxgk.ndrc.gov.cn/web/iteminfo.jsp?id=20360>

by the Chinese authorities. Comparatively speaking, the process of competitive negotiation is less contentious, as it relies solely on prices to determine winning bids, with the tender price eventually being publicly announced. However, the public bidding process involves a comprehensive scoring method in which price accounts for only a portion of the score. Other factors taken into consideration under the bidding system include: 1) enterprises' experiences in sampling and inspection services carried out by administrations for market regulation at the national and provincial level; 2) experience in developing national or industry standards; 3) recommendations or awards received; and 4) year-end performance reviews. Foreign-invested TIC agencies face a disadvantage across all these dimensions. Government outsourcing of sampling and inspection services was only recently opened nationwide to the private sector, meaning that foreign-invested TIC agencies have not had enough time to accrue relevant sampling and inspection service experience in China.[16] Foreign-invested TIC agencies have also not had sufficient opportunities to participate in the development of national or industry standards. Moreover, awards, commendations and performance assessments are only available for government-affiliated agencies and do not directly relate to the capabilities of bid participants.

In addition, the incomplete marketisation of government-affiliated TIC agencies presents a significant barrier to foreign-invested TIC agencies. Due to the presence of vested interests in certain government departments, their affiliated TIC agencies hold an inherent advantage in government procurement activities. This manifests itself in preferential treatment, intentional or unintentional, from relevant government agencies during the selection of service providers. In numerous provinces, including those that are economically prosperous and are home to third-party TIC agencies, government procurement activities such as product quality sampling remain closed to third-party TIC agencies without government affiliation via public bidding. This illustrates a lack of transparency throughout the entire procurement process that continues to disadvantage foreign-invested TIC agencies.

Recommendations

- Promote market-orientated reforms of government-affiliated TIC agencies and provide equal access to government procurement activities for foreign-invested TIC agencies to encourage fair competition.
- Remove all conditions unrelated to the capabilities required to perform a bid in the qualification process.
- Further regulate government procurement by establishing a fair, transparent, impartial and efficient management system.

2. Allow Foreign-invested TIC Agencies to Provide Container Inspection Services

6

Concern

Foreign-invested TIC agencies are unable to provide statutory inspection services for domestic containers due to market access restrictions.

Assessment

In China, containers are currently subject to statutory surveys managed by the Ministry of Transport (MOT) and the China Maritime Safety Administration. The latter delegates the qualification of statutory surveys of containers solely to the China Classification Society (CCS)—a secondary public interest institution—which then subcontracts the work to its subsidiary, the CCS Certification Company. Pursuant to the *Regulations of the People's Republic of China Governing the Survey of Ships and Offshore Installations* and the *Vessel Inspection Administration Regulations,*[17&18] foreign-invested ship inspection agencies registered in China are only permitted to inspect containers owned by foreign businesses (i.e., foreign export containers). In other words, foreign-invested TIC agencies registered in China are not permitted to conduct legal inspections on containers owned by Chinese organisations.

The sub-working group recommends that China open up the container inspection market to ship inspection agencies from all signatories to the International

16 Despite several local governments outsourcing third-party inspection services since 2013, it was not until the introduction of the *Administrative Measures on Food Safety Sampling Inspection (Measures)*, approved by the SAMR during the 2019 11th Administration Affair Meeting on 30th July 2019, which came into effect on 1st October 2019, that sampling and inspection services were officially opened to private inspection agencies. Article 11, Chapter 3 of the *Measures* clearly states that market regulatory and administrative entities may independently perform sample tests or authorise a service provider to do so. See: *Order of the State Administration for Market Regulation (No. 15)*, SAMR, 8th August 2019, viewed 22nd April 2025, <https://www.gov.cn/gongbao/content/2019/content_5453439.htm>

17 *Regulations of the People's Republic of China Governing Survey of Ships and Offshore Installations*, State Council, 2nd March 2019, viewed 9th May 2025, <http://www.gov.cn/gongbao/content/2019/content_5468917.htm>

18 *Order of the Ministry of Transport (2016 No. 2)*, MOT, 22nd January 2016, viewed 9th May 2025, <http://www.gov.cn/gongbao/content/2016/content_5070757.htm>

Convention for Safe Containers (*Convention*),[19] and grant foreign-invested TIC agencies authorisation to provide inspection services for containers owned by Chinese businesses, for the following reasons:

1) To meet the principle of reciprocity

The relevant authorities neither restrict Chinese TIC agencies registered in EU Member States to only inspecting containers owned by non-EU companies, nor do they prohibit them from inspecting containers owned by Member State companies. The sub-working group therefore recommends that China lift restrictions on the business scope of European TIC agencies in China based on the nationality of the container owners, in line with the principle of reciprocity.

2) To meet the principle of mutual recognition of the Convention

According to the *Convention*, once an inspection agency obtains the necessary qualification to survey containers from one contracting state, then all contracting states must accept the qualification of the agency in question, as well as the inspection process and results it provides. However, such mutual recognition is not observed in the Chinese market, with European TIC agencies restricted to inspecting only containers owned by foreign businesses. This violates the principle of mutual recognition under the *Convention*.

3) To conform to the 'pre-establishment national treatment plus negative list' administrative system

Article Four of China's Foreign Investment Law stipulates that the 'pre-establishment national treatment plus negative list' administrative system be applied to foreign investments.[20] The article requires equal treatment for foreign and domestic investors at the initial stage of market access for industries not included on the *Negative List for Foreign Investment (Negative List)*.[21] In addition, Article Six of the *Regulation on the Implementation of the Foreign Investment Law* stipulates that domestic enterprises and FIEs shall be treated equally by the authorities with respect to government funding arrangements, land supply, tax reductions, certification, standard setting, project applications and human resource policies.[22] The 'pre-establishment national treatment plus negative list' system for foreign-invested agencies must be strictly adhered to, and its implementation closely monitored to ensure a fair and equitable business environment for FIEs operating in China.

4) To adopt international practices to avoid monopolistic behaviours

The statutory inspection of containers is a charged service provided by third parties. The service fees are adjusted in accordance with market prices based on supply and demand. In most jurisdictions around the world, enterprises are at liberty to choose inspection services from international classification societies that have the qualifications required by the Convention for statutory inspection services. When administrative measures specify that only a single organisation can provide such services, there is a risk of a monopoly given the lack of competition and the price adjustment mechanism for inspection fees. This not only limits the freedom of choice of Chinese container owners, but also disincentivises government-affiliated TIC agencies in China from improving their services or technical capabilities.

5) To mitigate financial burdens on Chinese container owners

According to the *Agreement Concerning the International Carriage of Dangerous Goods by Road* (*Agreement*), when a Chinese enterprise seeks to export containers of hazardous cargo to the EU, it is required to seek certification from an EU agency operating in China.[23] In this scenario, EU ship inspection agencies are authorised to provide inspection services to Chinese containers. However, a separate certificate issued by the CCS, the sole officially recognised agency for conducting such services in China, is also mandatory for the export of these containers from China to the EU, as stipulated by the *Vessel Inspection Administration Regulations*.[24] The requirement for dual certification arises from China's non-signatory status to the *Agreement,* which directs EU-domiciled agencies

19 *International Convention for Safe Containers*, International Maritime Organization, 6th September 1977, viewed 9th May 2025, <https://www.imo.org/en/About/Conventions/Pages/International-Convention-for-Safe-Containers-(CSC).aspx>

20 *Foreign Investment Law*, National People's Congress, 20th March 2019, viewed 9th May 2025, <https://www.gov.cn/xinwen/2019-03/20/content_5375360.htm>

21 *Special Administrative Measures for the Access of Foreign Investment (Negative List) (2024)*, NDRC and Ministry of Commerce, 6th September 2024, viewed 9th May 2025, <https://www.gov.cn/gongbao/2024/issue_11606/202409/content_6976935.html>

22 *State Council Order No. 723*, State Council, 31st December 2019, viewed 9th May 2025, <http://www.gov.cn/zhengce/content/2019-12/31/content_5465449.htm>

23 *About the ADR: Agreement Concerning the International Carriage of Dangerous Goods by Road*, United Nations Economic Commission for Europe, 30th September 1957, viewed 9th May 2025, <https://unece.org/about-adr>

24 *Order of the Ministry of Transport (2016 No. 2)*, MOT, 22nd January 2016, viewed 9th May 2025, <http://www.gov.cn/gongbao/content/2016/content_5070757.htm>

to conduct inspections of containers transporting hazardous materials. Restricting EU-domiciled ship inspection agencies in China from inspecting Chinese-owned containers doubles the operational costs for Chinese businesses, as two inspection agencies must carry out a procedure that could otherwise have been completed by one. It also adversely affects China's international shipping business and impedes the advancement of projects such as the Belt and Road Initiative.

Recommendation

- Encourage fair market competition by allowing foreign-invested TIC agencies to provide statutory inspection services for domestic and foreign containers.

3. Create the Conditions to Allow Foreign-invested TIC Agencies to Fully Contribute to China's 30/60 Goals 2

Concern

While foreign-invested TIC agencies can make important contributions to China achieving its 30/60 goals,[25] their current involvement in related work is significantly below potential, especially in terms of collaboration with state-owned enterprises.

Assessment

Foreign-invested TIC agencies' contributions towards China's carbon peaking and carbon neutrality goals are well below potential.[26] The primary cause of this stems from the absence of specific policies and regulations governing the participation of foreign-invested TIC agencies in such efforts. On top of this, foreign-invested TIC agencies operating in China encounter many de facto market access barriers and unfair competition,[27] despite the fact that they have the potential to play a pivotal role in realising China's 30/60 goals.

First, these agencies possess advanced testing and inspection technologies and extensive certification expertise in the field of carbon peaking and carbon neutrality, having accrued years of related experience in their home markets, which are comparatively more advanced in decarbonisation. Such technologies and experience enable them to provide more precise and efficient solutions that could be instrumental in aiding companies in the Chinese market to accurately identify and manage carbon emissions, thereby fostering green, low-carbon development.

Second, foreign-invested agencies play a crucial role in advocating for alignment with international standards. As the challenge of global climate change increases, the requirements and standards for carbon emissions are being increasingly tightened worldwide. Foreign-invested TIC agencies are more attuned to international standards, and thus extremely well placed to facilitate Chinese companies to comprehend and conform with international regulations and standards for carbon peaking and carbon neutrality, which in turn would augment their competitiveness in the global marketplace.

Finally, the engagement of foreign-invested agencies would catalyse the internationalisation of China's carbon peaking and carbon neutrality endeavours. Collaboration with foreign-invested agencies enables China to gain global insights, bolster international cooperation and exchanges, and thus collectively address the challenges posed by global climate change together with the international community. Given that many foreign-invested agencies registered in China boast a long-standing history and extensive credibility worldwide, the reports and certificates they issue are readily acknowledged by stakeholders globally. This would help to establish a global consensus on Chinese market players' achievements in carbon neutrality, thereby expediting their internationalisation process.

Recommendations

- Provide more policy guidance to facilitate foreign-invested agencies' contribution to China's 30/60 goals, and ensure equal market access for foreign-invested TIC agencies.
- Create a platform for foreign-invested TIC agencies and Chinese stakeholders to jointly contribute to China's 30/60 goals.

25 China's 30/60 goals refer to its dual targets of peaking carbon emissions before 2030 and achieving carbon neutrality by 2060.

26 More information on foreign-invested TIC agencies' contribution to China's 30/60 goals can be found in Key Recommendation 1 of the *Carbon Market Working Group Position Paper 2025/2026*.

27 For more information on market access restrictions and unfair market competition encountered by foreign-invested TIC agencies, please refer to Key Recommendation 1 of this position paper.

4. Allow TIC Companies to Benefit from Relevant Industrial Support Policies at All Levels

Concern

Currently, the TIC industry is largely excluded from key industrial support policies, undermining their contribution to the development of many industries to which they provide services.

Assessment

The TIC industry has come to play an integral role in the modernisation of China's industrial ecosystem. It serves as a critical component of China's National Quality Infrastructure (NQI) system, ensuring product compliance throughout the entire lifecycle, contributing to the formulation of technical standards and guarding against market malpractices.[28] These services are embedded across all stages of manufacturing – from research and development (R&D) to production and distribution.

The sub-working group acknowledges the recent development plans introduced by central and local authorities in China aimed at advancing the TIC industry. These initiatives reflect China's efforts to both enhance its quality certification systems and establish itself as a 'quality powerhouse'.[29]

Despite these advances, the mechanisms supporting the TIC sector remain underdeveloped. For example, in June 2024, four ministries, including the MOF, issued guidelines to instruct local financial authorities to collaborate with commercial banks to issue fiscal interest-subsidised loans to promote equipment upgrades in key industries.[30] However, the subsequent implementation guidelines in major TIC hubs excluded the TIC sector from eligibility for these subsidies, thereby impeding the renewal of laboratory equipment within the industry.[31]

Simultaneously, China's high-end equipment sectors—encompassing critical components, infrastructure manufacturing, smart manufacturing and green technologies—are experiencing rapid growth, increasing the demand for comprehensive accreditation and testing services. The absence of targeted support exacerbates the disparity between the TIC sector's capabilities and industrial demands, leading to prolonged compliance processes, elevated innovation costs for manufacturers and limitations on the development of emerging business models. This gap presents significant challenges to efforts to modernise supply chains, enhance foundational industrial capacities and advance the manufacturing sector.

28 NQI consists of metrology, standards and conformity assessment (including certification, accreditation, inspection, and testing), which constitutes the integrated technical system that underpins a country's economic and social development. The concept of NQI was first introduced in the *Export Strategy Innovation* report published jointly by the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO) in 2005. In 2018, a group of 10 international organisations—including the United Nations Industrial Development Organization (UNIDO) and the International Organization for Standardization—expanded the scope of NQI in their joint publication *Quality Policy: A Technical Guide*, defining it not only as a technical framework, but also encompassing policy and legal frameworks, market supervision, and public services. See: *Commentary II: The Most Frequently Mentioned Term in the Outline for Building a Quality Powerhouse is This One*, Sichuan Provincial Administration for Market Regulation, 13th February 2023, viewed 24th April 2025, <https://scjgj.sc.gov.cn/scjgj/gzyj/2023/2/13/201ce9c1add04fa39d944b3f83c486e3.shtml>; *Innovations in Export Strategy: A strategic approach to the quality assurance challenge*, International Trade Centre UNCTAD/WTO, 10th May 2005, p.1, viewed 7th July 2025, <https://intracen.org/sites/default/files/uploadedFiles/intracenorg/Content/Exporters/Exporting_Better/Quality_Management/Redesign/Innovations_in_Export_Strategy_QualityAssuranceWeb.pdf>; *Quality Policy Technical Guide*, UNIDO, 16th June 2018, p.23, viewed 7th July 2025, <https://www.unido.org/sites/default/files/files/2018-06/QP_TECHNICAL_GUIDE_08062018_online.pdf>

29 *Notice of the State Administration for Market Regulation on Issuing the 14th Five-year Development Plan for Certification, Accreditation, Inspection, and Testing*, SAMR, 29th July 2022, viewed 9th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/rzjgs/art/2023/art_6b55306125704c99b7db2fccd11825e4.html>; *How We Will Carry Out Certification and Testing Work in 2025*, Beijing Municipal Administration for Market Regulation, 28th February 2025, viewed 9th May 2025, <https://scjgj.beijing.gov.cn/zwxx/scjgdt/202502/t20250228_4022439.html>; *Notice of the Shanghai Administration for Market Regulation on Issuing the Action Plan (2025–2027) for Promoting the High-Quality Development of the Testing, Inspection, and Certification Sector*, Shanghai Municipal Administration for Market Regulation, 18th April 2025, viewed 9th May 2025, <https://www.shanghai.gov.cn/nw12344/20250418/f516c686fea84c69aa17ef341c1a1e88.html>

30 *Notice on Implementing the Fiscal Interest Subsidy Policy for Equipment Renewal Loans*, State Council, 21st June 2024, viewed 9th May 2025, <https://www.gov.cn/zhengce/zhengceku/202406/content_6959323.htm>

31 *Notice on the Implementation Plan for Expanding Large-Scale Equipment Renewal and the Replacement of Used Consumer Goods in Shanghai (2025)*, Shanghai Municipal Development and Reform Commission and Shanghai Municipal Finance Bureau, 27th January 2025, viewed 9th May 2025, <https://www.shanghai.gov.cn/gwk/search/content/9dad9ab838c14b7988593d453bccedd4>; *Notice on Soliciting Public Comments on the draft Implementation Plan for Providing Interest Subsidies on Equipment Purchase and Upgrade Loans in Key Sectors to Accelerate the Development of New Quality Productive Forces*, Beijing Municipal Development and Reform Commission, 21st March 2025, viewed 9th May 2025, <https://fgw.beijing.gov.cn/zmhd/dczj/yjgg/202503/t20250321_4041202.htm>; *Notice on the Implementation of Fiscal Interest Subsidies for Equipment Renewal Loans*, Guangdong Provincial Department of Finance, Guangdong Development and Reform Commission, Guangdong Branch of the People's Bank of China, and Guangdong Bureau of the National Financial Regulatory Administration, 30th August 2024, viewed 9th May 2025, <https://www.gd.gov.cn/gdywdt/zwzt/yjhx/zcwj/content/post_4485677.html>

Therefore, the sub-working group recommends embedding the TIC industry in the national-level strategic industrial catalogue to underscore its role in supporting China's industrial transformation. Accordingly, the sub-working group also calls for a dedicated policy support system to fully unlock the sector's potential.

Specifically, government-led financial measures—such as industrial support funds, direct subsidies and tax rebates—should be incorporated into the policy support framework for the TIC sector. While China has broadened depreciation incentives across all manufacturing industries and introduced a value-added tax super-deduction for R&D-focussed advanced manufacturers, TIC services—essential for technology transfer, quality assurance and production safety—remain largely excluded.[32] To acknowledge the TIC sector as a core component of the science and technology services industry, the sub-working group urges extending these established financial incentives to qualified TIC enterprises.

Recommendations

- Revise the *Strategic Emerging Industries Classification* and establish a sub-category under the 'High-technology Services' section titled 'Testing, Inspection and Certification' to reflect the sector's advanced development needs.
- Build a dedicated policy support framework for the TIC sector.
    - Create an annual National Quality Infrastructure special fund with priority funding for smart laboratory equipment upgrades.
    - Introduce accelerated depreciation subsidies for testing equipment.
    - Extend an immediate value-added tax rebate on TIC service revenues, to support its development as one of the science and technology service industries, modelled on the research and development super-deduction policy.

32 *Announcement on Expanding the Applicability of Accelerated Depreciation Policies for Fixed Assets*, MOF and State Taxation Administration (STA), 23rd April 2019, viewed 10th June 2025, <https://www.gov.cn/zhengce/zhengceku/2019-10/16/content_5440614.htm>; *Guide to R&D Super-Deduction Policy*, STA, 12th April 2024, viewed 10th June 2025, <https://www.chinatax.gov.cn/chinatax/n810356/n3010387/c5222730/content.html>

Abbreviations

CCS	China Classification Society
CNCA	National Certification and Accreditation Administration
EU	European Union
FIE	Foreign-invested Enterprise
MOF	Ministry of Finance
MOT	Ministry of Transport
NDRC	National Development and Reform Commission
NQI	National Quality Infrastructure
R&D	Research and Development
SAMR	State Administration for Market Regulation
STA	State Taxation Administration
TIC	Testing, Inspection and Certification
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
WTO	World Trade Organization

Section Three 3

Goods

Goods

The Goods section encompasses 12 European Chamber working groups and three sub-working groups:

- Agriculture, Food and Beverage
  - Dairy Industry
  - Paediatric Nutrition and Foods for Special Medical Purposes (two sub-working groups)
- Automotive
- Automotive Components
- Cosmetics
- Energy
- Carbon Market
- Fashion and Leather
- Healthcare Equipment
- Maritime Manufacturing and Industrial Services
- Petrochemicals, Chemicals and Refining
- Pharmaceutical
- Rail

In 2024, the value of European Union (EU)-China trade in goods declined, with exports from the EU to China decreasing 4.5 per cent to euro (EUR) 213.3 billion, and imports from China decreasing 0.5 per cent to EUR 517.8 billion. At the same time, China's trade deficit with the EU grew EUR 13.5 billion (4.6 per cent year-on year (y-o-y)) to EUR 304.5 billion.[1]

More concerning than the imbalance in trade value is that the volume of Chinese exports to the EU increased sharply from 2023. Container Trade Statistics registered the ratio of container trade as growing from 1:2.6 in 2023, to 1:3.22 in 2024.[2] The ongoing discrepancy between value and volume is a result of persistent deflationary pressure in China, and the country's increasing focus on exports as a driver of economic growth – something that was acknowledged in the Government Work Report in March 2025.[3] The trade imbalance remains one of the most contentious issues in the EU-China relationship.

According to the European Chamber's *Business Confidence Survey 2025* (BCS2025), business became more difficult in 2024 for a record-high 73 per cent of overall respondents, and most notably for 100 per cent of those from the cosmetics industry. Positive progress has been made on the labelling of allergens and the definition of low-microbial risk products since the *Cosmetics*

1 *Slight decline in imports and exports from China in 2024*, Eurostat, 4th March 2025, viewed 30th June 2025, <https://ec.europa.eu/eurostat/web/products-eurostat-news/w/ddn-20250304-1>

2 Container Trade Statistics is an organisation that provides aggregated trade volumes in twenty-foot equivalent units (TEUs) between various regions as a paid-for service. The ratios referenced here are for trade in TEUs between Greater China—including Taiwan and Hong Kong—and the EU. See: <https://www.containerstatistics.com/>

3 "Foreign trade reached a record high, and the global market share of China's exports increased steadily […] We actively fostered new growth drivers for foreign trade and steadily improved the import and export mix. These efforts enabled exports to contribute more to China's economic growth." *Full text: Report on the Work of the Government, Xinhua,* 12th March 2025, viewed 26th June 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

Working Group Position Paper 2024/2025 was published, and the cosmetics industry has the third highest proportion of industry respondents (58 per cent) reporting that the industry is already fully open or expect it to be so in the next two years. However, amid China's economic slowdown, demand for cosmetics products has contracted, and 80 per cent of respondents to the BCS2025 reported 2024 earnings before interest and taxes margins equal to or less than their global average.[4]

Similarly, the food and beverage (F&B) industry has the highest proportion of BCS2025 respondents reporting the industry either to be open or that it will be fully open in the next two years (61 per cent), and a majority report national treatment or that they expect to receive it within the next two years (67 per cent); yet 83 per cent said business became more difficult y-o-y. This can be attributed to several factors, including increased competition from Chinese brands, and China's probes into EU dairy, pork and brandy products. In fact, 54 per cent of F&B companies reported being negatively impacted by China's application of trade tools, the highest proportion among all industries. This was reflected in the export of EU agri-food products to China, which fell nine per cent y-o-y, from EUR 14.6 billion to EUR 13.3 billion. This was mainly due to reduced exports of grains, pork, spirits and liqueurs, and dairy products.[5]

In automotive, a majority of BCS2025 respondents (58 per cent) also reported that the industry is already fully open. The industry is also highly competitive—for example, China's manufacture of electric vehicles accounted for more than 70 per cent of global production, with domestic automotive manufacturers now responsible for 80 per cent of its output—up from two-thirds in 2021.[6] However, the manner in which these exceptional results have been achieved has led to unsustainable competition, with many companies leaning further into export markets in an attempt to remain afloat. This has led to a backlash, not least from the EU, which levied additional tariffs on imports of battery electric vehicles from China, following a nine-month, anti-subsidy investigation that took place during much of 2024.[7] Addressing unsustainable competition and price wars is a key area of advocacy focus for the Automotive Working Group for the coming year.

China remains at least a top-five investment destination for 82 per cent of BCS2025 respondents in the retail industry. However, the luxury goods segment did not fare well in 2024 – compared with 2023, consumption in China declined approximately 18–20 per cent. Multiple factors contributed to this outcome, including continued low consumer confidence due to economic uncertainty, the recovery of outbound tourism leading to some consumption outflow and the widespread proliferation of fake goods.[8&9]

In terms of the outlook on China's business environment, Chamber members in the Healthcare Equipment Working Group are among the more pessimistic: 41 per cent never expect to see

4 *European Business in China Business Confidence Survey 2025*, European Chamber, 28th May 2025, viewed 30th June 2025, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>

5 *Monitoring EU Agri-Food Trade, Developments in 2024*, European Commission, March 2025, viewed 30th June 2025, <https://agriculture.ec.europa.eu/document/download/8e6be7cf-e1d2-48fd-9114-90c448e09643_en?filename=monitoring-agri-food-trade_dec2024_en.pdf>

6 *Global EV Outlook 2025,* International Energy Agency, May 2025, viewed 8th June 2025, <https://www.iea.org/reports/global-ev-outlook-2025>

7 Kiderlin, S, *European Union votes to impose tariffs on Chinese electric vehicles, CNBC*, 4th October 2024, viewed 9th March 2025, <https://www.cnbc.com/2024/10/04/european-union-votes-to-impose-tariffs-on-chinese-electric-vehicles.html>

8 *Bain & Company released the 2024 China Luxury Market*, Bain & Company, 21st January 2025, viewed 18th April 2025, <https://www.bain.cn/news_info.php?id=1957>

9 *2024 China Luxury Goods Report Press Release: A 17% Decline, Luxury Brands Face Their Darkest Hour in China in 2024*, Sohu.com, 18th April 2025, viewed 23rd April 2025, <https://www.sohu.com/a/886057763_237556>

meaningful market opening, and business became more difficult in 2024 for 77 per cent. Meanwhile, the tendency for some local authorities to favour a 'buy China' approach in procurement processes continues to pose challenges for European medical device manufacturers. Notably, a January 2025 European Commission report found "clear evidence" that Chinese government measures favour domestic devices in hospital bids.[10]

On 20th June, the European Commission announced it would exclude Chinese bidders from participating in certain public procurement processes of medical devices in the EU.[11] In response, on 6th July 2025, China's Ministry of Finance issued measures that impose restrictions on medical devices imported from the EU in government procurement projects that exceed EUR 5.33 million.[12] Although these measures officially do not apply to medical devices manufactured by EU companies in China, there is a concern that local governments may not implement the measures in the way that the MOF intends and that restrictions will be applied in a way that impacts all EU manufacturers.

Petrochemicals, chemicals and refining is a good example of an industry in which foreign technology still has a strong role to play – whether by spurring domestic competition or providing critical inputs that Chinese firms still cannot.[13] This industry is not free of challenges, however, with 79 per cent of BCS2025 respondents reporting business became more difficult in 2024.[14] Frequent and opaque policy changes throughout the year contributed to this finding.[15] At the same time, a relatively high proportion of those operating in this industry report being impacted by ambiguous rules and regulations and China's unpredictable legislative environment, an issue underpinned by misalignment between central policy and local implementation.[16&17]

A key issue for European companies in China's rail industry is a basic lack of market access. While this can be at least partly attributed to the significant technological advances that Chinese rail companies have made over the past decade and a half, these advances have largely been possible due to the Made in China 2025 (MIC2025) initiative. Designated a strategic industry under MIC2025, Chinese advanced rail equipment manufacturers received state-directed policy support, including through the provision of direct subsidies. As a result, most are now able to produce technology that can compete with that of European companies, and even though the latter have a long-standing reputation for quality and reliability, procurement processes rarely capture this value in full.

10 Blenkinsop, P, *EU weighs curbs on Chinese medical device makers in public bids, Reuters*, 14th January 2025, viewed 24th April 2025, <https://www.reuters.com/business/healthcare-pharmaceuticals/eu-finds-china-is-limiting-access-medical-device-market-2025-01-14/#:~:text=The%20Commission%20launched%20its%20first,which%20aims%20to%20ensure%20reciprocity>

11 *Commission restricts Chinese participation in medical devices procurement,* European Commission, 20th June 2025, viewed 30th June 2025, <https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1569>

12 *China to take measures imported from the EU in government procurement, Xinhua*, 6th July 2025, viewed 12th August 2025, <https://english.www.gov.cn/news/202507/06/content_WS686a7ca9c6d0868f4e8f3e2a.html>

13 For an analysis of China's progress in advancing self-reliance in the 10 key sectors prioritised for development under its Made in China 2025 plan, see: *Made in China 2025: The Cost of Technological Leadership*, European Union Chamber of Commerce in China, 16th April 2025, viewed 16th April 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1274>

14 China's economic growth slowdown and the downturn in the real estate market are particularly impactful for the chemical industry, as chemical products are extensively used in construction and manufacturing.

15 For more details of the specific challenges faced, see: *European Business in China Position Paper 2024/2025*, European Union Chamber of Commerce in China, 11th September 2024, viewed 11th March 2025, pp. 266–278, <https://www.europeanchamber.com.cn/en/publications-archive/1269/European_Business_in_China_Position_Paper_2024_2025>

16 For example, China uses a traceability code system to track hazardous chemicals throughout their entire life cycle. However, while well intended, different provinces—including Guangdong, Shanghai and Beijing—each have their own rules for the system, leading to challenges in practice. For more information on this issue, see: *Ibid.*, pp. 276–278

17 As a second example, the number of environmental regulations of note for Chamber members operating in the chemicals sector has rapidly increased in recent years, meaning those planning on increasing production, or launching new projects, find themselves operating in a relatively dynamic regulatory environment in practice, with new projects often facing a tightened energy consumption and carbon emission assessment.

The struggle to maintain their position in the China market while navigating an increasingly complex list of challenges has seen more than seven in 10 respondents to the BCS2025 review their supply chains in the past two years. At the sectoral level, increased onshoring has taken place in areas in which a large percentage of European companies are committed to 'in China for China' strategies and are therefore focussed on bolstering supply chain resilience in the country. This includes chemicals and automotive. This trend is also true of industries in which companies are looking to enhance their local operations in an attempt to satisfy 'made in China' requirements. For example, 80 per cent of those in pharmaceuticals—an industry in which China is currently trialling a Market Authorisation Holder (MAH) system,[18] and in which heavily localised companies can complete drug review/approval procedures faster—report further onshoring into China, as did 46 per cent in machinery and 40 per cent of those in medical devices.

18 For licence-in products of a foreign market authorisation holder (MAH), the entire manufacturing of the drug substance, drug product and all dosage strengths must be localised in a bundle. For an overview of the MAH system and related challenges faced by FIEs operating in China, see: *European Business in China Position Paper 2024/2025,* European Union Chamber of Commerce in China, 11th September 2024, viewed 7th March 2025, pp. 283–286, <https://europeanchamber.oss-cn-beijing.aliyuncs.com/upload/documents/documents/European_Business_in_China_Position_Paper_2024_2025.[1269].pdf>

European Chamber
中国欧盟商会

Agriculture, Food and Beverage Working Group

Key Recommendations

1. Clarify the Requirements for Implementing New Regulations for Imported Foods

1.1 Validate the Requirements for Implementing New Regulations on Imported Foods

- Coordinate with the General Administration of Customs of China, the National Health Commission and the State Administration for Market Regulation to clarify the scope of food regulation enforcement.
- Ensure imported food receives relevant exemptions under the *Measures for the Supervision and Administration of Food Labels*.

1.2 Use the Production Date as a Reference for Implementing New Regulations for Food Products

- Clarify that the production date will serve as the reference for implementing new regulations for food.
- Allow products produced and imported before the implementation date of the new regulations to continue to be imported and sold within their shelf life.

2. Allow Recycled Materials to be Used in Food Contact Applications, and Establish Policy as Soon as Possible to Encourage the Recycling of Food-grade Recycled Polythene Terephthalate (rPET) Materials 4

- Develop regulatory frameworks for rPET materials to be used for food contact purposes and promote bottle-to-bottle recycling to reduce emissions.

3. Remove Restrictions in the Foreign Investment Negative List Related to the Seed Industry to Level the Playing Field 5

- Remove the restrictions on foreign investment in genetic modification technology and genetically modified (GM) seed (seedling) production.
- Relax restrictions on foreign investment in the breeding and production of new wheat and corn varieties.

4. Establish a Transparent, Scientific and Efficient Review and Approval Procedure for Biotechnology Products and Accelerate the Approval Procedure for Genetically Modified Microorganism (GMM) Food, GMM Feed Additives and GM Agricultural Products 6

4.1 Optimise the Requirements for the Submission of New Food Ingredients, New Food Additives and New Food-related Products Produced by GMMs

- Implement a tiered management system for Class I and II purified substances made from GMMs with proven long safety records, simplifying data requirements to reflect their lower risk compared to directly edible microorganisms.
- Prioritise product safety for Class I and II purified substances and remove the third-party requirement for production strain reports if quality standards are met, while exempting the live GMM residue report or accepting internal testing reports from companies.

- Issue documents to ease the above requirements as soon as possible to help the industry tackle the challenges.

4.2 Issue Simplified Data Requirements and Review Processes for Feed Additives Produced by GMMs with Different Risk Levels

- Establish different approval procedures based on the product safety risk level and facilitate market access for imported GMM agricultural products.
- Simplify the approval requirements and accelerate the approval process for GMM feed additives and accept plasmid or recombinant deoxyribonucleic acid as positive samples.
- Adopt the European Union practice of acknowledging third-party test reports or delegating assessments to independent culture collection organisations.

5. Strengthen Communication with the Organisation for Economic Co-operation and Development (OECD) to Support China's Accession to the OECD's Framework Agreement on Pesticides 6

- Strengthen communication with the OECD and its members to support China's accession to the OECD framework agreement on pesticides.
- Accept overseas Good Laboratory Practice reports based on international practices and China's market access rules for other industries before joining the OECD.

6. Optimise Implementation of the 14th Five-year National Health Plan in Conjunction with the United Nations Sustainable Development Goals to Educate Consumers on Making Healthier Choices 4

6.1 Continue to Encourage the 'Three Reductions and Three Health' Initiative Based on Scientific Assessment

- Collect industry feedback to establish a unified, information-based, front-of-package (FOP) nutrition labelling framework aligned with international practices and supported by objective food classification.
- Enhance consumer education and improve public awareness of the FOP labelling system to help consumers make healthy and informed choices.

6.2 Strengthen the Promotion of Responsible Drinking

- Strengthen the promotion of responsible alcohol consumption and host nationwide awareness campaigns to tackle the harmful use of alcohol.
- Support the alcoholic beverage industry's sustainable and healthy growth by maintaining the current policy framework and establishing guidelines for responsible drinking.

7. Take Action to Further Boost Consumption

7.1 Issue Guidance at the National Level to Support the Nighttime Economy and Guide Its Development

- Issue national-level guidance to facilitate and guide the development of the nighttime economy.

7.2 Optimise Tax Management for Certain Food and Beverage Products to Unleash the Potential of Consumption as a Driver of Economic Growth

- Enhance consumption promotion by optimising policies for certain consumer goods, drawing on international experience—such as eliminating consumption tax on non-alcoholic beer—to boost market penetration and unlock growth potential.
- Reduce the interim import duty rate on spirits and pet food.

Dairy Industry Sub-working Group

1. Improve Dairy-related National Food Safety Standards 5

- Align the development and revision of dairy-related standards more effectively with international standards and practices, as well as the reality of domestic and international dairy markets and supply chains.
- Optimise the formulation and revision of national food safety standards by providing a more transparent and open channel for both domestic and international industry players.
- Release supporting documentation simultaneously with new standards to ensure a smooth transition.

2. Optimise the Regulation of Cultures Applied in Dairy Production 10

- Simplify the safety review procedures for cultures that have a long history of safe usage as attested to by international organisations and their authoritative lists.
- Recognise cultures with a history of safe usage abroad when formulating the China Traditional Fermented Food Cultures Collection.

Foods for Special Medical Purposes Sub-working Group and Paediatric Nutrition Sub-working Group

1. Optimise the Registration System for Infant Formula and Follow-on Formula (Infant Formula) and Foods for Special Medical Purposes (FSMP) 9

1.1 Accelerate and Optimise Overseas Onsite Inspections for Manufacturers That Have Passed the Documentation Review Process, to Guarantee Inspection Timelines Are the Same for Overseas and Domestic Manufacturers

- Accelerate the review process of infant foods for special medical purposes (iFSMP) (especially iFSMP for rare diseases) that are already available on the market to guarantee smooth transition of the new iFSMP standard, stablise the market and avoid supply interruptions of such products.
- Prioritise overseas onsite inspections for products near the end of review period or without substantial registration risks as early as possible, to ensure consistency of domestic and overseas inspections.
- Specify exemptions from onsite inspections for registration applicants whose product lines are not used for the first time when applying for the same type of FSMP when the production process is unchanged.
- Extend the MoU as a cooperative mechanism underpinning overseas onsite inspections, and apply them to more countries and regions in the event of force majeure.

1.2 Optimise the Requirements for Stability Testing

- Exempt enterprises from stability testing when they submit applications for similar formulas that use techniques and packaging materials that are identical to formulas that have already been approved under new infant formula standards.
- Waive the submission of stability testing materials when different specifications of the same packaging materials are added to registered FSMP.

1.3 Utilise Commercial Trial Production and Onsite Inspection Pilot Batches Efficiently

- Stipulate that only one phase of infant formula production out of the same series with the same processing techniques is subject to commercial trial production of three batches, and that the other phases only require one batch for commercial trial production, with full inspection reports.

- Choose one phase of infant formula product out of the same series with the same processing techniques for pilot batches when an onsite inspection is required.
- Allow companies to conduct commercial trial production of only one batch and skip onsite pilot production when only minor modifications—such as adding optional ingredients or adjusting the source of nutrient compounds—are submitted for the approved FSMP, provided that processing techniques and validation of stability and homogeneity remain unchanged.
- Allow trial batches to be sold or donated after a conformity testing report has been obtained for a product.

2. Continue to Fine Tune All Safety Standards Relevant to FSMP, as well as the Supporting Guidelines Required for Special Food Registration 5

- Prioritise the review of registration applications for new categories of iFSMP to meet urgent clinical needs.
- Allow submission of registration modifications prior to completing accelerated stability testing to expedite modifications for iFSMP that have minor formula changes according to the new standard.
- Clarify requirements of technical indices for new categories of FSMP as soon as possible, and allow enterprises to implement the standards in advance to ensure smooth registration.
- Keep the degree of hydrolysis and osmotic pressure from being tested as part of the registration requirements for sampling inspections and risk monitoring before full industry research is conducted into testing methods.
- Allow enterprises to adopt flexible clinical trial protocols based on scientific and safety discussions with regulatory authorities to incentivise research and development, and innovation.
- Coordinate the revision of horizontal standards and the special food registration process, and issue a question and answer document to guide smooth implementation of label or product licence changes.
- Allow companies to self-select testing methods for long-term stability studies.

3. Increase Market Access for, and Improve Public Awareness of, FSMP 6

- Optimise the Hospital Information System by listing FSMP products with charge codes to give medical institutions easier access to manage and charge for FSMP products.
- Formulate clinical application and management guidelines for FSMP to guide standardised procedures in medical institutions, improve the development of clinical nutrition departments and clinical nutrition teams, and raise professional and public awareness.
- Revise the *Measures for the Investigation and Punishment of Illegal Acts Related to Food Safety in the Digital Market* to allow the online sale of nutritionally complete food for specific diseases.
- Promote the introduction and standardised application of FSMP to communities, elderly care institutions and similar facilities.

Section Three: Goods

4. Regulate Online Advertising of Infant Formula and iFSMP Promoted by Healthcare Professionals (HCPs), and Prohibit the Free Distribution of 0–6-month-old Infant Formula 10

- Strictly supervise improper marketing of infant formula and iFSMP using the image of HCPs, and prohibit marketing involving borderline use of HCPs' images, so as to maintain fair and orderly market competition.
- Strictly supervise free sample distribution for 0–6-month-old infant formula, especially in supermarkets, maternity stores, online e-commerce platforms and other retail outlets, to create a business environment conducive to achieving the goals in the *Breastfeeding Promotion Action Plan (2021–2025)*.
- Ensure the relevant ministries work together to revise and issue a new set of *Administrative Measures on the Sale of Breast Milk Substitutes* as soon as possible, to provide a legal basis for regulating the retail marketing of 0–6-month-old infant formula.

Recent Developments

In 2024, European Union (EU) agri-food exports to China fell nine per cent year-on-year, from euro (EUR) 14.6 billion to EUR 13.3 billion. This was mainly due to reduced exports of grains, pork, spirits and liqueurs, and dairy products.[1] However, the EU and China have undertaken several high-level exchanges regarding agricultural cooperation.[2&3] With both sides agreeing to establish a working group on agri-food market access, the industry anticipates concrete progress in promoting the healthy development of EU-China agricultural trade. In January 2025, the General Administration of Customs (GAC) issued the *Regulations of the People's Republic of China on Registration and Administration of Overseas Production Enterprises of Imported Food (Draft for Comments)*, aimed at improving registration processes for imported food products. The working group recommends that the revisions consider industry feedback comprehensively to ensure a clear and efficient registration process. Additionally, guidance and training for foreign food production companies are needed to ensure both the safety of imported food and trade stability.

On 19th June 2025, the GAC released *Announcement No.126 in 2025 Regarding Repealing Certain Normative Documents for Imported Food*,[4] and the former General Administration of Quality Supervision, Inspection and Quarantine's *Announcement on the Implementation Date of New Standards for Imported Food (Announcement No.41 in 2012)* was repealed. The working group welcomes this progress as it ensures that the implementation of new national food safety standards for both imported and domestically produced food will be consistent in the future. This will ensure overseas food producers in the Chinese market face a more level playing field in the future, while effectively reducing costs and operational pressure on foreign manufacturers.

Over the past year, progress has been made on updating national food safety standards and regulations. On 27th March 2025, the *National Food Safety Standard General Rules for Labelling of Pre-packaged Foods* (*GB 7718-2025*), the *National Food Safety Standard General Rules for Nutritional Labelling of Pre-packaged Foods* (*GB 28050-2025*) and the *Measures for the Supervision*

1 *EU agri-food exports reach record levels of €235.4 billion in 2024,* Directorate-General for Agriculture and Rural Development, 8th April 2025, viewed 28th April 2025, <https://agriculture.ec.europa.eu/media/news/eu-agri-food-exports-reach-record-levels-eu2354-billion-2024-2025-04-08_en>

2 *EU looks to increase food exports to China*, cankaoxiaoxi, 22nd April 2024, viewed 1st September 2025, <https://www.cankaoxiaoxi.com/#/detailsPage/%20/f37fb57f810b4dbbb78136d17444c59a/1/2024-04-22%20 18:27?childrenAlias=undefined>

3 *Read-out of the meetings between Commissioner Šefčovič and Chinese Vice Premier He Lifeng, Commerce Minister Wang Wentao and Customs Minister Sun Meijun,* EU Delegation to China, 31st March 2025, viewed 28th April 2025, <https://ec.europa.eu/commission/presscorner/detail/en/read_25_923>

4 *Announcement No. 126 in 2025 Regarding Repealing Certain Normative Documents for Imported Food*, 19th June 2025, viewed 25th June 2025, <http://www.customs.gov.cn/customs/302249/2480148/6588567/index.html>

and Administration of Food Labels were released.[5&6] The working group welcomes the joint release of horizontal standards and management measures and the two-year transition period for the industry.

Key Recommendations

1. Clarify the Requirements for Implementing New Regulations for Imported Foods

1.1 Validate the Requirements for Implementing New Regulations on Imported Foods

Concern

Imported food must comply with both national standards and departmental regulations, but since customs are not required to implement regulations from other government departments, this can create additional compliance burdens for imported products.

Assessment

Imported food sold in China must comply with national standards and regulations. According to the Food Safety Law, food safety standards are formulated by the health administration of the State Council in cooperation with the Food Administrative Department, which is responsible for formulating regulations related to food production and business activities. Meanwhile, authorities responsible for entry-exit inspection and quarantine supervise and manage the safety of imported and exported food products.[7] Based on the Legislation Law, departmental regulations are restricted to the jurisdiction of their respective departments.[8] Therefore, in daily food supervision and management, customs authorities are not obligated to enforce the departmental regulations issued by the State Administration for Market Regulation (SAMR). This creates additional compliance burdens for businesses.

Take the newly revised *GB 7718-2025* for example. The previous version, *GB 7718-2011*, allowed products with easy-to-open or transparent outer packaging to be exempted from duplicating mandatory labels on the outer packaging, requiring them only on the inner packaging.[9] The new version, *GB7718-2025*, removed this exemption, but it was re-added in the *Measures for the Supervision and Administration of Food Labels* issued on 27th March 2025 by the SAMR.[10&11] Since customs only enforces *GB 7718-2025*, companies are unsure if this exemption will continue to be applied to imports. Any resulting inconsistent enforcement will create additional compliance burdens for food importers.

Recommendations

- Coordinate with the General Administration of Customs, the National Health Commission and the State Administration for Market Regulation to clarify the scope of food regulation enforcement.
- Ensure imported food receives relevant exemptions under the *Measures for the Supervision and Administration of Food Labels*.

1.2 Use the Production Date as a Reference for Implementing New Regulations for Food Products

Concern

Unclear requirements in new regulations regarding the reference date for implementation result in uncertainty in the production and marketing of food.

Assessment

The relevant departmental regulations on food labelling have been issued; however, the implementation guideline regarding whether products produced or imported before the implementation date of the new regulation can continue to be sold within their shelf life remains unclear. As a result, this uncertainty creates challenges for companies in both production and market release planning. For instance, the newly issued *Measures for the Supervision and Administration of Food Labels* impose more detailed and specific requirements for date labelling, which will

5 *Announcement on the Release of 50 National Food Safety Standards and 9 Amendments (2025 No. 2) Including the National Food Safety Standard General Rules for Labelling of Pre-packaged Foods (GB7718-2025)*, SAMR, 27th March 2025, viewed 21st April 2025, <https://www.nhc.gov.cn/wjw/zcwjgg/202503/97802a2683b840dd8be0e1449982c6a5.shtml>

6 *Measures for the Supervision and Administration of Food Labels*, SAMR, 27th March 2025, viewed 21st April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2025/art_4edcff1e8d894890a012aac1e974c1ff.html>

7 *Food Safety Law of the People's Republic of China (Presidential Order No. 21), Xinhua,* 25th April 2015, viewed 21st April 2025, <https://www.gov.cn/zhengce/2015-04/25/content_2853643.htm>

8 *Legislation Law of the People's Republic of China, Xinhua,* 14th March 2023, viewed 21st April 2025, <https://www.gov.cn/xinwen/2023-03/14/content_5746569.htm>

9 National Food Safety Standard General Rules for Labelling of Pre-packaged Foods (GB7718-2011), foodmate, 7th June 2011, viewed 17th July 2025, <http://down.foodmate.net/standard/sort/3/28222.html>

10 *National Food Safety Standard General Rules for Labelling of Pre-packaged Foods (GB7718-2025),* foodmate, 27th March 2025, viewed 17th July 2025, <http://down.foodmate.net/standard/sort/3/162772.html>

11 *Measures for the Supervision and Administration of Food Labels*, SAMR, 27th March 2025, viewed 21st April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2025/art_4edcff1e8d894890a012aac1e974c1ff.html>

require companies to adjust their production lines to ensure compliance. Without clear guidance on how to implement the new regulations, companies struggle to plan investments and production schedules effectively. Furthermore, if products produced or imported before the new regulation's implementation date cannot be sold within their shelf life, it could lead to significant waste of packaging materials and food, which would undermine resource conservation and hinder the food industry's sustainable and high-quality development.

Recommendations

- Clarify that the production date will serve as the reference for implementing new regulations for food.
- Allow products produced and imported before the implementation date of the new regulations to continue to be imported and sold within their shelf life.

2. Allow Recycled Materials to be Used in Food Contact Applications, and Establish Policy as Soon as Possible to Encourage the Recycling of Food-grade Recycled Polythene Terephthalate (rPET) Materials 4

Concern

The lack of a properly developed regulatory regime for the use of recycled food-contact materials is leading to a huge waste of natural resources.

Assessment

Promoting food-grade recycled polythene terephthalate (rPET) is key to reducing plastic pollution and achieving China's circular economy and decarbonisation goals. Despite being the largest user of polythene terephthalate (PET), China's regulatory limits hinder the full potential of rPET. In 2020, over 8.9 million tonnes of PET bottles were recyclable, but more than 80 per cent were downgraded for textile use, yielding relatively modest environmental benefits. By contrast, using rPET for food-grade applications could reduce emissions by 47.2 million tonnes and save over 60 million tonnes of oil annually. While the United States, the EU and Japan already allow food-grade rPET, China's advanced facilities and cleaner outputs signal strong potential if policy support increases.[12&13]

12 *Sun Baoguo: Removing Policy Barriers to Promote Closed-Loop Recycling of Recycled Plastic for Food Packaging, China Food News*, 10th March 2025, viewed 21st April 2025, <https://www.cnfood.cn/article?id=1898913974172356610>

13 For more information, please refer to the *Recycling Sub-working Group Position Paper 2025/2026*.

Recommendation

- Develop regulatory frameworks for rPET materials to be used for food-contact purposes and promote bottle-to-bottle recycling to reduce emissions.

3. Remove Restrictions in the Foreign Investment Negative List Related to the Seed Industry to Level the Playing Field 5

Concern

The *Special Administrative Measures for Foreign Investment Access* (*Negative List 2024*) still prohibit or restrict foreign investment in seed selection, breeding and production, especially the breeding of transgenic varieties and the production of transgenic seeds (seedlings).[14]

Assessment

In recent years, the early stages of China's national seed industry revitalisation strategy have yielded positive results, marked by significant adjustments to domestic policy relevant to genetically modified (GM) seed management. However, the *Negative List 2024* and the *Free Trade Zone Special Administrative Measures on Foreign Investment Access* (*FTZ Negative List 2021*) remain unchanged.[15&16] The negative lists still restrict foreign investment in the selection and production of GM crop varieties. This not only increases unfair competition in the market between domestic and foreign-invested enterprises in this field, but also hinders China's goals for innovation and modernisation of the agricultural sector.

Recommendations

- Remove the restrictions on foreign investment in genetic modification technology and GM seed (seedling) production.
- Relax restrictions on foreign investment in the breeding and production of new wheat and corn varieties.

14 *Special Administrative Measures for Foreign Investment Access (Negative List 2024),* National Development and Reform Commission (NDRC), 6th September 2024, viewed 21st April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202409/t20240907_1392875_ext.html>

15 Ibid.

16 *Free Trade Zone Special Administrative Measures for Foreign Investment Access (FTZ Negative List 2021),* State Council, 27th December 2021, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/2021-12/28/content_5664887.htm>

4. Establish a Transparent, Scientific and Efficient Review and Approval Procedure for Biotechnology Products and Accelerate the Approval Procedure for GMM Food, GMM Feed Additives and GM Agricultural Products 6

4.1 Optimise the Requirements for the Submission of New Food Ingredients, New Food Additives and New Food-related Products Produced by GMMs

Concern

The newly released *Requirements for the Submission of Application Materials for the Safety Evaluation of Genetically Modified Microorganisms Used in Food Processing (Trial)* imposes unnecessary data requirements for some production strains used as tools, bringing challenges to the industry.[17]

Assessment

In 2024, the National Health Commission and the China Centre for Food Safety Risk Assessment opened and simplified the submission process for genetically modified microorganisms in new food materials. The *Requirements for the Submission of Application Materials for the Safety Evaluation of Genetically Modified Microorganisms Used in Food Processing (Trial)* were issued at the same time, outlining the specific requirements for companies when submitting safety evaluation materials.[18] However, many data requirements, such as animal pathogenicity tests, are unnecessary and challenging for companies. Some data require third-party reports, which are complex, time-consuming and increase the risk of strain leakage, limiting industry growth and innovation.

For example, the *Test Report on the Absence of Live Cell Residues of Genetically Modified Microorganisms in Products* (*GMM Test Report*), requires active production strains as a positive control, while the *Test Report on the Absence of Exogenously Introduced Gene Residues in Products* already proves the absence of active production strains, rendering the *GMM Test Report* unnecessary.[19]

17 *Notice on Improving the Requirements for Safety Evaluation Data for the 'Three New Foods'*, China Centre for Food Safety Risk Assessment, 13th September 2024, viewed 21st April 2025, <https://www.cfsa.net.cn/zxdt/tzgg/2024/14077.shtml>

18 Ibid.

19 Ibid.

Recommendations

- Implement a tiered management system for Class I and II purified substances made from GMMs with proven long safety records, simplifying data requirements to reflect their lower risk compared to directly edible microorganisms.
- Prioritise product safety for Class I and II purified substances and remove the third-party requirement for production strain reports if quality standards are met, while exempting the live GMM residue report or accepting internal testing reports from companies.
- Issue documents to ease the above requirements as soon as possible to help the industry tackle challenges.

4.2 Issue Simplified Data Requirements and Review Processes for Feed Additives Produced by GMMs with Different Risk Levels

Concern

The current approval procedures for genetically modified microorganism (GMM) feed additives are complex and do not take into account the low-risk characteristics of purified feed additive ingredients produced by GMMs to simplify relevant requirements and procedures.

Assessment

According to the *Guidance for the Safety Assessment of GMM for Animal Use*, products derived from GMM gene expression (such as phytase and antimicrobial peptides), metabolites or inactivated GMM should pass an intermediate test, environmental release and safety evaluation to obtain safety certificates.[20] However, feed products made with GMM but without living GMMs and recombinant deoxyribonucleic acid (DNA)—excluded from the EU's GM food and feed regulations—are still subject to these procedures in China. This results in unnecessarily complex and time-consuming safety evaluations, delaying the development of new GMM feed additives. Requiring intermediate testing only for products containing living GMMs would streamline the approval process and reduce market entry time for all types.

20 *Guidance for the Safety Assessment of GMM for Animal Use,* foodmate, 23rd January 2017, viewed 21st April 2025, <http://law.foodmate.net/show-189904.html>

Moreover, to apply for the safety certificate, agricultural GM biological samples and control samples, as well as testing materials and testing methods, must be sent to the Ministry of Agriculture and Rural Affairs (MARA) for safety assessment. They are then transferred to a designated institution for verification.[21] This process can cause inefficiencies, slowing industrial development and innovation. Adopting the EU's approach, which accepts third-party test reports or evaluations by independent culture collection organisations, would optimise the process. For products without GMM production strains and recombinant DNA, submitting plasmid or recombinant DNA samples instead of viable strain samples could simplify the safety assessments and regulatory requirements.

Recommendations

- Establish different approval procedures based on the product safety risk level and facilitate market access for imported GMM agricultural products.
- Simplify the approval requirements and accelerate the approval process for GMM feed additives and accept plasmid or recombinant deoxyribonucleic acid samples as positive samples.
- Adopt the European Union practice of acknowledging third-party test reports or delegating assessments to independent culture collection organisations.

5 Strengthen Communication with the Organisation for Economic Co-operation and Development (OECD) to Support China's Accession to the OECD's Framework Agreement on Pesticides 6

Concern

The implementation of Article 16 of the MARA's *Administrative Measures for Pesticide Registration* (*Measures*) compels foreign companies seeking pesticide registration in China to repeat all registration tests, resulting in increased costs and impacting their commitments to sustainable investment and development.

Assessment

On 1st June 2017, China's revised *Pesticide Management Regulations* went into effect, followed by the release of the *Measures*.[22&23] However, Article 16 of the *Measures* has proven difficult to implement regarding the approval of overseas test data. After the grace period ended on 31st December 2020, the MARA stopped accepting the OECD Principles of Good Laboratory Practice (GLP) reports issued by overseas laboratories for registration in China, halting new compound registration by foreign businesses. This means that multinational corporations with OECD GLP-certified test reports must re-test in China, incurring costs of around Chinese yuan (CNY) 20–30 million per product and delays of three to four years for registration. This significantly increases costs for businesses and undermines their investment confidence.

Currently, the Ministry of Commerce is leading in proactively contacting related ministries and commissions to prepare to apply to join the OECD GLP system and achieve mutual data recognition. Still, this process takes time. In the meantime, promoting GLP capacity-building cooperation between China and the EU is recommended to help the MARA better understand the alignment between OECD-accredited GLP laboratories' data and Chinese registration data. This would enable the acceptance of overseas GLP test reports in line with international practices and bring the industry into line with market access requirements for other sectors in China, which is essential to addressing businesses' short-term need to bring products to market before joining the OECD.

Recommendations

- Strengthen communication with the OECD and its members to support China's accession to the OECD framework agreement on pesticides.
- Accept overseas GLP reports based on international practices and China's market access rules for other industries before joining the OECD.

21 *Administrative Measures for Safety Assessment of Agricultural Genetically Modified Organisms*, MARA, 8th January 2018, viewed 21st April 2025, <http://www.kjs.moa.gov.cn/zcjd/201904/t20190418_6184797.htm>

22 *Pesticide Management Regulations*, State Council, 1st April 2017, viewed 21st April 2025, <http://www.gov.cn/zhengce/content/2017-04/01/content_5182681.htm>

23 *Administrative Measures for Pesticide Registration*, MARA, 7th January 2022, viewed 21st April 2025, <http://www.gov.cn/zhengce/2022-01/07/content_5721293.htm>

6. Optimise Implementation of the 14th Five-year National Health Plan in Conjunction with the United Nations Sustainable Development Goals to Educate Consumers on Making Healthier Choices 4

6.1 Continue to Encourage the 'Three Reductions and Three Health' Initiative Based on Scientific Assessment

Concern

Current health and wellness policies lack incentives for companies to create healthier products, invest in public education or actively engage in responsible marketing.

Assessment

In April 2022, the *14th Five-year National Health Plan* proposed the national promotion of a healthy lifestyle through the so-called 'three reductions and three health' initiative (reduction of salt, oil and sugar; oral health, weight health and bone health) and other special actions.[24] Steady progress on these initiatives has resulted in a gradual increase in the number of health-conscious consumers, leading to increased demand for healthy products.

In response to the 'three reductions and three health' initiative, the *Guideline for Iconic Nutrition Labelling for Prepackaged Food* was opened for public consultation in August 2024, to promote front-of-package (FOP) labels that help consumers select healthier food.[25] The working group supports improving the FOP labelling system but recommends further revisions based on broader industry input. It is suggested to standardise information-based nutrition labels, evaluate the scientific basis of warning and rating labels, and classify foods objectively and comprehensively. Additionally, to avoid confusion and prevent trade barriers, the labelling system should align with international practices. The industry supports the 'three reductions and three health' initiative by innovating products, promoting nutrition knowledge and advocating for healthy lifestyles. With government guidance and encouragement, more companies can be motivated to adopt healthier practices.

24 *14th Five-year National Health Plan,* State Council, 20th May 2022, viewed 21st April 2024, <http://www.gov.cn/zhengce/zhengceku/2022-05/20/content_5691424.htm>

25 *Guideline for Iconic Nutrition Labelling for Prepackaged Food,* National Public Service Platform for Standards Information, 6th August 2023, viewed 21st April 2025, <https://std.samr.gov.cn/gb/search/gbDetailed?id=DA2C3418B6FC603BE05397BE0A0A1559>

Recommendations

- Collect industry feedback to establish a unified, information-based, FOP nutrition labelling framework aligned with international practices and supported by objective food classification.
- Enhance consumer education and improve public awareness of the FOP labelling system to help consumers make healthy and informed choices.

6.2 Strengthen the Promotion of Responsible Drinking

Concern

Although the *14th Five-year National Health Plan* encourages responsible drinking, its implementation plan for publicity and promotion is not clear.

Assessment

Harmful use of alcohol is an important public health issue. The alcoholic beverage industry has long promoted responsible drinking, encouraging moderation and a healthy attitude, and prioritising responsible drinking as a key mission. With the help of the government, associations and businesses, the industry organises annual National Responsible Drinking Weeks with themes such as 'No Drink Drive', 'No Alcohol for Minors', and 'Drink in Moderation, Live Happily', and releases materials to promote responsible drinking. In 2024, multiple organisations released the *2024 White Paper on Drink-driving Prevention in China*.[26] In formulating the *15th Five-year Plan for National Health*, the working group aims to collaborate with regulators, consumers and other stakeholders to further explore responsible drinking practices and help prevent overconsumption, while promoting a balanced view of alcoholic beverages.

Recommendations

- Strengthen the promotion of responsible alcohol consumption and host nationwide awareness campaigns to tackle harmful use of alcohol.
- Support the alcoholic beverage industry's sustainable and healthy growth by maintaining the current policy framework and establishing guidelines for responsible drinking.

26 *A Guide to Understand the '2024 White Paper on Drunk Driving Prevention in China',* China Alcoholic Drinks Association, 23rd October 2024, viewed 21st April 2025, <https://finance.sina.com.cn/cj/2024-10-23/doc-inctpeua0827780.shtml>

7. Take Action to Further Boost Consumption

7.1 Issue Guidance at the National Level to Support the Nighttime Economy and Guide Its Development

Concern

Although several policies have been recently released aimed at boosting the nighttime economy to support general consumption, there is no comprehensive guidance for the food and beverage industry in terms of developing the nighttime economy.

Assessment

The 2024 Central Economic Work Conference and 2025 Government Work Report prioritise boosting consumption, improving investment efficiency and expanding domestic demand for 2025.[27&28] As a new hybrid consumption model, the nighttime economy is becoming a key driver of these goals, with nighttime consumption accounting for 60 per cent of total consumption in China.[29] Although the *Special Action Plan to Boost Consumption* proposes 30 measures, it only briefly addresses nighttime consumption in the urban-rural facilities section,[30] underestimating its importance. By contrast, cities like Shanghai and Tianjin have introduced targeted measures to guide their development, such as Shanghai's plan to establish 10 nighttime consumption hubs and Tianjin's support for outdoor nighttime promotions by bars and cafes.[31&32]

The working group recommends that the central government issue a comprehensive policy to support nighttime consumption. It should focus on improving urban spatial layout, strengthening supporting infrastructure, implementing innovative, inclusive and prudent supervision, enriching business offerings, and reducing operational costs by drawing on global and local practices. This will foster tailored nighttime economies, ensuring sustainable development that benefits people's lives and drives future growth.

Recommendation

- Issue national-level guidance to facilitate and guide the development of the nighttime economy.

7.2 Optimise Tax Management for Certain Food and Beverage Products to Unleash the Potential of Consumption as a Driver of Economic Growth

Concern

The current policies on consumption taxes and import tariffs for some food and beverage products, as well as pet foods, restrict the industry's development, which is not conducive to boosting consumption.

Assessment

The *Special Action Plan to Boost Consumption* encourages local governments to strengthen and expand the implementation of replacing old consumer goods with new ones, significantly stimulating consumption.[33] Daily consumer goods that are essential to people's lives account for a large share and have high repurchase rates, making them crucial to supporting consumption. As China advances in high-quality development, many everyday products align with new trends like green consumption, meeting the public's aspirations for a better life. However, there are still policy constraints that hinder consumption growth. For instance, increasing numbers of consumers purchasing non-alcoholic beer has become a global consumption trend in the beer market.[34] Some European countries and Japan have increased the market penetration of non-alcoholic beer by eliminating consumption taxes, with non-alcoholic beer now making up seven to eight per cent of total beer consumption. In China, however, the non-alcoholic beer market is worth only CNY 1.14 billion, with a market penetration below one per cent,[35] highlighting the market's untapped potential. The working group recommends that the government

27 *The Central Economic Work Conference was held in Beijing and Xi Jinping delivered an important speech, Xinhua*, 12th December 2024, viewed 12th May 2025, <https://www.gov.cn/yaowen/liebiao/202412/content_6992258.htm>

28 *Government Work Report,* the State Council, 12th March 2025, viewed 16th July, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

29 *Nighttime Economy Activates New Vitality of Chinese Consumption, Xinhua*, 30th December 2024, viewed 21st April 2025, <http://wap.hljnews.cn/template/4200/6124148467680256.html>

30 *Special Action Plan to Boost Consumption, Xinhua,* 16th March 2025, viewed 21st April 2025, <https://www.gov.cn/zhengce/202503/content_7013808.htm>

31 *Notice of the Shanghai Municipal Commission of Commerce on Issuing the '2025 Action Plan for Expanding Consumption in the City',* Shanghai Municipal Commission of Commerce, 27th March 2025, viewed 21st April 2025, <https://sww.sh.gov.cn/xxgkzcwjsmhygl/20250331/51fb3e07603a4a0f85c1f8c60dca0635.html>

32 *Several Measures for Promoting the Continued Healthy Development of the Nighttime Economy in Tianjin,* Tianjin Commission of Commerce, 6th January 2025, viewed 21st April 2025, <https://shangwuju.tj.gov.cn/tjsswjzz/zwgk/zcfg_48995/swjwj/202501/t20250106_6825220.html>

33 *Special Action Plan to Boost Consumption, Xinhua*, 16th March 2025, viewed 21st April 2025, <https://www.gov.cn/zhengce/202503/content_7013808.htm>

34 *Non-Alcoholic Beer Market Growth – Wellness Trends & Consumer Demand 2024-2034,* Future Market Insights, January 2025, viewed 21st April 2025, <https://www.futuremarketinsights.com/reports/non-alcoholic-beer-market>

35 *Analysis of the market size of non-alcoholic beer in 2023: the market size of non-alcoholic beer will reach CNY 1.141 billion, Chinabgao,* 20th December 2023, viewed 16th July 2025, <https://www.chinabgao.com/freereport/91418.html>

focus on daily consumer goods, particularly food and beverages, as key drivers of consumption.

To meet the diverse consumption demands for both international and domestic products and promote supply upgrades, China lowered the interim duty rate (IDR) on products like whisky and brandy in 2017.[36] This measure stimulated the growth of China's whisky market, providing consumers with more choices. However, on 26th December 2024, China's Customs Tariff Commission of the State Council announced the tariff adjustment plan for 2025.[37] Starting 1st January 2025, the IDRs on whisky and brandy were eliminated, and the most-favoured-nation tariffs were reinstated, rising from five per cent to 10 per cent. Additionally, the IDR on small-package vermouth was raised to 30 per cent. This means that the tariffs on these three products have increased significantly, ultimately affecting consumer choices. For example, the whisky tariff increase is estimated to have raised related costs by 7.07 per cent in 2025.

The pet food industry faces similar challenges. As China's socio-economic development and demographic changes have driven a rise in pet ownership, the pet economy has expanded, with pet food being its largest segment. Nevertheless, since 1st January 2025, the IDR on imported pet food, including retail packaged dog or cat food cans and other products, has increased from four per cent to 10 per cent. This has significantly raised the cost of imported pet food, limiting consumption of mid-to-high-end products.

The working group recommends reducing tariffs on imported alcohol, such as whisky, as well as pet food, to help balance import-export trade and enable the international market to benefit more from China's economic growth. This would also meet diverse consumer demands, unlock consumption potential, and stimulate investment and employment, thereby fostering a positive cycle of development that drives broader economic growth.

36 *Notice of the CTCSC on Adjusting Import Tariffs on Some Consumer Goods,* Ministry of Finance (MOF), 24th November 2017, viewed 23rd May 2025, <https://www.gov.cn/xinwen/2017-11/24/content_5241969.htm>

37 *Notice of the CTCSC on the 2025 Tariff Adjustment Plan,* MOF, 26th December 2024, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6995067.htm>

Recommendations

- Enhance consumption promotion by optimising policies for certain consumer goods, drawing on international experience—such as eliminating consumption tax on non-alcoholic beer—to boost market penetration and unlock growth potential.
- Reduce the interim import duty rate on spirits and imported pet food.

Abbreviations

CNY	Chinese Yuan
DNA	Deoxyribonucleic Acid
EU	European Union
EUR	Euro
FOP	Front-of-Package
GAC	General Administration of Customs
GB	Guobiao (China's national standard)
GLP	Good Laboratory Practice
GM	Genetically Modified
GMM	Genetically Modified Microorganism
IDR	Interim Duty Rate
MARA	Ministry of Agriculture and Rural Affairs
OECD	Organisation for Economic Co-operation and Development
PET	Polythene Terephthalate
rPET	Recycled Polythene Terephthalate
SAMR	State Administration for Market Regulation

Dairy Industry Sub-working Group

Recent Developments

In 2024, China's average per capita daily intake of dairy products was 41.5 kilograms per year (114 grams per day),[1] which is far below the 300 to 500 grams recommended in the *Dietary Guidelines for Chinese Residents (2022)*.[2] While this highlights untapped potential in the market, China's dairy imports continued to decline in 2024. Total dairy product imports amounted to United States dollar (USD) 11.23 billion, a drop of seven per cent year-on-year (y-o-y);[3] while dairy product imports from the European Union (EU) totalled USD 4.32 billion, a decline of 10.5 per cent y-o-y.[4] On 21st August 2024, China's Ministry of Commerce launched an anti-subsidy investigation into certain dairy products from the EU, which has cast a great deal of uncertainty over the future of EU-China dairy trade.[5]

During the Two Sessions in 2025, several experts emphasised the importance of transitioning China's dairy industry from an extensive processing model to one based on intensive and high-value manufacturing.[6] This is in line with the *Industrial Policy for the Dairy Sector (2009 Revision)*, jointly released in 2009 by the Ministry of Industry and Information Technology and the National Development and Reform Commission. This policy stipulates that the dairy industry should gradually diversify its product portfolio beyond liquid milk as the dominant category, encourage the development of functional products and cheeses tailored to different consumer needs, and extend the dairy processing industrial chain.[7] The Dairy Industry Sub-working Group believes that a key way to achieve these goals would be to maintain healthy EU-China trade in dairy products, as the introduction of a larger range of dairy products to the Chinese market would stimulate high-quality development of the industry. This transition could be further accelerated by establishing productive EU-China exchanges on industry innovation and development.

On 12th March 2024, the National Health Commission (NHC) published the modified *National Food Safety Standard Milk Powder and Modified Milk Powder (GB 19644-2024)*.[8] This was followed on 27th March 2025, with the NHC's revisions and amendments to the following standards:[9]

- *National Food Safety Standard Cream, Butter and Anhydrous Cream (GB 19646-2025)*;
- *National Food Safety Standard Fermented Milk (GB 19302-2025)*;
- *Amendment No.1 to National Food Safety Standard Raw Milk (GB 19301-2010)*; and
- *Amendment No.1 to National Food Safety Standard Sterilised/UHT Milk (GB 25190-2010).*

The NHC has also called for comments on the following national food safety standards in the past two years:

- *National Food Safety Standard Pasteurised Milk (GB 19645-2010);*[10]

1 *2024 China Dairy Industry Economic Review and 2025 Outlook & Development* [Chinese language], Dairy Market Economic Watch, 24th February 2025, viewed 26th May 2025, <https://mp.weixin.qq.com/s/7EdJ3heRork5wwwDzjCXQQ>

2 *Chinese Dietary Guidelines (2022)* [Chinese language], Chinese Nutrition Society, 28th April 2022, viewed 26th May 2025, <http://dg.cnsoc.org/article/04/RMAbPdrjQ6CGWTwmo62hQg.html>

3 *China Dairy Trade Monthly Report of January 2025* [Chinese language], National Dairy Industry Technology and Economy Research Office, 28th February 2025, viewed 26th May 2025, <https://mp.weixin.qq.com/s/mp7J83V36mb_dgygd2xxUA>

4 *China-EU Agricultural Products Imports and Exports Report from January to December 2024* [Chinese language], China Chamber of Commerce of I/E of Foodstuffs, Native Products and Animal By-products, 25th March 2025, viewed 26th May 2025, <https://www.cccfna.org.cn/maoyitongji/guobiemaoyi/ff808081955eed0a0195cb5bb9641ab9.html>

5 *Announcement on Initiation of Anti-subsidy Investigation into Certain Imported Dairy Products from the EU* [Chinese language], Ministry of Commerce, 21st August 2024, viewed 26th May 2025, <https://trb.mofcom.gov.cn/myjjdc/art/2024/art_77edd59bb5a94b76b349a4c0ad46f4c8.html>

6 *Dairy Industry at China's Two Sessions: Tackling Overcapacity and Breaking Technological Monopolies* [Chinese language], *21st Century Economic Report*, 9th March 2025, viewed 26th May 2025, <https://www.21jingji.com/article/20250309/herald/bff5c66f83d0d5ff7ea72415dd72360a.html>

7 *Industrial Policy for the Dairy Sector (2009 Revision)* [Chinese language], Ministry of Industry and Information Technology and the National Development and Reform Commission, 26th June 2009, viewed 26th May 2025, <https://www.gov.cn/gongbao/content/2010/content_1519506.htm>

8 *Announcement of the Publication of 47 National Food Safety Standards and 6 Amendments* [Chinese language], NHC, 12th March 2024, viewed 26th May 2025, <https://www.nhc.gov.cn/sps/c100088/202403/bda120e678df4a49a8beb90852559d7c.shtml>

9 *Announcement of the Publication of 50 National Food Safety Standards and 9 Amendments* [Chinese language], NHC, 27th March 2025, viewed 26th May 2025, <http://www.nhc.gov.cn/sps/c100088/202503/e8a432507f7d4f08a877e76a9b0578ce.shtml>

10 *Letter from the Secretariat of the National Food Safety Standards Review Committee on the Solicitation of Comments on 21 National Food Safety Standards (Call for Comments), including the National Food Safety Standard for Food Additives Xanthan Gum* [Chinese language], NHC, 11th December 2023, viewed 26th May 2025, <https://www.nhc.gov.cn/sps/c100087/202312/65c09a58bac14b3f946f3264b2a736cc.shtml>

- *National Food Safety Standard Extended Shelf Life Milk;*[11] *and*
- *National Food Safety Standard Milk Protein.*[12]

The Dairy Industry Sub-working Group looks forward to further revisions to these safety standards and will continue to advocate for the removal of barriers hindering the import of European dairy products and the development of China's domestic dairy industry, which is in line with China's position on further optimising the environment for foreign investment and stimulating domestic consumption.

Key Recommendations

1. Improve Dairy-related National Food Safety Standards

Concern

Some revisions to China's dairy-related standards do not take into account the level of development of both international and domestic dairy markets, which could hinder international trade and innovation in the dairy sector.

Assessment

Some revised dairy-related standards have only provided limited channels for public consultation, while not taking globally adopted technologies and practices into consideration. This has resulted in discrepancies between standards for dairy products and the level of development of both international and domestic dairy markets, a problem that can only be resolved through further revisions of relevant standards.

For example, in the *National Food Safety Standard Cream, Butter and Anhydrous Milk Fat (GB 19646-2025)*, which was published on 27th March 2025, the definition of 'cream' is a significant cause for concern for the European dairy industry. This is because the standard defines 'cream' as a product that is derived from raw milk as the sole main ingredient, which is often not the case in Europe. Instead, cream production in Europe usually starts with the production of raw cream by separating fat from raw milk. This raw cream will then be used as the main ingredient to further produce cream products of different fat contents by standardisation and other processes. These steps may be conducted in either one factory or several factories. Despite being a common process in Europe, it has not been taken into consideration in the new standard. Given the transition period for this new standard is only one year, if no supporting documentation—such as a standard interpretation or set of frequently asked questions—is forthcoming to provide a more detailed definition of 'cream', many high-quality products from Europe will be mistakenly categorised as 'modified cream', leading to some companies suffering substantial losses in the Chinese market.

The draft *National Food Safety Standard Whey Powder, Whey Protein Powder (GB 11674)* presents another example. According to the most recent discussions, the drafting committee is considering increasing the minimum requirement for protein content of whey protein powder products from 25 to 50 per cent. However, a higher protein content in whey protein powder is unnecessary for food production. As one of the main ingredients in many dairy products—such as infant formula, yoghurt and sports nutrition foods—whey protein powder products containing different levels of protein serve different purposes. Therefore, if the protein content requirement were to be increased to 50 per cent, manufacturers would have to cease certain product lines and dilute the whey protein powder content for others. This would negatively impact suppliers of whey protein powder with less than 50 per cent protein content and result in additional production processes and costs for manufacturers of dairy products.

To provide high-quality dairy products for domestic consumption and to guarantee the stability of international trade, the Dairy Industry Sub-working Group recommends that recent advances in both the domestic and international dairy industries—as well as conditions throughout Chinese and global supply chains—be fully taken into account when formulating policies and standards.

Recommendations

- Align the development and revision of dairy-related standards more effectively with international standards and practices, as well as the reality of domestic and international dairy markets and supply chains.
- Optimise the formulation and revision of national food

11 Ibid.

12 *Letter from the Secretariat of the National Food Safety Standards Review Committee on the Solicitation of Comments on 14 National Food Safety Standards (Call for Comments)* [Chinese language], NHC, 27th June 2024, viewed 26th May 2025, <https://www.nhc.gov.cn/sps/c100088/202406/423eb9ff7eec43e29ef579aff35f9256.shtml>

safety standards by providing a more transparent and open channel for both domestic and international industry players.
- Release supporting documentation simultaneously with new standards to ensure a smooth transition.

2. Optimise the Regulation of Cultures Applied in Dairy Production 10

Concern

Many cultures that are safely used in European dairy production processes are not included in the 'positive list' that China uses to regulate the application of cultures in food production, which prevents products containing these cultures from entering the Chinese market.

Assessment

China's regulation of food cultures allows only a very limited number of microbial cultures to be used. In 2010, the then Ministry of Health issued the *List of Cultures Applied in Food* (*List*).[13] It included a 'positive list' that recognised only a few culture types, mainly used for producing yoghurt. While cultures that are exempted from the regulation are not specified as those used in traditional Chinese food, the official interpretation and actual implementation in fact applies only to cultures used in such products, including vinegar, soy sauce and Chinese liquor. In 2022, the NHC carried out a review and then updated the *List* with a total number of 38 cultures.[14] However, most cultures that are traditionally used for cheese production are still not included.

This continues to present a significant challenge to European manufacturers of dairy products, as cultures other than those appearing on the *List* and those used in traditional Chinese foods are not permitted for use in food production until they have been approved by means of a safety review conducted by the NHC. This review process is almost impossible for culture producers to follow as it requires information that is very difficult to obtain—such as the toxicological assessment of certain cultures, which is very time- and resource-consuming—thereby hindering the development of the Chinese dairy industry, in particular the cheese sector. In addition, the review process itself is labour-intensive, which is an unnecessary cost, given these cultures have a long history of safe usage.

The contributions certain microbes have made to cheese have been widely recognised, and pure microbial cultures are commonly used by dairy product manufacturers. In addition to lactic acid bacterial starter cultures, various species of bacteria and fungi are often added to dairy products to give them specific characteristics. For instance, blue-mould cheeses have always been fermented with *Penicillium roqueforti*; spores of the filamentous fungus *Penicillium camemberti* are inoculated into milk during the production of bloomy, rind cheeses such as Brie and Camembert; *Geotrichum candidum* is commonly used in the production of soft ripened cheeses to develop their characteristic rind and enhance flavour by contributing to the breakdown of proteins and fats;[15] and the actinomycete bacterium *Brevibacterium linens (B. linens)* contributes to the reddish-orange colour found in the traditional cheese Époisses. Dairy product manufacturers have learned over centuries how to consistently cultivate specific microbial colonies in a safe way by controlling the conditions a dairy product is subjected to during the ageing process. Recognising these processes and the historical safe use of cultures applied in cheese is important as it will help promote the dairy industry in China, allowing Chinese consumers to enjoy a wider variety of dairy products and thereby boosting consumption.

Authoritative lists of cultures that are generally recognised for their history of safe usage already exist – for example, the list jointly published by the International Dairy Federation (IDF) and the European Food and Feed Cultures Association in 2002. After being reviewed and updated in 2012, 2018 and 2022, the IDF now lists 325 microbial cultures covering a wide range of food categories.[16] It is noteworthy that the Chinese Government and several research institutes have already cooperated with the IDF, with the result that 16 cultures used in the manufacture of traditional

13 *Notice of Ministry of Health Office on Issuing the List of Cultures Applied in Food* [Chinese language], former Ministry of Health, 22nd April 2010, viewed 26th May 2025, <https://zwfw.nhc.gov.cn/kzx/zcfg/xspylsp_237/201004/t20100422_1315.html>

14 *Interpretation on the Notice on Updated List of Cultures Applied in Food and the List of Cultures Applied in Infant and Young Children Food* [Chinese language], NHC, 18th August 2022, viewed 26th May 2025, <https://www.nhc.gov.cn/wjw/c100175/202208/993a0c271897489ba98d2fb3098f5f9a.shtml>

15 *Penicillium roqueforti*, *Penicillium camemberti* and *Geotrichum candidum* are authorised in China without being officially featured in the *List*. The Dairy Industry Sub-working Group believes that it would be helpful to officially include these cultures in the *List*.

16 *IDF publishes 4th update on inventory of microbial food cultures*, IDF, 2022, viewed 26th May 2025, <https://fil-idf.org/news_insights/idf-publishes-4th-update-on-inventory-of-microbial-food-cultures/>

Chinese foods have been included in the IDF list.[17] With the China National Center for Food Safety Risk Assessment and the China Center of Industrial Culture Collection currently developing the China Traditional Fermented Food Cultures Collection, the Dairy Industry Sub-working Group looks forward to the collection being updated to reciprocally recognise cultures that have a history of safe usage internationally.

Recommendations

- Simplify the safety review procedures for cultures that have a long history of safe usage as attested to by international organisations and their authoritative lists.
- Recognise cultures with a history of safe usage abroad when formulating the China Traditional Fermented Food Cultures Collection.

Abbreviations

EU	European Union
GB	Guobiao (China national standard)
IDF	International Dairy Federation
NHC	National Health Commission
USD	United States Dollar
Y-o-Y	Year-on-Year

17 Yao, S, et al., *Research on the Inventory of Microbial Food Cultures in Chinese Traditional Fermented Foods (2nd Edition)* [Chinese language], Food and Fermentation Industries, China National Research Institute of Food and Fermentation Industries, 2022, p. 272–285.

Foods for Special Medical Purposes Sub-working Group and Paediatric Nutrition Sub-working Group

Recent Developments

In 2024, the regulation of infant formula and follow-on formula (infant formula) in China was normalised with a new round of registrations completed by the State Administration for Market Regulation (SAMR) following the launch of the new standards.[1] By April 2025, a total of 1,251 infant formulas had been registered under the new standards, of which 247 were imported infant formulas accounting for about 20 per cent of the total.[2] China's infant formula market continues to be affected by the country's declining birth rate; however, the 2025 Government Work Report promised to formulate policies to boost births and provide childcare subsidies.[3] In tandem, Chinese dairy enterprises have initiated a consumption enhancement plan and donated products and services worth Chinese yuan (CNY) 4.4 billion to consumers. This has further intensified market competition.[4]

The foods for special medical purposes (FSMP) industry continued to develop positively in the past year. As of February 2025, a total of 232 FSMP had been approved, including 198 products from 58 domestic enterprises and 34 from 14 overseas enterprises.[5] In 2024, the *Good Clinical Practice* and the *Key Points and Determination Principles for Clinical Trial Onsite Inspections* of nutritionally complete food for specific diseases were released. FSMP for rare diseases and urgent clinical needs were included in the priority review and approval process. At the same time, the registration process for three types of nutritionally incomplete FSMP was optimised. With policy guidance and support, the FSMP industry aims to bring more high-quality products to consumers.

The following regulations and standard developments have had a significant impact on the infant formula and FSMP industries:

- On 1st January 2024, the *Administrative Measures for the Registration of Foods for Special Medical Purposes* (*Administrative Measures for the Registration of FSMP*) came into effect.[6]
- On 19th January 2024, the SAMR issued the *Notice on the Public Solicitation of Comments on the Food Safety Law of the People's Republic of China (Draft for Comments)*, which proposed the inclusion of liquid infant formulas in registration management.[7]
- On 29th September 2024, the General Office of the SAMR issued the *Guidelines for the Filing of Infant Formula Ingredients and Other Matters*.[8]
- On 10th March 2025, the SAMR issued the *Announcement on Further Strengthening the Management of Raw and Auxiliary Materials in Infant Formula Milk Powder*.[9]
- On 27th March 2025, the National Health Commission (NHC) and the SAMR jointly issued the *National Food Safety Standard General Rules for Labelling of Prepackaged Foods (GB 7718-2025)*, the *National Food Safety Standard General Rules for Nutritional Labelling of Prepackaged Foods (GB 28050-2025)* and the *National Food Safety Standard General Rules for Infant Foods for*

1 *50 National Food Safety Standards Published, including the Standard for Infant Formula and Follow-on Formula,* SAMR, 19th March 2021, viewed 4th June 2025, <https://www.samr.gov.cn/xw/mtjj/art/2023/art_98351549f6c7400888375d400e56699d.html>

2 *1,251 Infant Formulas have Registered New Progress in 2024 on Infant Formula Registrations*, Foodmate, 8th April 2025, viewed 28th May 2025, <https://news.foodmate.net/2025/04/713779.html>

3 *Government Work Report,* Xinhua Net, 12th March 2025, viewed 28th May 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm>

4 *Three Brands Launched Childcare Subsidies to Compete for New Birth Market, The Beijing News,* 18th April 2025, viewed 28th May 2025, <https://news.qq.com/rain/a/20250418A08WT300?suid=&media_id=>

5 *Food Regulations and Standards, Building Strong Foundation of Healthy Food Industry Development*, Boao Food for Health Science Conference and Expo, 20th February 2025, viewed 28th May 2025, <https://www.antion.net/Cn/News/viewkuaixun/id/qNIEBHW3A61USbsf3KwtawO0O0OO0O0O.html>

6 *Administrative Measures for the Registration of Foods for Special Medical Purposes,* SAMR, 28th November 2023, viewed 28th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2023/art_9b1a9daffc084d819bb4d7a31d909452.html>

7 *Notice on the Public Solicitation of Comments on the Food Safety Law of the People's Republic of China (Draft for Comments)*, SAMR, 19th January 2024, viewed 28th May 2025, <https://www.samr.gov.cn/hd/zjdc/art/2024/art_b143a2ba4ca74088bc8471833bce5063.html>

8 *Notice on the Issuance of the Guidelines for the Filing of Infant Formula Ingredients and Other Matters,* SAMR, 29th September 2024, viewed 28th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/tssps/art/2024/art_8b0d2032b9e84da19e3eb13c0eecdfeb.html>

9 *Announcement on Further Strengthening the Management of Raw and Auxiliary Materials in Infant Formula Milk Powder,* SAMR, 10th March 2025, viewed 28th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/tssps/art/2025/art_30efe2d28cdf43d4949f0bbfeb686be6.html>

Special Medical Purposes (GB 25596-2025) (*iFSMP Standard*).[10]

In the past year, both sub-working groups have actively participated in the formulation and revision of regulations and standards for special foods, clarified and optimised related provisions of the special foods registration system, and enhanced the strategic positioning of the topic of special foods registration in the European Union-China High-Level Economic and Trade Dialogue. Both sub-working groups will continue promoting the development of regulations and standards with the aim of accelerating the high-quality development of the special foods industry in China.

Key Recommendations

1. Optimise the Registration System for Infant Formula and Follow-on Formula (Infant Formula) and FSMP 9

1.1 Accelerate and Optimise Overseas Onsite Inspections for Manufacturers That Have Passed the Documentation Review Process, to Guarantee Inspection Timelines Are the Same for Overseas and Domestic Manufacturers

Concern

With the release of the revised *iFSMP Standard*, companies need to complete registration within the two-year transition period, which creates challenges for both overseas onsite inspections and maintaining a stable supply of products.

Assessment

Following the issuance of the *iFSMP Standard* by the NHC and the SAMR on 27th March 2025, registration of iFSMP must be carried out and completed according to the new standard within a two-year transition period. Onsite inspections are an important part of the registration process that help overseas enterprises organise their planning, production and overall operations. To facilitate overseas onsite inspections during the COVID-19 pandemic, the SAMR signed memoranda of understanding (MoU) with several countries, authorising foreign authorities to conduct these inspections. However, this cooperative mechanism was discontinued when the pandemic ended. Compared to those of domestic enterprises, onsite inspections of overseas enterprises require additional administrative procedures, such as visa applications and travel arrangements, making it more challenging to meet the same inspection timeframe. Therefore, for products that are nearing the end of the registration review process or have no substantial safety risks, it is necessary to formulate a plan for the implementation of onsite inspections of overseas enterprises in advance, to ensure timelines that are consistent for both domestic and overseas onsite inspections.

Since 2024, the SAMR has issued guidelines for the registration of FSMP, with the aim of optimising the requirements for registration application materials and onsite inspections. For example, on 12th February 2025, the SAMR issued the *Guidelines for the Registration of FSMP of Amino Acid Metabolism Disorders*, which stipulates that, "when an applicant has been approved for the registration of an iFSMP of amino acid metabolism disorders, and the production process is essentially consistent, generally no further onsite inspection will be conducted."[11] On 23rd April 2025, the SAMR issued the *Frequently Asked Questions on Registration of iFSMP Under the New National Standard* (*FAQs on Registration of iFSMP*), which states that, "for registered iFSMP, onsite inspections and sampling tests will generally no longer be required if the applicant applies for registration (including modification) solely in compliance with the new iFSMP standard without substantial changes to the production process."[12] The sub-working groups propose waiving on-site inspections for registration applications involving product lines that are not being used for the first time to apply for the same iFSMP category, provided the production process remains unchanged.

The sub-working groups believe that clarifying the exemptions from onsite inspections and coordinating domestic and overseas onsite inspections will help companies to optimise and coordinate onsite inspections and production arrangements; develop

10 *Announcement on the Release of 50 National Food Safety Standards and 9 Amendments (2025 No. 2) Including the National Food Safety Standard General Rules for Labelling of Prepackaged Foods (GB 7718-2025)*, NHC and SAMR, 16th March 2025, viewed 28th May 2025, <https://www.gov.cn/zhengce/zhengceku/202503/content_7015830.htm>

11 *Guidelines for the Registration of FSMP of Amino Acid Metabolism Disorders*, SAMR, 12th February 2025, viewed 28th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/tssps/art/2025/art_14aabaf6cf774eeba2389aa0984286b6.html>

12 *Frequently Asked Questions on Registration of iFSMP Under the New National Standard*, SAMR, 23rd April 2025, viewed 28th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/tssps/art/2025/art_43a4e9c97daf465983078ecaa9479062.html>

procurement and production plans; avoid raw material waste; and help ensure a continuous supply of products that meet the registration requirements for special consumer groups, such as infants with food protein allergies and premature/low-birth-weight babies. Also, in case of force majeure, the industry recommends that an MoU be signed to enable onsite inspections to be carried out as scheduled.

Recommendations

- Accelerate the review process of iFSMP (especially iFSMP for rare diseases) that are already available on the market to guarantee smooth transition of the new iFSMP standard, stablise the market and avoid supply interruptions of such products.
- Prioritise overseas onsite inspections for products near the end of review period or without substantial registration risks as early as possible, to ensure consistency of domestic and overseas inspections.
- Specify exemptions from onsite inspections for registration applicants whose product lines are not used for the first time when applying for the same type of FSMP when the production process is unchanged.
- Extend the MoU as a cooperative mechanism underpinning overseas onsite inspections, and apply them to more countries and regions in the event of force majeure.

1.2 Optimise the Requirements for Stability Testing

Concern

For instances when a manufacturer's existing recipes or products have already been registered and verified for stability, the requirement for submitting stability testing reports for certain registration applications delays registration and wastes resources.

Assessment

Stability testing and research are part of companies' internal product quality management systems. As the main party responsible for food quality and safety, manufacturers have accumulated sufficient data and research on stability and are fully able to ensure the quality and safety of a product during its shelf life. Given that the change in composition of nutrients processed with similar techniques is almost the same, requiring each formula to provide stability reports for registration is repetitive, takes time and results in unnecessary costs. Stability testing usually takes at least six months or longer, and there is also an additional delivery time for overseas enterprises to send samples to laboratories in China. Moreover, stability testing takes up a significant amount of the SAMR Centre for Food Evaluation's inspection department's resources.

Over the past five years, the high pass rate of sampling inspections of infant formula and FSMP conducted by the SAMR has proved their shelf-life stability.[13] The necessity for additional stability testing should therefore be re-evaluated. For infant formulas that share the same processing techniques and which have already undergone stability testing, the requirement to submit stability testing reports should be exempted. For approved FSMP, adding different specifications for the same packaging material and the submission of stability testing reports for the new specifications should not be required. This would save companies' time and financial costs, avoid wasting resources, improve approval efficiency, and promote strategic energy saving and emissions reduction goals.

Recommendations

- Exempt enterprises from stability testing when they submit applications for similar formulas that use techniques and packaging materials that are identical to formulas that have already been approved under new infant formula standards.
- Waive the submission of stability testing materials when different specifications of the same packaging materials are added to registered FSMP.

1.3 Utilise Commercial Trial Production and Onsite Inspection Pilot Batches Efficiently

Concern

Products from commercial trial production and onsite inspection pilot batches cannot be marketed for sale, resulting in large quantities of high-quality approved products that can only be repurposed as animal feed or discarded, causing significant food waste and resource depletion.

Assessment

According to the *Administrative Measures for the Registration of Infant and Young Children Milk*

13 SAMR: *China's Special Food Products Maintain Over 99% Compliance Rate in Inspections*, China Food Safety Net, 16th October 2024, viewed 4th June 2025, <https://www.cfsn.cn/news/detail/22/270025.html>

Powder Formula, the *Administrative Measures for the Registration of FSMP* and its supporting documents, three batches of infant formula and FSMP must be produced commercially with full inspection reports submitted for their registration applications. At the same time, the review authority shall organise onsite inspections and sampling checks as needed. As a result, enterprises need to conduct commercial production three to four times to register one product, which comes at a cost of about CNY 1.5 million to CNY 3.2 million.

Meanwhile, since the samples from commercial trial production and onsite inspections are not registered (or licensed for production), they are not qualified for sale or donation, and can only be destroyed or disposed of at a low price as animal feed, resulting in significant waste.

The industry believes that the requirements for commercial trial production and onsite inspection pilot production could instead be optimised based on food safety risk assessment. After a conformity testing report has been obtained for a product, its trial batches could be made use of in a compliant manner through sale or donation to avoid wasting food.

Recommendations

- Stipulate that only one phase of infant formula production out of the same series with the same processing techniques is subject to commercial trial production of three batches, and that the other phases only require one batch for commercial trial production, with full inspection reports.
- Choose one phase of infant formula product out of the same series with the same processing techniques for pilot batches when an onsite inspection is required.
- Allow companies to conduct commercial trial production of only one batch and skip onsite pilot production when only minor modifications—such as adding optional ingredients or adjusting the source of nutrient compounds—are submitted for the approved FSMP, provided that processing techniques and validation of stability and homogeneity remain unchanged.
- Allow trial batches to be sold or donated after a conformity testing report has been obtained for a product.

2. Continue to Fine Tune All Safety Standards Relevant to FSMP, as well as the Supporting Guidelines Required for Special Food Registration ◎5

Concern

National food safety standards and related horizontal standards for FSMP are under formulation and revision, and the supporting guidelines for special food registration need further refinement, which may impact both product re-registration and innovation efforts.

Assessment

1) Revision of Standards and Supporting Guidelines, and Industry Innovation

To further meet clinical and consumer needs, the newly released *iFSMP Standard* has added six new product categories – ketogenic formula, anti-reflux formula, formula for abnormal fat metabolism, high-energy formula, protein component and medium-chain fat component. The industry thinks that conducting a priority review for these new categories will significantly shorten the review timeline, thereby expediting product approvals and addressing urgent clinical demands.

Additionally, according to the *FAQs on Registration of iFSMP*, "applicants shall conduct stability research following the *Stability Research Requirements for FSMP (Trial) (2017 Revised Edition)* and retain records for inspection."[14] For minor modifications to iFSMP registrations, following the *iFSMP Standard*, when sufficient stability testing has been completed it is recommended that the submission for modification be allowed prior to completing accelerated stability testing, to expedite the modification and subsequent product launch.

At the same time, the *National Food Safety Standard General Rules for Foods for Special Medical Purposes (GB 29922-2013)* is under revision with some new categories being added, but there is a lack of interpretation for specific technical indices and clinical research requirements. Therefore, enterprises face uncertainty with regard to research and development (R&D) and future registration, which further affects product innovation.

14 *Ibid.*

In addition, Article 25 of the *Administrative Measures for the Registration of FSMP* requires technical requirements to be stated on the registration licence and its attachment. However, there is no supporting documentation that provides an interpretation of the testing methods for such technical requirements, causing uncertainty over the registration of new products. Taking the degree of hydrolysis as an example, enterprises follow different testing methods to verify the degree of hydrolysis due to the lack of a relevant national standard. Even if there was such a standard, given that the testing result and reproducibility of peptide molecular weight distribution are greatly affected by pre-treatment and separating columns, there could be testing deviations between different methods for the same product, or for the same method carried out by different laboratories. Taking osmotic pressure as another example, there is no national standard outlining either the accepted testing method or the tolerance threshold. Each enterprise generally sets its own testing frequency based on the stability of historical testing results of the osmotic pressure and the risk level.

Furthermore, Article 8 of the *Administrative Measures for the Registration of FSMP* points out that when applying for the registration of nutritionally complete food for specific diseases, clinical trial reports should generally be submitted. Enterprises often lack R&D motivation due to the potential time and significant investment required by clinical trials. The sub-working groups therefore recommend allowing enterprises to adopt more flexible clinical trial protocols based on scientific and safety discussions with regulatory authorities, in order to incentivise R&D and drive innovation.

2) Impact of the Formulation and Revision of Labelling Regulations and Horizontal Standards on Registration

The *National Food Safety Standard General Rules for Labelling of Pre-packaged Foods (GB 7718-2025)*, the *National Food Safety Standard General Rules for Nutritional Labelling of Pre-packaged Foods (GB 28050-2025)*, and the *Measures for the Supervision and Administration of Food Labelling* have been released. Relevant regulatory authorities also need to clarify whether all their provisions are applicable to special foods, to guide enterprises if new labelling is required. In particular, it is necessary to give guidance on the content of these labelling regulations that is inconsistent with the *Guidelines for the Labelling of FSMP*, to minimise the need for registration modifications and packaging waste.

Horizontal standards such as the *National Food Safety Standard for Labelling of Pre-packaged Special Dietary Foods (GB 13432-2013)* and the *National Food Safety Standard for the Use of Nutritional Fortification Substances in Foods (GB 14880)* are also under revision. For new requirements involving changes to the information of a special food product licence, such as the nutritional ingredient list, but that are not substantive changes, relevant guidance is lacking in the current registration documents for companies to carry out registration modifications. In addition, given the long R&D and registration cycles for special foods, challenges will arise due to revisions of national standards for testing methods along the process. It is recommended that enterprises be allowed to self-select testing methods for long-term stability studies, to avoid data variations resulting from a change of testing methods.

Recommendations

- Prioritise the review of registration applications for new categories of iFSMP to meet urgent clinical needs.
- Allow submission of registration modifications prior to completing accelerated stability testing to expedite modifications for iFSMP that have minor formula changes according to the new standard.
- Clarify requirements of technical indices for new categories of FSMP as soon as possible, and allow enterprises to implement the standards in advance to ensure smooth registration.
- Keep the degree of hydrolysis and osmotic pressure from being tested as part of the registration requirements for sampling inspections and risk monitoring before full industry research is conducted into testing methods.
- Allow enterprises to adopt flexible clinical trial protocols based on scientific and safety discussions with regulatory authorities to incentivise research and development, and innovation.
- Coordinate the revision of horizontal standards and the special food registration process, and issue a question and answer document to guide smooth implementation of label or product licence changes.
- Allow companies to self-select testing methods for long-term stability studies.

3. Increase Market Access for, and Improve Public Awareness of, FSMP 6

Concern

In China, the lack of market and hospital access for FSMP has resulted in their limited clinical application, as well as low professional and public awareness of and access to such products.

Assessment

Although the Food Safety Law states that FSMP should be regulated under the same category as other foods, it is due to their use in medical and pharmaceutical institutions that FSMP are regarded as a new category derived from enteral nutrition drugs. As a result, FSMP are regulated differently from food in terms of registration, hospital access, clinical application, charging and reimbursement. The approval procedure for FSMP to gain access to hospitals involves the collaboration of multiple departments, including clinical nutrition, medical services, medical insurance, finance, information and clinical. Although 13 provincial and six municipal authorities have issued guidelines on how FSMP manufacturers can provide their products to healthcare providers,[15] only a small number of hospitals have fully established a corresponding management system. In addition, as FSMP are currently not included in China's unified Hospital Information System with corresponding charge codes, physicians or clinical nutritionists are unable to charge for them, to the detriment of patient care.

Access to FSMP is also restricted outside of hospitals, meaning most products are either extremely difficult to obtain or completely unavailable to the people that need them most. For example, nutritionally complete foods for specific diseases are not permitted to be sold online according to the *Measures for the Investigation and Punishment of Illegal Acts Related to Food Safety in the Digital Market*.[16] The absence of an online market is particularly inconvenient for cancer patients that need access to a nutritionally complete diet, especially for those that are advised not to go outdoors or live in remote areas. Restrictions on the online market also adversely impact FSMP sales overall, which further disincentivises companies from engaging in R&D, particularly given the substantial investment required for early-stage clinical trials.

Due to these obstacles, the overall awareness of FSMP remains low, which then hinders broader applications of FSMP in other channels and limits accessibility to target populations in urgent need of nutritional support. Take the elderly population as an example: as a high-risk group for chronic diseases and malnutrition, the underutilisation of FSMP means their significant nutritional and economic value is yet to be fully realised. In January 2024, the General Office of the State Council issued the *Opinions on Developing the Silver Economy to Improve the Well-being of the Elderly*,[17] outlining the general requirements, objectives and implementation pathways for developing the silver economy. It explicitly encourages the development of FSMP tailored to the chewing, swallowing and nutritional needs of the elderly. The 2025 Government Work Report further emphasised the policy direction of vigorously developing the silver economy.[18] Given the challenges posed by China's aging population, the sub-working groups believe that the introduction and standardised application of FSMP in community, elderly care institutions and similar facilities will advance the silver economy and support healthy ageing initiatives.

Recommendations

- Optimise the Hospital Information System by listing FSMP products with charge codes to give medical institutions easier access to manage and charge for FSMP products.
- Formulate clinical application and management guidelines for FSMP to guide standardised procedures in medical institutions, improve the development of clinical nutrition departments and clinical nutrition teams, and raise professional and public awareness.
- Revise the *Measures for the Investigation and Punishment of Illegal Acts Related to Food Safety in the Digital Market* to allow the online sale of nutritionally complete food for specific diseases.
- Promote the introduction and standardised application of FSMP to communities, elderly care institutions and similar facilities.

15 *Xinhua Releases Review of Hot Spots in the Chinese FSMP Industry in 2023*, SAMR, 5th January 2024, viewed 28th May 2025, <https://www.samr.gov.cn/tssps/sjdt/gzdt/art/2024/art_7eb41fe4351047cba729ce852a0920ea.html>

16 *Measures for the Investigation and Punishment of Illegal Acts Related to Food Safety in Digital Market*, State Council, 13th July 2016, viewed 28th May 2025, <https://www.gov.cn/gongbao/content/2017/content_5174527.htm>

17 *Opinions on Developing the Silver Economy to Improve the Well-being of the Elderly*, State Council, 15th January 2024, viewed 28th May 2025, <https://www.gov.cn/zhengce/content/202401/content_6926087.htm>

18 *Government Work Report, Xinhua*, 12th March 2025, viewed 28th May 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm>

4. Regulate Online Advertising of Infant Formula and iFSMP Promoted by HCPs, and Prohibit the Free Distribution of 0–6-month-old Infant Formula 10

Concern

Online advertising and improper marketing practices influence people to opt out of breastfeeding, thereby hindering efforts to improve breastfeeding rates.

Assessment

Since the *Administrative Measures on the Sale of Breast Milk Substitutes* were abolished in December 2017, there has been no legal framework in China to regulate the marketing of infant formula for infants aged 0–12 months. Given the legal vacuum for the regulation of the marketing of infant formula, some merchants directly or indirectly distribute free samples of 0–6-month-old infant formula to pregnant women and carry out various promotional activities, such as offering gifts, price reductions and bundled sales (exclusive gift packages for new customers) to the parents of infants.

In addition, some major e-commerce and social media platforms have begun to use the images of healthcare professionals (HCPs) to promote infant formula and iFSMP in two main formats: 1) livestreams, in which the doctor's image is displayed onscreen with the product, indirectly boosting sales; and 2) promotional videos featuring key industry opinion leaders, in which an HCP's image is shown on the thumbnail or in the video as an endorsement of the product. These improper online advertisements have exacerbated unfair competition in the industry and are not conducive to increasing breastfeeding rates.

On 15th November 2021, the NHC and 15 other agencies issued the *Breastfeeding Promotion Action Plan (2021–2025)*, which is aimed at achieving "a national exclusive breastfeeding rate of over 50 per cent for infants aged 0–6 months".[19] On 2nd April 2022, the NHC issued the *Notice on the Implementation Programme for the Outline for Women and Children's Development in China (2021–2030)*,[20] again mentioning "reaching a breastfeeding rate of over 50 per cent for infants aged 0–6 months by 2030" as one of the main health goals. However, these policies are not embedded in formal legislation and neither clear regulatory responsibilities nor implementation actions have been assigned. The sub-working groups therefore think that to achieve the goal of increasing China's breastfeeding rate to improve the overall health of infants and young children, it is essential to encourage collaboration between government and civil society, and establish a legal framework for developing marketing regulations for infant formula.

Recommendations

- Strictly supervise improper marketing of infant formula and iFSMP using the image of HCPs, and prohibit marketing involving borderline use of HCPs' images, so as to maintain fair and orderly market competition.
- Strictly supervise free sample distribution for 0–6-month-old infant formula, especially in supermarkets, maternity stores, online e-commerce platforms and other retail outlets, to create a business environment conducive to achieving the goals in the *Breastfeeding Promotion Action Plan (2021–2025)*.
- Ensure the relevant ministries work together to revise and issue a new set of *Administrative Measures on the Sale of Breast Milk Substitutes* as soon as possible, to provide a legal basis for regulating the retail marketing of 0–6-month-old infant formula.

Abbreviations

CNY	Chinese Yuan
FAQs	Frequently Asked Questions
FSMP	Foods/Food for Special Medical Purposes
GB	Guobiao (Domestic National Standard)
HCP	Healthcare Professional
iFSMP	Infant Foods for Special Medical Purposes
MoU	Memorandum/Memoranda of Understanding
NHC	National Health Commission
R&D	Research and Development
SAMR	State Administration for Market Regulation

19 *Notice on the Issuance of the Breastfeeding Promotion Action Plan (2021-2025)*, NHC, 15th November 2021, viewed 28th May 2025, <http://www.gov.cn/zhengce/zhengceku/2021-11/24/content_5653169.htm>

20 *Notice on the Implementation Programme for the Outline for Women and Children's Development in China (2021-2030)*, NHC, 2nd April 2022, viewed 28th May 2025, <https://www.gov.cn/zhengce/zhengceku/2022-04/09/content_5684258.htm>

Automotive Working Group

Key Recommendations

1. Address Unsustainable Competition and Price Wars with a Clear and Practical Approach

- Implement a comprehensive approach through coordinated inter-ministerial actions, including:
  - Facilitation of insolvency filings, divestments, and mergers and acquisitions (M&As) for capacity phase-outs;
  - quality supervision enforcement;
  - regulation of supply chain financing;
  - marketing behaviour controls;
  - price fluctuation monitoring; and,
  - unification of all local subsidies and tax refunds along the value chain to safeguard the unified national market and level the playing field.
- Integrate regulatory measures that effectively prevent unsustainable competition and price wars into the revised Anti-unfair Competition Law and related regulatory frameworks.
- Adopt a cooperative stance in bilateral negotiations to find mutually beneficial solutions that support sustainable global trade and investment relations to guide the Chinese automotive industry's overseas expansion.
- Set up official, acknowledged and standardised dealer bankruptcy and exit procedures to protect consumer rights and interests.

2. Create a Predictable and Balanced Regulatory Environment to Ensure the Sustainable Development of New Energy Vehicles 8

- Ensure predictability and stability in new NEV policies/legislation by providing sufficient lead time and transition periods for industry preparation.
- Clarify the NEV purchase tax exemption policy timeline and technical requirements through to 2027, to facilitate smoother industry adaptation.
- Simplify the policy mechanisms when transitioning from corporate average fuel consumption/ NEV dual-credits to carbon credits, while maintaining a consistent approach with comparable stringency compliance levels.
- Harmonise European Union (EU)-China carbon footprint methodologies for whole vehicles and battery electric vehicle batteries through bilateral dialogue, and adopt incentives rather than near-term mandatory life-cycle assessment limits for automotive products.
- Harmonise greenhouse gas emission control regulations and standards with carbon credit and carbon footprint management systems to prevent regulatory overlap or compliance conflicts.

3. Prioritise the Establishment of a Cross-border Data Transfer (CBDT) Pilot for the Automotive Industry within the EU-China Cross-border Data Flow Communication Mechanism

- Revise the definition of 'important data' in the *Several Provisions on Automotive Data Security Management (Trial)*, and develop reasonable and granular grading standards by sensitivity/ risk levels.

- Launch an automotive CBDT pilot and streamline approvals for European automotive manufacturers to transfer operational and business data between Chinese operations and European headquarters, provided they ensure privacy, data security and cybersecurity.
- Facilitate cooperation between local cyberspace administration offices and industry players to validate data flow processes, identify operational bottlenecks and develop sector-specific best practices.
- Optimise security assessment cycles by introducing multi-year certifications and fast-tracking reassessments.

4. Enhance the Legal and Regulatory Framework for Intelligent Connected Vehicles (ICVs) to Better Support Industry Growth and Align its Technical Standards with International Practices

- Advance key ICV legislative and regulatory frameworks by revising the Road Traffic Safety Law, while addressing data security, cybersecurity and CBDT in a coordinated manner.
- Enhance transparency by publishing regular progress updates and hosting industry seminars on ICV market access and road-testing pilot programmes.
- Set workable lead times for the implementation of ICV regulations that take into consideration the industry situation.
- Uphold the voluntary participation principle in regulatory sandboxes to maintain policy consistency and encourage innovation.
- Align China's ICV regulations with international standards and, where safety is assured, support the application of innovative technologies, such as hands-free driving using driver-monitoring technology (e.g., eye-tracking).
- Make a clear distinction between Level 2 and Level 2+ requirements from the perspective of technical standardisation, to ensure basic advanced driver assistance system functions can improve vehicle safety.

5. Commercial Vehicles (CVs)

5.1 Modernise the CV Certification System to Support Specialised Transport

- Implement a 'family coverage' certification system to extend approvals across core component variants (e.g., higher-power engines certifying lower-power models, or longer wheelbases covering shorter ones).
- Establish a centralised database of pre-certified core components (engines, axles, chassis) through Ministry of Industry and Information Technology (MIIT)/Ministry of Transport (MOT) collaboration, enabling manufacturers to freely combine approved parts in new models, while ensuring compliance with safety and environmental standards.
- Simplify special-purpose vehicle testing by aligning regulators and industry on essential safety protocols, eliminating redundant, non-critical testing for sectors like construction or municipal services.

5.2 Develop a Coordinated Regulatory and Standards Framework to Balance Transportation Efficiency, Safety and Infrastructure Protection

- Clarify institutional responsibilities by adopting Germany's Kraftfahrt-Bundesamt-TÜV model, assigning the MIIT to oversee industry regulation, the MOT to evaluate road applicability, and ensuring that the Ministry of Public Security focusses exclusively on the enforcement of road safety.

- Revise vehicle size and weight regulations by:
  - updating *GB1589* and *GB7258* to define broad outer limits for vehicle dimensions and axle loads, while enabling flexible vehicle-trailer-cargo module combinations within these parameters;
  - introducing rules for modular road trains to facilitate higher-capacity transport; and,
  - adjusting gross vehicle weight limits for electric vehicles to account for battery systems without compromising road durability.
- Limit exemptions exclusively to certified special-purpose vehicles meeting stringent safety criteria, ensuring they remain rare exceptions rather than common practice.
- Deploy intelligent monitoring systems for road trains using geofencing and digital route classification to enforce dynamic vehicle/weight restrictions by roadway, optimising both infrastructure protection and logistics efficiency.

6. Motorcycles

6.1 Rescind the 13-year 'Shelf Life' Limitation for Motorcycles in China 4

- Rescind the mandatory 13-year scrappage policy for motorcycles and replace it with annual inspections for motorcycles over 13 years old—bringing them into line with passenger car regulations—to extend usability while ensuring safety and emissions compliance.

6.2 Open All Roads that Permit Four-wheeled Vehicles to Motorcycles, Including Highways 4

- Differentiate between motorcycle types when placing restrictions on their use and open highways to motorcycles over 250cc.
- Rely on effective enforcement of road rules as well as increased training for motorcyclists to ensure safety, rather than complete bans.
- Issue green NEV licence plates and other preferential benefits for electric motorcycles to encourage their use in urban areas.

7. Suspend the Implementation of the Ministry of Finance and State Taxation Administration Announcement Expanding the Scope of Consumption Tax Policy for Ultra-luxury Cars Through Price Threshold Increases

- Suspend the implementation of the announcement, fully evaluate its impact and establish an inclusive consultation process with affected parties to explore potential policy adjustments.
- If suspension is not feasible, provide sufficient transition times for manufacturers to adapt to the new policy to ensure product supply and customer service, among other considerations.

Recent Developments

Market Developments

In 2024, China produced 31.3 million vehicles, with the total new vehicle market increasing by 4.5 per cent year-on-year. Exports remained strong throughout the year, increasing by 19.7 per cent to almost six million vehicles.[1] China remained the world's electric vehicle (EV) manufacturing hub, accounting for more than 70 per cent of global production, with domestic automotive manufacturers now responsible for 80 per cent of its output – up from two thirds in 2021.[2] The country has already surpassed its 2027 target of 45 per cent new energy vehicle (NEV) sales penetration domestically. To sustain growth, the Chinese Government has extended trade-in grants to 2025 and NEV purchase tax exemptions to 2027; and accelerated the rollout of

1 Bekker, Henk, *2024 (Full Year) China: Car Production and Exports by Brand*, Best-Selling Cars – Car Sales Statistics, 16th January 2025, viewed 1st July 2025, <https://www.best-selling-cars.com/china/2024-full-year-china-car-production-and-exports-by-brand/>

2 *Global EV Outlook 2025*, International Energy Agency, May 2025, viewed 8th June 2025, <https://www.iea.org/reports/global-ev-outlook-2025>

charging infrastructure through to 2030, focussing on residential areas, workplaces and public facilities.[3] In the first five months of 2025, car sales increased by 10.9 per cent to 12.75 million units, with NEV sales growing by 44 per cent to 5.61 million units.[4]

China has also established a comprehensive industrial system for intelligent connected vehicles (ICVs), encompassing core technologies like basic chips, sensors, computing platforms and chassis control. Its ICV sector now includes nearly 400 specialised 'little giants',[5] five domestic Light Detection and Ranging (LiDAR)[6] manufacturers ranking among the world's top 10, and nine automotive manufacturers piloting conditional autonomous driving.[7]

Looking at road safety data, in 2023 there were 254,738 accidents in China, a slight decrease year-on-year compared to 2022 (when there were 256,409 cases).[8&9]

Regulatory Developments

Pilot Programmes for ICVs

In June 2024, four key ministries—the Ministry of Industry and Information Technology (MIIT), the Ministry of Public Security (MPS), the Ministry of Housing and Urban-Rural Development and the Ministry of Transport (MOT)—jointly announced the selection of nine domestic brands/consortiums for ICV pilot programmes.[10] These pilots play a vital role in shaping the regulatory framework for future autonomous vehicle deployment and operation. However, despite their significance, detailed progress reports have yet to be made public.[11]

Stricter Rules for NEV Battery Recycling

In December 2023, the MIIT issued updated *Specifications for the Comprehensive Utilisation of NEV Retired Power Batteries (Draft)* replacing the 2019 version with stricter requirements. The new draft regulation mandates that enterprises invest at least three per cent of battery recycling revenue in research and development (R&D), prioritise those with multiple patents for cascading and enforce stringent material recovery standards.[12] The rules also set energy efficiency benchmarks and wastewater recycling targets, while establishing a dynamic compliance system to regulate the growing battery recycling industry as China's EV market expands.[13]

Stricter requirements for NEV energy consumption

In June 2024, the MIIT published the national standard *GB 36980.1-2025 Energy consumption limits for electric vehicles-Part 1: Passenger car,* which will take effect from 1st January 2026. NEV energy consumption will be further regulated in other NEV policies, such as the Corporate Average Fuel Consumption NEV dual credit rules and NEV purchase tax exemptions.

Expanded Trade-in Subsidies and Standardisation Push

In January 2025, two ministries jointly issued an extended and enhanced trade-in policy for consumer goods.[14] Subsidies for trade-ins of new-energy passenger vehicles have doubled from Chinese yuan (CNY) 10,000 to 20,000, while those for trade-ins of fuel passenger vehicles have increased from CNY 7,000 to 15,000.

Subsequently, the *2025 Automotive Standardisation Work Plan* mandated 17 new compulsory standards for autonomous driving (covering operating conditions, parking systems and simulation testing), accelerated EV battery safety protocols and expedited standard setting for driver-assistance products.[15]

3 *Ibid.*
4 *China Total Vehicle Sales*, Trading Economics, viewed 1st July 2025, <https://tradingeconomics.com/china/total-vehicle-sales>
5 Small and medium-sized enterprises that specialise in a niche market and hold cutting-edge technologies.
6 A critical sensor technology in autonomous driving that detects objects and calculates their distance to create a map of the surrounding environment, serving as the vehicle's 'eyes'.
7 *China's auto industry accelerates toward intelligent transformation, Xinhua,* 20th October 2024, viewed 8th June 2025, <https://english.news.cn/20241020/3b699c808d0241e3b499d3678e776b57/c.html>
8 *China Statistical Yearbook 2024*, National Bureau of Statistics, viewed 1st July 2025, <https://www.stats.gov.cn/sj/ndsj/2024/indexch.htm>
9 *China Statistical Yearbook 2024*, National Bureau of Statistics, viewed on 1st July 2025, <https://www.stats.gov.cn/sj/ndsj/2023/indexeh.htm>
10 *Four Departments Conduct Pilot Programme for ICV Market Access and On-Road Operation in an Orderly Manner,* MIIT, 4th June 2024, viewed 24th March 2025, <https://www.miit.gov.cn/xwdt/gxdt/sjdt/art/2024/art_53796f0c2b98445783b4dc5ae99ace8f.html>
11 See KR 4 for more details on autonomous driving.
12 Cascading use is the efficient utilisation of resources by using residues and recycled materials for material use to extend total biomass availability within a given system. From a technical perspective, the cascading use of wood takes place when wood is processed into a product and is used at least once more for material or energy purposes. See: *Cascading use*, European Commission, 19th March 2025, viewed 9th June 2025, <https://knowledge4policy.ec.europa.eu/glossary-item/cascading-use_en>
13 *Specifications for the Comprehensive Utilisation of NEV Retired Power Batteries*, MIIT, 23rd December 2024, viewed 8th June 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/gg/art/2024/art_2ca9a4ed31de469d9da26ca70c83a868.html>
14 *Notice on Strengthening and Expanding the Implementation of Large-scale Equipment Renewal and Trade-in Policies for Consumer Goods in 2025,* State Council, 5th January 2025, viewed 28th May 2025, <https://www.gov.cn/zhengce/zhengceku/202501/content_6997129.htm>
15 *Key Points for Automotive Standardisation in 2025,* MIIT, 28th April 2025, viewed 28th May 2025, <https://www.miit.gov.cn/jgsj/zbys/qcgy/art/2025/art_0b924d12c87c4416a898b7212a93983a.html>

Key Recommendations

1. Address Unsustainable Competition and Price Wars with a Clear and Practical Approach

Concern

Intense price wars and unhealthy competition in China's automotive sector are resulting in resource inefficiencies, shrinking profitability and market destabilisation, putting companies' long-term financial stability and innovation capacity at risk.

Assessment

The Chinese NEV market is highly fragmented, with over 100 EV brands, of which 20 dominate 80 per cent of sales, fuelling fierce and unsustainable 'involutionary' competition.[16] Some original equipment manufacturers (OEMs) are exacerbating this by disrupting supply chain pricing, which erodes NEV quality standards and harms customer interests. Furthermore, due to price wars, the operations of dealers experience higher risks. Some dealer groups face operational pressure or even bankruptcy, which is detrimental to the interests of the consumer. For instance, consumers may not be able to redeem aftersales vouchers and prepaid services issued by dealer groups in financial difficulties.

Despite requiring massive R&D and infrastructure investments to drive electrification and smart transformation, China's automotive sector—particularly its NEV segment—continues to operate at a loss. These challenges have global repercussions: they undermine the stability of China's domestic automotive ecosystem while putting European manufacturers at risk of declining profits, shrinking market share and lagging behind in innovation both in China and abroad.

Despite the Chinese Government's calls for industry consolidation, reiterated in the 2025 Government Work Report, current market dynamics continue to diverge from policy objectives.

16 The Chinese Government has used the term 'involution' in an industrial context to define industries that have become characterised by low total factor productivity due to excessive competition stemming from over-investment. This creates a cycle of ever-increasing inputs with ever-diminishing returns. Involution has been observed in industries that China has identified as being of strategic importance to its future economic growth—including NEVs—which subsequently attract disproportionately large subsidies and other forms of policy support in an effort to develop domestic champions. Due to vested interests, local governments often continue to prop-up their own industries long after they have stopped being commercially viable, leading to overproduction, overcrowding and fierce price wars among all market participants.

Recommendations

- Implement a comprehensive approach through coordinated inter-ministerial actions, including:
  - Facilitation of insolvency filings, divestments, and mergers and acquisitions (M&A) for capacity phase-outs;
  - quality supervision enforcement;
  - regulation of supply chain financing;
  - marketing behaviour controls;
  - price fluctuation monitoring; and,
  - unification of all local subsidies and tax refunds along the value chain to safeguard the unified national market and level the playing field.
- Integrate regulatory measures that effectively prevent unsustainable competition and price wars into the revised Anti-unfair Competition Law and related regulatory frameworks.
- Adopt a cooperative stance in bilateral negotiations to find mutually beneficial solutions that support sustainable global trade and investment relations to guide the Chinese automotive industry's overseas expansion.
- Set up official, acknowledged and standardised dealer bankruptcy and exit procedures to protect customers' rights and interests.

2. Create a Predictable and Balanced Regulatory Environment to Ensure the Sustainable Development of NEVs

Concern

Although China is updating its NEV policy, unclear transition timelines and methodologies are raising concerns over regulatory overlap, market disruption and insufficient preparation time for industry players.

Assessment

China continues to dominate global NEV sales, a position it has maintained for the past 10 years, with NEVs capturing 47.6 per cent of the global market share in 2024.[17] The policy focus is now shifting from volume growth to 'high-quality development'. Simultaneously, the country is elevating its climate ambitions, shifting from energy consumption control to carbon management. Given the automotive sector's extensive economic influence—with its complex industrial chains and broad impact—policymakers are

17 Singhi, R, *China's NEV Market: A Tale of Growth, Competition and Challenges*, NASDAQ, 10th January 2025, viewed 9th June 2025, <https://www.nasdaq.com/articles/chinas-nev-market-tale-growth-competition-and-challenges>

increasingly aligning the industry's green transformation with national roadmaps.

As part of its decarbonisation strategy, China is transitioning its automotive dual-credit scheme toward a broader carbon credit system;[18] establishing a carbon footprint management system; integrating greenhouse gas emission control into the sector; and introducing stricter technical requirements for incentive programmes.[19] However, the absence of clearly defined transition timelines and methodologies has caused industry concerns about potential regulatory overlaps and insufficient preparation time.

Recommendations

- Ensure predictability and stability in new NEV policies/legislation by providing sufficient lead time and transition periods for industry preparation.
- Clarify the NEV purchase tax exemption policy timeline and technical requirements through to 2027, to facilitate smoother industry adaptation.
- Simplify the policy mechanisms when transitioning from corporate average fuel consumption/NEV dual-credits to carbon credits, while maintaining a consistent approach with comparable stringency compliance levels.
- Harmonise European Union (EU)-China carbon footprint methodologies for whole vehicles and battery electric vehicle batteries through bilateral dialogue, and adopt incentives rather than near-term mandatory life-cycle assessment limits for automotive products.
- Harmonise greenhouse gas emission control regulations and standards with carbon credit and carbon footprint management systems to prevent regulatory overlap or compliance conflicts.

3. Prioritise the Establishment of a Cross-border Data Transfer (CBDT) Pilot for the Automotive Industry within the EU-China Cross-border Data Flow Communication Mechanism

Concern

The electrification and digital transformation of the automotive industry require enhanced data flows between the European Union (EU) and China; however, a lack of clarity of both sector-specific definitions and the scope of what constitutes 'important data' is hindering progress.

Assessment

The rapid electrification and digital transformation of the automotive industry—spanning connected vehicles, autonomous driving and battery supply chains—demands unimpeded cross-border data flows between the EU and China, especially for European OEMs that rely on cross-border R&D and after-sales data integration. However, progress is being stalled by unclear sector-specific definitions and an overly broad scope of 'important data', creating compliance and innovation challenges for European automotive manufacturers.

Following the successful launch of the EU-China Cross-border Data Flow Communication Mechanism in August 2024,[20] the Cyberspace Administration of China issued updated cross-border data transfer guidelines in April and May 2025, clarifying security assessments, personal data exports, 'important data' identification and certification mechanisms. However, a definitive list of 'important data' types remains absent.[21]

Automotive-specific Challenges

The 2021 *Several Provisions on Automotive Data Security Management (Trial)*[22] has made initial attempts to classify automotive data into 'personal information' and 'important data'. However, since most automotive manufacturers have over 100,000 customers in China, all their customer data is automatically treated as 'important data', which prevents them from adopting simpler measures to transfer even basic customer details. Also, this provision fails to define sensitivity/risk grading.

Recommendations

- Revise the definition of 'important data' in the *Several Provisions on Automotive Data Security Management*

18 The dual credit scheme creates Corporate Average Fuel Consumption and NEV credits, requiring all OEMs in China to achieve positive results for both.

19 For example, technical guidelines for NEV powertrain efficiency.

20 *EU and China launch Cross-Border Data Flow Communication Mechanism*, European Commission, 28th August 2024, viewed 7th June 2025, <https://policy.trade.ec.europa.eu/news/eu-and-china-launch-cross-border-data-flow-communication-mechanism-2024-08-28_en>

21 *China Clarifies Cross-Border Data Transfer Rules: Key Takeaways from Official Q&A (I)*, China Briefing, 18th April 2025, viewed 7th June 2025, <https://www.china-briefing.com/news/china-clarifies-cross-border-data-transfer-rules-official-qa/>; *Cross-Border Data Transfers Official Q&A (II)*, China Briefing, 5th June 2025, viewed 7th June 2025, <https://www.china-briefing.com/news/china-cross-border-data-transfer-qna-may-2025/>

22 *Several Provisions on Automotive Data Security Management (Trial)*, State Council, 16th August 2021, viewed 7th June 2025, <https://www.gov.cn/zhengce/zhengceku/2021-09/12/content_5640023.htm>

(Trial) and develop reasonable and granular grading standards by sensitivity/risk levels.

- Launch an automotive CBDT pilot and streamline approvals for European automotive manufacturers to transfer operational and business data between Chinese operations and European headquarters, provided they ensure privacy, data security and cybersecurity.
- Facilitate cooperation between local cyberspace administration offices and industry players to validate data flow processes, identify operational bottlenecks and develop sector-specific best practices.
- Optimise security assessment cycles by introducing multi-year certifications and fast-tracking reassessments.

4. Enhance the Legal and Regulatory Framework for Intelligent Connected Vehicles (ICVs) to Better Support Industry Growth and Align its Technical Standards with International Practices

Concern

Although nine domestic OEMs joined China's ICV pilot programmes, details on their progress have not been disclosed, and uncertainties remain regarding both the implementation and voluntariness of regulatory sandbox supervision and technical alignment with international standards for 'hands-off' autonomous driving functions.

Assessment

ICVs are a strategic priority for the automotive industry. The sector is currently undergoing rapid technological and market growth. Key developments include advanced driver assistance systems (ADASs, Level 2), now deployed beyond highways into complex urban environments; and more advanced conditional automation (Level 3) and high automation (Level 4) systems, which are progressing through pilot programmes for market access and road testing with government support.[23] This technological evolution involves an increasingly broad range of industries and stakeholders, making the establishment of a sound legal and regulatory framework crucial to ensure product safety, encourage innovation and foster healthy industry development.

In June 2024, four Chinese ministries jointly announced the selection of nine domestic brands/consortiums for ICV pilot programmes.[24] These pilots play a vital role in shaping the regulatory framework for future autonomous vehicle deployment and operation. To maximise their effectiveness, it would be beneficial for authorities to provide regular updates on pilot progress and research findings, offering valuable guidance to industry players in their technology and product planning.

The regulatory landscape continued to evolve in February 2025, with the issuance of enhanced guidelines governing ICV market access, recall procedures and over-the-air updates.[25] These measures aim to strengthen safety management while supporting industry growth through tools like regulatory sandboxes. Key requirements include submission of comprehensive testing plans for ADASs, safety risk assessments and prior test reports. However, the lack of detailed requirements for sandbox testing creates uncertainty. The working group therefore recommends upholding the voluntary application principle (established in the *2022 Automotive Safety Sandbox Regulation*) to ensure policy consistency.[26]

While China's ICV regulatory framework is still developing, it faces the important challenge of balancing safety assurance with innovation promotion in areas like ADASs and new applications. Current gaps in policy guidance, particularly for emerging technologies like Level 2+ hands-free driving systems—which are already under international review by bodies like the World Forum for Harmonization of Vehicle Regulations (WP.29)[27] —may constrain technological adoption and wider deployment.

Recommendations

- Advance key ICV legislative and regulatory frameworks by revising the Road Traffic Safety Law, while addressing data security, cybersecurity and CBDT in a coordinated manner.

23 *Notice on Launching the Pilot Programme for ICV Market Access and On-Road Operation*, MIIT, 17th November 2023, viewed 24th March 2025, <https://www.miit.gov.cn/jgsj/zbys/wjfb/art/2023/art_4a67648dc58e483bab554f97045a8579.html>

24 *Four Departments Conduct Pilot Programme for ICV Market Access and On-Road Operation in an Orderly Manner*, MIIT, 4th June 2024, viewed 24th March 2025, <https://www.miit.gov.cn/xwdt/gxdt/sjdt/art/2024/art_53796f0c2b98445783b4dc5ae99ace8f.html>

25 *Notice on Further Strengthening the Management of ICV Product Access, Recall, and Over-the-Air Upgrading*, MIIT, 28th February 2025, viewed 7th June 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2025/art_1f663dddc5ee4754bb833586b2bf0853.html>

26 *Announcement on Trial Implementation of the Automotive Safety Sandbox Supervision System*, State Council, 25th February 2022, viewed 24th March 2025, <https://www.gov.cn/zhengce/zhengceku/2022-04/02/content_5683112.htm>

27 *Draft Amendments to UN Regulation No. [171] - Outline & Justification*, United Nations Economic Commission for Europe, 9th September 2024, viewed 24th March 2025, <https://wiki.unece.org/download/attachments/260603989/%28Chair%29%20Amendments%20to%20DCAS%20UN%20R-for%20the%20workshop.pptx?api=v2>

- Enhance transparency by publishing regular progress updates and hosting industry seminars on ICV market access and road-testing pilot programmes.
- Set workable lead times for the implementation of ICV regulations that take into consideration the industry situation.
- Uphold the voluntary participation principle in regulatory sandboxes to maintain policy consistency and encourage innovation.
- Align China's ICV regulations with international standards and, where safety is assured, support the application of innovative technologies, such as hands-free driving using driver-monitoring technology (e.g., eye-tracking).
- Make a clear distinction between Level 2 and Level 2+ requirements from the perspective of technical standardisation, to ensure basic advanced driver assistance system functions can improve vehicle safety.

5. Commercial Vehicles (CVs)

5.1 Modernise the CV Certification System to Support Specialised Transport

Concern

China's commercial vehicle (CV) certification system lags behind modern logistics needs, limiting specialised vehicle innovation and operational efficiency improvements.

Assessment

As China's economy advances toward high-value industries and societal needs grow more complex, demand for specialised transport solutions is increasing. However, the current CV certification system is outdated. A key bottleneck lies in the requirement for full recertification of every model update, regardless of how minor the modification. For instance, when a truck manufacturer adjusts a chassis wheelbase by just four per cent to optimise load distribution for precision equipment transport, the entire vehicle must undergo redundant retesting – even if its engine, brakes and other core components already comply with national standards. This rigidity hampers development of specialised vehicles for critical sectors like medical logistics and cold chains, for which customised designs are essential.

The EU's component-based certification system offers a proven alternative. Under this framework, core components like engines, axles, cabs and brakes are certified individually and can be reused across multiple vehicle models without recertification. The EU also applies a 'family coverage' principle: if one engine variant passes strict emissions testing, the certification extends to all similar models in its family, provided they share core technical features. Similarly, chassis with wheelbase variations under five per cent are treated as equivalent. This approach allows manufacturers to efficiently assemble customised vehicles from pre-approved components, while enabling logistics firms to improve operational performance through specialised solutions. Adopting similar modernisation in China's certification system would break the cycle of homogeneous vehicle designs and price-driven competition, enable transport operators to deploy purpose-built vehicles and foster a sustainable, value-driven transport ecosystem.

Recommendations

- Implement a 'family coverage' certification system to extend approvals across core component variants (e.g., higher-power engines certifying lower-power models, or longer wheelbases covering shorter ones).
- Establish a centralised database of pre-certified core components (engines, axles, chassis) through Ministry of Industry and Information Technology (MIIT)/ Ministry of Transport (MOT) collaboration, enabling manufacturers to freely combine approved parts in new models while ensuring compliance with safety and environmental standards.
- Simplify special-purpose vehicle testing by aligning regulators and industry on essential safety protocols, eliminating redundant non-critical testing for sectors like construction or municipal services.

5.2 Develop a Coordinated Regulatory and Standards Framework to Balance Transportation Efficiency, Safety and Infrastructure Protection

Concern

Current CV regulations fail to balance specification controls with safety needs, resulting in inefficient transport systems, compromised road safety and preventable infrastructure damage.

Assessment

China's CV sector operates under two primary standards: *GB1589*, regulating vehicle dimensions, axle load and weight; and *GB7258*, setting safety requirements. These standards strictly limit vehicle designs and applications across different use cases. As demand grows for specialised vehicle designs, the current framework fails to accommodate innovation. This mismatch leads to widespread non-compliance, manifested in practices like using standard trailers for oversized containers or extended car carriers. The consequences are fourfold: compromised safety, accelerated infrastructure wear, wasted resources and distorted market competition when compliant vehicles struggle to meet operational demands while non-compliant ones operate unsafely.

The fundamental issue lies in both standards' excessive rigidity and detail, compounded by inconsistent enforcement. What is needed is a transition to a flexible framework approach – establishing broad boundaries and guiding principles rather than prescribing technical specifications. Both *GB1589* and *GB7258* should define outer limits and regulatory objectives, enabling innovation within these parameters while minimising reliance on exemptions.

GB1589 could adopt elements from the EU's EC96/53 directive and Modular System,[28&29] permitting longer and heavier vehicle combinations on approved routes without compromising safety or infrastructure protection. A practical first step would be eliminating axle count restrictions, which would improve load distribution and reduce road wear. This would ensure all operators compete equally under transparent, uniformly applied rules rather than through informal exemptions.

Furthermore, *GB7258* overlaps significantly with China's Road Traffic Safety Law. The MPS's combined role in rule-making, supervision and enforcement generates systemic conflicts, particularly when *GB7258* revisions prioritise enforcement expediency over technical viability. Resolving this requires functional separation: *GB7258* should be streamlined as a pure safety standard, with enforcement managed independently.

Adopting a model such as Germany's—where the Kraftfahrt-Bundesamt (KBA) sets policies and TÜV conducts inspections, therefore shifting the MPS's focus exclusively to enforcement and separating rule-making responsibilities—would improve governance efficiency. This approach aligns with China's broader policy of streamlining administration, delegating power, and improving regulatory frameworks through a clearer separation between policymaking and execution.

Recommendations

- Clarify institutional responsibilities by adopting Germany's Kraftfahrt-Bundesamt-TÜV model, assigning the MIIT to oversee industry regulation, the MOT to evaluate road applicability, and ensuring that the Ministry of Public Security focusses exclusively on the enforcement of road safety.
- Revise vehicle size and weight regulations by:
  - updating *GB1589* and *GB7258* to define broad outer limits for vehicle dimensions and axle loads, while enabling flexible vehicle-trailer-cargo module combinations within these parameters;
  - introducing rules for modular road trains to facilitate higher-capacity transport; and,
  - adjusting gross vehicle weight limits for electric vehicles to account for battery systems without compromising road durability.
- Limit exemptions exclusively to certified special-purpose vehicles meeting stringent safety criteria, ensuring they remain rare exceptions rather than common practice.
- Deploy intelligent monitoring systems for road trains using geofencing and digital route classification to enforce dynamic vehicle/weight restrictions by roadway, optimising both infrastructure protection and logistics efficiency.

6. Motorcycles

6.1 Rescind the 13-year 'Shelf Life' Limitation for Motorcycles in China

Concern

The compulsory scrapping of 13-year-old motorcycles fails to account for the durability of well-manufactured vehicles, deterring foreign investment while simultaneously disincentivising domestic brands and their supply chains from pursuing design innovation and quality improvements.

28 *Council Directive 96/53/EC of 25 July 1996 laying down for certain road vehicles circulating within the Community the maximum authorized dimensions in national and international traffic and the maximum authorized weights in international traffic,* European Union, 25th July 1996, viewed 8th June 2025, <http://data.europa.eu/eli/dir/1996/53/oj>

29 The European Modular System is a solution that allows combinations of existing loading units—also called modules—into longer and sometimes heavier vehicle combinations to be used on certain parts of the road network.

European Chamber
中国欧盟商会

Assessment

In the Chinese mainland, the service life of newly purchased motorcycles is limited to 13 years from the day of registration. This regulation applies equally to both imported and domestically produced motorcycles, without distinction between engine cylinder categories.

When this mandatory 13-year 'shelf life' was first introduced in 2013,[30] motorcycle technology was far less advanced. Today, however, China's product certification tests include emissions durability projects that follow the world's most stringent pollutant control standards. Most new motorcycles sold, whether imported or domestically made, now feature advanced fuel injection and emissions after-treatment equipment—technologies comparable to those used in cars—representing a leap of several generations.

Despite these technological advancements, the 13-year 'shelf life' policy persists, discouraging Chinese motorcycle brands and their supply chains from investing in R&D, design differentiation and leading innovations. This may explain the continued price competition among Chinese motorcycle brands in both domestic and global markets.

Given that motorcycles have evolved from mere transportation tools into lifestyle products for many consumers, lifting the 13-year limit would benefit domestic manufacturers and consumers alike, while stimulating market growth.

Recommendation

- Rescind the mandatory 13-year scrappage policy for motorcycles and replace it with annual inspections for motorcycles over 13 years old, aligning with passenger car regulations to extend usability while ensuring safety and emissions compliance.

6.2 Open All Roads that Permit Four-wheeled Vehicles to Motorcycles, Including Highways

Concern

Banning motorcycles from highways or other areas designated by local governments hinders both their viability as a means of transport and the development of the motorcycle industry.

30 *Regulation on the Mandatory Scrapping Standards for Motor Vehicles*, Ministry of Commerce, 27th December 2012, viewed 8th June 2025, <https://www.gov.cn/zhengce/2012-12/27/content_5712387.htm>

Assessment

Even though motorcycles are permitted on highways under national law, some provinces have implemented local restrictions due to safety concerns, despite the construction quality and maintenance of both highways and general roads being at a good level. Signage, protection measures, surveillance cameras and the ability for rapid police response are also already in place. Any additional concerns about safety could be addressed by means other than bans, such as increased training for motorcyclists or stricter enforcement of road rules.

Not all motorcycles are the same, and high-quality motorcycles can perform in a similar manner to passenger cars during adverse road conditions. For example, large-displacement models (of 250cc and above) are now often equipped with antilock brakes. Restrictions on road use should therefore be tailored to correspond with different displacement ranges.

Another reason to review and abolish restrictions on motorcycle use is the shift in consumption patterns, from commuting to lifestyle purposes, such as sport and travel. Removing restrictions would boost consumption of motorcycles and associated equipment, and help growth in other service industries.

While motorcycles are popular with enthusiasts, the introduction of more electric motorcycles presents a green transportation solution in urban areas. The advantages of electric motorcycles include using less space to park than cars, easing urban congestion and using less energy than a car when only one person needs to be transported. Given that most areas with motorcycle restrictions are in central urban zones, it is recommended that green licence plates for motorcycles be implemented, such as those already adopted for NEVs. This would facilitate both the regulation of motorcycles and the travel of residents.

Recommendations

- Differentiate between motorcycle types when placing restrictions on their use and open highways to motorcycles over 250cc.
- Rely on effective enforcement of road rules as well as increased training for motorcyclists to ensure safety, rather than complete bans.
- Issue green NEV licence plates and other preferential

benefits for electric motorcycles to encourage their use in urban areas.

7. Suspend the Implementation of the Ministry of Finance and State Taxation Administration Announcement Expanding the Scope of Consumption Tax Policy for Ultra-luxury Cars Through Price Threshold Increases

Concern

The recent Ministry of Finance (MOF) and State Taxation Administration (STA) *Announcement on Adjusting the Consumption Tax Policy for Ultra-luxury Cars* not only puts considerable additional pressure on imports from European OEMs – already suffering from declining sales, but it is also not aligned with stated policy goals of increasing consumption and supporting foreign investors, and risks further harming the bilateral EU-China relationship and confidence for trade cooperation.

Assessment

On 17th July 2025, the MOF and the STA issued the *Announcement on Adjusting the Consumption Tax Policy for Ultra-luxury Cars* (*Announcement*).[31] The *Announcement,* which took effect on 20th July 2025, expands the scope of what is considered an ultra-luxury vehicle, lowering the taxable retail price from CNY 1.3 million to CNY 900,000 (excluding value-added tax).[32] The special consumption tax applies to all powertrain types, including pure electric, fuel cell and traditional engines, etc. Moreover, the taxable retail sales value includes all payments and fees related to the purchase (e.g., accessories, decorations, services).

According to preliminary assessments from affected European OEMs, there is a significant impact on European brands. Initial projections also indicate that the expansion of the scope will increase the number of affected imported vehicles by tens of thousands. In the current economic situation, with declining sales of ultra-luxury vehicles, members of the Automotive Working Group expect a significant negative impact on their sales volumes as a result of the *Announcement*. This situation is compounded by the fact that automakers were only given three days' notice (including a weekend) between the publication of the *Announcement* and its entry into force.

Looking at the broader implications of this policy, the working group has raised the following considerations:

1. The policy runs counter to broader policy objectives set by the leadership and may not be able to achieve its own stated goal:

a. Boosting consumption is a key macro policy objective, and the previous consumption tax on ultra-luxury cars, in place since 2016, has already contributed to the suppression of the consumption potential for high-end automotive products – a situation further exacerbated by broader economic trends. Therefore, implementation of the *Announcement* may trigger further consumer downshifting, where buyers opt for lower-priced vehicles to avoid the tax burden. This would lead to a 'consumption downgrade' within the high-end market.
b. The *Announcement* also runs counter to the Chinese Government's stated objectives of supporting foreign investment and will further erode the business confidence of the European automotive industry.
c. While this policy aims to optimise tax revenue, the sales volume loss of high-end vehicles resulting from the price increases may lead to the opposite, that is, a smaller increase or even a reduction of tax income.

2. As the *Announcement* significantly impacts European OEMs and brands, it risks a further deterioration of EU-China trade and investment relations and a further erosion of trust.

Recommendations

- Suspend the implementation of the announcement, fully evaluate its impact and establish an inclusive consultation process with affected parties to explore potential policy adjustments.
- If suspension is not feasible, provide sufficient transition times for manufacturers to adapt to the

31 *Announcement on Adjusting the Consumption Tax Policy for Ultra-Luxury Cars,* STA, 17th July 2025, viewed 20th July 2025, <https://fgk.chinatax.gov.cn/zcfgk/c102416/c5241889/content.html>

32 Under the *Notice of the Ministry of Finance and the State Administration of Taxation on Levying Consumption Tax on Ultra-Luxury Cars* (Caishui [2016] No. 129), ultra-luxury cars were levied 10 per cent at the retail stage. At the production (import) stage, ultra-luxury vehicles with a cylinder capacity (displacement, same below) ≤ 1.0litre would be taxed an additional one per cent. Vehicles with a cylinder capacity between 1litre and equal to or less than 1.5litre would be taxed an additional 3 per cent. See: *Notice of the Ministry of Finance and the State Administration of Taxation on Levying Consumption Tax on Ultra-Luxury Cars,* STA, 30th November 2016, viewed 20th July 2025, <https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203630/content.html>

new policy to ensure product supply and customer service, among other considerations.

Abbreviations

ADAS	Advanced Driver Assistance System
CBDT	Cross-border Data Transfer
CNY	Chinese Yuan
CV	Commercial Vehicle
EU	European Union
EV	Electric Vehicle
ICV	Intelligent Connected Vehicle
LiDAR	Light Detection and Ranging
MIIT	Ministry of Industry and Information Technology
MOF	Ministry of Finance
MOT	Ministry of Transport
MPS	Ministry of Public Security
OEM	Original Equipment Manufacturer
R&D	Research and Development
STA	State Taxation Administration

Auto Components Working Group

Key Recommendations

1. **Optimise the Enforcement of Policies and Regulations in the Independent Automotive After-sales Market to Protect the Legitimate Rights and Interests of Consumers and Original Component Suppliers** 2
   - Optimise the channels for the circulation of auto components to ensure that dual-standard components can circulate freely in the independent aftermarket.
   - Simplify the import process of dual-standard components and reduce corporate compliance costs.
   - Reduce domestic automobile maintenance costs and further promote domestic automobile consumption.

2. **Accelerate the Introduction and Implementation of Relevant Data Standards and Promote Collaborative Data Sharing Across the Industry to Develop the Intelligent Connected Vehicle Industry** 4
   - Standardise and harmonise vehicle data formats nationwide and coordinate with all industry stakeholders to actively develop and unify vehicle data standards.
   - Give full play to role of the market and conduct pilot projects for data exchange.
   - Establish a sound, independent third-party authorisation mechanism for data service providers.

3. **Optimise the Road Safety Technical Requirements for Heavy Trucks and Passenger Cars within the Revision of the Technical Specifications for Safety of Power-driven Vehicles Operating on Roads (GB7258-2017)** 2
   - Mandate the installation of the Electronic Braking System in tractors and trucks over 12 tonnes.
   - Mandate the installation of disc brakes on all wheels of trucks and tractors over 12 tonnes as well as on all dedicated school buses and other passenger cars with a length over nine metres.

4. **Improve Market Access for Foreign-invested Fuel Cell Vehicle-related Auto Component Companies**
   - Relax application restrictions for fuel cell-related auto component companies in relevant demonstration application scenarios and subsidy areas to foster a more open and transparent fair competition environment.
   - Clarify all subsidy standards and make clear how foreign-invested enterprises can benefit in compliance with regulations.

5. **Tyres**

5.1 Mandate Snow Tyre Usage During the Cold Season in Low-temperature Areas to Improve Road Safety and Reduce Societal Costs of Accidents 5
   - Promulgate in a timely manner China’s national standards for snow tyres to regulate snow tyre products and their use in the Chinese market.

- Formulate snow tyre legislation to mandate their usage in winter in China's low-temperature areas to improve road safety and reduce the negative impact on society.

5.2 Adopt a Unified Standard Reference Test Tyre (SRTT) that will Maintain Consistency with Global Automobile and Tyre Industry Standards 3

- Refer to the corresponding test method of the International Organization for Standardization for the braking and traction of tyres on wet roads, and continue to use the American Society for Testing and Materials-SRTT.

5.3 Establish Mandatory Regulations for the Wet Grip Performance of Worn Tyres as Soon as Possible

- Standardise the wet grip performance of worn tyres in order to improve driving safety and reduce unnecessary societal costs.

Recent Developments

European auto component manufacturers are facing fierce market competition and a price war. According to the *European Business in China Business Confidence Survey 2025*, 79 per cent of respondents from the automotive industry, including the auto component industry, reported that doing business in China became more difficult in 2024, which resulted in resource inefficiencies, reduced profitability and market destabilisation.[1]

Major Chinese vehicle manufacturers are transferring this operational pressure to component suppliers, driving down supply chain prices[2] and causing profits to fall by 13.5 per cent. Due to intense competition, profits were mainly driven by exports and gains from the upstream industry chain.[3] On 24th March 2025, the State Council issued the *Regulation on the Protection of Payments to Small and Medium-sized Enterprises*,[4] which explicitly requires companies to limit payment terms to 60 days or less. This policy has garnered the attention of many large enterprises and initially improved the business situation of auto component suppliers.[5]

Auto component manufacturers are increasingly affected by the various trade tensions between the European Union (EU), the United States (US) and China.

On 29th October 2024, the European Commission announced the end of its anti-subsidy investigation and levied a five-year countervailing duty on electric vehicles imported from China, which will apply until 29th October 2029.[6] The countervailing duty-related actions affect supply chain companies.

Auto component manufacturers were further impacted by the escalation of tariffs and trade measures between the US and China in April 2025.[7] As part of a series of countermeasures, the Chinese Government introduced new export control policies on rare earth elements.[8]

1 *European Business in China Business Confidence Survey 2025,* European Union Chamber of Commerce, 28th May 2025, viewed 26th June 2025, p. 3, <https://europeanchamber.oss-cn-beijing.aliyuncs.com/upload/documents/documents/European_Chamber_Business_Confidence_Survey_2025[1278].pdf>

2 *BYD Reportedly Asks Suppliers to Reduce Price by 10 per cent; The Company Clarifies That This Is Non-Mandatory and Negotiable, Lianhe Zaobao*, 27th November 2024, viewed 14th April 2025, <https://www.zaobao.com/realtime/china/story20241127-5407198>

3 *Analysis of the National Passenger Car Market in January 2025*, Passenger Car Market Information Joint Committee of the China Automobile Dealers Association, 12th February 2025, viewed 10th April 2025, <https://cada.cn/Trends/info_91_10129.html>

4 *The Regulation on the Protection of Payments to Small and Medium-sized Enterprises,* State Council, 24th March 2025, viewed 26th June 2025, <https://www.gov.cn/zhengce/content/202503/content_7015401.htm>

5 Liu, X, and Sun, T, *Car Companies' 60-Day Promise: A Tough Supply Chain Redemption, National Business Daily*, 23rd June 2025, viewed 26th June 2025, <http://auto.ce.cn/auto/gundong/202506/t20250623_2336306.shtml>

6 *EU Imposes Duties on Unfairly Subsidised Electric Vehicles From China While Discussions on Price Undertakings Continue,* European Commission, 29th October 2024, viewed 10th April 2025, <https://ec.europa.eu/commission/presscorner/detail/en/ip_24_5589>

7 77 per cent of those from the automotive and automotive component industries reported that doing business had become more difficult. See: *Flash Survey on US-China Trade War,* European Union Chamber of Commerce in China, 4th June 2025, viewed 26th June 2025, p. 6, <https://www.europeanchamber.com.cn/en/publications-archive/1329/>

8 The extension of the export control measures to rare earth elements explicitly covers medium-to-heavy rare earth items (e.g., samarium, gadolinium, terbium, dysprosium, lutetium, scandium and yttrium), their alloys, permanent magnet materials, and sputtering targets. See: *No. 18 of 2025 Announcing the Decision to Implement Export Controls on Certain Medium and Heavy Rare Earth-Related Items,* Ministry of Commerce, 4th April 2025, viewed 26th June 2025, <https://www.mofcom.gov.cn/zwgk/zcfb/art/2025/art_9c2108ccaf754f22a34abab2fedaa944.html>

While the working group recognises the recent efforts made by the Ministry of Commerce to expedite the licence-approval process for European exporters of rare earth elements, many member companies are still being negatively impacted. This is particularly the case for small and medium-sized enterprises, which do not have the resources of larger companies to deal with the supply chain disruptions they are experiencing. The European Chamber established an Export Control Task Force in July 2025, with the specific purpose of advocating for a long-term, sustainable solution to this issue.

In May 2023, the *EU Motor Vehicle Block Exemption Regulation* was extended by the European Commission for five years and will apply until 31st May 2028.[9] In February 2025, the European Commission conducted a public assessment of the *EU Motor Vehicle Block Exemption Regulation* and its supplementary guidance, which will inform the revision of the *Automotive Industry Action Plan* to better address challenges such as technological innovation, access to resources and regulatory predictability.[10&11] The working group believes that this regulation is of great significance to the automotive aftermarket industry. It not only promotes industry resource sharing and healthy competition, but it also protects the legitimate rights and interests of consumers. The working group hopes that the Chinese Government will adopt similar policies or measures.

In March 2024, the State Council issued the *Action Plan to Promote Large-scale Equipment Renewals and Trade-ins of Consumer Goods*.[12] Many provincial and municipal governments in China have also responded with corresponding action plans, promoting the development of the automotive aftermarket industry. For example, the *Guangdong Action Plan to Promote Trade-ins of Consumer Goods* proposes highlighting the construction of the automotive recycling system while expanding automotive consumption,[13] and the *Shanghai Action Plan to Promote Large-scale Equipment Renewals and Trade-ins of Consumer Goods (2024–2027)* also mentions optimising the automotive consumer environment and highlighting the remanufacturing business in the automotive component field to promote the development of the automotive component industry.[14]

Key Recommendations

1. Optimise the Enforcement of Policies and Regulations in the Independent Automotive After-sales Market to Protect the Legitimate Rights and Interests of Consumers and Original Component Suppliers 2

Concern

Automotive manufacturers in China are preventing original component suppliers from selling the same authorised auto components in the independent automotive after-sales market, which damages the interests of both suppliers and consumers.

Assessment

In practice, automotive manufacturers restrict original component suppliers from using their own moulds and intellectual property rights (IPR) to produce and sell automotive components of the same models installed on factory vehicles (dual-standard components).[15] Automotive manufacturers often use such conditions to assert supply agreements, which fall under original equipment manufacturer (OEM) agreements with original component suppliers. However, according to Article 11 of the *Anti-Monopoly Guidelines for the Automotive Industry*, "whether it constitutes a true OEM agreement needs to be evaluated on a case-by-case basis and determined by evaluating the substantive content of the agreement. When an OEM provides tools, IPR or proprietary technology (PT) to a component manufacturer, if the component manufacturer already has such tools, IPR or PT that it

9 *EU Motor Vehicle Block Exemption Regulation,* European Commission, 2nd June 2023, viewed 9th April 2025, <https://eur-lex.europa.eu/EN/legal-content/summary/motor-vehicles-block-exemption-from-european-union-competition-law.html>

10 *Motor Vehicle Block Exemption Regulation – Evaluation*, European Commission, 28th February 2025, viewed 27th May 2025, <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/14126-Motor-Vehicle-Block-Exemption-Regulation-evaluation/public-consultation_en>

11 *Industrial Action Plan for the European Automotive Sector,* European Commission, 5th March 2025, viewed 27th May 2025, <https://transport.ec.europa.eu/document/download/89b3143e-09b6-4ae6-a826-932b90ed0816_en?filename=Communication%20-%20Action%20Plan.pdf>

12 *Action Plan to Promote Large-scale Equipment Renewals and Trade-ins of Consumer Goods,* State Council, 7th March 2024, viewed 9th April 2025, <https://www.gov.cn/gongbao/2024/issue_11246/202403/content_6941843.html>

13 *Guangdong Action Plan to Promote Trade-ins of Consumer Goods*, Guangdong Provincial People's Government, 6th April 2024, viewed 18th April 2025, <https://www.gd.gov.cn/zwgk/wjk/qbwj/ybh/content/post_4406240.html>

14 *Shanghai Action Plan to Promote Large-scale Equipment Renewals and Trade-ins of Consumer Goods (2024-2027),* Shanghai Municipal People's Government, 30th April 2024, viewed 21st April 2025, <https://www.shanghai.gov.cn/nw12344/20240430/ef7f241decd74bc4baf17260c2776e19.html>

15 OEM components and aftermarket components marked with both the automotive manufacturer's and the component manufacturer's trademarks, logos and component codes.

can use independently or can obtain such tools, IPR or PT on reasonable terms, the OEM's technology and equipment are not necessary for the component manufacturer to perform the agreement". For example, if the automotive manufacturer only provides general descriptive information about the contract product but restricts the original component supplier from supplying components to the after-sales market under its own brand, the automotive manufacturer has essentially deprived the original component supplier of the possibility of expanding their business in areas related to the cooperation agreement, excluding and restricting competition in relevant markets, resulting in inflated product prices and harming the legitimate rights and interests of consumers.[16]

Judging from market conditions, domestic automobile maintenance costs are already higher than international levels. According to the *Eighteenth Automobile Parts-to-Whole Ratio System Index Study* of the Auto Technology Institute of China Insurance Research Institute, the parts-to-whole ratio of the investigated models was 367.39 per cent, exceeding the normal international level (300 per cent).[17] At the same time, according to a study by the German Insurance Association, maintenance costs of electric vehicles are 30 to 35 per cent higher than those of similar fuel vehicles.[18] Taking into account the penetration rate and development trends of domestic electric vehicles, this will undoubtedly increase the cost of driving for consumers, and it is also not conducive to the country's goal of encouraging and expanding automobile consumption and promoting the sustainable and healthy development of new energy vehicles.

The direct or indirect restrictions described above by automotive manufacturers against original component suppliers have weakened free competition in the industry and limited consumers' choices for repairing and replacing auto components. The working group believes that in order to promote the healthy development of the industry and protect the legitimate rights and interests of consumers, the circulation channels of auto components should be optimised to ensure that dual-standard components can circulate freely in an independent after-sales market.

In addition, for imported dual-standard components—since the outer packaging of the components contains the trademarks of both the automotive manufacturer and the original component supplier—customs authorities request that the importer provides the authorisation or declaration of both parties to explain that the logos and brands of both parties can be used on the components, which extends the delivery time of components imports and increases the cost of compliance.

Recommendations

- Optimise the channels for the circulation of auto components to ensure that dual-standard components can circulate freely in the independent aftermarket.
- Simplify the import process of dual-standard components and reduce corporate compliance costs.
- Reduce domestic automobile maintenance costs and further promote domestic automobile consumption.

2. Accelerate the Introduction and Implementation of Relevant Data Standards and Promote Collaborative Data Sharing Across the Industry to Develop the Intelligent Connected Vehicle Industry 4

Concern

Current data-related policies and standards in China's intelligent connected vehicle (ICV) industry lack clarity, making it difficult for auto component and after-sales maintenance companies to obtain vehicle operation data effectively.

Assessment

Vehicle driving data is an important resource for the development of ICVs and its main collectors and processors are OEMs. Its collection is prone to creating barriers to competition and can lead to data monopolies. Without clear regulations, relevant data will only be under the control of OEMs and auto component manufacturers. After-sales service providers may not be able to obtain the relevant data that will allow them to improve their products and services, thereby affecting

16 *Anti-Monopoly Guidelines of the Anti-Monopoly Commission of the State Council,* State Administration for Market Regulation, 18th September 2020, viewed 19th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fldj/art/2023/art_c349cba8055045c197efcef5d84e8182.html>

17 *18th Automobile Parts-to-Whole Ratio System Index Study,* CIRI Auto Technology Institute, 22nd October 2024, viewed 21st April 2025, <http://223.70.186.97/storage/files/%E7%AC%AC%E5%8D%81%E5%85%AB%E6%9C%9F%E6%B1%BD%E8%BD%A6%E9%9B%B6%E6%95%B4%E6%AF%94%E5%8F%91%E5%B8%83%E6%8A%A5%E5%91%8A.pdf>

18 *Study: E-cars Are A Third More Expensive To Repair Than Comparable Combustion Cars*, German Insurance Association, 2nd October 2023, viewed 9th April 2024, <https://www.gdv.de/gdv-en/media/study-e-cars-are-a-third-more-expensive-to-repair-than-comparable-combustion-cars-157520>

the healthy development of the industry and fair competition.

While China has enacted several pieces of legislation related to data protection, there is limited progress in data flow, sharing, utilisation and standardisation, especially in the automotive sector. A balance between guaranteeing data security and improving data flow is needed if the industry is to develop.

Recommendations

- Standardise and harmonise vehicle data formats nationwide and coordinate with all industry stakeholders to actively develop and unify vehicle data standards.
- Give full play to the role of the market and conduct pilot projects for data exchange.
- Establish a sound, independent third-party authorisation mechanism for data service providers.

3. Optimise the Road Safety Technical Requirements for Heavy Trucks and Passenger Cars within the Revision of the Technical Specifications for Safety of Power-driven Vehicles Operating on Roads (GB7258-2017) 2

Concern

While the combination of disc brakes in front and rear wheels can effectively enhance the safety of commercial vehicles, the scope of application of China's mandatory standards for such products is still relatively limited.

Assessment

Since its release, the national standard *Technical Specifications for Safety of Power-driven Vehicles Operating on Roads (GB7258-2017)* has played an important role in improving motor vehicle operation safety.[19] However, with the rapid development of China's logistics and transportation industry, traffic accidents involving heavy trucks and passenger cars occur frequently. This standard urgently needs to be updated and optimised to adapt to new technology and management needs.[20] On 23rd April 2024, the Ministry of Transport officially released the first revision order of JT/T 1178.1-2018, JT/T 1178.2-2018,[21] which adjusts the mandatory installation requirements of advanced safety technologies, such as advanced emergency braking systems (AEBSs) and electronic stability control (ESC). The document clearly requires the installation of AEBSs and ESC on all tractor-trailers and trucks, and stipulates the installation scope of disc brakes by vehicle type.

The working group welcomes the regulator's continuous promotion of safety in commercial vehicles, especially the policy implementation of the application of AEBSs and emergency braking systems (EBSs), which are important to improving the safety of China's roads. However, some logistics operators have adopted a 'front disc and rear drum' configuration to lower costs. The characteristics of the two types of brakes mean that they cannot be used together on the same tractor or trailer. The inevitable result of the configuration of 'front disc and rear drum' is that the braking performance of drum brakes decreases under high temperatures, overloading the front discs and resulting in overheating and cracking, lowering product quality and reliability. The reality of the application is that the driver disengages the disc brake on the front axle, avoiding the disc cracking problem, but bringing greater loss of braking performance and increasing risks to safety.

Compared with drum brakes, disc brakes provide higher braking torque and greater stability. Experimental results indicate that when a road train fully equipped with disc brakes travels at a speed of more than 90 kilometres per hour, its braking distance can be reduced by 30 per cent compared with a road train equipped with all drum brakes. This can also effectively avoid the reduction of braking force caused by the overheating of the friction plate on mountain roads and long downhill slopes, thereby preventing major traffic accidents. In addition, the rapid response capabilities of disc brakes can effectively execute EBS braking instructions, improving vehicle safety and driving comfort.[22]

19 *Technical Specifications for Safety of Power-Driven Vehicles Operating on Roads*, Standardization Administration of China, 29th September 2017, viewed 21st April 2025, <https://openstd.samr.gov.cn/bzgk/gb/newGbInfo?hcno=06A0C376A0CA7B14E93106194C99730F>

20 In 2023, the National Technical Committee of Auto Standardization launched a consultation on the implementation effects of and revision suggestions for *GB 7258-2017*. Many Chamber members were invited to participate in making suggestions.

21 *Announcement of the Ministry of Transport on the Publication of Revision Sheet No. 1 of 5 Transportation Industry Standards, Including Safety and Technical Conditions for Operating Buses,* Ministry of Transport, 23rd April 2025, viewed 14th May 2025, <https://xxgk.mot.gov.cn/jigou/kjs/202504/t20250423_4167422.html>

22 The European market was initially similar to the Chinese market, with front discs and rear drums. However, the substantial differences between disc brake structures and drum brakes led to large numbers of consumer complaints. In order to solve this problem, European heavy trucks began to match all wheels of heavy trucks with disc brakes in 1996 (the current trailer assembly ratio is around 90 per cent).

Second, as AEBSs and EBSs are expected to be promoted widely in future Chinese laws and regulations governing the Chinese commercial vehicle market, the synergy between AEBSs, EBSs and disc brakes can provide optimal braking performance in emergency situations, further enhancing the overall safety of vehicles. Moreover, EBSs and disc brakes already have a mature technological base in the Chinese market. Many local companies can offer related products, providing a technical foundation and support for their wide application in heavy trucks. The comprehensive popularisation of EBSs and disc brakes is conducive to a smooth transition to higher safety standards and can also promote the continued iteration and quality improvement of products.

Disc brakes have been widely used in heavy-load vehicles since 1992. They are capable of fully replacing drum brakes and water shower braking systems in terms of technical performance, and offer higher reliability. Since 2000, China has sped up the localisation of disc brake production, and the price gap between domestic disc brakes and drum brakes has significantly narrowed due to falling manufacturing costs. The full life-cycle cost of disc brakes is also more competitive. Since 2019, disc brakes have been installed in batches in domestic heavy-duty trucks.

As China's commercial vehicle industry accelerates its upgrading and safety standards become stricter and more in line with international practices, the working group recommends the promotion of safety products such as EBSs and disc brakes in heavy trucks and passenger cars, thereby promoting closed-loop and continuous product iteration, improving the overall safety configuration of operating vehicles, reducing major accidents and promoting technological progress.

Recommendations

- Mandate the installation of the Electronic Braking System in tractors and trucks over 12 tonnes.
- Mandate the installation of disc brakes on all wheels of trucks and tractors over 12 tonnes, as well as on all dedicated school buses and other passenger cars with a length over nine metres.

4. Improve Market Access for Foreign-invested Fuel Cell Vehicle-related Auto Component Companies

Concern

It is difficult for European automotive component companies to equally participate in the city group demonstration projects of the fuel cell vehicle industry and receive subsidy support.

Assessment

In recent years, China has accelerated the development of its hydrogen energy industry through the 'fuel cell vehicle demonstration application policy',[23] providing local companies with special subsidy support for technology research and development (R&D), vehicle purchases and infrastructure construction. It has now formed a clear orientation of 'using subsidies to promote technological independence'. However, while promoting domestic industrial chain independence, this policy has also formed multiple market access barriers for foreign-invested enterprises, especially European automotive component companies. Although European companies possess technological advantages in the field of hydrogen fuel cells, they still encounter practical challenges when participating in Chinese demonstration projects, such as adapting to policies, matching technical standards and managing localisation costs. According to the latest *Special Administrative Measures (Negative List) for the Access of Foreign Investment (2024)*,[24] China has fully liberalised market access restrictions in the manufacturing sector. On 5th December 2024, the Ministry of Finance also issued the *Notice on Matters Related to Domestic Product Standards and Implementation Policies in the Field of Government Procurement (Draft for Comments)*,[25] clearly identifying the relevant standards for 'domestic products', which will help European companies to compete fairly in relevant markets in the field of fuel cell automotive components and apply for relevant industry subsidies.

23 *Notice on Fuel Cell Vehicle Demonstration Applications*, Ministry of Finance, 16th September 2020, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/2020-10/22/content_5553246.htm>

24 *Special Administrative Measures (Negative List) for the Access of Foreign Investment (2024)*, National Development and Reform Commission, 1st November 2024, viewed 21st April 2025, <https://www.gov.cn/zhengce/202409/content_6973047.htm>

25 *Notice on Matters Related to Domestic Product Standards and Implementation Policies in the Field of Government Procurement (Draft for Comments)*, Ministry of Finance, 5th December 2024, viewed 21st April 2025, <https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm>

In 2025, the Ministry of Finance released around Chinese yuan (CNY) 2.34 billion in incentive funds for fuel cell vehicle demonstration applications. The funds to major demonstration cities were allocated as follows: CNY 419 million for Shanghai, CNY 450 million for Beijing, CNY 258 million for Zhengzhou and CNY 478 million for Tangshan.[26] However, China's fuel cell vehicle demonstration application policy framework and regional incentive policies will expire in 2025.[27] Currently, upstream and downstream companies in the industry are still relying on continuous policy support for current R&D investments and the sustainable development of their business models. In order to actively guide a variety of companies to participate in fair market competition and utilise and give full play to Europe's advanced technology, foreign-invested enterprises should be included in the scope of demonstration application subsidy enterprises to jointly promote industrial development.

Recommendations

- Relax application restrictions for fuel cell-related auto component companies in relevant demonstration application scenarios and subsidy areas to foster a more open and transparent fair competition environment.
- Clarify all subsidy standards and make clear how foreign-invested enterprises can benefit in compliance with regulations.

5. Tyres

5.1 Mandate Snow Tyre Usage During the Cold Season in Low-temperature Areas to Improve Road Safety and Reduce Societal Costs of Accidents 5

Concern

There are no regulations to mandate the usage of snow tyres in complex road conditions of snow and slush in China's low-temperature regions, which significantly increases tyre-related crashes and fatalities.

Assessment

Complex snowy and icy road conditions are common in the low-temperature regions of China.[28] The tread compound of normal tyres tends to stiffen and lose traction and grip in low temperatures,[29] which makes accelerating, cornering, and braking less reliable and riskier on snowy and icy roads. Therefore, the promotion of snow tyres and the formulation of legislation and standards to mandate snow tyre usage are essential to ensure driving safety under snowy road conditions.[30]

Snow tyres are specially developed for winter use. They have a soft rubber compound and tread pattern designed to deliver excellent grip and driving performance in complex winter road conditions such as snow and ice, with significantly improved braking distance.

On icy and snowy roads or in cold conditions, snow tyres have the following advantages over ordinary tyres:

- Improved traction: Special rubber material and tread design to maintain flexibility and increase traction and grip.
- Improved handling and safety: The special tread design of the snow tyres enhances traction and steering control and significantly reduces braking distance compared with ordinary tyres. They are essential for safe braking, preventing skidding and avoiding accidents.

According to data from the China In-depth Accident Study,[31] conducted by the China Automotive Technology and Research Centre, the use of snow tyres reduced the number of traffic accidents caused by tyres by half and the number of fatal accidents by more than double in the areas surveyed between 2019 and the winter of 2022.

26 *Notice on Issuing the Budget for Energy Conservation and Emission Reduction Subsidy Funds for 2025 (First Batch),* Ministry of Finance, 10th April 2025, viewed 12th June 2025, <https://jjs.mof.gov.cn/zxzyzf/jnjpbzzj/202504/t20250418_3962256.htm>

27 *The Detailed Rules for the Implementation of the Special Fund for the Fuel Cell Vehicle Demonstration Applications in Shanghai,* Shanghai Municipal Commission of Economy and Informatization, 18th April 2023, viewed 21st April 2025, <https://app.sheitc.sh.gov.cn/sjxwxgwj/694841.htm>

28 China's low-temperature areas include Heilongjiang, Jilin and Liaoning provinces, as well as the northern part of Xinjiang and Inner Mongolia Autonomous Region.

29 Tread compound is the outermost layer of the tyre that is in contact with the road surface and has a pattern printed on the surface.

30 The term 'winter tyres' is commonly used in the commercial market, which generally includes three types of tyres with different performances. The following is a general description of the three types, as no regulation currently provides technical definitions: Slush tyres: No additional performance definitions or requirements, only markings such as 'M+S, M/S' on the tyre sidewall; Winter tyres: Added performance definitions and requirements. In addition to the 'M+S, M/S' markings on the tyre sidewall, they must also be marked with the snowflake symbol '⛰'; Ice tyres: Additional performance definitions and requirements. In addition to the 'M+S, M/S' and the snowflake symbol '⛰', the tyre sidewall must also be marked with the icy road symbol '△'.

31 This data was collected from the China In-depth Accident Research Database and was provided by member companies of the working group.

Recommendations

- Promulgate in a timely manner China's national standards for snow tyres to regulate snow tyre products and their use in the Chinese market.
- Formulate snow tyre legislation to mandate their usage in winter in China's low-temperature areas to improve road safety and reduce the negative impact on society.

5.2 Adopt a Unified SRTT that will Maintain Consistency with Global Automobile and Tyre Industry Standards 3

Concern

China's plan to use an independently produced Standard Reference Test Tyre (SRTT) instead of the existing global standard will lead to market access barriers and unnecessary additional costs for auto component manufacturers.

Assessment

The SRTT was designed in the 1980s by the American Society for Testing and Materials (ASTM) to compare the performance of tyres used in different types of vehicles. The SRTT is now used in various International Organization for Standardization (ISO) standards and regulatory tests worldwide. Since 2016, China has also begun to develop corresponding group standards (*225/60R16 97S SRTT Technical Specifications*),[32] which will be used in the future in China's tyre regulations.

SRTTs are specialised test tyres that can be used to evaluate the braking and traction of tyres on wet and icy roads, grip performance, and the roughness and sound absorption coefficient of test sites. Thus, different SRTTs will lead to different test results for the same tyre and make it necessary to conduct the same test twice.[33] As all tyre companies (including Chinese brands sold domestically and exported) face challenges when attempting to expand globally, differing SRTT tests will greatly increase tyre-makers' R&D costs.

Therefore, the use of the ASTM-SRTT in domestic tyre testing standards and regulations is recommended to unify performance standards as much as possible while maintaining stability. This will reduce the testing burden on tyre manufacturers, which will in turn optimise the business environment, eliminate trade barriers and ensure consistency with global standards, ultimately benefitting businesses operating in China.

Recommendation

- Refer to the corresponding test method of the International Organization for Standardization for the braking and traction of tyres on wet roads, and continue to use the American Society for Testing and Materials-SRTT.

5.3 Establish Mandatory Regulations for the Wet Grip Performance of Worn Tyres as Soon as Possible

Concern

China's national tyre standards do not require worn tyres to meet wet grip performance criteria, as mandated by European regulation R117, which could compromise road safety and contribute to more accidents.

Assessment

European regulation R117-04 stipulates that both new and worn tyres must comply with the relevant wet grip performance specifications.[34] In China, the mandatory national standards *GB 9743-2024* and *GB 9744-2024* stipulate requirements for the wet grip performance of new tyres, which have been implemented as of 1st May 2025.[35&36] There are no standards for worn tyres. Tyres are the only parts of a vehicle that make contact with the ground, and their reliability directly impacts vehicle safety. While the wet grip performance of new tyres is an important safety indicator, most tyres are in a worn state while driving. As tyre wear increases, wet traction performance will gradually decrease, resulting in longer braking distances and a higher risk of accidents.

32 *225/60R16 97S SRTT Technical Specifications*, China Metrology Association, 14th August 2017, viewed 23rd April 2025, <https://www.ttbz.org.cn/StandardManage/Detail/4116/>

33 According to member companies' limited experiments, a seven per cent discrepancy was found in wet traction between the ASTM-SRTT and the China Metrology Association-SRTT tyres for passenger cars at 15°C. This performance difference varies with temperature, ranging from two to 12 per cent. The limited available data also shows a difference of between three and 15 per cent for SRTT tyres on trucks.

34 *Annex 04 Amendments to UN Regulation No. 117 (Tyre Rolling Resistance, Rolling Sound Emissions and Wet Grip)*, United Nations Economic Commission for Europe, 20th December 2022, viewed at 16th July 2025, <https://unece.org/transport/documents/2022/12/working-documents/grbp-proposal-04-series-amendments-un-regulation-no>

35 *Passenger Vehicle Tyres*, Standardization Administration of China, 29th April 2024, viewed 21st April 2025, <https://openstd.samr.gov.cn/bzgk/gb/newGbInfo?hcno=E297EF57612F2ACDACE2915D48F35DD9>

36 *Truck Tyres*, Standardization Administration of China, 29th April 2024, viewed 21st April 2025, <https://openstd.samr.gov.cn/bzgk/gb/newGbInfo?hcno=60BBFBF50CEB2E16603E0021AD325652>

Recommendation

- Standardise the wet grip performance of worn tyres in order to improve driving safety and reduce unnecessary societal costs.

Abbreviations

AEBS	Advanced Emergency Braking System
ASTM	American Society For Testing and Materials
CNY	Chinese Yuan
EBS	Electronic Braking System
ESC	Electronic Stability Control
EU	European Union
ICV	Intelligent Connected Vehicle
IPR	Intellectual Property Rights
OEM	Original Equipment Manufacturer
PT	Proprietary Technology
R&D	Research and Development
SRTT	Standard Reference Test Tyre

European Chamber
中国欧盟商会

Cosmetics Working Group

Key Recommendations

1. Implement the Cosmetics Safety Assessment and Further Rescind Animal Testing Requirements

1.1 Implementation of Full Safety Assessment 3

- Provide practical guidance and examples to facilitate industry compliance with the requirements to prove three years of safe use and the submission of assessment conclusions for product stability, anti-microbial efficacy and package compatibility.
- Expand the scope of the exemption for document submission, reinforcing corporate responsibility for product safety.
- Accelerate the conversion of non-animal testing and assessment methods, update safety assessment guidelines and relevant technical guidance principles, and further promote their application in safety assessment reports for the registration and notification of ingredients and finished products.
- Regularly update the published list of information on the use of ingredients in market products.
- Clarify and harmonise the review criteria for product safety assessment reports across national and provincial authorities.

1.2 Animal Testing Exemption 3

- Exempt animal testing for all cosmetic categories after the full safety assessment comes into force.
- Strengthen international cooperation and industry exchanges on capacity-building for next-generation risk assessments and new technical approaches for cosmetics.

1.3 Safety Assessment of Toothpaste

- Release the *Technical Guidelines for Toothpaste Safety Assessment* and other toothpaste-related technical guidelines as soon as possible.
- Release the *Ingredient Usage Information for Marketed Toothpaste Products* and the *Index of International Authoritative Toothpaste Safety Assessment Data* as soon as possible.

2. Optimise the Cosmetics Ingredient Management System and Remove Barriers to Ingredient Innovation and Market Access

2.1 Definition of New Ingredients 2

- Establish an efficient definition-consulting mechanism for determining whether an ingredient is new or not.
- Refine the definition criteria, further clarify the definition of 'new cosmetics ingredients' and add the interpretation of the delimitation scope for category-based ingredients in the inventory.
- Increase the frequency of ingredient catalogue updates, regularly update the inventory and promptly include new ingredients that meet the requirements after the three-year monitoring period.

2.2 Declaration of New Ingredients 6

- Implement the requirements of the *Several Provisions Supporting Cosmetics Ingredient*

Innovation, and optimise and refine ingredient classification and exempt data requirements as needed.

- Make full use of the usage history of cosmetics ingredients used on markets outside of China, and ensure material requirements for evidence are practical and feasible.
- Consider the drug- and adjuvant-related review requirements, allowing applicants to declare that an ingredient has been used in cosmetics products and provide relevant evidence for three years of safe usage.
- Optimise the pre-registration consultation system for new ingredients and lower the threshold for pre-registration data preparation.
- Establish a technical communication mechanism before and during the new ingredient registration and notification process.

2.3 Specific Claims and Intended Use of Ingredients 2

- Consider the characteristics of cosmetics scientifically and comprehensively in the context of national and regional regulations to avoid trade barriers.
- Recognise that the efficacy of cosmetics can originate from the synergistic effect of multiple ingredients and scientific formula design, and adopt a flexible method for managing the purposes of usage.

2.4 Market Access of Ingredients

- Establish a method for supplementing the list of permitted ingredients under the *Safety and Technical Standards for Cosmetics* outside of the new ingredient registration process, in order to improve the new ingredients management mechanism.
- Refer to safety assessment conclusions of international authorities, convert standards, and add to China's permitted ingredients list those approved by European Union (EU) regulatory authorities and reviewed and approved by the standardisation committees.

3. Improve the Full-chain Product Management of Cosmetics to Resolve Innovation Supervision Challenges

3.1 Consistency between Chinese and Foreign Labelling

- Propose that China and the EU jointly establish an acceptable list of efficacy claims, listing the typical claims on the original foreign-language packaging that are acceptable.
- Permit regulatory innovation in line with industry experience, allowing original labels to vary within a certain scope and providing alternative descriptions for Chinese labels, while ensuring that Chinese labels comply with Chinese laws and regulations.

3.2 Definition and Claims of Borderline Products

- Conduct studies on EU borderline product claims and regulatory requirements related to product definition.
- Establish technical requirements for product claims and declarations for 'skin health cosmetics'.
- Optimise the regulatory principles and requirements for medical terminology used on Chinese cosmetics packaging.

3.3 Whitening, Anti-hair Loss and Hair Dyeing Products, and Children's Cosmetics 2

- Consider the unique attributes of hair dye products, optimise testing, quality control measures and post-market regulatory requirements, and establish a two-way communication mechanism between regulators and the industry to address technology and compliance matters.
- Take suggestions from the industry, accelerate the development of technical guidance documents

for freckle removal, whitening and anti-hair loss cosmetic products, carry out comprehensive training and exchange, and promote the implementation of relevant requirements.

- Improve the principles and guidelines for the safe use of ingredients for children's cosmetics.

3.4 Customised Products 6

- Provide inter-provincial recognition for both approved customised cosmetics service businesses and their implementation plans to avoid repeated applications at the provincial level.
- Allow original cosmetics registration filers and domestic responsible entities to directly carry out customised services outside their registered provinces, eliminating the mandatory requirement to establish new local legal entities due to regional regulatory restrictions.
- Develop unified national policies for customised services, coordinate management requirements across government departments, and clarify the regulatory principles and legal applications for customised cosmetics.

4. Strengthen Cosmetic Sustainability and Standardisation to Promote International Alignment and Implementation of Technical Standards

4.1 Sustainable Development and Circular Economy

- Promote the concept of sustainable development and raise public awareness.
- Participate in international standard-setting activities and recognise more international standards.
- Encourage companies to develop and implement sustainable development action plans.

4.2 Standardisation 2

- Establish a communication mechanism between the National Medical Products Administration (NMPA), industry and enterprises for standard development and revision to enhance transparency in the standard-setting process.
- Advance the conversion and recognition of international standards.

4.3 Equivalent Evaluation 5

- Extend the application scope of the guiding principle of equivalent evaluations to all product efficacies.
- Allow minor adjustments to formula additives such as fragrances and preservatives (in addition to colourants), with registrants/filers specifying formula differences and justifications for why such differences do not affect efficacy in the published summaries.
- Conduct research on the impact of different cosmetic ingredients on various efficacy claims to gradually expand the categories of ingredients eligible for minor adjustments in equivalence evaluation guidelines.

5. Optimise Post-market Regulatory Methods for Advertising and Overseas Inspections

5.1 Advertising and Online Operation Management 2

- Consider industry opinions when formulating and implementing laws, regulations or local guiding principles, and provide companies with more independent interpretation space regarding product compliance with specific regulatory practices.
- Publish key industry focusses and typical case analyses related to product claims/advertisements, and provide advertising compliance consulting services, to help enterprises better understand and comply with regulatory requirements.
- Strengthen measures against profit-driven professional complaint-making to optimise the business environment.

5.2 Overseas Inspections 2

- Identify the process and key points of overseas inspections and carry out targeted training.
- Recognise the Good Manufacturing Practice (GMP) systems and practical application experiences of international companies' home countries.
- Allow reasonable differences between registration/filing documents and actual production operations on the basis of ensuring quality and safety.
- Enhance technical exchanges between the EU and China on cosmetics production regulations to promote mutual trust and recognition.

Recent Developments

China's cosmetics market underperformed in 2024, with the annual retail sales of cosmetics companies above the designated size[1] declining by 1.1 per cent year-on-year (y-o-y). This was lower than the 3.5 per cent total growth rate for consumer goods.[2] It also marks the second instance of negative growth from 2015 to 2024, reflecting the increasing saturation of the domestic cosmetics market against the backdrop of China's overall economic slowdown and increased market competition. Total imports have continued to decline since their peak in 2021, with total 2024 imports amounting to United States dollar 16.33 billion, a significant nine per cent y-o-y decrease.[3]

However, through the efforts of the European Chamber's Cosmetics Working Group and advances made through the EU-China Technical Meetings for Cosmetics,[4] positive progress has been made on two issues mentioned in the *Cosmetics Working Group Position Paper 2024/2025*: Key Recommendation (KR) 3.2 Labelling of Allergens and KR 3.3 Low-microbial Risk Cosmetics Products.[5]

1 This refers to cosmetics retail companies whose total sales of goods reach or exceed Chinese yuan (CNY) 5 million annually.

2 Total retail sales of consumer goods in December 2024 increased by 3.7%, *National Bureau of Statistics of China (NBS)*, 17th January 2025, viewed 15th April 2025, <https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958327.html>

3 China's total export and import values in December 2024, General Administration of Customs of the People's Republic of China (GACC), 13th January 2025, viewed 15th April 2025, <http://www.customs.gov.cn/customs/302249/zfxxgk/2799825/302274/302275/6312773/index.html>

4 With the joint support of the European Commission, the European Chamber and Cosmetics Europe, two national-level bilateral Technical Meetings for Cosmetics were held in April and December 2024. The meetings brought together Chinese and European officials, representatives of EU Member States, and Chinese and European cosmetics industry experts to conduct in-depth discussions and exchanges on industry issues related to market access.

Key Recommendations

1. Implement the Cosmetics Safety Assessment and Further Rescind Animal Testing Requirements

1.1 Implementation of Full Safety Assessment 3

Concern

Further clarity is needed regarding certain evidentiary requirements and review standards, and the implementation of non-animal testing and evaluation methods needs to be enhanced.

Assessment

The smooth implementation of the full safety assessment is crucial to the sustainable development of the cosmetics industry. It is therefore extremely important that certain implementation details are based on accumulated practical experience, and that appropriate ingredient requirements be put forward after taking into consideration the actual situation of the industry. For example, the materials needed to prove three years of safe use, and the submission of assessment conclusions for product stability, anti-microbial efficacy and package compatibility, need to be adjusted based on industry practices.

In addition, the implementation of new policies requires continuous engagement between the regulators and industry, as well as close inter-departmental government

5 *European Business in China Position Paper 2024/2025*, European Union Chamber of Commerce in China, 11th September 2024, viewed 15th April 2025, pp. 210–211, <https://www.europeanchamber.com.cn/en/publications-archive/1258/Cosmetics_Working_Group_Position_Paper2024_2025>

coordination. In particular, the standards followed by different review departments need to be uniform and transparent to ensure consistency of regulatory opinions on the same ingredient, without which product launches may be impacted.

During the implementation of the full safety assessment, regular updates of key safety data such as ingredient usage information, while also broadening the scope of safety documentary archiving, can further support and encourage innovation in the industry. Furthermore, with the advancement of safety assessment technologies, the demand for non-animal testing and evaluation methods is growing rapidly. Therefore, an urgent update to the safety assessment guidelines and relevant technical guidance principles are required to promote their full recognition and acceptance in the registration and filing of new ingredients and products.

Recommendations

- Provide practical guidance and examples to facilitate industry compliance with the requirements to prove three years of safe use and the submission of assessment conclusions for product stability, anti-microbial efficacy and packaging compatibility.
- Expand the scope of the exemption for document submission, reinforcing corporate responsibility on product safety.
- Accelerate the conversion of non-animal testing and assessment methods, update safety assessment guidelines and relevant technical guidance principles, and further promote their application in safety assessment reports for the registration and notification of ingredients and finished products.
- Regularly update the published list of information on the use of ingredients in market products.
- Clarify and harmonise the review criteria for product safety assessment reports across national and provincial authorities.

1.2 Animal Testing Exemption 3

Concern

Currently, finished cosmetics products, including special cosmetics and toothpaste, still require animal testing, representing a gap between domestic practices and international standards.

Assessment

Animal testing is still required for special cosmetics, children's cosmetics, products under the monitoring period for new ingredient use and certain toothpaste products in China. However, with the implementation of the full safety assessment, China can follow the current regulatory framework for general cosmetics notification and gradually eliminate the mandatory animal testing requirements for these specific product categories.[6] In recent years, China's cosmetics exports have grown rapidly at the same time that key target markets, such as the European Union (EU), the United States and the Association of Southeast Asian Nations, have banned or are discussing bans on the use of animals in cosmetics testing. Promoting animal testing exemptions and continuously tracking and adopting international alternative methods and standards is therefore critical for both upgrading the industry and enhancing global competitiveness.

Recommendations

- Exempt animal testing for all cosmetic categories after the full safety assessment comes into force.
- Strengthen international cooperation and industry exchanges on capacity-building for next-generation risk assessments and new technical approaches for cosmetics.

1.3 Safety Assessment of Toothpaste

Concern

There is no clear technical guidance on the requirements under the safety assessment for toothpaste products, making it difficult to fully implement.

Assessment

The safety assessment of toothpaste products is required to be carried out in accordance with the relevant principles and requirements of the *Technical Guidelines for Cosmetics Products Safety Assessment,*[7] which is based on the *Provisions for Management of Toothpaste Notification Dossiers*.[8] However,

6 *NMPA Announcement on the 'Provisions on the Management of Cosmetics Registration and Notification Dossiers' (No. 32, 2021), Article 33(2),* NMPA, 4th March 2021, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/fgwj/xzhgfxwj/20210304140747119.html>

7 *NMPA Announcement on 'Technical Guidelines for Cosmetics Products Safety Assessment (2021 Edition)' (No. 51, 2021),* NMPA, 19th April 2021, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/ggtg/hzhpggtg/jmhzhptg/20210419163037171.html>

8 *NMPA Announcement on Provisions for Management of Toothpaste Notification Dossiers (No. 148, 2023),* NMPA, 22nd November 2023, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/ggtg/hzhpggtg/jmhzhptg/20231122100802124.html>

there is a lack of detailed technical guidance in the implementation process, and the applicability of important technical guidelines, such as the threshold of toxicological concern and the Severely Toxic Dose,[9] has no clear conclusion. More importantly, compared to other cosmetics, the toothpaste industry lacks a comprehensive and authoritative database of ingredient usage. The result is that there is insufficient key data to support the assessment, making it difficult to prepare toothpaste product safety assessment reports.

Recommendations

- Release the *Technical Guidelines for Toothpaste Safety Assessment* and other toothpaste-related technical guidelines as soon as possible.
- Release the *Ingredient Usage Information for Marketed Toothpaste Products* and the *Index of International Authoritative Toothpaste Safety Assessment Data* as soon as possible.

2. Optimise the Cosmetics Ingredient Management System and Remove Barriers to Ingredient Innovation and Market Access

2.1 Definition of New Ingredients 2

Concern

Unclear definition criteria for new ingredients hinders enterprises from conducting compliance assessments and research and development (R&D) of new cosmetics ingredients.

Assessment

The definition standards for the raw materials of new cosmetics are vague, making it difficult for enterprises to accurately determine whether ingredients not directly listed in the *Inventory of Existing Cosmetic Ingredients in China* (*Inventory*)[10] are actually considered to be new. This directly affects both the efficiency of compliance assessments and R&D investment. As the *Inventory* does not clearly define the categories of ingredients, enterprises often face practical challenges when identifying ingredient attributes, which may significantly delay product innovation and lead to missed market opportunities.

From a regulatory perspective, establishing an efficient definition-consultation mechanism and dynamically updating the *Inventory* would help to solve these issues. Clear classification standards and an optimised catalogue would help companies quickly determine the properties of ingredients, including new compliant ingredients that have passed the monitoring period in the *Inventory*. This can provide the industry with consistent expectations, thereby facilitating innovation efforts. Implementing these two solutions would reduce compliance costs and advance ingredients technology, thereby contributing to the cosmetics industry's sustainable development.

Recommendations

- Establish an efficient definition-consulting mechanism for determining whether an ingredient is new or not.
- Refine the definition criteria, further clarify the definition of 'new cosmetics ingredients' and add the interpretation of the delimitation scope for category-based ingredients in the *Inventory*.
- Increase the frequency of ingredient catalogue updates, regularly update the *Inventory* and promptly include new ingredients that meet the requirements after the three-year monitoring period.

2.2 Declaration of New Ingredients 6

Concern

The toxicology data requirements for new cosmetics ingredient applications are excessively high or lack operability, and the communication and exchange mechanisms need further improvement.

Assessment

Toxicology data is currently part of the required submission for new ingredient registration. However, except for a small number of ingredients that can be exempted from most toxicological tests due to their physicochemical properties (such as polymers), most new ingredients are subject to the requirement to provide relevant toxicological test data. To optimise ingredient innovation, it is imperative to eliminate redundant data requirements through the comprehensive utilisation of established data methods.

9 *NIFDC Announcement on 'Guidelines for Submission of Cosmetics Safety Assessment Data'*, NIFDC, 30th April 2024, viewed 15th April 2025, <https://www.nifdc.org.cn//nifdc/bshff/hzhpjssp/hzpsptzgg/20240430155940105717 4.html>; *NIFDC Announcement on 'Technical Guidelines on Applications of TTC, Read-across and another two technical guidelines'*, NIFDC, 30th April 2024, viewed 15th April 2025, <https://www.nifdc.org.cn//nifdc/bshff/hzhpbzh/hzhpbzhtzgg/2024043016220510 57215.html>

10 *NMPA Announcement on Issuing the 'Inventory of Existing Cosmetic Ingredients in China (Edition 2021)' (No. 62, 2021)*, NMPA, 30th April 2021, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/ggtg/hzhpggtg/jmhzhptg/20210430162707173.html>

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For new cosmetics ingredients already on markets outside of China, the safe-use history required for registration and filing includes sensitive commercial information from downstream manufacturers, which is difficult for new ingredient applicants to obtain. This makes registration difficult or even impossible. Viable data requirements and submission methods therefore need to be explored to enhance implementation of the regulations.

The current pre-registration consultation system for new ingredients requires applicants to provide a complete submission dossier, meaning that a company must have deployed most of its R&D investment by this time. This carries a significant risk if the company subsequently concludes that it needs to roll back on or change its approach with regard to R&D of the new ingredient. The pre-registration consultation system for new ingredients therefore requires further optimisation.

Recommendations

- Implement the requirements of the *Several Provisions Supporting Cosmetics Ingredient Innovation*,[11] optimise and refine ingredient classification and exempt data requirements as needed.
- Make full use of the usage history of cosmetics ingredients used on markets outside of China, and ensure material requirements for evidence are practical and feasible.
- Consider the drug- and adjuvant-related review requirements,[12] allowing applicants to declare that an ingredient has been used in cosmetics products and provide relevant evidence for three years of safe usage.
- Optimise the pre-registration consultation system for new ingredients and lower the threshold for pre-registration data preparation.
- Establish a technical communication mechanism before and during the new ingredient registration and notification process.

11 *NMPA Announcement on Several Provisions on Supporting Cosmetic Ingredient Innovation (No. 12, 2025),* NMPA, 6th February 2025, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/ggtg/hzhpggtg/jmhzhptg/20250206171649139.html>

12 *NMPA Announcement on Issues Concerning the Further Improvement of Drug-related Associated Review & Approval Status of Hair Dye Management in China and the EU, Flavour Fragrance Cosmetics*, 2022, Issue 6, pp. 101–107, viewed 15th April 2025,

2.3 Specific Claims and Intended Use of Ingredients 2

Concern

The management methods for the efficacy claims and intended use of ingredients do not fully consider the efficacy mechanisms of cosmetics and the compatibility with relevant regulations in other major international markets, leading to trade barriers and hindering innovation.

Assessment

The claims made about cosmetics ingredients are an important means of marketing promotion and a key factor influencing consumer purchasing decisions. In most countries and regions around the world, as long as they are genuine and based on objective evidence, such claims may mention ‘containing a certain ingredient’ based on a variety of factors such as product efficacy, ingredient function and characteristics, safety assurance or consumer preferences. In China, there is a lack of detailed requirements for such claims as ‘containing a certain ingredient’. Some local regulatory authorities adopt a ‘one-size-fits-all’ management approach, forcing the item of ‘specific claims (ingredient claims)’ to be ticked and selected in the notification and registration system. Even when only the objective description mentions an ingredient contained in the product, a summary of the ingredient’s efficacy must be submitted. This is incompatible with the practice of cosmetics label claims in other countries and regions. There is therefore a need to establish a comprehensive, transparent and consistent review process, as well as standards for ingredient claims, to ensure clarity and uniformity among all regulatory authorities at all levels.

The efficacy of cosmetics is usually achieved through formula design and the synergies between different ingredients. According to the characteristics of cosmetics and mechanisms of action, a product can achieve a specific efficacy without necessarily containing an ingredient with that efficacy and usage purpose in its formula. Internationally, cosmetics regulators typically do not create a list of ingredients’ purposes, but rather respect the professional knowledge of suppliers and manufacturers regarding ingredient purposes. It is therefore recommended to follow this practice and avoid rigid list-based management to prevent hindering innovation.

Recommendations

- Consider the characteristics of cosmetics scientifically and comprehensively in the context of national and regional regulations to avoid trade barriers.
- Recognise that the efficacy of cosmetics can originate from the synergistic effect of multiple ingredients and scientific formula design, and adopt a flexible method for managing the purposes of usage.

2.4 Market Access of Ingredients

Concern

The differences between China's list of permitted cosmetics ingredients and the EU's are increasing, creating many practical difficulties in registering new ingredients and preventing the latest EU products from entering the Chinese market.

Assessment

Under the current regulations, enterprises must register ingredients not listed in the *Inventory of Existing Cosmetic Ingredients in China* as new ingredients to gain market access.

For permitted ingredients such as ultraviolet absorbers, hair dyes and antiseptics, the EU usually requires a consortium group consisting of multiple manufacturers of cosmetics ingredients and finished products to submit an ingredient safety assessment report to a specialised technical organisation for review. The regulatory authorities will then adjust the ingredients list management requirements based on the assessment review results.

However, the current new ingredient registration mechanism in China does not permit registration by a consortium of enterprises for cosmetics ingredients and finished products, resulting in an increasing discrepancy between the lists of permitted ingredients in China and the EU. Taking hair dyes as an example, more than half of approved hair dyes in the EU have not been approved in China, which has created barriers to product innovation and prevented many new EU products from entering the Chinese market.

Recommendations

- Establish a method for supplementing the list of permitted ingredients under the *Safety and Technical Standards for Cosmetics* outside of the new ingredient registration process, in order to improve the new ingredients management mechanism.
- Refer to safety assessment conclusions of international authorities, convert standards, and add to China's permitted ingredients list those approved by European Union (EU) regulatory authorities and reviewed and approved by the standardisation committees.

3. Improve the Full-chain Product Management of Cosmetics to Resolve Innovation Supervision Challenges

3.1 Consistency between Chinese and Foreign Labelling

Concern

Chinese regulations require imported cosmetics' original foreign-language packaging to fully match Chinese labels in terms of their safety and efficacy claims, unlike EU regulations that allow discrepancies, which forces companies to create separate packaging for China, raising operational costs.

Assessment

Labelling issues remain a significant challenge for EU cosmetics companies when exporting to China, with many products' packaging still needing to be specially designed to meet the requirements of the *Administrative Measures on Cosmetics Labelling* (*Measures*).[13] The *Measures* stipulate that "the content of a Chinese label should correspond to the original label", but 'correspond' is often misinterpreted as meaning that the Chinese label should be a word-for-word translation. This leads to problems when labelling requirements in the EU and China are inconsistent. For example, environmental-related claims and labels allowed by EU regulations are confused with claims related to product safety and efficacy; and informational requirements such as those on sun protection factor labels differ in China and Europe. In addition, the EU allows the use of English or other foreign language descriptions (such as 'dermatologically tested') on the original packaging, but even when the Chinese label does not contain this information, the content on the original packaging is still not accepted in China. These challenges have forced European companies to modify or design packaging separately for the Chinese market, significantly increasing their operating costs.

13 *NMPA Announcement on Issuance and Implementation of the Measures for the Administration of Cosmetics Labels (No. 77, 2021)*, NMPA, 3rd June 2021, viewed 15th April 2025, <https://www.nmpa.gov.cn/xxgk/fgwj/xzhgfxwj/20210603171933181.html>

Recommendations

- Propose that China and the EU jointly establish an acceptable list of efficacy claims, listing the typical claim contents on the original foreign-language packaging that are acceptable.
- Permit regulatory innovation in line with industry experience, allowing original labels to vary within a certain scope and providing alternative descriptions for Chinese labels, while ensuring that Chinese labels comply with Chinese laws and regulations.

3.2 Definition and Claims of Borderline Products

Concern

Cosmetics classified as borderline products in the EU cannot directly enter the Chinese market because they fail to meet the requirements of Chinese cosmetics labelling regulations.

Assessment

According to EU regulations on borderline products,[14] products that do not claim to prevent or treat diseases are classified as cosmetics. For example, cosmetics labels are allowed to state objective factual descriptions such as 'tested under dermatologist control' and 'dry skin prone to atopic eczema'. While such claims do not involve prevention or treatment of diseases, they are subject to the official interpretation of medical terminology under Chinese regulations, meaning they cannot be used to precisely address the target consumers on the packaging of imported products in China. To comply with China's regulatory requirements, overseas companies must therefore adjust the original packaging claims of their products, which can delay their entry into the Chinese market.

Recommendations

- Conduct studies on EU borderline product claims and regulatory requirements related to product definition.
- Establish technical requirements for product claims and declarations for 'skin health cosmetics'.
- Optimise the regulatory principles and requirements for medical terminology used on Chinese cosmetics packaging.

3.3 Whitening, Anti-hair Loss and Hair-dyeing Products, and Children's Cosmetics 2

Concern

The lack of clarity over registration and filing requirements for special product categories, such as whitening, anti-hair loss, hair dyeing products and children's cosmetics, reduces overall predictability, which can impact launch plans and increase compliance risks.

Assessment

Due to the physicochemical properties of hair-dyeing products, routine quality control and post-marketing regulatory requirements are not applicable, necessitating the optimisation of registration test items. Additionally, the technical guidelines for freckle removal and whitening products, as well as anti-hair loss products, have not yet been officially released,[15] creating an expectation among companies for clear technical guidelines to facilitate the registration of these products. Although the corresponding technical guidelines have been issued for the registration and filing of children's cosmetics, the details of safety monitoring still need to be improved.

Recommendations

- Consider the unique attributes of hair-dyeing products, optimise testing, quality control measures and post-market regulatory requirements, and establish a two-way communication mechanism between regulators and the industry to address technology and compliance matters.
- Take suggestions from the industry, accelerate the development of technical guidance documents for freckle removal, whitening and anti-hair loss cosmetic products, carry out comprehensive training and exchange, and promote the implementation of relevant requirements.
- Improve the principles and guidelines for the safe use of ingredients for children's cosmetics.

3.4 Customised Products 6

Concern

Diverging requirements for customised cosmetics services among different local regulatory authorities are

14 *EU borderline products regulations,* viewed 15th April 2025, <https://single-market-economy.ec.europa.eu/sectors/cosmetics/cosmetic-products-specific-topics/borderline-products_en>

15 *Notice on Public Consultation on the 'Technical Guidelines for Research on Freckle-Removing and Whitening Cosmetics (Draft for Comments)'*, National Institutes for Food and Drug Control, 17th March 2023, viewed 15th April 2025, <https://www.nifdc.org.cn//nifdc/bshff/hzhpjssp/hzpsptzgg/20230317135053512185.html>

not conducive to the innovation and promotion of this industry segment.

Assessment

Enterprises face numerous challenges in delivering customised services across provinces. Due to the differing regional requirements of local regulatory authorities, they are required to re-establish local legal entities in different provinces, re-apply for projects and re-file products, which not only increases management challenges and operating costs, but also leads to a waste of administrative resources. The key to solving these problems is to break down geographical restrictions and simplify cross-regional operational processes; relax the geographical restrictions on domestic 'responsible persons', and formulate a unified national policy for customised services to support the healthy development of this industry segment; encourage innovation; and facilitate nationwide promotion of such services.

Recommendations

- Provide inter-provincial recognition for both approved customised cosmetics service businesses and their implementation plans to avoid repeated applications at the provincial level.
- Allow original cosmetics registration filers and domestic responsible entities to directly carry out customised services outside their registration provinces, eliminating the mandatory requirement to establish new local legal entities due to regional regulatory restrictions.
- Develop unified national policies for customised services, coordinate management requirements across government departments, and clarify the regulatory principles and legal applications for customised cosmetics.

4. Strengthen Cosmetic Sustainability and Standardisation to Promote International Alignment and Implementation of Technical Standards

4.1 Sustainable Development and Circular Economy

Concern

More efforts need to be made at both the industry and consumer levels to ensure sustainable development of the cosmetics industry.

Assessment

In January 2023, the State Council issued the *White Paper on China's Green Development in the New Era*,[16] advocating a green development path and comprehensive protection of the natural ecosystem through regional green initiatives, industrial transformation and promoting green product consumption. However, further clarification is needed regarding specific sustainability goals for the cosmetics industry, and both companies and consumers need to develop a stronger awareness of sustainable development. There is also a need for greater adoption of and interaction with international standards. Moreover, incentives for businesses to take sustainable action have not yet been fully implemented.

Recommendations

- Promote the concept of sustainable development and raise public awareness.
- Participate in international standard-setting activities and recognise more international standards.
- Encourage companies to develop and implement sustainable development action plans.

4.2 Standardisation 2

Concern

The process of formulating and revising cosmetics standards lacks an industry communication and exchange mechanism, and the transformation and recognition of international cosmetics standards are incomplete.

Assessment

Since the implementation of the *Cosmetics Supervision and Administration Regulation* in 2021 and its accompanying rules, the regulation of cosmetics in China has become increasingly standardised. However, the current cosmetics standards system is still inadequate: there is a lack of harmonisation between national standards, industry standards and technical guidelines and norms for cosmetics; some international standards have not been converted or adopted; and there is neither a clear communication mechanism between the National Medical Products Administration (NMPA) and industry nor a mechanism for companies to participate in the drafting of cosmetics standards and guidelines. Improving the cosmetics standard

16 *White Paper on 'China's Green Development in the New Era'*, State Council, 19th January 2023, viewed 15th April 2025, <https://www.gov.cn/xinwen/2023-01/19/content_5737923.htm?eqid=f80ca2050013511900000046469d4ba>

system will be crucial for promoting sustainable industry development and enhancing market competitiveness.

Recommendations

- Establish a communication mechanism between the NMPA, industry and enterprises for standard development and revision to enhance transparency in the standard-setting process.
- Advance the conversion and recognition of international standards.

4.3 Equivalent Evaluation 5

Concern

Current regulations mandate that cosmetics formula declarations must disclose any modifications, leading to the need for numerous efficacy reports at the final product stage, which results in prolonged R&D cycles for new cosmetics products and wastes resources.

Assessment

The efficacy claim management under the *Cosmetics Supervision and Administration Regulation* requires the registrant and notifier of a cosmetic product to be responsible for their efficacy claims and to publish summaries of the supporting evidence on the designated website. During R&D, minor formula changes often occur, and the industry typically uses similar formula evaluation to support product safety and efficacy. This method allows comparison between tested formulas and market-ready formulas during R&D, improving efficiency and saving time. Currently, only equivalent evaluations of multi-colour cosmetics[17] are accepted in China.

Minor adjustments to fragrances, colourants and preservatives in formulas generally do not affect product efficacy, making individual testing for each formula unnecessary. Restricting the use of more effective equivalence evaluation methods when assessing the efficacies of similar formulas increases R&D costs, demands for testing resources, product launch delays and operational costs.

Recommendations

- Extend the application scope of the guiding principle of equivalent evaluations to all product efficacies.
- Allow minor adjustments to formula additives such as fragrances and preservatives (in addition to colourants), with registrants/filers specifying formula differences and justifications for why such differences do not affect efficacy in the published summaries.
- Conduct research on the impact of different cosmetic ingredients on various efficacy claims to gradually expand the categories of ingredients eligible for minor adjustments in equivalence evaluation guidelines.

17 Products that come in multiple colors, such as lipsticks and hair dyes.

5. Optimise Post-market Regulatory Methods for Advertising and Overseas Inspections

5.1 Advertising and Online Operation Management 2

Concern

Rigid requirements that do not reflect industry realities, insufficient regulatory interpretation and support services, and profit-seeking professional claims lead to complaints and even investigations, affecting companies' production and operational activities.

Assessment

With new sales models continuing to evolve in the cosmetics industry, such as online sales and live streaming, China has been developing and refining its legal and regulatory frameworks to effectively manage subsequent challenges. However, the gap between the pace of evolving market demands and the frequency of regulatory updates has created divergent understandings among enterprises, regulators and consumers regarding compliance. Companies' inability to accurately interpret regulatory clauses and insufficient regulatory guidance results in increased compliance costs and operational risks. Moreover, the prevalence of 'professional claimants',[18] who exploit regulatory ambiguities to file malicious compensation claims, continues to disrupt market order.

Recommendations

- Consider industry opinions when formulating and implementing laws, regulations or local guiding principles, and provide companies with more independent interpretation space regarding product compliance with specific regulatory practices.

18 A 'professional claimant' is someone who buys a large volume of the same product (for non-lifestyle or consumption needs) in the knowledge that they have usually small, non-safety-related defect(s), in order to make fraudulent compensation claims.

- Publish key industry focusses and typical case analyses related to product claims/advertisements, and provide advertising compliance consulting services, to help enterprises better understand and comply with regulatory requirements.
- Strengthen measures against profit-driven professional complaint-making to optimise the business environment.

5.2 Overseas Inspections 2

Concern
The overseas inspection process is unclear, differences exist between Chinese GMP requirements on the one hand and the GMP management systems and requirements generally followed by overseas enterprises on the other, which may lead to compliance risks for overseas factories.

Assessment
International cosmetics GMP regulations and inspection principles are based on risk management, prioritise product safety, and emphasise industry self-regulation and social co-governance, which differs from China's cosmetics production quality management regulations.

Cosmetics imported from the EU meet the cosmetics safety requirements in China, but official inspection checklists, detailed processes and standards are not publicly available. During inspections, overseas European cosmetics companies may face compliance risks due to objective differences in production quality management and inspection criteria.

Recommendations
- Identify the process and key points of overseas inspections and carry out targeted training.
- Recognise the Good Manufacturing Practice systems and practical application experiences of international companies' home countries.
- Allow reasonable differences between registration/filing documents and actual production operations on the basis of ensuring quality and safety.
- Enhance technical exchanges between the EU and China on cosmetics production regulations to promote mutual trust and recognition.

Abbreviations

EU	European Union
GMP	Good Manufacturing Practice
KR	Key Recommendation
NIFDC	National Institutes for Food and Drug Control
NMPA	National Medical Products Administration
R&D	Research and Development
y-o-y	Year-on-Year

Energy Working Group

Key Recommendations

1. Facilitate Foreign Investment in and Access to Renewable Energy

1.1 Ensure the Accessibility and Affordability of Green Electricity, and Continue to Refine the Green Electricity Certificate (GEC) System

- Establish a unified national green power market by implementing standardised trading rules and optimising ultra-high-voltage transmission infrastructure, to enable efficient inter-provincial renewable energy transactions.
- Accelerate the alignment of provincial wholesale market designs with the national unified power market framework to overcome deregulation delays while reforming retail markets to accommodate diverse corporate consumer demands.
- Enhance power market transparency through regular publication of relevant data (prices, volumes and grid availability) to improve access, particularly for foreign-invested enterprises (FIEs).
- Reform time-of-use tariffs by standardising calculation methods across provinces and increasing peak/off-peak price differentials to incentivise load-shifting and renewable energy utilisation.
- Promote long-term renewable procurement by enabling cross-provincial power-purchase agreements (PPAs) with stable trading windows and virtual PPA options for corporate buyers.
- Introduce targeted incentives including subsidies, adjusted energy quotas and priority grid access during peak demand to stimulate green power procurement.
- Integrate long-term PPAs and sustainable aviation fuel (SAF) production into green finance programmes (e.g., the People's Bank of China's carbon reduction support tools), and recognise PPAs as valid instruments for renewable project bankability.
- Ensure policy coherence by coordinating PPAs, GECs, renewable portfolio standards (RPSs) and carbon market mechanisms.
- Clarify long-term RPS trajectories for provinces and appointed manufacturers, ensuring GECs can fulfil compliance requirements regardless of provincial origin, and differentiating mandatory/voluntary renewable procurement to avoid double-buying.
- Strengthen the GEC system by:
    - aligning retirement/cancellation methodologies with international standards (e.g., RE100);
    - consolidating fragmented GEC credits into a single document; and
    - fostering international recognition through continuous engagement with initiatives like RE100 and the Science Based Target initiative (SBTi).

1.2 Ensure European Companies Have Equal Access to Renewable Energy Investment Opportunities

- Guarantee a level playing field for FIEs and joint ventures in renewable energy project approvals and operations.

- Standardise renewable project approvals nationwide through unified guidelines that prohibit local exclusionary practices—including mandatory cooperation, local controlling shares, guided shareholding ratios, or designated partnerships with platform companies—while mandating transparent, open development rights allocation in all provinces.
- Expedite renewable project approval procedures, prioritising demand-driven development.
- Reform blended pricing mechanisms by establishing predictable price corridors to prevent predatory bidding, and prioritising technology excellence and lifecycle value in tender criteria, especially for offshore wind, solar-storage hybrids and hydrogen projects.
- Strengthen mutual recognition and alignment of eco-design and energy labelling standards between China and the European Union (EU).
- Accelerate the adoption of renewable and new energy technologies with high-quality international technical standards.
- Launch EU-China pilot projects in floating offshore wind, offshore hydrogen, green methanol and ammonia, and recycling technologies – scaling collaboration in third-country markets.
- Define transparent data governance rules, enabling cross-border digital operations under China's cybersecurity frameworks.

2. Accelerate the Deployment of Low-carbon Clean Fuel or Gas and Carbon Capture, Utilisation and Storage (CCUS)

2.1 Drive the Large-scale Application and Commercialisation of Low-carbon Hydrogen, Biogas and CCUS

- Accelerate gas market liberalisation by allowing FIEs to invest in mid/downstream infrastructure and permitting industrial users and smaller companies to source gas directly.
- Drive biomethane adoption by:
  - implementing industrial incentives for biogas-derived gas/chemicals;
  - mandating biomethane injection quotas into natural gas pipelines;
  - launching an International Sustainability and Carbon Certification (ISCC)-aligned national biomethane certificate scheme (based on the GEC model) with transparent bookkeeping; and,
  - enforcing the polluter-pays principle to promote waste-to-biogas/biomethane projects.
- Accelerate hydrogen deployment by:
  - publishing a post-2025 hydrogen mobility roadmap for long-term investment certainty;
  - strengthening incentives for the use of hydrogen electrolysers powered by curtailed renewable electricity;
  - defining and implementing nationally unified safety standards (initially piloting in dedicated hydrogen parks), and expanding site eligibility for low-carbon hydrogen production;
  - developing infrastructure for medium- and long-distance transport (pipelines/rail/shipping) and updating onboard liquid storage rules;
  - expanding applications to power generation, heating and hard-to-abate industries; and
  - harmonising domestic hydrogen value chain codes and standards with the International Organization for Standardization, and product carbon footprint certification with CertifHy.
- Scale CCUS for coal-based and hard-to-abate industries by linking carbon capture to verified emissions reductions and enabling long-term geological storage solutions.

- Launch EU-China technology and innovation partnerships to accelerate biogas/CCUS integration in China.

2.2 Facilitate the Production and Accelerate the Deployment of Alternative Fuels

- Aggregate demand by collecting annual, granular 2026–2030 projections from European companies for carbon-neutral methanol/ammonia at major Chinese ports and SAF at major airports, coordinated by the European Chamber and the National Energy Administration (NEA)/ National Development and Reform Commission (NDRC).
- Promote cost transparency through public bidding processes to reveal true costs and stimulate competition, mirroring successful renewable energy sector practices.
- Implement two-stage bidding: by first securing supply commitments via competitive bidding, and then having European offtakers bid for volumes at specific delivery points and time windows.
- Designate trading hubs by leveraging major port groups and airports as centralised transaction and logistics nodes for carbon-neutral fuels.
- Ensure profit transparency by requiring real-time reporting at each trading hub and reallocating a portion of profits to subsidise innovation.
- Align sustainability standards between the EU (demand-side) and China (supply-side) to ensure mutual recognition and market compatibility.
- Prioritise global policy frameworks (e.g., International Maritime Organization regulations) over fragmented national policies to harmonise decarbonisation efforts.
- Direct innovation subsidies toward pilot projects for biomass gasification and off-grid green hydrogen production to accelerate technology readiness.
- Establish a national biomass waste masterplan to secure a long-term, steady feedstock supply at fixed cost for alternative fuel producers.
- Adopt transparent, province-specific grid emission factors, replacing the current opaque national average.
- Establish EU-China joint ventures to:
  - deploy advanced European technologies in biomass gasification and green hydrogen production, enhancing technical performance;
  - encourage greenfield investment in carbon-neutral molecule production, complementing existing foreign direct investment (FDI) incentives; and,
  - support long-term operations in carbon-neutral molecule production, optimising lifecycle costs and ensuring project sustainability.
- Adopt a clear SAF definition aligned with European standards to ensure global interoperability.
- Implement progressively increasing SAF blending mandates (e.g., over the next 10–20 years) to provide long-term demand visibility and accelerate investment decisions for new capacities.
- Introduce financial incentives like tax credits and production subsidies to support SAF infrastructure and production investments.
- Launch a standardised SAF certification system with strict sustainability criteria to verify environmental benefits and build market trust.

3. Enhance the Development and Deployment of Solutions to Promote Energy Efficiency

3.1 Implement Tailored Energy Efficiency Benchmarks that Recognise Decarbonisation Efforts

- Enforce local implementation of the linkage between GECs, and energy-saving and carbon reduction policies, ensuring transparent criteria for non-fossil energy consumption.
- Integrate low-carbon energy sourcing plans into dual energy control assessments to prevent conflicts with decarbonisation projects, for example, by exempting renewable-energy-powered electrification from energy intensity penalties.
- Publish a binding timeline and methodology for shifting from dual energy control to dual carbon control, including interim measures to protect early movers.
- Revise benchmarks for local emissions trading systems (ETSs) to prevent penalties for renewable energy/GEC usage.

3.2 Boost Technological Innovation in Energy Efficiency and Digitalisation Solutions

- Accelerate the application of digital technology and smart power installations on both the distribution and demand side.
- Develop policies that incentivise the wide deployment of decentralised power generation, and develop smart energy management platforms and software to stabilise and balance the load.
- Promote the adoption of green power grid products such as sulphur hexafluoride-free switchgears.
- Leverage digitalisation in the industrial sector to implement data-driven solutions for improving energy efficiency.
- Encourage more practical international collaboration on energy efficiency innovation between governments and companies.

Recent Developments

Throughout 2024 and 2025, China's energy sector underwent significant developments, including notable regulatory changes, technological advancements and a shift in market dynamics, which have collectively moved the country closer to achieving its 30/60 goals and energy transition objectives.[1]

Policy Updates

China's shift from energy consumption control to carbon emissions control started with the *Action Plan for Energy Conservation and Carbon Reduction for 2024–2025* in May 2024,[2] and was followed by the *Work Plan for Accelerating the Establishment of a Dual-control System for Carbon Emissions*.[3] The *Opinions on Accelerating the Comprehensive Green Transition in Social and Economic Development*, released in August 2024, provides the first systematic roadmap for guiding this transition in all areas of economic and social development.[4]

The most notable regulatory development was the enactment of China's first comprehensive Energy Law in November 2024. It establishes a carbon-focussed regulatory framework, shifting from energy consumption

1 The 30/60 goals refer to China's dual targets of peaking carbon emissions before 2030 and achieving carbon neutrality by 2060.

2 *Action Plan for Energy Conservation and Carbon Reduction for 2024-2025*, State Council, 29th May 2024, viewed 29th May 2025, <https://www.gov.cn/zhengce/content/202405/content_6954322.htm>

3 *Work Plan for Accelerating the Establishment of a Dual-Control System for Carbon Emissions*, State Council, 2nd August 2024, viewed 29th May 2025, <https://www.gov.cn/zhengce/content/202408/content_6966079.htm>

4 *Opinions on Accelerating the Comprehensive Green Transition in Social and Economic Development,* Climate Cooperation China, 30th August 2024, viewed 29th May 2025, <https://climatecooperation.cn/climate/opinion-on-accelerating-the-comprehensive-green-transition-in-social-and-economic-development/>

controls to carbon emissions management, while mandating renewable energy consumption targets and placing consumption responsibility on different stakeholders, and not solely on grid companies as was previously the case. The law also aims to promote market mechanisms like Green Electricity Certificates (GECs), position fossil fuels as grid stabilisers, and accelerate infrastructure modernisation through smart grids, energy storage and hydrogen technologies.[5]

Another key policy reform came in February 2025, when China's National Development and Reform Commission (NDRC) and National Energy Administration (NEA) jointly issued a notice on deepening the pricing reform for electricity generated from renewable energy. This notice marks a critical step in China's power market liberalisation, adopting a mechanism similar to the Contract for Difference model used in the United Kingdom and other markets.[6&7]

Energy Production, Transmission and Consumption
In 2024, China strengthened its energy security with a 4.6 per cent rise in primary energy production, while total installed power capacity hit 3,349 gigawatts (GW) – led by wind and solar (1,406 GW), surpassing its 2030 target six years early. Primary energy consumption grew 4.3 per cent, with non-fossil sources overtaking oil for the first time. Electricity consumption reached 9,852 terawatt-hours (TWh), a year-on-year increase of 6.8 per cent, as declining energy and carbon intensity (3.4 per cent lower) underscored progress in the transition.[8]

Interprovincial transmission bottlenecks still present a challenge. For example, while renewable-rich Northwest China is due to generate 800 GW by 2030, local demand sits at just 220 GW, which will necessitate ultra-high-voltage grid expansions. Green hydrogen has emerged as a potential long-term solution to these bottlenecks, with plans to convert four trillion kilowatt-hours of excess renewable power into hydrogen by 2060, to be transported to eastern demand centres via long-distance pipelines.[9]

Power Market and Technological Advancements
The power-market-orientated transaction volume reached 6,180 TWh, accounting for 62.7 per cent of total electricity consumption. The inter-provincial spot power market became operational, and the green power market conducted its first inter-provincial power-purchase agreement (PPA). New-type energy storage capacity doubled to 78 GW, shifting towards centralised and large-scale projects. Lithium-ion batteries continued to dominate the storage market, while research into new storage technologies like sodium-ion batteries advanced.[10]

Key Recommendations

1. Facilitate Foreign Investment in and Access to Renewable Energy

1.1 Ensure the Accessibility and Affordability of Green Electricity, and Continue to Refine the GEC System

Concern
Despite China's rapid expansion of renewable energy capacity, European companies still have limited access to green electricity in key production hubs due to infrastructure constraints, uncompetitive pricing and the limited international recognition of Chinese GECs.

Assessment
Despite China's significant progress in renewable energy deployment, in tandem with related policy improvements, European companies continue to face substantial barriers to accessing affordable green energy,[11] particularly in key manufacturing hubs such as the Yangtze River Delta, the Jingjinji area and the Pearl River Delta.[12]

Market Fragmentation and Infrastructure Constraints
While China has made strides towards establishing a unified national power market, including through the introduction of draft PPA templates in 2024, critical

5 *China releases its first Energy Law*, Climate Cooperation China, 23rd January 2025, viewed 29th May 2025, <https://climatecooperation.cn/climate/china-releases-its-first-energy-law>
6 *Notice on Deepening the Market-oriented Reform of New Energy Feed-in Tariff and Promoting High-quality Development of New Energy*, NDRC, 9th February 2025, viewed 28th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202502/t20250209_1396066.html>
7 Zhang, S, *Will China's new renewable energy pricing speed up coal's exit?*, Dialogue Earth, 12th March 2025, viewed 27th May 2025, <https://dialogue.earth/en/energy/will-chinas-new-renewable-energy-pricing-speed-up-coals-exit/>
8 *Summary of China's energy and power sector statistics in 2024*, China Energy Transformation Program, 13th March 2025, viewed 28th April 2025, <https://www.cet.energy/2025/03/13/summary-of-chinas-energy-and-power-sector-statistics-in-2024/>
9 Zheng, X, *Renewable energy supply to grow on robust economy, report says*, *China Daily*, 28th May 2025, viewed 29th May 2025, <https://www.chinadaily.com.cn/a/202505/28/WS68366505a310a04af22c1e77.html>
10 Ibid.
11 *European Business in China Business Confidence Survey 2025*, European Chamber, 28th May 2025, viewed 4th June 2025, <https://www.europeanchamber.com.cn/en/publications-business-confidence-survey>
12 Jingjinji refers to the urban agglomeration of Beijing, Tianjin and Hebei Province.

challenges remain. Transmission capacity constraints limit the efficient transfer of renewable energy from resource-rich western and northern regions to high-demand eastern provinces, where local governments often prioritise their own renewable portfolio standards (RPSs). Although inter-provincial green power transactions have begun,[13] they remain limited in scale and lack predictable trading windows, with opportunities often available for only a few hours. Further complicating the landscape are provincial requirements mandating the purchase of GECs from specific regions, such as Guangdong or Zhejiang. These mandates create market distortions, including double-buying[14] and artificial price spikes, due to concentrated demand in short timeframes.

At the wholesale level, provincial disparities in market design hinder the realisation of a unified national power market. Many provinces lag in terms of deregulation, leading to inefficiencies in resource allocation and renewable integration. While the Beijing Power Exchange provides trading results, the lack of predictable interprovincial trading windows and volumes prevents companies from effectively managing their energy portfolios. Grid availability constraints further limit the scalability of these transactions.

Retail market reforms are equally urgent. The current provincial retail markets are immature and uncoordinated, failing to accommodate the diverse needs of corporate consumers. This limits options for tailoring pricing formulas and risk exposure, directly impacting companies' ability to optimise energy costs. Time-of-use (TOU) tariffs are undermined by inconsistent calculation methods across provinces and disproportionately high non-energy costs for end-users. Standardising TOU tariffs and expanding peak/valley price differentials would better incentivise flexible consumption and support grid stability.[15]

Lack of Green Finance

China's Ministry of Ecology and Environment and People's Bank of China currently provide targeted financing for decarbonisation projects, yet critical solutions like long-term PPAs and sustainable aviation fuel (SAF) technologies remain ineligible. This gap stands in contrast to Europe, where long-term PPAs serve as fundamental tools for greenfield renewable project bankability, offering developers revenue stability and mobilising private investment. The February 2025 pricing reforms present an opportunity to enhance the role of long-term PPAs, potentially improving their valuation for incremental renewable projects in the future.

GEC System Limitations

China's GEC system, while an improvement on recent policies,[16] still requires stronger verification and retirement processes to align with international standards. For instance, RE100's updated 2025 criteria emphasise the need for unbundled Energy Attribute Certificates to be explicitly cancelled by corporate buyers – a requirement that diverges from China's current GEC retirement process.[17] Similarly, the Science Based Targets initiative (SBTi) and Greenhouse Gas Protocol are advancing stricter standards for market-based emission claims, which will take effect by 2027.[18&19] Aligning China's GEC framework with these global benchmarks is critical for European companies, whose climate goals depend on internationally recognised certification. Additionally, consolidating the current fragmented GEC files ('GEC', 'GEC consumption credit' and 'GEC retirement certificates') into one single document would simplify verification.

Recommendations

- Establish a unified national green power market by implementing standardised trading rules and optimising ultra-high-voltage transmission infrastructure, to enable

13 Li, P, Liu, S, and Zhu, H, *Green Power from Guangxi Delivered to Shanghai! China's First Cross-Regional Green Electricity Trade Completed, State Grid News*, 10th March 2025, viewed 4th June 2025, <https://m.bjx.com.cn/mnews/20250310/1430920.shtml>

14 Scenarios in which European companies must acquire certificates both voluntarily (for corporate sustainability goals) and mandatorily (to comply with local regulations).

15 A key tool for load-shifting and renewable integration.

16 *Opinions on Promoting the High-Quality Development of the Renewable Energy GEC Market*, NDRC, 18th March 2025, viewed 5th June 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202503/t20250318_1396627.html>; *Implementation Rules for the Issuance of Renewable Energy GECs (Trial) (Draft for Comments)*, NEA, 31st March 2025, viewed 5th June 2025, <https://www.nea.gov.cn/20250331/6868b1af236947929f6d0276a7e2605a/202503316868b1af236947929f6d0276a7e2605a_48c2b7e90d476345d59427a839f0947659.docx>

17 RE100 is a global initiative bringing together the world's most influential businesses committed to using 100 per cent renewable electricity in their operations. In March 2025, RE100 announced the removal of previous preconditions for China's GECs, while confirming ongoing discussions with Chinese policymakers ahead of releasing updated technical criteria later in 2025.

18 The Science Based Targets initiative (SBTi) is a corporate climate action organisation that enables companies and financial institutions worldwide to play their part in combatting the climate crisis. See: *About Us*, Science Based Targets, viewed 6th June 2025, <https://sciencebasedtargets.org/about-us>

19 GHG Protocol establishes comprehensive global standardised frameworks to measure and manage greenhouse gas emissions from private and public sector operations, value chains and mitigation actions. See: *About Us*, Greenhouse Gas Protocol, viewed 6th June 2025, <https://ghgprotocol.org/about-us>

efficient inter-provincial renewable energy transactions.
- Accelerate the alignment of provincial wholesale market designs with the national unified power market framework to overcome deregulation delays while reforming retail markets to accommodate diverse corporate consumer demands.
- Enhance power market transparency through regular publication of relevant data (prices, volumes and grid availability) to improve access, particularly for FIEs.
- Reform time-of-use tariffs by standardising calculation methods across provinces and increasing peak/off-peak price differentials to incentivise load-shifting and renewable energy utilisation.
- Promote long-term renewable procurement by enabling cross-provincial PPAs with stable trading windows and virtual PPA options for corporate buyers.
- Introduce targeted incentives including subsidies, adjusted energy quotas and priority grid access during peak demand to stimulate green power procurement.
- Integrate long-term PPAs and SAF production into green finance programmes (e.g., the People's Bank of China's carbon reduction support tools), and recognise PPAs as valid instruments for renewable project bankability.
- Ensure policy coherence by coordinating PPAs, GECs, RPSs and carbon market mechanisms.
- Clarify long-term RPS trajectories for provinces and appointed manufacturers, ensuring GECs can fulfil compliance requirements regardless of provincial origin, and differentiating mandatory/voluntary renewable procurement to avoid double-buying.
- Strengthen the GEC system by:
  - aligning retirement/cancellation methodologies with international standards (e.g., RE100);
  - consolidating fragmented GEC credits into a single document; and,
  - fostering international recognition through continuous engagement with initiatives like RE100 and the SBTi.

1.2 Ensure European Companies Have Equal Access to Renewable Energy Investment Opportunities

Concern

China's local government mandates, state-owned enterprise (SOE) dominance and intensified price competition in the renewable energy sector restrict foreign investment and innovation, while undermining fair competition, environmental sustainability and development goals.

Assessment

While the Chinese Government has signalled commitment to foreign investment—including through pledges to provide 'equal treatment' for foreign firms in the *2025 Action Plan for Stabilising Foreign Investment* (e.g., by lifting restrictions on foreign investment in the manufacturing and energy sectors)[20] —European companies still face operational hurdles, limiting their full participation in technological innovation, project development and industrial collaboration in China's energy industry.

Regulatory Barriers

Protracted project approval processes, inconsistent regional regulations and hidden local requirements, such as burdensome filing requirements, 'tailored bidding mechanisms' and implicit ownership expectations, limit foreign firms' ability to lead projects independently – regardless of the technological or operational advantages they possess.[21]

Pricing Reform and Market Uncertainty

The 2025 shift from feed-in tariffs to competitive bidding introduces revenue uncertainty for foreign investors in wind/solar projects, disrupting their traditional investment models that rely on stable returns. Fragmented provincial power markets, alongside inconsistent pricing and offtake volumes, exacerbate this risk.[22] Without guaranteed offtake or market liberalisation, renewable projects become less appealing for investors.

In some regions, local governments persist in prioritising low-price bidding, intensifying resource competition while undermining long-term project viability. This approach has created a concerning market imbalance with non-technology costs for wind power reaching Chinese yuan (CNY) 1,000–2,000/kilowatt in 2024 –

20 2025 Action Plan for Stabilising Foreign Investment, Ministry of Commerce, 22nd February 2025, viewed 5th June 2025, <https://english.www.gov.cn/news/202502/22/content_WS67b9044dc6d0868f4e8efdff.html>

21 *China Foreign Investment Report 2024*, Ministry of Commerce, 15th January 2025, viewed 5th June 2025, <https://wzs.mofcom.gov.cn/ztxx/art/2025/art_a5f52f7bf1e7467cb87bfb0b2f10c3c0.html>

22 Offtake means the flow of electricity from the grid at a grid exit point. Law Insider, viewed 11th July 2025, <https://www.lawinsider.com/dictionary/offtake>

in some cases surpassing turbine prices themselves.[23] The resulting 'high-resource-cost, low-equipment-value' paradigm accelerates industrial hollowing-out, squeezing market space for high-cost, high-performance European technologies. Consequently, opportunities for European Union (EU)-China industrial collaboration are diminishing. With China already achieving its 2030 wind/solar capacity target (1,200 GW) ahead of schedule, the focus must shift from quantity to quality: lifecycle efficiency, energy yield and ecosystem stability. The 14th Five-year Plan's final year (2025) is a pivotal turning point in this regard.

Localisation Pressures

Many provinces tie project approvals to local manufacturing or infrastructure investments, de facto excluding foreign players. While aimed at regional economic spillovers, these practices fuel overcapacity. For example, poorly coordinated wind-powered green hydrogen/methanol projects lack downstream planning or price transmission mechanisms, leading to redundant project clusters, misallocated capital and wasted resources. European firms, despite their expertise in green fuel supply chains and safety standards, struggle to compete under these conditions.[24]

Cross-border Data Transfer Constraints

As of 2025, data in China's energy sector has been classified as a core focus under cybersecurity regulations. This poses significant challenges for European firms dependent on remote monitoring, intelligent diagnostics, and smart operations and maintenance systems – restricting their global resource integration and limiting their ability to deploy digital advantages in the Chinese market.[25]

23 Li, Limin, *Can Wind Power Break Free from the Low-Price Competition Spiral?*, *People's Daily*, 18th November 2024, viewed 5th June 2025, <http://paper.people.com.cn/zgnyb/pc/content/202411/18/content_30031082.html>; Chik, H, *'Historic breakthrough': China's installed wind turbine cost drops to one-fifth of the US in green energy race, South China Morning Post*, 28th March 2024, viewed 5th June 2025, <https://www.scmp.com/news/china/science/article/3257036/historic-breakthrough-chinas-installed-wind-turbine-cost-drops-one-fifth-us-green-energy-race>

24 *China's Energy Transition*, State Council, 29th August 2024, viewed 5th June 2025, <https://www.gov.cn/zhengce/202408/content_6971115.htm>; *China's Hydrogen Energy Industry: State Policy, Investment Opportunities*, China Briefing, 2023, viewed 5th June 2025, <https://www.china-briefing.com/doing-business-guide/china/sector-insights/china-s-hydrogen-energy-industry-state-policy-investment-opportunities>

25 Gong, J, *China Data Protection and Cybersecurity: Annual Review of 2024 and Outlook for 2025*, Bird & Bird, 12th February 2025, viewed 5th June 2025, <https://www.twobirds.com/en/insights/2025/china/china-data-protection-and-cybersecurity-annual-review-of-2024-and-outlook-for-2025-(ii)>

Recommendations

- Guarantee a level playing field for FIEs and joint ventures in renewable energy project approvals and operations.
- Standardise renewable project approvals nationwide through unified guidelines that prohibit local exclusionary practices—including mandatory cooperation, local controlling shares, guided shareholding ratios or designated partnerships with platform companies—while mandating transparent, open development rights allocation in all provinces.
- Expedite renewable project approval procedures, prioritising demand-driven development.
- Reform blended pricing mechanisms by establishing predictable price corridors to prevent predatory bidding and prioritising technology excellence and lifecycle value in tender criteria, especially for offshore wind, solar-storage hybrids and hydrogen projects.
- Strengthen mutual recognition and alignment of eco-design and energy labelling standards between China and the EU.
- Accelerate the adoption of renewable and new energy technologies with high-quality international technical standards.
- Launch EU-China pilot projects in floating offshore wind, offshore hydrogen, green methanol and ammonia, and recycling technologies – scaling collaboration in third-country markets.
- Define transparent data governance rules, enabling cross-border digital operations under China's cybersecurity frameworks.

2. Accelerate the Deployment of Low-carbon Clean Fuel or Gas and CCUS

2.1 Drive the Large-scale Application and Commercialisation of Low-carbon Hydrogen, Biogas and CCUS

Concern

Regulatory uncertainties, supply chain inefficiencies and economic viability concerns are slowing the scale-up of low-carbon hydrogen, biogas and carbon capture, utilisation and storage (CCUS) technologies.

Assessment

Biogas and Biomethane

Biogas and biomethane can accelerate the energy transition in transportation (as clean energy for vehicles/

vessels) and the chemical sector (as feedstock for low-carbon biochemicals). Despite the potential large supply, the development and commercial use of biogas is held back due to unclear incentives and unstable biomethane feedstock. To address this, a national biomethane certification scheme based on the GEC model and aligned with International Sustainability and Carbon Certification standards should be developed, along with a clear bookkeeping system. Granting foreign-invested enterprises midstream and downstream access to the wholesale natural gas markets would introduce European best practices for biomethane injection.

Hydrogen

While China's 2024 Energy Law recognises hydrogen as an energy vector, there are critical barriers to developing an efficient supply chain as regulations are needed for medium-/long-distance liquid hydrogen transportation (pipelines, rail and shipping). To achieve commercial viability and competitiveness in areas like fuel cell electric vehicles (FCEV), optimising hydrogen infrastructure and improving onboard storage density (Type IV vessels) are crucial. Furthermore, harmonising domestic hydrogen value chain codes and standards with international bodies like the International Organization for Standardization, while also aligning product carbon footprint certification with CertifHy, are necessary for global market integration.[26] However, the 2025 expiration of national demonstration projects will raise uncertainty for potential long-term investments in hydrogen mobility, particularly in FCEV deployment. This challenge is compounded by insufficient clean hydrogen subsidies for renewable hydrogen projects (currently CNY 3 per kilogramme of hydrogen) and opaque local incentive systems.

Beyond transportation applications, hydrogen's potential for decarbonising heavy industries is significant, serving both as a buffer for optimising the electricity supply-demand balance between fossil fuels, nuclear and renewables, and as a feedstock for carbon-capture-utilisation-based chemicals and polluting industries like steel, cement and glass – applications that warrant increased policy support.

26 CertifHy certifies the sustainability and origin of renewable hydrogen and its derivatives. See: *Home,* CertifHy, viewed 6th June 2025, <https://www.certifhy.eu>

CCUS

Beyond low-carbon hydrogen, CCUS is a vital technology for decarbonising coal-based and hard-to-abate industries. While deployment is already mature in the EU and the United States, scaling CCUS in China requires regulatory advancements to formally link carbon capture to verified emission reductions, enable underground/undersea carbon storage solutions and support circular economy applications in chemical production.

Recommendations

- Accelerate gas market liberalisation by allowing FIEs to invest in mid/downstream infrastructure and permitting industrial users and smaller companies to source gas directly.
- Drive biomethane adoption by:
  - implementing industrial incentives for biogas-derived gas/chemicals;
  - mandating biomethane injection quotas into natural gas pipelines;
  - launching an ISCC-aligned national biomethane certificate scheme (based on the GEC model) with transparent bookkeeping; and
  - enforcing the polluter-pays principle to promote waste-to-biogas/biomethane projects.
- Accelerate hydrogen deployment by:
  - publishing a post-2025 hydrogen mobility roadmap for long-term investment certainty;
  - strengthening incentives for the use of hydrogen electrolysers powered by curtailed renewable electricity;
  - defining and implementing nationally unified safety standards (initially piloting in dedicated hydrogen parks), and expanding site eligibility for low-carbon hydrogen production;
  - developing infrastructure for medium- and long-distance transport (pipelines/rail/shipping) and updating onboard liquid storage rules;
  - expanding applications to power generation, heating and hard-to-abate industries; and,
  - harmonising domestic hydrogen value chain codes and standards with the International Organization for Standardization, and product carbon footprint certification with CertifHy.
- Scale CCUS for coal-based and hard-to-abate industries by linking carbon capture to verified emissions reductions and enabling long-term geological storage solutions.

- Launch EU-China technology and innovation partnerships to accelerate biogas/CCUS integration in China.

2.2 Facilitate the Production and Accelerate the Deployment of Alternative Fuels

Concern

Despite tangible demand—primarily from leading European maritime, and aviation and aerospace manufacturers—and possessing the world's most competitive production costs, China has yet to scale alternative fuel output to needed volumes – a gap exacerbated by delayed domestic standard-setting and misalignment with international benchmarks.

Assessment

The maritime and aviation and aerospace industries are driving substantial and growing demand for carbon-neutral fuels, evidenced by binding offtake agreements between European industry leaders and Chinese energy players. This demand is further amplified by the International Maritime Organization's (IMO's) Net-Zero Framework, which mandates zero and near-zero fuels with at least 80 per cent lifecycle greenhouse gas reductions. Beyond fuel applications, carbon-neutral molecules such as methanol are increasingly critical for use in industry.[27] By 2030, combined demand from the maritime, aviation and aerospace, and chemicals industries is projected to reach significant volumes, driven by both regulatory requirements and corporate sustainability commitments.[28]

Green Methanol

China holds competitive advantages in carbon-neutral fuel production, including abundant renewable resources, particularly in Inner Mongolia, Jilin and Heilongjiang; a mature equipment supply chain for wind turbines, solar panels, electrolysers, batteries and gasifiers; streamlined permitting processes; proximity to key shipping hubs; and strong central-/local-level policy support for renewables.

However, technical challenges persist, such as underdeveloped green hydrogen and biomass gasification technologies, highlighted by setbacks such as the safety and efficiency issues experienced at the Kuqa green hydrogen facility.[29] In addition, regulatory hurdles include difficulties complying with the IMO Net-Zero Framework and the unresolved cost gap between carbon-neutral fuels and fossil equivalents. Commercially, high green premiums for low-carbon products and opaque market mechanisms further hinder scalability, underscoring the need for transparent pricing and competitive bidding frameworks to accelerate adoption of green methanol.

Sustainable Aviation Fuel (SAF)

The aviation industry is pinning its decarbonisation hopes largely on SAFs, with China's market—second only to the United States in size—positioned to play a pivotal role. However, its SAF development lags significantly behind potential due to inadequacies in both policy support and regulatory frameworks.

In 2024, China launched a SAF pilot project involving 12 commercial flights. While this was a positive development, large-scale commercialisation will remain a long way off without a national SAF development strategy, comprehensive market incentives and clear long-term targets. The 14th Five-year Plan for Civil Aviation set a modest 2025 goal of 20,000 tonnes of SAF consumption – just 0.2 per cent of annual jet fuel demand. This highlights the enormous gap between current plans and what is needed for meaningful decarbonisation.[30]

SAF production pathways vary by feedstock availability, technological maturity and economic feasibility. Historical evidence shows robust policy frameworks are essential to overcome SAF's cost disadvantage (three to five times higher than conventional fuel). Targeted regulations, subsidies and incentives are urgently needed to unlock investment, expand production and stimulate demand. With Asia's aviation fuel demand rising rapidly—and given the region's ambition to decarbonise air travel—it is crucial that governments implement dedicated SAF policies to align industry growth with climate goals.

27 An industry leader in the chemical sector utilises methanol-to-olefins processes to revolutionise the production of fossil-free plastics.

28 For example, based on the IEA Net-Zero Scenario estimates, Sustainable Aviation Fuel (SAF) should represent 10 per cent of total aviation fuel use by 2030. See: *Aviation*, IEA, viewed 6th June 2025, <https://www.iea.org/energy-system/transport/aviation>

29 Collins, L, *Problems at world's largest existing green hydrogen project will not be solved until late 2025, Sinopec admits*, Hydrogeninsight, 2nd January 2024, viewed 11th June 2025, <https://www.hydrogeninsight.com/production/problems-at-world-s-largest-existing-green-hydrogen-project-will-not-be-solved-until-late-2025-sinopec-admits/2-1-1577860>

30 Liu, L, *China pilots 'sustainable aviation fuel'*, Dialogue Earth, 26th September 2024, viewed 5th June 2025, <https://dialogue.earth/en/digest/china-pilots-sustainable-aviation-fuel/>

Recommendations

- Aggregate demand by collecting annual, granular 2026–2030 projections from European companies for carbon-neutral methanol/ammonia at major Chinese ports and SAF at major airports, coordinated by the European Chamber and the National Energy Administration (NEA)/National Development and Reform Commission (NDRC).
- Promote cost transparency through public bidding processes to reveal true costs and stimulate competition, mirroring successful renewable energy sector practices.
- Implement two-stage bidding: by first securing supply commitments via competitive bidding, and then having European offtakers bid for volumes at specific delivery points and time windows.
- Designate trading hubs by leveraging major port groups and airports as centralised transaction and logistics nodes for carbon-neutral fuels.
- Ensure profit transparency by requiring real-time reporting at each trading hub and reallocating a portion of profits to subsidise innovation.
- Align sustainability standards between the EU (demand-side) and China (supply-side) to ensure mutual recognition and market compatibility.
- Prioritise global policy frameworks (e.g., International Maritime Organization regulations) over fragmented national policies to harmonise decarbonisation efforts.
- Direct innovation subsidies toward pilot projects for biomass gasification and off-grid green hydrogen production to accelerate technology readiness.
- Establish a national biomass waste masterplan to secure a long-term, steady feedstock supply at fixed cost for alternative fuel producers.
- Adopt transparent, province-specific grid emission factors, replacing the current opaque national average.
- Establish EU-China joint ventures to:
  - deploy advanced European technologies in biomass gasification and green hydrogen production, enhancing technical performance;
  - encourage greenfield investment in carbon-neutral molecule production, complementing existing foreign direct investment (FDI) incentives; and,
  - support long-term operations in carbon-neutral molecule production, optimising lifecycle costs and ensuring project sustainability.
- Adopt a clear SAF definition aligned with European standards to ensure global interoperability.
- Implement progressively increasing SAF blending mandates (e.g., over the next 10–20 years) to provide long-term demand visibility and accelerate investment decisions for new capacities.
- Introduce financial incentives like tax credits and production subsidies to support SAF infrastructure and production investments.
- Launch a standardised SAF certification system with strict sustainability criteria to verify environmental benefits and build market trust.

3. Enhance the Development and Deployment of Solutions to Promote Energy Efficiency

3.1 Implement Tailored Energy Efficiency Benchmarks that Recognise Decarbonisation Efforts

Concern

Current one-size-fits-all energy intensity standards unfairly penalise hard-to-abate industries—including frontrunners in decarbonisation—discouraging investments that can result in a critical reduction of emissions.

Assessment

China's existing dual energy control system evaluates new manufacturing projects through two primary metrics: total energy consumption and energy consumption per unit of industrial added value. However, this approach fails to consider significant variations across industries. For example, utilities—which provide essential energy infrastructure for downstream industries—naturally exhibit much higher energy consumption per unit of value added compared to sectors like electronics. This discrepancy persists even when utilities make substantial investments in decarbonisation, creating an unfair disadvantage.

Furthermore, the current framework creates barriers to adopting proven decarbonisation solutions. Electrification through renewable-energy-powered technologies like electric boilers and heat pumps represents one of the most effective pathways for industrial emissions reduction. Yet regional governments' dual energy control evaluation discourages this transition by counting all electricity consumption equally, regardless of its renewable origin. While 2024 regulations theoretically deduct non-fossil consumption from total energy consumption, in practice

European companies still face project rejections, delays and even operational shutdowns. While the proposed transition to a dual carbon control system could partially address this issue, the schedule and modalities of such a transition remain unclear.

Meanwhile, local emission trading systems (ETSs) have an unintended flaw. While they acknowledge renewable energy use for emissions reductions, their backward-looking compliance mechanism—which benchmarks against historical energy consumption—penalises proactive companies. In fact, in several local ETSs, the use of renewable energy or GECs to lower emissions reduces a company's future benchmark allowance, meaning higher costs for decarbonisation leaders.

Recommendations

- Enforce local implementation of the linkage between GECs, and energy-saving and carbon reduction policies, ensuring transparent criteria for non-fossil energy consumption.
- Integrate low-carbon energy sourcing plans into dual energy control assessments to prevent conflicts with decarbonisation projects, for example, by exempting renewable-energy-powered electrification from energy intensity penalties.
- Publish a binding timeline and methodology for shifting from dual energy control to dual carbon control, including interim measures to protect early movers.
- Revise benchmarks for local ETSs to prevent penalties for renewable energy/GEC usage.

3.2 Boost Technological Innovation in Energy Efficiency and Digitalisation Solutions

Concern

As China transitions from energy intensity to carbon intensity control, the importance of technological innovation in energy efficiency and digitalisation may be diminished.

Assessment

China's 'new infrastructure' initiative has accelerated digitalisation of the power sector, yet this has occurred without a clear roadmap or coordination among stakeholders.[31] This lack of direction risks overcapacity, poor integration with traditional infrastructure and resource waste.

Beyond the digital upgrade of the main power grid, it is also crucial to digitalise power distribution and demand-side responses. A smarter energy production system, capable of large-scale renewable energy utilisation, needs to be established. It also must be accompanied by the deployment of greener power equipment and technologies. For instance, 95 per cent of China's power grids still rely on traditional switchgear technology, which contains sulphur hexafluoride, the world's most potent greenhouse gas.[32]

Furthermore, energy efficiency remains largely overlooked in discussions concerning both the energy crisis and the green transition. It is therefore vital to develop digitally enabled smart energy management platforms and software that provide real-time energy consumption data. These tools would assist grid operators in stabilising and balancing the load, leading to reduced costs and overall energy consumption. Concurrently, it is imperative to boost innovation in energy efficiency technologies. While new policies promoting investment in energy efficiency were published in 2024, their full enforcement across all provinces is still pending.[33&34]

Recommendations

- Accelerate the application of digital technology and smart power installations on both the distribution and demand side.
- Develop policies that incentivise the wide deployment of decentralised power generation, and develop smart energy management platforms and software to stabilise and balance the load.
- Promote the adoption of green power grid products such as sulphur hexafluoride-free switchgears.
- Leverage digitalisation in the industrial sector to implement data-driven solutions for improving energy efficiency.
- Encourage more practical international collaboration on energy efficiency innovation between governments and companies.

31 Wong, D, *How Can Foreign Technology Investors Benefit from China's New Infrastructure Plan?,* China Briefing, 7th August 2020, viewed 7th June 2025, <https://www.china-briefing.com/news/how-foreign-technology-investors-benefit-from-chinas-new-infrastructure-plan/>

32 Sulphur hexafluoride is an extremely potent and persistent greenhouse gas that is primarily utilised as an electrical insulator and arc suppressant.

33 *Special Management Measures for Central Budgetary Investment in Energy Saving and Carbon Reduction*, NDRC, 8th April 2024, viewed 9th June 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202404/t20240408_1365534.html>

34 *Implementation Plan for Promoting Equipment Updating in the Industrial Field*, MIIT, 27th March 2024, viewed 9th June 2025, <https://www.gov.cn/zhengce/zhengceku/202404/content_6944252.htm>

Abbreviations

CCUS	Carbon Capture, Utilisation and Storage
EU	European Union
ETS	Emission Trading System
FCEV	Fuel Cell Electric Vehicle
FIE	Foreign-invested Enterprise
GEC	Green Electricity Certificate
GW	Gigawatt
IMO	International Maritime Organization
ISCC	International Sustainability and Carbon Certification
NDRC	National Development and Reform Commission
NEA	National Energy Administration
PPA	Power Purchase Agreement
RPS	Renewable Portfolio Standard
SBTi	Science Based Target Initiative
SAF	Sustainable Aviation Fuel
TOU	Time of Use
TWh	Terawatt-hour

Carbon Market Working Group

Key Recommendations

1. **Grant Internationally Accredited Validation and Verification Bodies (VVBs) Full Access to China's Voluntary Carbon Market While Enhancing Overall Validation and Verification Service Quality**
   - Grant internationally accredited VVBs full access to China's voluntary carbon market while systematically enhancing validation and verification service quality.
   - Accelerate the alignment and localisation of carbon-related standards with international benchmarks, minimising redundant standard-setting.
   - Integrate accredited international third-party verifiers into product carbon footprint assessments and corporate environmental disclosures.
   - Issue detailed measurement, reporting and verification (MRV) rules for Scope 3 emissions.

2. **Strengthen the Alignment of Carbon Market Mechanisms and Alternative Green Fuel Policies with International Climate Frameworks, and Facilitate Cross-border Voluntary Carbon Credit Trading**
   - Establish specific, measurable blending and consumption targets for alternative green fuels to better align with international carbon market policies and guide industry investment.
   - Strengthen interdepartmental coordination on green fuel policies and clarify export policies, including customs tariff codes, quota management and tax rebate rules, to reduce ambiguity and improve global competitiveness.
   - Develop transparent regulations for foreign participation in China's carbon market and enhance international recognition of the China Certified Emissions Reduction (CCER) scheme.
   - Harmonise CCER methodologies with international benchmarks to enable cross-border carbon credit trading, and promote deeper integration of the domestic carbon market into the global framework.
   - Prioritise the formulation of CCER methodologies for alternative green fuels to scale up production, accelerate adoption, and attract investment, thereby advancing transport decarbonisation.

3. **Implement Carbon-intensity Benchmarks for Advanced Production, Expand Green Financing Channels and Coordinate Cross-Provincial Industrial Relocation to Help Drive the Low-carbon Transition**
   - Prioritise carbon allowance allocation for cleaner production by establishing carbon intensity benchmarks for the steel and cement industries by 2026, setting differentiated thresholds based on technological routes (e.g., blast furnace vs electric arc furnace), while allowing ±10 per cent provincial benchmark adjustments to address renewable energy distribution imbalances.
   - Create a National Transition Fund—financed by carbon auction revenues—to subsidise small and medium-sized enterprises' (SMEs') adoption of low-carbon technologies, with priority

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given to western renewable-rich provinces.

- Introduce low-interest loans linked to annual carbon performance, leveraging market-based financial tools for emission reductions.
- Set up a specific task force under the National Development and Reform Commission (NDRC) to coordinate inter-provincial industrial relocation, aligning fiscal transfers with renewable energy absorption rates in recipient regions.
- Expand the Green Bond Support Catalogue to incorporate transition technologies (e.g., carbon capture, utilisation and storage (CCUS) retrofits, hydrogen-based steelmaking and scrap steel recycling), mandate minimum green financing quotas for western development zones, and provide preferential interest rates for eligible projects.
- Launch green industrial park pilots in Gansu and Ningxia, offering tax incentives and streamlined approvals for low-carbon manufacturers.

4. Facilitate Bilateral Government, Civil Society and Business Exchanges on the Latest Decarbonisation Policies and Actions to Advance both China's 30/60 Goals and Implementation of the EU Green Deal

- Launch a three-year EU-China Decarbonisation Initiative to advance policy alignment (e.g., on the Emissions Trading System/Carbon Border Adjustment Mechanism), industrial/technical collaboration, and business matchmaking—supported by a secretariat and digital platform—with progress monitored via quarterly reports and annual reviews.
- Provide technical and coordination support for the harmonisation of standards and requirements in the EU and China, such as MRV, product carbon footprints and renewable energy certification.
- Facilitate business engagement in climate policy development and implementation.
- Support local governments and domestic enterprises to strengthen exchanges with their EU counterparts through capacity building and best-practice sharing.

Recent Developments

Compliance Carbon Market

In February 2024, the State Council of China published the *Interim Regulations on Carbon Emissions Trading Management*, a long-awaited, high-level legal framework for China's national Emissions Trading System (ETS), enhancing enforcement measures and penalties for non-compliance.[1]

In September 2024, the Ministry of Ecology and Environment (MEE) unveiled a draft work plan to expand the national ETS coverage to cement, steel and aluminium smelting industries over two phases, marking another significant step in the country's carbon market development. This expansion is expected to add approximately 1,500 companies to the market, increasing its coverage by 3 billion tonnes of carbon dioxide (CO_2).[2] In October, the MEE released the allocation plan and compliance work plan for the power sector for 2023 and 2024, introducing updated benchmarks and eliminating the accounting of indirect emissions, while also imposing limits on carbon allowance banking and banning the borrowing of

1 *China strengthens legal foundation for national ETS*, International Carbon Action Partnership, 23rd February 2024, viewed 23rd May 2025, <https://icapcarbonaction.com/en/news/china-strengthens-legal-foundation-national-ets>

2 *China National ETS*, International Carbon Action Partnership, viewed 23rd May 2025, <https://icapcarbonaction.com/en/ets/china-national-ets>

carbon allowances.[3] The compliance cycle is shifting from two years to an annual basis.[4] These refinements demonstrate China's efforts to mature its carbon market infrastructure while maintaining stability during the transition.

Despite a five per cent year-on-year (y-o-y) decline in trading volume (189 million tonnes), due to the shift from biennial to annual compliance settlements, carbon prices surged to approximately Chinese yuan (CNY) 100/tonne. Consequently, total market turnover jumped 25.4 per cent y-o-y to CNY 18.11 billion.[5]

Voluntary Carbon Market

The China Certified Emission Reduction (CCER) market officially relaunched trading in January 2024. In June, the Certification and Accreditation Administration announced the list of accredited verifiers. Project development gained momentum when the MEE began accepting new applications and verifications in August. By year-end, 63 projects had entered the pipeline, though only one successfully completed registration,[6] reflecting the rigorous approval process and highlighting challenges in scaling up voluntary carbon projects.

While no new CCER credits were issued in 2024, trading continued with pre-March 2017 vintage credits, with the transaction volume reaching 19.59 million tonnes (up 29 per cent y-o-y). As the supply of vintage credits continued to shrink, prices surged and stabilised at nearly CNY 100/tonne in the fourth quarter, converging with national ETS prices.[7]

Regional Pilots

Chinese regional pilots continue to operate in parallel with the national ETS, covering sectors and entities not included in the national system. Total trading volume across regional pilot markets reached 66.84 million tonnes, a modest 4.7 per cent decline y-o-y, with diverging performance among regions: Hubei, Shanghai and Tianjin saw significant volume increases compared to 2023, while Shanghai, Beijing and Chongqing maintained rising average prices. Throughout the year, multiple regional pilots actively explored innovations in trading mechanisms, market expansion, allowance allocation and cross-market linkage frameworks.[8]

Key Recommendations

1. Grant Internationally Accredited Validation and Verification Bodies (VVBs) Full Access to China's Voluntary Carbon Market While Enhancing Overall Validation and Verification Service Quality

Concern

The involvement of internationally accredited VVBs in China's voluntary carbon market and broader carbon governance frameworks will enhance data quality, transparency and global acceptance of Chinese carbon credits.

Assessment

Accuracy and Transparency of Greenhouse Gases (GHG) Data Quality

Small and medium-sized enterprises (SMEs) often lack technical capacity, relying on inconsistent data collection practices and historical default values for estimating emissions. Compounding this issue are regional disparities in key parameters like fossil fuel calorific values and carbon content factors, which may lead to systematic deviations in emissions accounting. Furthermore, the limited deployment of online monitoring equipment, coupled with occasional incidents of data tampering, undermines the overall reliability of emissions data.

In terms of data verification, the absence of strict, standardised verification processes creates significant challenges in auditing the accuracy of reported GHG data at the enterprise or departmental level. This regulatory gap enables potential data falsification and concealment.

3 Carbon credits are permits that allow the owner to emit a certain amount of carbon dioxide or other greenhouse gases (GHGs). One credit allows the emission of one ton of carbon dioxide or the equivalent of other greenhouse gases. Carbon credits are also known as carbon allowances. Banking of allowances occurs when entities save unused carbon allowances from the current compliance period for use in future periods. Conversely, borrowing takes place when entities use future allowances to cover current compliance. Kenton, Will, *Carbon Credits: What They Are, How They Work, and Who Buys Them*, Investopedia, 28th January 2025, viewed 4th June 2025 <https://www.investopedia.com/terms/c/carbon_credit.asp>

4 Ibid.

5 *2024 China Carbon Market Annual Report*, International Institute of Green Finance, 15th January 2025, viewed 14th May 2025, <https://iigf.cufe.edu.cn/info/1013/9570.htm>

6 *China National ETS*, International Carbon Action Partnership, viewed 23rd May 2025, <https://icapcarbonaction.com/en/ets/china-national-ets>

7 *2024 China Carbon Market Annual Report*, International Institute of Green Finance, 15th January 2025, viewed 14th May 2025, <https://iigf.cufe.edu.cn/info/1013/9570.htm>

8 Ibid.

International VVBs bring globally benchmarked solutions to address these gaps. With extensive cross-industry experience, they can support China's carbon market development by implementing sector-specific accounting methodologies and technical standards for the cement, aluminium smelting and steel industries. For example, they can assist in integrating emissions reductions from alternative raw materials into cement industry quota allocations, aligning aluminium smelting accounting methods with international standards, and providing guidance to advanced, short-process electric arc furnace technology in steelmaking and green electricity adoption.

International Recognition of the CCER

The China Certified Emission Reduction (CCER) framework was designed with international alignment as a priority, adhering to Paris Agreement principles on project authenticity, uniqueness and additionality, while incorporating various aspects of sustainable development. This foundation facilitates global mutual recognition. While the CCER methodology establishes clear criteria for project additionality, international standards—particularly for common project types like renewable energy—often impose stricter scrutiny. As China's carbon sink projects expand, demonstrating additionality clearly and accurately will be critical to securing international recognition.

Competition in the global carbon credit market is intense, with well-established mechanisms like the Verified Carbon Standard (VCS) and the Gold Standard (GS). For China's CCER to gain wider acceptance, its voluntary emissions reduction and carbon sink projects must compete on quality, cost-efficiency and transparency.

Carbon Standardisation

In the rapidly evolving carbon sector, in which national and industry standards often lag behind technological advancements, social organisation/association standards play a vital role in establishing timely technical specifications for emerging technologies, novel applications and niche needs.[9] However, the decentralised nature of association/social organisation standard-setting bodies—with varying expertise and resources—risks inconsistent quality. Without adequate technical capacity or rigorous development processes, some standards may feature unrealistic indicators, incomplete requirements or conflicts with existing frameworks, ultimately undermining their credibility and practical adoption.

Divergences between China's carbon-related standards and international frameworks—particularly in accounting boundaries, GHG coverage and technical methodologies—hinder cross-border trade in carbon credits and complicate global carbon market integration.

Absence of Scope 3 Monitoring, Reporting and Verification (MRV) Rules

Scope 3 emissions, also known as value chain emissions, are largely absent from corporate disclosures in China. Nearly 80 per cent of China's major listed firms still fail to disclose Scope 3 emissions, and even reporting companies often omit methodology details, undermining transparency and comparability.[10] Given China's economy's heavy reliance on industrial production and its position as a key node in global supply chains, pressures on Chinese companies to expand their emissions reporting obligations (especially to upstream value chains) will increase, both within China and abroad.[11]

Recommendations

- Grant internationally accredited VVBs full access to China's voluntary carbon market while systematically enhancing validation and verification service quality.
- Accelerate the alignment and localisation of carbon-related standards with international benchmarks, minimising redundant standard-setting.
- Integrate accredited international third-party verifiers into product carbon footprint assessments and corporate environmental disclosures.
- Issue detailed MRV rules for Scope 3 emissions.

9 Association/social organisation standards are developed by industry alliances, consortia or professional associations.

10 How China's listed firms can accelerate emission disclosures, Dialogue Earth, 6th February 2025, viewed 15th May 2025, <https://dialogue.earth/en/business/how-chinas-listed-firms-can-accelerate-emission-disclosures/>

11 *Climate Disclosure: Are Chinese Companies Rising to the Net Zero Challenge?*, The Conference Board, 6th March 2024, viewed 15th May 2025, <https://www.conference-board.org/publications/AP-TCB-China-Center-Sustainability-Practices-Climate-Disclosure>

2. Strengthen the Alignment of Carbon Market Mechanisms and Alternative Green Fuel Policies with International Climate Frameworks, and Facilitate Cross-border Voluntary Carbon Credit Trading

Concern

The absence of a unified national strategy for alternative green fuels—coupled with a siloed voluntary carbon market—hinders industrial decarbonisation, creating investment uncertainty and risking misalignment with international climate frameworks.

Assessment

Green Fuel Mandates and ETS Reforms in the EU

To achieve its 2030 and 2050 climate goals, the EU introduced green fuel regulations (ReFuelEU Aviation, FuelEU Maritime) and EU ETS2 to address sectors not fully covered by the existing EU ETS. These regulations mandate increased use of sustainable aviation fuels (SAFs) and green maritime fuels, with GHG intensity reduction targets starting at two per cent in 2025 and reaching 80 per cent by 2050.[12] Launching in 2027, the EU ETS2 will expand emissions trading to road transport, buildings and small industries by regulating upstream fuel combustion, requiring fuel suppliers to buy allowances for combustion emissions. It employs a cap-and-trade system with a market stability reserve to ensure price stability and effective emissions reductions.[13]

In the meantime, the EU has revised its ETS Directive under the Fit for 55 package to align with the European Climate Law and Green Deal targets, now extending emissions trading to maritime transport while strengthening aviation sector rules, thereby creating clearer decarbonisation pathways—particularly for transportation—to meet the bloc's climate objectives.[14]

Lack of a Unified National Strategy for Alternative Green Fuels

Following the EU's advanced climate frameworks, China has introduced guidelines to promote green fuels in transportation.[15] The plan, led by the Ministry of Transport and the National Development and Reform Commission (NDRC), is aimed at establishing a modern, low-carbon energy system for transport by 2035. It includes measures to boost SAF production and incentives for green fuel adoption.

However, these policies lack clear, quantifiable targets, such as specific blending ratios or timelines. This ambiguity makes it difficult for companies to assess market risks and policy direction, leading to hesitation in investments. As a result, many firms may delay commitments, slowing the growth of the green fuel sector.[16] Moreover, unclear export policies, including customs tariff codes, quota management regimes and tax rebates, disrupt trade and the financing planning of green fuel producers/exporters, limiting China's green fuel exports and global competitiveness.

Siloed Voluntary Carbon Market and Unclear Cross-border Trading Rules

China's CCER scheme, relaunched in January 2024 after a seven-year suspension, represents a milestone in strengthening the country's carbon market. Another notable development is the National Energy Administration proposal to integrate green liquid fuels—such as biodiesel, sustainable aviation kerosene, renewable alcohols and renewable ammonia—into the CCER mechanism, targeting emissions reductions in hard-to-abate sectors like transportation.[17]

Despite these advances, China's carbon market remains relatively closed, with no clear regulatory pathway for international investors to participate directly. While the People's Bank of China supports

12 *Fuel EU Maritime Regulation*, European Maritime Safety Agency, viewed 16th May 2025, <https://www.emsa.europa.eu/reducing-emissions/fuel-eu-maritime-regulation.html>

13 *ETS2: buildings, road transport and additional sectors*, European Commission, viewed 16th May 2025, <https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/ets2-buildings-road-transport-and-additional-sectors_en>

14 About the EU ETS, European Commission Energy, Climate Change, Environment, viewed 4th June 2025, <https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/about-eu-ets_en#eu-ets-legislative-framework>

15 *China plans new energy transport guide by 2035*, China Daily, 26th April 2025, viewed 19th May 2025, <https://www.chinadaily.com.cn/a/202504/26/WS680c6ed4a3104d9fd3821beb.html>

16 *China 'green' jet fuel plants push back start-up amid lack of policy, Reuters*, 28th February 2025, viewed 19th May 2025, <https://www.reuters.com/sustainability/china-green-jet-fuel-plants-push-back-start-up-amid-lack-policy-2025-02-27>

17 *Notice on Organising and Implementing Technology Breakthroughs and Industrialisation Pilots for Green Liquid Fuels (Draft for Comments)*, Tanjiaoyi, 27th August 2024, viewed 19th May 2025, <http://www.tanjiaoyi.com/article-75104-1.html>

cross-border carbon trading,[18] the absence of clear rules for foreign participation hinders the CCER's global competitiveness. Further alignment with global standards and deeper collaboration with international initiatives would enhance the scheme's credibility and attractiveness.

Recommendations

- Establish specific, measurable blending and consumption targets for alternative green fuels to better align with international carbon market policies and guide industry investment.
- Strengthen interdepartmental coordination on green fuel policies and clarify export policies, including customs tariff codes, quota management and tax rebate rules, to reduce ambiguity and improve global competitiveness.
- Develop transparent regulations for foreign participation in China's carbon market and enhance international recognition of the CCER scheme.
- Harmonise CCER methodologies with international benchmarks to enable cross-border carbon credit trading, and promote deeper integration of the domestic carbon market into the global framework.
- Prioritise the formulation of CCER methodologies for alternative green fuels to scale up production, accelerate adoption and attract investment, thereby advancing transport decarbonisation.

3. Implement Carbon-Intensity Benchmarks for Advanced Production, Expand Green Financing Channels, and Coordinate Cross-provincial Industrial Relocation to Help Drive the Low-carbon Transition

Concern

As China's carbon market expands, the steel and cement industries face rising compliance costs, which necessitates demanding scaled-up green financing and coordinated inter-provincial relocation of production capacity.

Assessment

Urgent Need for Financing Heavy Industry's Low-carbon Transition

China's carbon market expansion presents both challenges and opportunities for driving the country's low-carbon transition. The inclusion of steel, cement and aluminium smelting sectors has significantly increased compliance costs for these industries. Notably, the steel sector alone contributes 15 per cent of national emissions, requiring fixed-asset investments totalling at least CNY 1.6 trillion (United States dollar 220 billion) to decarbonise by 2050, with funding potentially coming from the sustainable debt market.[19&20] Heavy industries therefore require urgent scaling of green financing, targeting clean technology adoption and carbon market participation.

Fragmented Carbon-intensity Standards and Regional Disparities

China's steel industry emits 20 per cent more CO_2 per tonne than the EU,[21] primarily due to its reliance on coal-based blast furnaces. Fragmented carbon-intensity standards and uneven policy implementation at the regional/local level further hinder the adoption of cleaner technologies.

While China's 2024 *Interim Regulations on Carbon Emission Trading* elevated carbon market governance, and the 2025 *Work Plan* expands sectoral coverage, the lack of sector-specific carbon intensity benchmarks leaves steelmakers and heavy-industry players facing operational uncertainty.[22]

Regional disparities further complicate heavy industry's low-carbon transition. The expansion of China's national carbon market will incorporate approximately 1,500 key emission entities, accounting for over 60

18 *The central bank has improved policies for cross-border RMB business, China Daily*, 8th January 2018, viewed 19th May 2025, <https://caijing.chinadaily.com.cn/2018-01/08/content_35456463.htm>; *Wang Xin from the People's Bank of China proposed promoting interactive development between green finance and RMB internationalisation in the Greater Bay Area*, China Securities Journal, 8th October 2021, viewed 19th May 2025, <https://cs.com.cn/xwzx/hg/202110/t20211008_6208809.html>

19 *China's Green Steel Decade: New Paper on Financing, Policy, and Standards,* Climate Bonds Initiative, 10th October 2024, viewed 19th May 2025, <https://www.climatebonds.net/news-events/blog/chinas-green-steel-decade-new-paper-financing-policy-standards>

20 *Financing China's Low-Carbon Transition in Heavy Industry*, RMI and Climate Bonds Initiative, March 2024, viewed 19th May 2025, <https://rmi.org/insight/financing-the-low-carbon-transition-in-heavy-industry>

21 *Iron and Steel Technology Roadmap,* International Energy Agency, October 2020, viewed 19th May 2025, <https://www.iea.org/reports/iron-and-steel-technology-roadmap>

22 Carbon allowances are approved according to the industry's benchmarked carbon intensity, which amounts to making a horizontal comparison. By allocating more carbon allowances to technologically advanced firms, this approach creates strong incentives for less efficient operators to accelerate their own low-carbon transition. *Is China's carbon market ready for the steel sector?* Dialogue Earth, 9th August 2023, viewed 20th May 2025, <https://dialogue.earth/en/business/is-chinas-carbon-market-ready-for-the-steel-sector/>

per cent of national emissions.[23] For the steel industry, this is poised to reshape the competitive landscape by accelerating mergers and acquisitions – a critical step to raise industrial concentration from its current low of 51.16 per cent toward international benchmarks.[24&25] The policy will also intensify regional competition, disproportionately pressuring steel-heavy provinces like Hebei and Jiangsu to cut emissions, potentially driving capacity relocation to renewable-rich regions (e.g., hydropower-abundant southwestern areas). However, these regions lack the necessary infrastructure to absorb relocated industries.

EU's Steel Industry Decarbonisation

The EU ETS drove steel industry emission cuts by setting progressively stricter emission intensity benchmarks (2013–2020), pushing the adoption of low-carbon technologies in steel production. Beyond regulation, the EU's euro (EUR) 40 billion Innovation Fund provides a scalable financing model for hard-to-abate sectors, demonstrating how targeted investments can accelerate decarbonisation while enhancing industrial competitiveness. Another example is Germany's Coal Phase-Out Act (2020), which linked regional transition funding to emissions reduction targets (e.g., retraining, infrastructure), ensuring accountability and mitigating regional disparities.

Recommendations

- Prioritise carbon allowance allocation for cleaner production by establishing carbon intensity benchmarks for the steel and cement industries by 2026, setting differentiated thresholds based on technological routes (e.g., blast furnace versus electric arc furnace), while allowing ±10 per cent provincial benchmark adjustments to address renewable energy distribution imbalances.
- Create a National Transition Fund—financed by carbon auction revenues—to subsidise SMEs' adoption of low-carbon technologies, with priority given to western renewable-rich provinces.
- Introduce low-interest loans linked to annual carbon performance, leveraging market-based financial tools for emissions reductions.
- Set up a specific task force under the NDRC to coordinate inter-provincial industrial relocation, aligning fiscal transfers with renewable energy absorption rates in recipient regions.
- Expand the Green Bond Support Catalogue to incorporate transition technologies (e.g., CCUS retrofits, hydrogen-based steelmaking, scrap steel recycling), mandate minimum green financing quotas for western development zones, and provide preferential interest rates for eligible projects.
- Launch green industrial park pilots in Gansu and Ningxia, offering tax incentives and streamlined approvals for low-carbon manufacturers.

4. Facilitate Bilateral Government, Civil Society and Business Exchanges on the Latest Decarbonisation Policies and Actions to Advance both China's 30/60 Goals and Implementation of the EU Green Deal

Concern

To meet climate targets, the EU and China should strengthen policy alignment and commercial collaboration through structured multi-stakeholder exchanges, thereby enhancing mutual understanding while unlocking green investment and trade opportunities.

Assessment

Both the EU and China face significant challenges in achieving their climate targets. The EU must manage the socioeconomic impact of rapid transition on traditional industrial regions, ensure energy security amid fossil fuel phase-outs, maintain competitiveness under strict environmental regulations, and coordinate policies across Member States, all while preventing carbon leakage and financing infrastructure upgrades. China, meanwhile, must balance emissions cuts with economic growth, overcome coal reliance, address regional development gaps, transition heavy industries and secure funding for green technologies, all while ensuring energy security and social stability.

Common concerns include scaling clean technology, strengthening supply chains, mobilising finance, and

23 *Official from the MEE Answers Media Questions on the Work Plan for Including the Steel, Cement, and Aluminium Smelting Industries in the National Carbon Emission Trading Market,* MEE, 26th March 2025, viewed 20th May 2025, <https://www.mee.gov.cn/ywdt/zbft/202503/t20250326_1104767.shtml>

24 Japan's steel production, for instance, is dominated by three major players. Arba, Alexandru, Steel industry in Japan - statistics & facts, Statista, 15th May 2025, viewed 4th June 2025, <https://www.statista.com/topics/9292/steel-industry-in-japan/>

25 *[Industry In-depth] Insight 2024: Competitive Landscape and Market Share of China's Steel Industry (with Market Concentration, Company Competitiveness, etc.),* Foresight Industry Research Institute, 26th January 2025, viewed 4th June 2025 <https://bg.qianzhan.com/trends/detail/506/250126-aa3bc4f5.html>

aligning policies across sectors and borders. Both must also maintain competitiveness under tight climate deadlines. These shared and distinct pressures highlight opportunities for strategic cooperation. The working group therefore recommends establishing a dedicated EU-China platform for policy coordination (e.g., on the ETS/Carbon Border Adjustment Mechanism), knowledge-sharing and business partnerships—prioritising topics such as renewable energy, energy efficiency, sustainable transport and industrial transformation—to accelerate both progress on China's 30/60 goals and implementation of the EU Green Deal, while fostering bilateral green investment and trade.

Recommendations

- Launch a three-year EU-China Decarbonisation Initiative to advance policy alignment (e.g., on the Emissions Trading System/Carbon Border Adjustment Mechanism), industrial/technical collaboration and business matchmaking—supported by a secretariat and digital platform—with progress monitored via quarterly reports and annual reviews.
- Provide technical and coordination support for the harmonisation of standards and requirements in the EU and China, such as MRV, product carbon footprints and renewable energy certification.
- Facilitate business engagement in climate policy development and implementation.
- Support local governments and domestic enterprises to strengthen exchanges with their EU counterparts through capacity building and best-practice sharing.

Abbreviations

CCER	China Certified Emissions Reduction
CNY	Chinese Yuan
CO_2	Carbon Dioxide
ETS	Emissions Trading System
EU	European Union
EUR	Euro
GHG	Greenhouse Gas
MEE	Ministry of Ecology and Environment
MRV	Monitoring, Reporting and Verification
NDRC	National Development and Reform Commission
SAF	Sustainable Aviation Fuels
SME	Small and Medium-Sized Enterprise
VVB	Validation and Verification Body

Fashion and Leather Working Group

Key Recommendations

1. Continue to Revise the Product Quality Law and Clarify What Constitutes 'Using Unqualified Products to Impersonate Qualified Products' 8

- Clarify the definition of 'unqualified products' or remove the relevant wording.

2. Revise the Mandatory National Standard GB 18401-2010 National General Safety Technical Code for Textile Products 8

- Revise the colour fastness section of *GB 18401-2010* and add an exemption from the colour fastness assessment if a product complies with the restrictions on allergenic and carcinogenic dyes.

3. Further Enhance Intellectual Property (IP) Protection

3.1 Take Action to Curb the Sale of Fake Goods Online 7

- Regulate cross-jurisdictional/cross-regional law enforcement to avoid adverse effects on IP protection.
- Increase investigations and crackdowns on e-commerce counterfeiting from online to offline, and investigate the legal responsibilities of the organisers behind large-scale counterfeiting and selling.
- Ensure that operators of e-commerce and social media platforms fulfil their social responsibilities by actively closing counterfeiters' accounts and sharing all necessary information with intellectual property rights holders.

3.2 Adopt any Necessary Administrative or Judicial Measures to Curb Bad-faith Trademark Registration 3

- Consider the malicious trademark use by the pre-emptive registrant and reduce the evidentiary requirements for prior rights holders in trademark invalidation trials.
- Take timely measures to stop the infringement or unfair competition caused by the malicious use of squatted trademarks through administrative law enforcement and judicial hearings.
- Provide feasible guidance for handling cases of obvious infringement when a registered trademark has been used beyond its approved scope.
- Use injunctions when handling infringements in civil litigation to prevent the malicious use of squatted trademarks from resulting in increased losses to prior rights holders.

3.3 Intensify Penalties Against Stores that Fraudulently Pose as Brand-authorised Outlets to Effectively Punish and Deter Infringers

- Increase the intensity of administrative penalties for operators of non-brand-authorised stores.
- Assess the full value of the infringed brand, the geographical location of the infringing store, and the distribution scale and influence, and determine the amount of compensation accordingly.
- Apply the punitive compensation system in serious cases of fraud.

Section Three: Goods

4. Regulate Authentication Reports Issued by Third-party Certification Bodies

- Regulate authentication reports issued by third-party testing bodies.
- Issue national standards or relevant management regulations on product quality authentication, and clarify the qualifications of third-party testing bodies and the specific content of authenticity verification procedures.
- Coordinate all stakeholders, including brand rights holders, third-party testing bodies and regulatory authorities, to improve the authentication process and ensure the legitimacy and accuracy of verification reports.

5. Streamline Customs Acceptance Requirements for Imported Apparel and Add the Fabric Test Report to the Current List of Accepted Reports for Inspections of Adult Apparel 2

- Include fabric inspection reports in the acceptance requirements for imported adult clothing.
- Collect feedback from companies, and study and formulate operational rules for accepting fabric inspection reports.

Recent Developments

Compared with 2023, consumption of luxury goods in China declined approximately 18–20 per cent in 2024. Multiple factors contributed to this outcome, including continued low consumer confidence due to overall economic uncertainty, the recovery of outbound tourism leading to some consumption outflow and the widespread proliferation of fake goods.[1&2]

The following recent Chinese policy updates have had a significant impact on European Chamber member companies operating in the industry.

On 5th March 2024, the Fujian Provincial Quality Inspection Association released the group standard *General Specifications for Appraisal of High-end Consumer Products*.[3] This standard covers authenticity verification for five categories of high-end products: leather products, watches, footwear and apparel, jewellery and fine wine. Authenticity refers to whether a product is genuine, meaning the verification process should inevitably involve the brand in question. However, no high-end consumer brands were consulted in the formulation of the group standard, bringing the feasibility of its subsequent implementation into question. Key Recommendation (KR) 4 of this position paper contains a more detailed analysis of the authentication of luxury goods.

Mid-2024 marked the first anniversary of the coming into effect of the *Provisions on the Supervision and Management of the Implementation of the Main Responsibility for Quality and Safety by Industrial Product Sales Units*.[4] These provisions require retail stores to strictly implement product quality and safety responsibilities, which include appointing dedicated safety officers, and quality and safety directors, and establishing and enhancing daily controls, weekly inspections and a monthly work system, as well as ensuring that safety personnel pass relevant assessments. Implementing such a specific regulation on lower-risk products such as apparel and accessories has unnecessarily increased companies' compliance costs.

1 *Bain & Company released the 2024 China Luxury Market,* Bain & Company, 21st January 2025, viewed 18th April 2025, <https://www.bain.cn/news_info.php?id=1957>

2 *2024 China Luxury Goods Report Press Release: A 17% Decline, Luxury Brands Face Their Darkest Hour in China in 2024,* Sohu.com, 18th April 2025, viewed 23rd April 2025, <https://www.sohu.com/a/886057763_237556>

3 *Announcement on the release of the group standard General Specifications for Identification of High-end Consumer Products,* Fujian Quality Inspection Association, 5th March 2024, viewed 24th April 2025, <http://fjzljyxh.com/news_show.php?759>

4 *Provisions on the Supervision and Management of the Implementation of the Main Responsibility for Quality and Safety by Industrial Product Sales Units*, State Administration for Market Regulation, 4th April 2023, viewed 24th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2023/art_882e887d8ef24f67b9b039c16d8beb21.html>

The Anti-money Laundering Law was issued on 8th November 2024 and came into effect on 1st January 2025.[5] The law imposes requirements on certain non-financial institutions to fulfil their anti-money laundering obligations, including traders engaged in spot transactions of precious metals and gemstones. Compared with the previous draft for comments round that the working group participated in, the final draft adds the restriction that transactions should reach "above the prescribed amount", which to some extent responds to the working group's recommendation. On 22nd June 2025, the People's Bank of China issued the *Anti-money Laundering and Counter-terrorist Financing Management Measures for Precious Metals and Gemstones Practitioners*, which clarifies the specific amount as cash transactions of Chinese yuan 100,000 or more (or in equivalent foreign currency).[6] However, the working group would recommend that, since luxury products place greater emphasis on branding, design, and even communication concepts, their monetary attributes are relatively weaker compared to those of gold products, etc., making them less likely to be used in money laundering from a regulatory point of view.

The revision of the Product Quality Law was officially launched in 2019. The State Administration for Market Regulation (SAMR) released a revised draft for public comments in October 2023.[7] In April 2025, the working group participated in a closed-door discussion held by the SAMR on the latest draft. During this meeting, it was clarified that imported goods are not required to be labelled with domestic product standard numbers, which is consistent with the fact that imported goods are produced according to foreign standards. However, this version still retains the clause of "passing off unqualified products as qualified products", in which 'unqualified product' lacks a clear definition, which may cause disputes in law enforcement.

5 *Anti-Money Laundering Law of the People's Republic of China*, Standing Committee of the National People's Congress, 8th November 2024, viewed 23rd April 2025, <https://www.gov.cn/yaowen/liebiao/202411/content_6985765.htm>

6 Notice of the release of *the Measures on Anti-money Laundering and Counter-Terrorist Financing for Precious Metals and Gemstone Practising Institutions*, People's Bank of China, 22nd June 2025, viewed 7th July 2025, <http://www.pbc.gov.cn/tiaofasi/144941/3581332/5764629/index.html>

7 See the Recent Developments section and Key Recommendation 1 of the *Fashion and Leather Working Group Position Paper 2024/2025* for more analysis on this revised draft. *Fashion and Leather Working Group Position Paper 2024/2025*, European Union Chamber of Commerce in China, 11th September 2024, viewed 23rd April 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1253/Fashion_and_Leather_Working_Group_Position_Paper_2025_2026>

At the end of 2025, the Hainan Free Trade Port will become fully independent from customs operations. By then, most of the goods entering Hainan will be free of import tariffs, consumption tax and value-added tax.[8] As far as duty-free consumer goods are concerned, the brand self-operated model and the offshore duty-free model may coexist and play a positive role in promoting consumption. However, the significant disparity in duty-free amounts available to consumers between the two will result in unfair competition.

Key Recommendations

1. Continue to Revise the Product Quality Law and Clarify What Constitutes 'Using Unqualified Products to Impersonate Qualified Products' 8

Concern

The draft revision of the Product Quality Law has not clearly defined the concept of 'unqualified products' or whether the determination of 'impersonation' takes into account subjective intent, which may lead to disputes in subsequent law enforcement.

Assessment

Article 19 (V) of the revised Product Quality Law (Draft for Comment) refers to, "adulteration, passing off fake products as genuine products, passing off inferior products as good products, passing off old products as new products, passing off unqualified products as qualified products", but there is no definition of 'unqualified products' in the draft.

Similarly, the current Product Quality Law has a provision that, "unqualified products shall not be passed off as qualified products", but also does not provide a clear, legal definition of 'unqualified product'. This leads to law enforcement officers arbitrarily interpreting and applying this provision during implementation of the law.

Taking a real case as an example: A company made a labelling error, and the relevant government department did not assess the intention but rather directly deemed the product label unqualified based on testing standards which led to the entire product being

8 Feng, F, *Secretary of the Hainan Provincial Party Committee: The hardware and software conditions for the closure of the border are in place, International Financial News Network*, 15th April 2025, viewed 24th April 2025, <https://www.ifnews.com/news.html?aid=714239>

classified as an 'unqualified product'. Consequently, the law enforcement department determined that such a labelling error constituted "passing off unqualified products as qualified products" and imposed the most severe punishment, equivalent to treating it as an unsafe product.

The draft law clearly delineates three distinct punishment categories: punishment for unsafe products; punishment for labelling problems; and punishment for general quality issues. However, Article 19 (V) employs overly generalised, non-legal terminology that could allow for the simultaneous application of all three punishment types. This lack of specificity will create enforcement challenges, as it prevents accurate application in law enforcement.

Recommendation

- Clarify the definition of 'unqualified products' or remove the relevant wording.

2. Revise the Mandatory National Standard GB 18401-2010 National General Safety Technical Code for Textile Products 8

Concern

The colour fastness testing requirements under standard *GB 18401-2010* are unsuitable for certain fabrics and may create market access barriers.

Assessment

In 2024, a survey and evaluation on the implementation of the standard *GB 18401-2010* was carried out,[9&10] with the resulting report explaining the reason for the colour fastness assessment. It states that when colour fastness of a certain textile is poor, dyes may transfer from the fabric to human skin. Some allergenic and carcinogenic dyes can then diffuse through the skin into the human body, posing health risks. Because *GB 18401-2010* currently restricts carcinogenic aromatic amine dyes, it retains colour fastness requirements as a general, low-cost and indirect measure to mitigate harmful dye transfer.

The report also proposes that some experimental details that affect the results of colour fastness tests be clarified in a future revision of the standard, such as the uniform selection of single-fibre interlinings, the use of small-area friction testing methods for small-block printed products, and the removal of fluff from fleece products before testing. This partially solves the problem of differences in colour fastness testing.

In summary, the colour fastness assessment will still be retained in the mandatory standard *GB 18401*. However, despite some textile products having poor colour fastness, they still have market demand, for example:

1) Silk products contain natural proteins that cannot withstand high temperatures during dyeing and fixation, resulting in lower colour fastness.
2) Denim textiles using the gradual fading characteristics of indigo dye and combining it with garment washing techniques to create diversified products.
3) Many textiles dyed with traditional dyes (e.g., plant dyes, mineral dyes) do not contain industrial dyeing auxiliaries, so the colour fastness is low, but it has no effect on human health, and the dyeing process is more environmentally friendly.

Due to the mandatory colour fastness testing requirements in China, some products produced abroad cannot be imported into China for sale. Therefore, it is recommended that if a product complies with the restrictions on allergenic and carcinogenic dyes—that is, the product can directly meet the test requirements for allergenic and carcinogenic dyes, or indirectly meet the test requirements for colour fastness—that an exemption from the colour fastness assessment be added into the colour fastness section of *GB 18401-2010.* This will both ensure colour fastness safety and better meet market demand.

Recommendation

- Revise the colour fastness section of *GB 18401-2010* and add an exemption from the colour fastness assessment if a product complies with the restrictions on allergenic and carcinogenic dyes.

9 The survey was undertaken by the Textile Industry Science and Technology Development Centre and Chinatesta Textile Testing & Certification Services Co Ltd.

10 Sun, X, Wang, G, Zhang, H, Zheng, Y, Xu, L, Han, Y, Tian, L, Zhao, R, and Lyu, J, 2025, *Statistical Analysis Report on the Implementation of GB 18401-2010 National Basic Safety Technical Specifications for Textile Products,* Textile Standards and Quality, vol. 2025, no. 1, pp. 6–15, viewed 23rd April 2025, paid subscription service.

3. Further Enhance Intellectual Property (IP) Protection

3.1 Take Action to Curb the Sale of Fake Goods Online 7

Concern

The lack of effective enforcement regulations means that fake goods are still being sold on e-commerce platforms in China, a situation that has worsened due to negligence on the part of platform operators, which is harming the legitimate intellectual property rights (IPR) of a growing number of rights holders.

Assessment

China's e-commerce industry has developed significantly in terms of the number of companies doing business and the format/structure of platforms used. At the same time, various innovative promotion methods have emerged, placing increasingly high demands on companies to conduct daily supervision and administration of their business in order to prevent the sale of fake goods.

To evade crackdowns and increase their sales, sellers of fake goods often set up multiple stores on different platforms. At the same time, they commonly take advantage of the immediacy of online live broadcasts, night broadcasts and the difficulty of linking specific counterfeit products to live broadcast rooms, to carry out counterfeit sales activities. This has made it much more difficult for IPR holders to investigate such cases and collect evidence.

To make matters worse, in the context of increasingly tense international trade disputes, a large number of counterfeit sellers in China have made false claims on social media videos that they are original equipment manufacturer (OEM) factories of international brands, and have used this to promote counterfeit products. These actions resulted in many overseas consumers being misled and placing orders, and has dealt a blow to the Chinese Government's efforts to improve IP protection over the years.

At the same time, due to various restrictions on cross-jurisdictional/cross-regional law enforcement by public security organs in recent years,[11] the frequency of interregional enforcement actions has decreased. This has led to an overall deterioration of IP protection in major counterfeiting and selling areas.

Recommendations

- Regulate cross-jurisdictional/cross-regional law enforcement to avoid adverse effects on IP protection.
- Increase investigations and crackdowns on e-commerce counterfeiting from online to offline, and investigate the legal responsibilities of the organisers behind large-scale counterfeiting and selling.
- Ensure that operators of e-commerce and social media platforms fulfil their social responsibilities by actively closing counterfeiters' accounts and sharing all necessary information with intellectual property rights holders.

3.2 Adopt any Necessary Administrative or Judicial Measures to Curb Bad-faith Trademark Registration 3

Concern

A proliferation of bad-faith trademark registrations has severely affected the operations of many brands, which harms China's business environment and deters foreign investment.

Assessment

In recent years, malicious trademark squatting, trademark hoarding and the malicious use of squatted trademarks have become increasingly common and severe problems in China. To avoid being identified as malicious trademark registrants, some individuals pre-emptively establish shell companies in Hong Kong or overseas, transfer trademarks to these shell companies, and then authorise themselves to use these trademarks improperly in China. There are various forms of improper use of squatted trademarks, with the main purpose being to blackmail well-known brands to seek undue benefits. For a more detailed analysis, please refer to KR 4 of the *Fashion and Leather Working Group Position Paper 2024/2025.*

When dealing with trademark squatting, companies usually file invalidation applications. However, a

11 *Notice of the Ministry of Public Security on Further Strengthening Law Enforcement Collaboration in Case Handling in Accordance with the Law*, Ministry of Public Security, 4th June 2020, viewed 19th May 2025, <https://www.055110.com/law/1/15417.html>

significant problem with this is that in cases when a trademark has been squatted for a long period of time, the evidence of prior use that can be recognised is very limited. This means that in many cases, reviewers do not support the invalidation of trademarks on these grounds.

Because trademark squatting may also constitute unfair competition, affected companies can also file a complaint with market regulators. However, in practice, if the respondent argues that the trademark involved has already been registered, law enforcement agencies usually do not recognise infringement or prefer to take action after the trademark right has been determined.

Trademark invalidation procedures and administrative litigation proceedings may last for two to three years, or even longer. If the administrative law enforcement and judicial departments cannot take timely and enforceable measures to stop an ongoing infringement, and the trademark continues to be abused over a long period of time, the infringement will have an irreparable impact on the prior rights holder.

Recommendations

- Consider the malicious trademark use by the pre-emptive registrant and reduce the evidentiary requirements for prior rights holders in trademark invalidation trials.
- Take timely measures to stop the infringement or unfair competition caused by the malicious use of squatted trademarks through administrative law enforcement and judicial hearings.
- Provide feasible guidance for handling cases of obvious infringement when a registered trademark has been used beyond its approved scope.
- Use injunctions when handling infringements in civil litigation to prevent the malicious use of squatted trademarks from resulting in increased losses to prior rights holders.

3.3 Intensify Penalties Against Stores that Fraudulently Pose as Brand-authorised Outlets to Effectively Punish and Deter Infringers

Concern

The punishment for unfair competition through the impersonation of brand-authorised stores is very limited and does not effectively curb such infringements.

Assessment

With the increasing consumption of parallel imported luxury goods, many unauthorised retail stores that sell luxury goods have opened in China without the legal authorisation of the rights holder. Some have even opened in well-known shopping malls in downtown areas of large and medium-sized cities. Such stores easily mislead consumers because they use the same store signs and decorations as the official brand.

This behaviour infringes upon the legitimate rights and interests of trademark owners. Unfortunately, since the products sold are not fake, the local market supervision departments only require that the infringing store make rectifications, such as removing the brand's name from the store's signage. In addition, the amount of compensation awarded by the court is too small to effectively punish the infringement of the unauthorised store and deter other imitators.

Recommendations

- Increase the intensity of administrative penalties for operators of non-brand-authorised stores.
- Assess the full value of the infringed brand, the geographical location of the infringing store, and the distribution scale and influence, and determine the amount of compensation accordingly.
- Apply the punitive compensation system in serious cases of fraud.

4. Regulate Authentication Reports Issued by Third-party Certification Bodies

Concern

There are significant flaws in the legality and validity of third-party authentication reports, which will adversely affect trademark enforcement and the existing judicial authentication system if left unregulated.

Assessment

In tandem with the rapid development of cross-border e-commerce, an increasing number of luxury goods have entered China through parallel imports or purchasing agents. Consumer demand for authenticity verification of such luxury goods is increasing, which has led to the emergence of authenticity verification services provided by third-party testing bodies. However, due to the lack of luxury brand authentication technology and the difficulty in fully mastering production processes, anti-counterfeiting technology and trademark authorisation, it is difficult to ensure the accuracy and legitimacy of such authentication reports.

Even if some reports avoid directly mentioning the authenticity of the product and instead use 'conformity/non-conformity with the brand's production process' in their conclusion, the ultimate impact will be the same as an authenticity verification, which then plays a decisive role in the judgement of many civil cases involving consumer disputes.

In the past, when it was deemed necessary to conduct authenticity verification, the first—or only—authentication body considered by law enforcement agencies was the IPR holder. However, if separate authentication verifications are carried out by the rights holder and the third-party testing institutions, and the conclusions of the two are inconsistent, it may disrupt the order of IP protection and governance in China. At the same time, since the Trademark Law and other relevant laws and regulations do not clearly define the legal status of third-party testing bodies in authenticity verification, the legitimacy of their product authentication reports is difficult to guarantee. For example, products manufactured by the OEM beyond the scope or period of authorisation may be identified as genuine products from a quality perspective, but according to Article 57 of the Trademark Law, "without the authorisation of the trademark registrant", the product should be considered infringing or counterfeit.

Recommendations

- Regulate authentication reports issued by third-party testing bodies.
- Issue national standards or relevant management regulations on product quality authentication, and clarify the qualifications of third-party testing bodies and the specific content of authenticity verification procedures.
- Coordinate all stakeholders, including brand rights holders, third-party testing bodies and regulatory authorities, to improve the authentication process and ensure the legitimacy and accuracy of verification reports.

5. Streamline Customs Acceptance Requirements for Imported Apparel and Add the Fabric Test Report to the Current List of Accepted Reports for Inspections of Adult Apparel 2

Concern

The requirements for testing finished adult apparel in China's customs acceptance system have led to unnecessary costs for enterprises.

Assessment

Since 1st December 2022, China's customs authorities have implemented an acceptance system for the inspection of imported adult clothing that meets specific conditions. The system allows the use of inspection reports from relevant agencies to exempt product testing during clearance to improve convenience and efficiency.[12] However, because only inspection reports of ready-to-wear clothing are accepted, some companies have incurred unnecessary costs.

There are eight inspection items under the acceptance system for imported adult clothing,[13] and the inspection basis is the mandatory national standard *GB 18401-2010*. According to inspection methods in this standard, these eight tests can be completed based on just the fabrics rather than the finished product. This is important because compared with fabric testing, testing of finished clothing entails waiting until the final product is manufactured, which greatly increases the company's expenditure on materials, labour and time.

Not only does testing on finished clothing add extra costs, it is also technically unnecessary. From the perspective of IP protection, it also increases the risk that the brand's unique design, production techniques and other relevant information may be leaked in advance.

12 *General Administration of Customs Announcement No. 120 of 2022 (Announcement on the Acceptance Requirements for Imported Clothing)*, General Administration of Customs, 1st December 2022, viewed 27th April 2025, <http://gdfs.customs.gov.cn/customs/302249/302266/302267/4717164/index.html>

13 These eight inspection items are: formaldehyde content, four types of colour fastness, pH value, odours and decomposable carcinogenic aromatic amine dyes.

Recommendations

- Include fabric inspection reports in the acceptance requirements for imported adult clothing.[14]
- Collect feedback from companies, and study and formulate operational rules for accepting fabric inspection reports.

Abbreviations

IP	Intellectual Property
IPR	Intellectual Property Rights
KR	Key Recommendation
OEM	Original Equipment Manufacturer
SAMR	State Administration for Market Regulation

14 Since the acceptance inspection items for infant and children's clothing differ from those used for adult clothing, this recommendation only applies to the acceptance inspection of imported adult clothing.

Healthcare Equipment Working Group

Key Recommendations

1. **Ensure 'Domestic Production' Policies Balance Innovation Costs, Market Fairness and Supply Chain Realities While Providing Clear Definitions, Flexible Implementation and Adequate Transition Periods**
   - Recognise medical devices that have been approved for domestic registration as 'domestic products'.
   - Acknowledge the complexity of global supply chains when refining standards through multi-dimensional benchmarks.
   - Exempt products from localisation-ratio requirements until 2030; establish 10-year transition periods for and waive tariffs on non-localisable core components before 31st December 2040.
   - Exclude any products paid for by the social security fund from re-assessment of localisation ratios to safeguard the continuity of clinical supply and remove such products from the 'domestic product standard' scope.
   - Form an expert panel—comprising government and industry, including foreign-invested enterprises—to set localisation-ratio standards per category.
   - Allow bidders in government procurement to submit either a compliance declaration or alternative supporting documents if the declaration is unavailable.
   - Provide clear definitions of 'specific products' and 'national security', to prevent coercive demands under the guise of 'critical technology transfer', and to correct any premature or over-reaching local enforcement of central policy in the name of 'self-reliance'.
   - Leverage free-trade zones, free-trade ports and the service sector to simplify the approval of localised innovative medical devices.
   - Pave the way for China's accession to international trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Government Procurement Agreement.
   - Recognise medical devices manufactured in China for foreign companies through cross-border commissioned production as 'domestic products'.

2. **Establish a Joint Coding System Between the National Healthcare Security Administration (NHSA), National Medical Products Administration (NMPA) and National Health Commission (NHC) to Better Define, Support and Reimburse Innovative Medical Consumables** 5
   - Align the coding system between the NMPA, the NHSA and the NHC to create accelerated market access pathways for innovative medical devices.
   - Add descriptions of clinical needs addressed by a medical device—especially innovative functions not found in generic products—in the remarks section of the registration certificate, to establish formal recognition of reimbursement or procurement advantages (e.g. in volume-based procurement (VBP) or Diagnostic-related Groups).
   - Develop National Medical Consumables Classification codes listing 'generic names' and 'innovation descriptors'.

- Establish an evaluation and recognition mechanism for innovative products, including trial periods for assessing new technologies, pricing and NHSA payment models.
- Provide fast-track certification and adapt coding systems to support innovation, separating service fees and consumable costs from NHSA payment rules.
- Formulate clinical-use guidelines for healthcare institutions to support procurement and integration of innovative products.

3. Reform VBP by Implementing Differentiated Pricing Mechanisms, Ensuring Cost-reflective Bidding Floors and Establishing Innovation Exception Clauses to Maintain Product Quality and Market Stability

- Replace mandatory full-quota allocation to 'lowest-bid winners' with volume distribution based on comprehensive evaluations, including quality, supply capacity and credit history.
- Introduce a low-price protection mechanism to deter unproven or newly registered products from undercutting prices.
- Create separate bidding categories or negotiated pricing mechanisms for innovative products to reflect research and development costs and clinical value, accelerating patient access.
- Monitor adverse event reporting and conduct regular re-evaluations of safety and effectiveness for products awarded under VBP.
- Exclude categories with insufficient market competition, high clinical risk or early-stage technologies from VBP.
- Trigger manual reviews for bids below cost thresholds to prevent predatory pricing.
- Establish dedicated tender groups or special negotiations for innovative products to reflect added value and ensure access.
- Allow shared procurement quotas among commonly procured products meeting the same quality/price standards to increase supply resilience.
- Develop clear approval guidelines for transitioning from imported to domestic production in the localisation framework.
- Create dedicated review channels for changes in overseas production or major raw material substitutions to ensure uninterrupted supply.
- Optimise frequency and methods of quality audits and adverse event reporting to avoid redundancy; offer incentives such as increased scoring in bids to companies with strong quality records.
- Exempt medical devices, including VBP-contracted devices, from geopolitical tariffs/ restrictions to support public health objectives.
- Establish a balanced usage system that enables equal access to both VBP and non-VBP products.

4. Optimise Requirements for Registration Modification 5

- Establish a transition period to allow gradual implementation of approved changes, reducing waste and stabilising supply chains.
- Implement a unified review mechanism for common modifications to software as a medical device, enabling synchronised updates across multiple certificates.
- Introduce an expedited approval pathway for recall-related changes to accelerate corrective actions and enhance safety compliance.
- Permit companies to self-declare low-risk changes under their quality system, alleviating

regulatory burdens and improving efficiency.

5. Enhance Communication between the Centre for Medical Device Evaluation (CMDE) and Medical Device Companies to Streamline Clinical Trial Requirements and Indication Scope Alignment

5.1 Establish Pre-submission Clinical Trial Consultation and Protocol Pre-review

- Leverage the NMPA's regional technical review branches and local Innovative Medical Device Service Centres to provide early-stage protocol design advice, regulatory guidance and support for high-risk class III devices.
- Introduce a voluntary pre-review mechanism with binding written guidance for high-risk class III devices, including formal documentation of consultation outcomes and protocol approval in-principle.
- Accelerate the development of clinical trial guidelines across sub-fields, covering more diseases and device types to reduce design deviations arising from unclear standards.

5.2 Address the Narrowing of Medical Device Intended Use Scopes

- Balance innovation and safety by permitting phased expansions of intended use via supplementary clinical data, and align review standards with existing regulations.
- Conduct stakeholder consultations and draft guidelines to ensure transparency and explain safety-related rationale.
- Publish the review consensus promptly to give companies time to adapt and prevent delays or cost overruns due to unforeseen evidentiary gaps.

6. Revise Regulations to Align Standards Updates with Registration Renewals, Minimising the Burden on Enterprises

- Separate registration renewals from mandatory standard updates by allowing registration holders to simply declare no substantive changes during renewal, while submitting any standards-related updates through existing change-registration pathways and managing compliance through the existing quality systems.
- Streamline the review and approval process for Chinese standards updates to 20 working days when no substantial design changes are needed.

Recent Developments

In 2024, China's medical device market was shaped by key policy and regulatory changes. A State Council document on health reform tasks for 2024 included expanding centralised volume-based procurement (VBP) for drugs and consumables,[1] mandating provinces to hold at least one VBP tender round, leading to significant price drops,[2] while also strengthening quality oversight for procured items. Inter-provincial alliances and national joint procurement models grew, while hospitals were directed to meet contract quotas and prioritise tender-winning products.

In August 2024, China released the draft Medical Device Administration Law, marking the first elevation of medical device regulations to this level.[3] Key changes include removing the need for prior home-market approval for imported medical devices, allowing the transfer of registration certificates between companies,

1 *Further Reform of the Medical and Health Care System in 2024*, State Council, 3rd June 2024, viewed 24th April 2025, <https://www.gov.cn/zhengce/content/202406/content_6955904.htm#>

2 *Notice on Strengthening Regional Coordination and Enhancing the Quality and Scope of Centralised Procurement of Medicines and Medical Supplies in 2024*, NHSA, 20th May 2024, viewed 24th April 2025, <https://www.nhsa.gov.cn/art/2024/5/20/art_53_12746.html>

3 *NMPA: Public Consultation on Administrative Law of the People's Republic of China on Medical Devices (Draft for comments)*, NMPA, 28th August 2024, viewed 24th April 2025, <https://www.nmpa.gov.cn/xxgk/zhqyj/zhqyjylqx/20240828155857156.html>

and making Chinese industry standards voluntary. Final enforcement and implementation rules are pending, with industry stakeholders closely monitoring for strategy adjustments.

Meanwhile, China's 'Buy China' procurement bias continues to challenge foreign-invested enterprises (FIEs). Policy documents and tender results demonstrate that public tenders increasingly favour Chinese-made products,[4] prompting the European Union (EU) to launch its first investigation under the International Procurement Instrument (IPI) in April 2024.[5] The European Commission's January 2025 report found evidence of Chinese government measures favouring domestic devices, restricting imports and foreign-invested firms, and enforcing unfeasibly low bids through VBP.[6] Consequently, the EU excluded Chinese bidders from EU tenders over euro (EUR) 5 million, potentially allowing EU producers to capture 60 per cent of the procurement volume previously originating from China. Additionally, the Chinese procurement bias is also reflected in the draft guidance on government procurement standards (circulated in late 2024) which also aims to give domestic products a competitive edge in public tenders.[7] This is compelling foreign manufacturers to establish local operations – a strategic decision that requires careful consideration of investment implications, which in many cases may not be possible.

In response to the EU's IPI measures, China's Ministry of Finance (MOF) issued countermeasures in July 2025,[8,9&10] barring EU-imported medical devices from government procurement tenders exceeding Chinese yuan (CNY) 45 million. Non-EU bidders may include EU-origin devices but only up to 50 per cent of the contract value. Although European-invested enterprises in China are formally exempt, overly strict provincial enforcement may block even local European manufacturers from participating.

Innovation remains a central focus in China's regulatory reforms. A State Council announcement and a policy interpretation from March 2025,[11&12] promote streamlined approval for genuinely novel medical devices, adoption of advanced international standards, and faster insurance inclusion for innovative products. While European companies acknowledge potential niche advantages if they possess breakthrough technologies, they recognise that the government's current priority is resolving critical 'choke points' in strategic sectors.[13] This has resulted in strong government support for domestic firms through policies, funding and market access, often overshadowing foreign competitors despite their technological strengths.

4 *Year-End Review: Who Are the Biggest Winners in the 2024 Centralised Procurement of Medical Equipment?* Mtech Home, 27th December 2024, viewed 24th April 2025, <https://mp.weixin.qq.com/s?__biz=Mzg3NTczNDg0Mw==&mid=2247721496&idx=3&sn=00c5ba89402197a7c2c47abbdf18edd6&chksm=ce282439e17dd9e2c704a14c9b1baef115319db5dfa3566d1d940a8947e8499aec6e03998fd2#rd>

5 *Commission Implementing Regulation (EU) 2025/1197 of 19 June 2025*, Official Journal of the European Union, 20th June 2025, viewed 20th June 2025, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202501197>

6 *European Commission: Report From the Commission pursuant to Article 5(4) of Regulation (EU) 2022/1031 on the investigation under the International Procurement Instrument concerning measures and practices of the People's Republic of China in the public procurement market for medical devices*, European Commission Directorate-General for Trade, 14th January 2025, viewed 20th June 2025, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52025DC0005>

7 *Public Consultation on Draft Notice Regarding Standards and Implementation Policies for Domestic Products in Government Procurement (Draft for Comments)*, China Government Procurement Portal, 5th December 2024, viewed 24th April 2025, <https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm>

8 *Notice of the Ministry of Finance on Taking Relevant Measures for Medical Devices Imported from the EU in Government Procurement Activities*, China Government Procurement, 7th June 2025, viewed 10th July 2025, <https://www.ccgp.gov.cn/zcfg/mof/202507/t20250707_24915299.htm>

9 *Annex: Specific Item List, Notice of the Ministry of Finance on Taking Relevant Measures for Medical Devices Imported from the EU in Government Procurement Activities*, MOF, 6th July 2025, viewed 16th July 2025, <https://gks.mof.gov.cn/guizhangzhidu/202507/P020250704639946592293.pdf>

10 *Policy Q&A on the Notice on Taking Relevant Measures for Medical Devices Imported from the EU in Government Procurement Activities*, MOF, 10th July 2025, viewed 16th July 2025, <https://gks.mof.gov.cn/guizhangzhidu/202507/t20250710_3967661.htm>

11 *Announcement on Further Adjusting and Optimising Matters Concerning the Domestic Production of Imported Medical Devices in China*, State Council, 17th March 2025, viewed 24th April 2025, <https://www.gov.cn/zhengce/zhengceku/202503/content_7014420.htm>

12 *Interpretation of the Announcement on Further Adjusting and Optimising Matters Concerning the Domestic Production of Imported Medical Devices in China*, State Council, 19th March 2025, viewed 24th April 2025, <https://www.gov.cn/zhengce/202503/content_7014424.htm>

13 *Domestically Manufactured Medical Devices Account for 67% of 2024 Product Registrations in China as Import Substitution Accelerates, CN Healthcare*, 25th March 2025, viewed 24th April 2025, <https://www.cn-healthcare.com/articlewm/20250325/content-1647430.html>

Key Recommendations

1. 'Ensure 'Domestic Production' Policies Balance Innovation Costs, Market Fairness and Supply Chain Realities While Providing Clear Definitions, Flexible Implementation and Adequate Transition Periods

Concern

Proposed domestic production policies, including price discount advantages for domestic companies and unclear localisation requirements, create uncertainty for FIEs, raising concerns about possible rigid implementation and innovation obstacles, as well as the impact on fair competition.

Assessment

China's public hospitals hold a dominant position in its healthcare market, accounting for 83.5 per cent of all diagnoses and treatments in 2023.[14] Government-led procurement profoundly shapes the industry landscape. While government procurement aims to support industrial transformation and innovation, FIEs frequently face restrictions in tender processes, explicit or implicit, relating to ownership, brand or the nationality of the parent company.[15] These constraints limit the purchase of imported equipment in certain regions, undermining fair competition and investor confidence.

The European Chamber has long urged the Chinese Government to create a level playing field. The MOF's December 2024 *Notice on Matters Concerning Standards for Domestic Products and Implementation Policies in the Field of Government Procurement (Draft for Comment)* (*Notice*)[16] incorporates some Chamber recommendations and emphasises foreign investment stability. However, it still fails to address the core concern: the lack of a clear definition of 'made in China'.

Under current policies, equipment produced domestically by FIEs and approved by the National Medical Products Administration (NMPA) or by local medical product administrations, is treated as domestic. Yet the new standard may introduce additional requirements, such as a mandatory component localisation ratio. These cost-share thresholds risk creating redundant regulations and higher compliance costs.

Given the rapid pace of medical device upgrades—particularly for highly specialised devices—localisation requires time and resources. Small and medium-sized enterprises are strongly affected due to limited capacity to handle sudden supply-chain restructuring. Meanwhile, key components (such as CT detectors) cannot feasibly be locally sourced in the short term.[17] The absence of a defined adaptation period leaves investment decisions clouded by uncertainty.

The new policy grants a 20 per cent price evaluation preference to domestic products. If applied to VBP, this would give local products a significant edge, even at equal prices. FIEs must either restructure operations to qualify as domestic, requiring time, or cut prices, risking operational strain. This jeopardises continued supply of imported medical devices and threatens VBP supply stability.

The vague definition of 'domestic product' also allows local authorities broad discretion. For example, while the *Notice* requires a 'component cost ratio', it fails to specify industry-specific benchmarks. This may lead to inconsistent or discriminatory enforcement against FIEs.

China's commitment to opening up is in its push to liberalise government procurement and integrate globally. To reinforce this commitment and facilitate the Government Procurement Agreement (GPA) or the Comprehensive and Progressive Trans-Pacific Partnership accession, China could temporarily exempt GPA-offer projects from domestic product requirements.[18]

14 *2023 Statistical Bulletin on China's Health and Wellness Development*, NHC, 29th August 2024, viewed 27th April 2025, <https://www.nhc.gov.cn/guihuaxxs/c100133/202408/0c53d04ede9e4079afff912d71b5131c.shtml>

15 In June 2024, a hospital medical equipment tender in Fujian required bidders to be established for over three years and not be wholly or majority foreign-owned, including investors from Hong Kong, Macao, and Taiwan. Suppliers had to submit a Declaration of Non-Foreign Ownership and disclose major shareholders. A similar rule appeared in August 2024 for a medical device procurement launch in Qingdao, where bidders had to certify they were not wholly foreign-owned or controlled and were required to register through the Military Procurement Network.

16 *Public Consultation on Draft Notice Regarding Standards and Implementation Policies for Domestic Products in Government Procurement (Draft for Comments)*, China Government Procurement Portal, 5th December 2024, viewed 24th April 2025, <https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm>

17 Zhang, Z, *Tariff Countermeasures Accelerate the Localization of Medical Devices: This Core CT Component Poised to Overtake with Momentum*, China Star Market, 10th April 2025, viewed 27th April 2025, <https://www.chinastarmarket.cn/detail/1999779>

18 Ma, J, *China Mulls Giving Domestic Products 20% Price Evaluation Preference in Govt Procurement: Finance Ministry, Global Times*, 6th December 2024, viewed 30th July 2025, <https://www.globaltimes.cn/page/202412/1324475.shtml?>

Recommendations

- Recognise medical devices that have been approved for domestic registration as 'domestic products'.
- Acknowledge the complexity of global supply chains when refining standards through multi-dimensional benchmarks.
- Exempt products from localisation-ratio requirements until 2030, establish 10-year transition periods for and waive tariffs on non-localisable core components before 31st December 2040.
- Exclude any products paid for by the social security fund from re-assessment of localisation ratios to safeguard the continuity of clinical supply and remove such products from the 'domestic product standard' scope.
- Form an expert panel—comprising government and industry, including foreign-invested enterprises—to set localisation-ratio standards per category.
- Allow bidders in government procurement to submit either a compliance declaration or alternative supporting documents if the declaration is unavailable.
- Provide clear definitions of 'specific products' and 'national security', to prevent coercive demands under the guise of 'critical technology transfer', and to correct any premature or over-reaching local enforcement of central policy in the name of 'self-reliance'.
- Leverage free-trade zones, free-trade ports and the service sector to simplify the approval of localised innovative medical devices.
- Pave the way for China's accession to international trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Government Procurement Agreement.
- Recognise medical devices manufactured in China for foreign companies through cross-border commissioned production as 'domestic products'.[19]

2. Establish a Joint Coding System Between the NHSA, NMPA and NHC to Better Define, Support and Reimburse Innovative Medical Consumables 5

Concern

The absence of clear definitions and coordinated policies for innovative medical devices leads to ambiguous market access standards, misaligned regulatory and payment systems, and structural barriers to commercialisation.

Assessment

In China's healthcare system, key responsibilities are shared between three agencies: the NMPA oversees medical device registration and approval; the National Health Commission (NHC) manages clinical applications within hospitals; and the National Healthcare Security Administration (NHSA) governs payment policies and procurement pricing.[20&21]

Innovative medical consumables in China face market access barriers due to gaps between the NMPA's registration taxonomy and the NHSA's National Medical Consumables Classification (C-Code system)[22] system. The C-Code system was established in 2019[23] and expanded in 2020, under the *Guidelines for the Naming of Generic Names of Orthopaedic Surgical Instruments (State Council, No. 79, 2020)* (*Circular 79*).[24] The NHSA requires a C-Code for insurance listing and hospital billing,[25] but codes are assigned only for products with existing generic names in its directory, largely based on NMPA's naming guidance under *Circular 79*. While a 2025 update to the C-Codes better aligns with naming guidance under *Circular 79*, the two systems do not yet fully correspond.[26] As this framework covers limited device types and updates slowly, innovative products without matching categories cannot obtain C-Codes, preventing reimbursement and procurement despite regulatory approval. This underscores the need for the NMPA to incorporate 'innovation identifiers' in its registration certificates and expedite certifications for such devices to better meet patients' and industry needs.

19 Cross-border commissioned production refers to an arrangement where a company contracts a manufacturer in another country to produce goods on its behalf, typically under the company's brand and specifications.

20 *Regulations on the Supervision and Administration of Medical Devices*, NMPA, 6th December 2024, viewed 6th August 2025, <https://www.nmpa.gov.cn/xxgk/fgwj/flxzhfg/20250416172904188.html>

21 *Measures for the Administration of Registration of Medical Devices,* State Administration for Market Regulation, 1st March 2021, viewed 6th August 2025, < https://www.gov.cn/gongbao/content/2021/content_5654783.htm>

22 C-Codes are standardised classification codes used in China's public medical procurement system to group generic medical devices and consumables with similar clinical functions and technical characteristics for centralised bidding and price comparison.

23 *Guidelines for Nomenclature for Common Names of Medical Devices*, NHSA, 16th December 2019, viewed 6th August 2025, <https://www.nhsa.gov.cn/art/2019/11/12/art_37_1981.html>

24 *Circular on Guiding Principles for the Generic Naming of Orthopaedic Surgical Instruments,* State Council, 30th November 2020, viewed 27th April 2025, <https://www.gov.cn/zhengce/zhengceku/2020-12/08/content_5567873.htm>

25 *Notice on Proper Management of Medical Consumable Payment under Basic Medical Insurance,* NHSA, 5th September 2023, viewed 6th August 2025, <https://www.nhsa.gov.cn/art/2023/9/5/art_104_11226.html>

26 *Notice on Updating the Classification and Code Database of Medical Consumables*, NHSA, 7th August 2025, viewed 9th August 2025, <https://code.nhsa.gov.cn/toDetail.html?infoId=5876&CatalogId=2>

Recommendations

- Align the coding system between the NMPA, the NHSA and the NHC to create accelerated market access pathways for innovative medical devices.
- Add descriptions of clinical needs addressed by a medical device—especially innovative functions not found in generic products—in the remarks section of the registration certificate, to establish formal recognition of reimbursement or procurement advantages (e.g. in VBP or Diagnosis-related Groups).[27]
- Develop National Medical Consumables Classification codes listing 'generic names' and 'innovation descriptors'.
- Establish an evaluation and recognition mechanism for innovative products, including trial periods for assessing new technologies, pricing and NHSA payment models.
- Provide fast-track certification and adapt coding systems to support innovation, separating service fees and consumable costs from NHSA payment rules.
- Formulate clinical-use guidelines for healthcare institutions to support procurement and integration of innovative products.

3. Reform VBP by Implementing Differentiated Pricing Mechanisms, Ensuring Cost-reflective Bidding Floors and Establishing Innovation Exception Clauses to Maintain Product Quality and Market Stability

Concern

The rigid 'lowest-price-only' approach in centralised procurement, coupled with simultaneous policy rollouts and inconsistent local implementation, is forcing enterprises to bid below cost, disrupting supply chains and discouraging foreign investment in China's medical device sector.

Assessment

The existing VBP mechanism is over-reliant on price competition, compelling manufacturers to adopt irrational bidding strategies.[28] This erodes profit margins and systematically undermines product quality assurance,[29] supply chain stability and industry innovation. Despite adjustments—such as product grouping or applying price coefficients to differentiate clinically valuable products—the absence of unified evaluation standards and operational guidelines continues to disadvantage novel high-value-added products during tendering.

During VBP contract renewals or tendering rounds, persistent price pressures disrupt manufacturers' ability to establish stable pricing expectations,[30] hampering long-term planning for production, regulatory compliance and supply chain infrastructure.

While China encourages foreign manufacturers to localise, ambiguous rules persist regarding shared procurement quotas and eligibility between imported and domestically manufactured products under common ownership. This uncertainty slows localisation among multinationals that are both willing and able to do so.

Following the fifth national VBP round, winning bidders underwent quality audits in January–February 2025, and were included in national sampling inspections by March,[31] with multiple provinces adding these products to supervision plans.[32&33] While this ensures quality, excessive audits risk overburdening compliance efforts and disrupting production schedules.

Geopolitical tensions, including tariff adjustments, have inflated import costs for high-value devices and crucial raw materials, destabilising global procurement

27 Diagnostic-related Groups is a classification system that groups patients by diagnosis and treatment type to standardise hospital payments and support cost-effective care delivery.

28 *[Special Research] Current Status and Issues in the Centralised Procurement of High-Value Medical Consumables, Legislation and Regulation*, 5th March 2024, viewed 27th April 2025, <https://mp.weixin.qq.com/s/kCWj1MZTy519VNW3J0VCGA>

29 *Announcement on the Disqualification of Indonesia's PT. Laboratorium LENT from the Single-Focus Intraocular Lens Tender and Its Inclusion in the Violations List*, NHSA, 17th April 2025, viewed 27th April 2025, <https://www.nhsa.gov.cn/art/2025/4/17/art_187_16294.html>

30 *Prices of Artificial Joints Remain Stable with Moderate Decline in Successive Procurement, Benefiting Over 500,000 Patients Annually*, NHSA, 21st May 2024, viewed 27th April 2025, <https://www.nhsa.gov.cn/art/2024/5/21/art_14_12759.html>

31 *National Centralised Volume-Based Procurement Tender Announcement for Cochlear Implants and Peripheral Vascular Stents Medical Consumables*, NHSA, 1st November 2024, viewed 27th April 2025, <https://www.nhsa.gov.cn/art/2024/11/1/art_187_14510.html>

32 *Notice on Further Strengthening Quality Supervision of Medical Devices in Centralised Volume-Based Procurement*, Hunan Medical Products Administration, 25th April 2025, viewed 27th April 2025, <https://mpa.hunan.gov.cn/mpa/xxgk/tzgg/wjtz/202504/t20250425_33654461.html>

33 *Notice on Issuing the 2025 Drug Production Supervision and Inspection Plan*, Fujian Healthcare Security Bureau, 24th March 2025, viewed 27th April 2025, <https://mp.weixin.qq.com/s?__biz=MzIyNzY3NzI3Ng==&mid=2247521828&idx=2&sn=82a6349d6dc4465789c44684ea12059b&chksm=e9efb0b4760addf4795cd806f342037279ef25234af7e9d4e863e005d5e3bc9cb05f7f33dd93#rd>

strategies.[34&35] The resulting supply chain volatility threatens contractual fulfilment: maintaining original bid prices risks accusations of dumping, while price hikes breach procurement contracts. The dilemma contravenes both the Healthy China 2030 agenda and the Central Committee's 'health-first development strategy'.

After years of development, the VBP model shifted from 'rational priority' to 'disciplinary enforcement', creating unfair conditions for new, non-VBP products. The working group proposes a balanced usage system that enables equal access to both VBP and non-VBP products – optimising clinical outcomes, advancing innovation, protecting patient rights and ensuring sustainable industry growth.

Recommendations

- Replace mandatory full-quota allocation to 'lowest-bid winners' with volume distribution based on comprehensive evaluations, including quality, supply capacity and credit history.
- Introduce a low-price protection mechanism to deter unproven or newly registered products from undercutting prices.
- Create separate bidding categories or negotiated pricing mechanisms for innovative products to reflect research and development costs and clinical value, accelerating patient access.
- Monitor adverse event reporting and conduct regular re-evaluations of safety and effectiveness for products awarded under VBP.
- Exclude categories with insufficient market competition, high clinical risk or early-stage technologies from VBP.
- Trigger manual reviews for bids below cost thresholds to prevent predatory pricing.
- Establish dedicated tender groups or special negotiations for innovative products to reflect added value and ensure access.
- Allow shared procurement quotas among commonly procured products meeting the same quality/price standards to increase supply resilience.
- Develop clear approval guidelines for transitioning from imported to domestic production in the localisation framework.
- Create dedicated review channels for changes in overseas production or major raw material substitutions to ensure uninterrupted supply.
- Optimise frequency and methods of quality audits and adverse event reporting to avoid redundancy; offer incentives such as increased scoring in bids to companies with strong quality records.
- Exempt medical devices, including VBP-contracted devices, from geopolitical tariffs/restrictions to support public health objectives.
- Establish a balanced usage system that enables equal access to both VBP and non-VBP products.

4. Optimise Requirements for Registration Modification

Concern

The current modification process mandates immediate implementation of approved changes, forcing manufacturers to discard existing stocks and incur high costs, operational disruptions and potential safety risks.

Assessment

The registration process for product and manufacturing changes plays a vital role in upholding product quality and compliance.[36] However, as technology advances, the current framework reveals areas for improvement.

Once a change application is submitted, the NMPA's approval timeline varies by project complexity and remains difficult to predict. Upon approval, manufacturers must immediately implement the changes.[37] The absence of a transition period disrupts production, delays supply chain adjustments and causes material waste and increased costs.

Software as a medical device with multiple functional modules often requires separate approval and registration certificates for each module. The current change approval mechanism does not support concurrent multi-certificate reviews, forcing repeated submission of identical

34 *The Show Unfolds: Will Tariffs Take Effect? Renewed Turmoil in Medical Supply Chains*, MedTech, 2nd February 2025, viewed 27th July 2025, <https://mp.weixin.qq.com/s?__biz=MzIyMTczMzk5OA==&mid=2247635637&idx=1&sn=d88638924d99c03b5996a6f6082cf320&chksm=e9ab77347fb054fe8c074767f1b5e39c4f20e0ac82fd8b9db3ffba7da4bc993517817837968a#rd>

35 Cui, X, *Which US-Imported Medical Devices Are Difficult to Replace Domestically Amid Tariff Wars?, Caixin*, 18th April 2025, viewed 27th April 2025, <https://mp.weixin.qq.com/s?__biz=MjY2NzgwMjU0MA==&mid=2650301535&idx=6&sn=07af66832641571ad644901c2fa326a6&chksm=ae9bbb897787511ad7811ce8354f83734fe744567b380b445131ab43fd58fc216d637ab2aef6#rd>

36 *Administrative Measures for the Registration and Filing of Medical Devices*, State Council, 26th August 2021, viewed 25th April 2025, <https://www.gov.cn/gongbao/content/2021/content_5654783.htm>

37 *Administrative Measures for the Supervision of Medical Device Production*, State Administration for Market Regulation, 10th March 2022, viewed 25th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fgs/art/2023/art_fc2666aec99f4b5d996faa13c4aed7a3.html>

documentation and increasing the administrative burden.

When a medical device is recalled due to defects, manufacturers must resubmit registration materials to demonstrate defect resolution. However, the approval timeline mirrors that of routine changes,[38] potentially delaying corrective actions. Furthermore, uniform review standards are applied across all product types, regardless of risk levels.

Throughout a product's lifecycle—from research and development (R&D) to post-market phases—changes can occur at different stages. Given varying risk profiles and data requirements, regulators and industry should collaborate to refine change management within existing quality systems. For instance, low-risk documentation updates could undergo internal validation only, while changes involving indications or critical materials should require testing or clinical data.

Recommendations

- Establish a transition period to allow gradual implementation of approved changes, reducing waste and stabilising supply chains.
- Implement a unified review mechanism for common modifications to software as a medical device, enabling synchronised updates across multiple certificates.
- Introduce an expedited approval pathway for recall-related changes to accelerate corrective actions and enhance safety compliance.
- Permit companies to self-declare low-risk changes under their quality system, alleviating regulatory burdens and improving efficiency.

5. Enhance Communication between the CMDE and Medical Device Companies to Streamline Clinical Trial Requirements and Indication Scope Alignment

5.1 Establish Pre-submission Clinical Trial Consultation and Protocol Pre-review

Concern

Existing communication channels for class III medical devices that need clinical trials but are not covered by the 'Innovative Medical Devices' category or the *Clinical Trial Approval Product Catalogue* are insufficient for clinical trial protocol preparation, leading to unnecessary trials, slower market entry, and wasted research and regulatory resources.

Assessment

Under China's regulatory framework,[39,40&41] a pre-submission clinical trial consultation is a voluntary discussion to obtain informal technical and regulatory feedback on trial design, while the clinical trial protocol review is a formal post-submission assessment that grants or denies approval to conduct the trial. Currently, the NMPA's Centre for Medical Device Evaluation (CMDE) offers binding clinical trial protocol pre-review services only for 'innovative medical devices'[42] or those listed in the *Medical Device Clinical Trial Approval Product Catalogue*.[43] For non-innovative products, pre-submission clinical trial consultations are the only available channel, but their effectiveness is limited by short appointment times, lack of formal documentation and frequent staff turnover, making their outcomes non-binding.

Clinical trial protocols—carefully designed by enterprises—often undergo substantial revisions during the technical review phase. This leads to administrative repetition, additional financial costs (e.g., protocol redesigns, trial restarts), inefficient use of clinical resources (such as re-enrolment), and additional pressure on regulatory staff. In severe cases, enterprises fail to complete revisions within timelines, necessitating application withdrawal.[44]

By contrast, international models offer optimised models. The United States Food and Drug Administration operates a 'pre-submission' programme that allows early protocol feedback on clinical or non-clinical

38 *Administrative Measures for the Recall of Medical Devices,* State Administration for Market Regulation, 25th January 2017, viewed 25th April 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/bgt/art/2023/art_2516c4771ace49d394f58d5619cba2ad.html>

39 *Regulations on the Supervision and Administration of Medical Devices (2017 Amendment),* State Council, 8th June 2017, viewed 9th August 2025, <http://www.gov.cn/gongbao/content/2017/content_5210215.htm>

40 *Good Clinical Practice for Medical Devices*, NMPA, 31st March 2022, viewed 9th August 2025, <https://www.cmde.org.cn//flfg/fgwj/ggtg/20220401100800897.html>

41 Technical Review Guidelines for Medical Device Clinical Trials Database, NMPA/CMDE, <https://www.cmde.org.cn/flfg/zdyz/zdyzwbk/index.html>

42 *Announcement on Further Strengthening Support for Innovative Medical Devices,* CMDE, 27th March 2025, viewed 25th April 2025, <https://www.cmde.org.cn//xwdt/shpgzgg/gztg/20250327085833107.html>

43 *Notice on Issuing the Catalogue of Class III Medical Devices Requiring Clinical Trial Approval (2020 Revision),* NMPA, 18th September 2020, viewed 25th April 2025, <https://mpa.gd.gov.cn/zwgk/gzwj/content/post_3087908.html>

44 A complete clinical trial typically requires one and a half to three years, while it allows only one year for submission of additional materials once the first review opinion is provided by the CMDE reviewer.

studies.[45] Similarly, in the EU, notified bodies conduct 'pre-assessment meetings' to discuss trial plans and clinical evaluations before full submission.[46&47] These mechanisms reduce late-stage modifications and cut waste.

Recommendations

- Leverage the NMPA's regional technical review branches and local Innovative Medical Device Service Centres to provide early-stage protocol design advice, regulatory guidance and support for high-risk class III devices.
- Introduce a voluntary pre-review mechanism with binding written guidance for high-risk class III devices, including formal documentation of consultation outcomes and protocol approval in-principle.
- Accelerate the development of clinical trial guidelines across sub-fields, covering more diseases and device types to reduce design deviations arising from unclear standards.

5.2 Address the Narrowing of Medical Device Intended Use Scopes

Concern

The CMDE's reliance on unpublished requirements to restrict the approved scope of certain medical devices increases compliance challenges, conflicts with clinical practices and reimbursement policies, and creates systemic inefficiencies and confusion.

Assessment

In some registration applications, the CMDE requires companies to narrow the intended use (e.g., applicable diseases, patient populations, or clinical scenarios) before final review, resulting in approvals more restrictive than those of previously authorised products.

This shift conflicts with earlier clinical evaluation pathways.[48] Now, higher-tier clinical evidence, such as additional trials, is required. These new expectations are based on CMDE internal expert panel discussions, with no formal notification or consultation during the review. Consequently, companies are unable to prepare appropriate data, negatively affecting approvals for innovative products.

The narrower scope may also conflict with clinical practice and reimbursement systems: Hospitals may follow the original scope, while insurers reject claims based on the updated scope, creating misalignment across regulatory, clinical and payment frameworks.

Recommendations

- Balance innovation and safety by permitting phased expansions of intended use via supplementary clinical data, and align review standards with existing regulations.
- Conduct stakeholder consultations and draft guidelines to ensure transparency and explain safety-related rationale.
- Publish the review consensus promptly to give companies time to adapt and prevent delays or cost overruns due to unforeseen evidentiary gaps.

6. Revise Regulations to Align Standard Updates with Registration Renewals, Minimising the Burden on Enterprises

Concern

Frequent updates to industry standards, such as YY-standards,[49] necessitate a cycle of mandatory re-testing and re-registration requirements, resulting in increased costs, delays and overstretched regulatory resources, while impacting legacy product supply.

Assessment

Frequent standard revisions in China's medical device industry often include changes unrelated to product safety or efficacy. Manufacturers must comply with an increasing number of standards for the same product type, raising the compliance burden, especially for long-established products with proven safety records.

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45 *Requests for Feedback and Meetings for Medical Device Submissions: The Q-Submission Program*, Food and Drug Administration, 15th March 2024, viewed 28th April 2025, <https://www.fda.gov/media/114034/download>

46 Notified bodies serve as independent organisations designated by the EU to evaluate medical devices against established safety and performance criteria. These assessments are integral to obtaining CE certification, which permits access to the European market.

47 *Consolidated text: Regulation (EU) 2017/745 of the European Parliament and of the Council of 5 April 2017 on medical devices, amending Directive 2001/83/EC, Regulation (EC) No 178/2002 and Regulation (EC) No 1223/2009 and repealing Council Directives 90/385/EEC and 93/42/EEC (Text with EEA relevance)*, European Parliament and the European Council, 10th January 2025, viewed 28th April 2025, <https://eur-lex.europa.eu/eli/reg/2017/745/2025-01-10>

48 *Announcement on Recommended Clinical Evaluation Pathways for Relevant Products in the Medical Device Classification Catalogue (2024 Supplement) (No. 11, 2024)*, CMDE, 18th March 2024, viewed 25th April 2025, <https://www.cmde.org.cn//xwdt/shpgzgg/gztg/20240318132740198.html>

49 YY standards are China's industry standards for medical device registration, set by the NMPA to ensure product safety, performance and compliance.

Medical devices go through several lifecycle stages: R&D, market introduction, regular supply, limited supply (with no new production but ongoing maintenance), and discontinuation. Even in the later stages, registration must remain valid to support maintenance needs.[50] When mandatory standards change, compliance may involve minor paperwork to extensive redesign. Tying renewal to these updates risks supply disruptions if changes are not completed in time.

Even without direct changes to mandatory standards, updates to referenced or partially applicable standards may force product revisions. Non-compliance can lead to renewal rejections.

Both standards and registration renewals operate on five-year cycles, creating pressure to pre-emptively update products, even if unchanged before renewal. Managing these updates should be integrated into quality systems, as outlined in Key Recommendation 4.

Recommendations

- Separate registration renewals from mandatory standard updates by allowing registration holders to simply declare no substantive changes during renewal, while submitting any standards-related updates through existing change-registration pathways and managing compliance through the existing quality systems.
- Streamline the review and approval process for Chinese standards updates to 20 working days when no substantial design changes are needed.

Abbreviations

C-code System	National Medical Consumables Classification
CMDE	Centre for Medical Device Evaluation
EU	European Union
FIE	Foreign-invested Enterprise
GPA	Government Procurement Agreement
IPI	International Procurement Instrument
MOF	Ministry of Finance
NHC	National Health Commission
NHSA	National Healthcare Security Administration
NMPA	National Medical Products Administration
R&D	Research and Development
VBP	Volume-based Procurement

50 According to the *List of Applicable Standards for Medical Devices (Announcement No. 20 of 2024)*, any adjustments made to marketed products to comply with the new standards must undergo change registration in accordance with regulatory requirements.

Maritime Manufacturing and Industrial Services Working Group

Key Recommendations

1. **Enhance Collaboration Between Regulators and Industry Players on Decarbonisation in the Shipbuilding Sector** 2
   - Resume the European Union-China Shipbuilding Dialogue and involve more industry players in bilateral exchanges and cooperation on green shipbuilding.

2. **Increase Foreign Companies' Access to Green Demonstration and Pilot Projects** 4
   - Increase foreign companies' participation in green shipbuilding pilot projects.
   - Establish a joint task force for knowledge-sharing and domestic-foreign collaboration on green shipbuilding initiatives.
   - Engage in international partnerships to establish globally harmonised standards for the use of emerging technologies and fuels.

3. **Clarify the Entry/Exit Policies for Foreign Experts Carrying an 'M' Business Visa Entering China for Short-term Onsite Instruction Work** 3
   - Expand the scope of those eligible for 'M' visas by including criteria related to business events, post-sales, onsite equipment maintenance and relevant services, project inspection, training and volunteer work.

4. **Amend Import Duty and Value-added Tax (VAT) Policies for Imported Ship Repair Components and Post-sales Onboard Services on International Vessels** 4
   - Extend pilot duty exemption policies on imported repair components nationwide.
   - Exempt onboard services provided on international vessels from the VAT requirement.

5. **Support the Decarbonisation of China's Domestic Fleet by Clarifying the Application Process and Timeline for Certification of Maritime Equipment Imported from Abroad for Installation on China-flagged Vessels** 4
   - Ensure that the Maritime Safety Administration-Type Approval Certificate application process is transparent, and clearly designate a single point of contact with whom to liaise and submit relevant documentation to.
   - Issue official documentation once the application has been received.
   - Stipulate the timeline for reviewing an application from when it is received to when the permits will be issued.
   - Create a mechanism that allows companies to track their applications.

Recent Developments

In 2024, China maintained its position as the world's largest shipbuilding nation for the 15th consecutive year, with the three key industry indicators—shipbuilding output, new orders and orders on hand—accounting for 55.7, 74.1 and 63.1 per cent respectively of global market share.[1]

China has recently implemented a series of policies to accelerate the retirement and upgrading of aging and high-emission vessels while promoting green transformation in its shipbuilding industry. These coordinated policies aim to contribute to the 2025 target of a five per cent reduction of carbon dioxide (CO_2) intensity (compared with the 2020 level),[2] while enhancing building efficiency for advanced vessels by 10 per cent by 2027.[3] Key measures include:

- the Ministry of Industry and Information Technology's (MIIT's) April 2024 initiative to modernise shipbuilding equipment over 10 years old;[4]
- the State Council's May 2024 action plan targeting the replacement of old ships and piloting electrification of coastal and river vessels;[5]
- the National Development and Reform Commission's July 2024 subsidy scheme for replacing ageing ships with new-energy vessels;[6]
- the Ministry of Transport's (MOT's) February 2025 policy clarifying standards and subsidies for liquefied natural gas (LNG) and battery-powered vessels;[7] and
- the MOT's March 2025 guidance on developing low-emission ships powered by battery, LNG, hydrogen and green ammonia.[8]

In November 2024, the MIIT issued guidelines targeting the development of 200 carbon footprint accounting standards across key industrial sectors, with vessel manufacturing and associated supply chains (e.g., shipbuilding materials and propulsion systems) designated for inclusion in the carbon accounting framework.[9]

In addition, the MIIT also issued guidelines to promote digital transformation across shipbuilding research and development (R&D), manufacturing and maintenance.[10]

Key Recommendations

1. Enhance Collaboration Between Regulators and Industry Players on Decarbonisation in the Shipbuilding Sector 2

Concern

Without close collaboration with policymakers, industry players in the shipbuilding sector will continue to lack the guidance they need to successfully pursue innovation and decarbonisation.

Assessment

With ships typically operating for 25 to 30 years,[11] vessels currently under construction will likely remain in service until the 2050s, making choices on future-ready fuels and technologies of critical importance. Short-term solutions include adopting transitional fuels such as LNG in large and long-voyage ships, and batteries and hydrogen in smaller ships or vessels with frequent port calls. Long-term decarbonisation will increasingly rely on carbon-neutral fuels (like green ammonia, methanol, LNG and hydrogen) that account for low well-to-wake emissions—encompassing production, transportation,

1 *China's Shipbuilding Industry Tops Global Rankings for 15th Consecutive Year, China National Radio*, 17th January 2025, 1st April 2025, <https://baijiahao.baidu.com/s?id=1821458914834731438&wfr=spider&for=pc>

2 *Energy Conservation and Carbon Reduction Action Plan (2024–2025),* State Council, 29th May 2024, viewed 1st April 2025, <https://www.gov.cn/zhengce/zhengceku/202405/content_6954323.htm>

3 *Guidelines for Equipment Renewal and Technological Transformation in Key Industrial Sectors,* Ministry of Industry and Information Technology (MIIT), 20th September 2024, viewed 1st April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_c69e3db19d29491c9c6faa63d87d4926.html>

4 *Implementation Plan for Promoting Equipment Upgrading in the Industrial Sector,* MIIT, 9th April 2024, viewed 1st April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_3a8bb9999baa45039305de354c868244.html>

5 *Energy Conservation and Carbon Reduction Action Plan (2024–2025),* State Council, 29th May 2024, viewed 1st April 2025, <https://www.gov.cn/zhengce/zhengceku/202405/content_6954323.htm>

6 *Measures on Strengthening Support for Large-Scale Equipment Renewal and Consumer Goods Trade-In Programme*, National Development and Reform Commission (NDRC), 25th July 2024, viewed 1st April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202407/t20240725_1391941.html>

7 *Circular on Clarifying Implementation Rules for Subsidy Policies on Retiring and Replacing Aged Commercial Vessels in Transport Sector,* Ministry of Transport (MOT), 24th February 2025, viewed 1st April 2025, <https://xxgk.mot.gov.cn/2020/jigou/syj/202502/t20250224_4164679.html>

8 *Guidelines on Promoting Integrated Development of Transport and Energy Sectors,* MOT, 26th March 2025, viewed 1st April 2025, <https://xxgk.mot.gov.cn/2020/jigou/zhghs/202504/t20250425_4167770.html>

9 *Guidelines for Developing Carbon Footprint Accounting Standards for Key Industrial Products*, MIIT, 6th November 2024, viewed 1st April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_37f0001416b14bd58eca681aec9f1f37.html>

10 *Implementation Guidelines for Digital Transformation of Manufacturing Enterprises,* MIIT, 17th December 2024, viewed 1st April 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_a277e626fcdb4082918e838e6d042bb3.html>

11 *Do you know what happens to a ship when it's too old to sail anymore?*, Safety4sea, 4th February 2020, viewed 25th April 2025, <https://safety4sea.com/cm-do-you-know-what-happens-to-a-ship-when-its-too-old-to-sail-anymore/>

distribution and onboard combustion. This aligns with both the European Union's (EU's) renewable maritime fuel initiative and China's green shipbuilding action plans.[12,13&14]

The shipping industry is testing various 'zero-carbon' solutions such as synthetic fuels, biofuels and electrification, air lubrication and digitalisation. However, while these options may reduce onboard emissions, their production may result in more CO_2 than conventional liquid marine fuels if precise well-to-wake assessments are in place. This highlights the need for truly carbon-neutral fuels across the entire value chain. Additionally, fuel combustion byproducts—including nitrogen and sulphur oxides, methane slip and particulate matter—should be carefully evaluated.

The EU and China share the goal of decarbonising the maritime sector, aligning with the International Maritime Organization's 2050 net-zero emissions target for international shipping.[15] The EU is the global leader in marine equipment and services and China is the largest shipbuilding nation in the world, making them logical and complementary partners for collaboration in the maritime industry.[16&17] From 2011 to 2019, the two sides held annual EU-China shipbuilding dialogues. However, the dialogue has been suspended since 2020. The working group recommends resuming this bilateral dialogue, expanding participation to include shipyards and industry stakeholders, with a focus on designing and developing globally cost-effective, zero-emission vessels.

Recommendation

- Resume the EU-China Shipbuilding Dialogue and involve more industry players in bilateral exchanges and cooperation on green shipbuilding.

2. Increase Foreign Companies' Access to Green Demonstration and Pilot Projects

4

Concern

European companies are largely prevented from participating in China's green demonstration and pilot projects, because tendering processes and related information sources favour Chinese-owned entities.

Assessment

Coastal and inland waterway shipping contributes to about 4.5 and 1.5 per cent respectively of overall carbon emissions from transportation in China,[18&19] an issue that must be addressed by developing and deploying intelligent, zero and low-emission solutions.[20]

China has introduced ship renewal incentives and policies to develop low-carbon and intelligent ships.[21,22&23] Accordingly, China has launched green demonstration projects for domestic inland shipping.[24] Some recent examples include:

- Wuhan Port and Shipping Centre's deployment of intelligent bulk carriers (e.g., the *Changhang Cargo 005*);[25]

12 *Regulation (EU) 2023/1805 on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC*, EUR-Lex, 22nd September 2023, viewed 28th April 2025, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32023R1805>

13 *The 14th Five-year Plan for Development of Green Transportation*, MOT, 21st January 2022, viewed 28th April 2025, <https://xxgk.mot.gov.cn/2020/jigou/zhghs/202201/t20220121_3637584.html>

14 *Action Plan for the Green Development of the Shipbuilding Industry (2024–2030)*, MIIT, 26th December 2023, viewed 28th April 2025, <https://www.gov.cn/zhengce/zhengceku/202312/content_6923175.htm>

15 *International Maritime Organization (IMO) adopts revised strategy to reduce greenhouse gas emissions from international shipping*, IMO, 7th July 2023, viewed 22nd April 2024, <https://www.imo.org/en/MediaCentre/PressBriefings/pages/Revised-GHG-reduction-strategy-for-global-shipping-adopted-.aspx>

16 "In terms of market share, the European Union is the world's largest supplier of marine equipment (including services), followed by South Korea, China and Japan." *Analysis of the Marine Equipment Industry and Its Challenges*, Organisation for Economic Co-operation and Development (OECD), 19th January 2023, viewed 22nd April 2024, <https://one.oecd.org/document/C/WP6(2022)15/FINAL/en/pdf>

17 *China's shipbuilding industry retains top spot globally in 2023, Xinhua*, 15th January 2024, viewed 22nd April 2024, <https://english.news.cn/20240115/1bbaa3fa3d2b435f962487f3cbd2864e/c.html>

18 *Potential Pathways for Decarbonising China's Inland Waterway Shipping*, International Council on Clean Transportation (ICCT), February 2023, viewed 28th April 2025, <https://theicct.org/wp-content/uploads/2023/02/China-inland-shipping_fs_final.pdf>

19 *Decarbonizing China's coastal shipping: The role of fuel efficiency and low-carbon fuels*, ICCT, June 2022, viewed 28th April 2025, <https://theicct.org/wp-content/uploads/2022/06/DVE-working-paper-20-A4-v5-GG.pdf>

20 *New Energy Applications for Ports and Inland Waterway Shipping in the People's Republic of China*, ADF Briefs, February 2024, viewed 28th April 2025, <https://www.adb.org/sites/default/files/publication/946221/adb-brief-289-energy-ports-inland-waterway-shipping-prc.pdf>

21 *Notice on Issuing the Implementation Rules for Subsidies for the Scrapping and Renewal of Old and Used Transport Vessels (2024)*, Ministry of Transport, 2nd August 2024, viewed 11th June 2025, <https://xxgk.mot.gov.cn/2020/jigou/zhghs/202408/t20240802_4145816.html>

22 *2022 Fujian Province Electric Ship Industry Development Pilot Demonstration Implementation Plan,* Fujian Provincial Department of Industry and Information Technology, 21st April 2022, viewed 11th June 2025, <https://gxt.fujian.gov.cn/jdhy/gxsth/h/tjzc/202204/t20220421_5897129.htm>

23 Pei, Z, *Research and Development of Inland Green and Smart Ship Technologies in China, Applied Science*, 9th March 2024, viewed 28th April 2025, <https://www.mdpi.com/2076-3417/14/6/2316>

24 According to a 2024 mapping exercise on green demonstration projects carried out by the Getting to Zero Coalition, a global platform for zero-emission shipping by 2030, China had 16 maritime zero-emission pilots and demonstration projects. See: *Mapping of Zero Emission Pilots and Demonstration Projects Fifth Edition*, The Getting to Zero Coalition, 3rd July 2024, viewed 28th April 2025, <https://globalmaritimeforum.org/report/mapping-of-zero-emission-pilots-and-demonstration-projects-fifth-edition/>

25 *Yangtze River Shipping Takes New Steps in Green and Intelligent Vessel Development*, Hubei Government, 7th April 2025, viewed 11th June 2025, <https://jtt.hubei.gov.cn/ghj/zwdt/syyw/202504/t20250407_5604703.shtml>

- two 700-twenty-foot-equivalent-unit electric container ships—the *N997* and *N998*—built by CHI (Yangzhou) for China Ocean Shipping Company (COSCO) Shipping Development;[26&27]
- the state-owned shipbuilding power engineering R&D centre established under Shanghai Pudong's Group Open Innovation initiative;[28]
- China's Electric Ship Innovation Alliance launched in February 2023 and coordinated by COSCO;[29]
- a state-sponsored project for the *Yangtze River Three Gorges 1*, the world's largest electric cruise ship (with a 7,500-kilowatt-hour battery capacity and a range of 100 kilometres); and[30]
- the 'Green Pearl River' project involving 50 LNG-powered vessels.[31]

European maritime companies have a strong interest in these and similar green shipping projects across China, as they possess relevant expertise and products. However, they face consistent exclusion, and are denied access to preliminary discussions and project planning.[32] The core problem lies in the non-transparent invitation process for domestic inland shipping demonstration projects. While foreign companies (most notably foreign classification societies) occasionally get invited to provide training, workshops and consultancy, only domestic companies qualify as full-fledged project partners or technology providers. In exceptional cases, Chinese recipients of government R&D funding may subcontract foreign partners, but such opportunities remain scarce.

European companies also face challenges caused by additional approval requirements, insufficient budgets and China's self-reliance drive. For those projects involving China-flagged vessels, foreign equipment and technology providers must gain approval from the Maritime Safety Administration (MSA) in addition to meeting China Classification Society (CCS) certification requirements, standards that apply to both foreign and domestic suppliers. In most cases, project budgets and pricing tend to be highly competitive, often favouring low-end local manufacturers in the bidding process, with the pricing dynamic frequently discouraging participation from both foreign and Chinese suppliers with mid to high-end products. China's focus on developing self-sufficiency in the maritime industry also means domestic manufacturers are to a certain degree still favoured.[33] For foreign enterprises to get involved in the development of green domestic shipping, an open mechanism for project bidding and certification of marine equipment and technology destined for China-flagged vessels needs to be established.

It remains unclear how China intends to address the persistent cost disparity between low and zero-emission vessels and conventional ones in terms of both capital expenditure and operating expense. While economies of scale could help reduce these costs, achieving this would require China's deeper integration into international standardisation organisations and adoption of unified standards, which would then facilitate smoother global deployment of green maritime technologies by European and Chinese suppliers alike.

European companies, if included in standard-setting processes, could significantly contribute their expertise to China's green shipbuilding sector, given their technical readiness.[34] The working group therefore recommends establishing a decarbonisation task force in shipping and shipbuilding, involving policymakers and businesses—both Chinese and foreign—which would enable best practice sharing and ensure mutually beneficial outcomes in the global fight against climate change.

26 TEU stands for 'twenty-foot equivalent unit', a standard measurement to quantify a ship's capacity.

27 *The world's largest pure electric-powered container ships*, COSCO, 29th December 2023, viewed 28th April 2025, <http://en.chi.coscoshipping.com/col/col8243/art/2024/art_c59fab0b066c41f0a619607f622b10f9.html>

28 *Shanghai Pudong: The GOI Plan Has Over 100 Members*, China News, 20th May 2024, viewed 27th April 2025, <https://zmgr.chinanews.com/cj/2024/05-20/10220338.shtml>

29 Chambers, S, *COSCO forms the China Electric Ship Innovation Alliance*, Splash, 14th February 2023, viewed 11th June 2025, <https://splash247.com/cosco-forms-the-china-electric-ship-innovation-alliance/>

30 Zhang, Y, and Liu, K, *Largest electric cruise ship makes debut, China Daily*, 30th March 2022, viewed 16th April 2024, <http://www.chinadaily.com.cn/a/202203/30/WS62438ffaa310fd2b29e5403b.html>

31 *CSSC commences construction of 50 LNG-fuelled bulk carriers for 'Green Pearl River' project, Manifold Times*, 5th April 2021, viewed 16th April 2024, <https://www.manifoldtimes.com/news/cssc-commences-construction-of-50-lng-fuelled-bulk-carriers-for-green-pearl-river-project/>

32 Most working group members receive no direct information from Chinese authorities about green shipping demonstrations, typically learning of projects when it is too late to participate or when foreign suppliers are already excluded from consideration.

33 For example, the Shanghai Government states in an action plan that the region aims to achieve over 95 per cent self-reliance in critical components for low-speed engines by 2025. See: *Action Plan for High-quality Development of Shanghai Shipbuilding and Offshore Engineering Equipment Industry (2023-2025)*, Shanghai Government, 3rd November 2023, viewed 16th April 2025, <https://www.shanghai.gov.cn/hqcyfz2/20231106/8628a66c733440878fe354f49e9e490f.html>

34 According to the findings of a European Chamber report, 46 per cent of Chamber member companies have taken concrete steps to decarbonise their China operations, and around 67 per cent have achieved at least a basic level of preparation. See: *Carbon Neutrality: The Role of European Companies in China's Race to 2060*, European Union Chamber of Commerce in China, 25th May 2022, viewed 22nd May 2025, <https://www.europeanchamber.com.cn/en/publications-carbon-neutrality-report>

European Chamber
中国欧盟商会

Recommendations

- Increase foreign companies' participation in green shipbuilding pilot projects.
- Establish a joint task force for knowledge-sharing and domestic-foreign collaboration on green shipbuilding initiatives.
- Engage in international partnerships to establish globally harmonised standards for the use of emerging technologies and fuels.

3. Clarify the Entry/Exit Policies for Foreign Experts Carrying an 'M' Business Visa Entering China for Short-term Onsite Instruction Work 3

Concern

China's current visa restrictions make it difficult for foreign, specially-trained experts carrying 'M' business visas to enter China to conduct short-term work related to installation, inspection, dry-dock maintenance and repairs, or class surveying.

Assessment

As part of mandatory ship inspections—including technical inspections and assisting with onsite ship upgrades—foreign experts need to enter China on short-term assignments (less than three months). While local shipyards need such experts to provide crucial support, the difficulties they encounter when trying to enter China—with 'M' visas not being applicable and 'Z' visas being impractical—cause many to choose to work in other Asian or global shipyards.

Foreign experts coming for short-term assignments must apply for a China business visa ('M' visa) according to the *Regulations of the Administration of the Entry and Exit of Foreigners* (*State Council Decree No. 637*), released in September 2013.[35] However, the *Procedures for Foreigners Entering China to Complete Short-term Work Tasks (Trial) [2014] No. 78*, issued by the Ministry of Human Resources and Social Security, which entered into force on 1st January 2015, widens the scope of those eligible for 'M' visas, including but not limited to personnel involved in the following:[36]

1. Complementary servicing, installation, commissioning, disassembly, guidance and training for machinery equipment.
2. Guidance, supervision and inspection for an awarded tender project in China.
3. Short-term work assignments in a branch, subsidiary or representative office in China.

In order to facilitate the entry of short-term experts that are crucial for the healthy development of the maritime industry, the working group recommends expanding the scope of those eligible for 'M' visas to include the following criteria:

- Business meetings or conferences, business-to-business marketing activities and contract negotiations;
- Post-sales, onsite activities, such as equipment maintenance and repair, installation, testing and dismantling, upgrading and conversion, and coaching and training services;
- Coaching, supervision or inspections related to bid-winning projects in China;
- Performing short-term technical guidance, training, supervision and knowledge transfer for subsidiaries, branches or representative offices in China; and
- Providing volunteer work in China without remuneration, or when remuneration is covered by an overseas organisation.

Recommendation

- Expand the scope of those eligible for 'M' visas by including criteria related to business events, post-sales, onsite equipment maintenance and relevant services, project inspection, training and volunteer work.

4. Amend Import Duty and Value-added Tax (VAT) Policies for Imported Ship Repair Components and Post-sales Onboard Services on International Vessels 4

Concern

Equipment installed on ships bound for international routes and onboard manpower services should be exempt from both import duties and value-added tax (VAT).

35 The regulations state that, "The 'M' visa is issued to persons who come to China for commercial trade". See: *Administration of the Entry and Exit of Foreigners (Decree of the State Council [2013] No. 637)*, State Council, 22nd July 2013, viewed 22nd May 2025, <http://www.gov.cn/zhuanti/2013-07/22/content_2610606.htm>

36 *Procedures for Foreigners Entering China to Complete Short-term Work Tasks (Trial)*, Ministry of Human Resources and Social Security, 6th November 2014, viewed 22nd May 2025, <http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/qt/201411/t20141121_144780.html>

Assessment

Under international conventions, imported components assembled onboard a seagoing vessel are exempt from VAT when the vessel is operated 100 per cent commercially with at least 70 per cent of its navigation on the high seas. In China, VAT applies to all *renminbi*-dominated contracts, regardless of whether products are domestically sourced or imported. Domestic suppliers are exempt from the 10 per cent import duty for components destined for Chinese-flagged international vessels, however this exemption does not apply if the product or components are manufactured outside of China. Notably, China maintains a VAT exemption for components and equipment destined for so-called 'export projects', which include a foreign shipowner and a foreign flag, conducted in foreign currency.

This practice affects the Chinese shipbuilding sector, particularly in ship repair and conversion operations. As a result, many ship operators increasingly favour Singaporean or other Southeast Asian shipyards for such work. A direct consequence is that China's ship-repair-and-conversion business segment is not growing as it should be, with many domestic shipyards reporting financial losses. It is notable that it is currently not possible to replace all ship components from overseas with local Chinese components, as neither technical standards nor quality assurance systems are fully compatible.

In June 2024, China started exempting import duties and VAT on imported repair components in the Shanghai Free Trade Zone.[37] The working group welcomes these changes and recommends extending these policies to other free trade zones in China.

Foreign companies in China also face VAT challenges on manpower services. When invoicing international customers for post-sales onboard services—either in *renminbi* or a foreign currency—a 13 per cent VAT rate applies, even for services performed on foreign-flagged vessels sailing in international waters. While VAT refunds are available in these cases, the unclear application process requires a substantial investment of both time and resources.

It is therefore suggested to exempt such onboard services provided on international vessels from the VAT requirement, which would align China with international industry norms and create fairer competition for all market players.

Recommendations

- Extend pilot duty exemption policies on imported repair components to the whole country.
- Exempt onboard services provided on international vessels from the VAT requirement.

5. Support the Decarbonisation of China's Domestic Fleet by Clarifying the Application Process and Timeline for Certification of Maritime Equipment Imported from Abroad for Installation on China-flagged Vessels 4

Concern

The process of applying for and obtaining the MSA-Type Approval Certificate (TAC), which is required to install equipment on China-flagged vessels, is not transparent.

Assessment

Foreign-manufactured marine equipment destined for China-flagged vessels needs two TACs: first, a TAC for vessels classified by the CCS and flying a foreign flag; and second, a TAC for vessels flying a China flag from the MSA. Based on the experience of working group members, while the process for obtaining the first TAC is relatively straightforward, the process for obtaining an MSA-TAC is highly opaque and ambiguous. Among other issues, there is neither a clear point of contact with whom to liaise and submit relevant documentation to, nor a timeframe for the process.

European manufacturers must obtain the MSA-TAC because China does not accept the EU Marine Equipment Directive (MED) certification procedure or 'wheelmark' for equipment, components or materials destined for China-flagged ship classes, despite the CCS being authorised to perform MED certification.[38] As a result, European equipment manufacturers are forced to apply for and obtain CCS certification, which

37 *Circular on the Pilot Implementation of Taxation Policies Concerning Temporary Inbound Repairs in the China (Shanghai) Pilot Free Trade Zone*, Ministry of Finance, 27th June 2024, viewed 12th June 2025, <https://www.gov.cn/zhengce/zhengceku/202407/content_6960751.htm>

38 The MED certification covers a limited number of types of marine equipment, such as life-saving and firefighting equipment and scrubbers, and does not cover ballast water devices. However, it is still considered essential certification for European maritime manufacturers.

often results in additional costs. This practice is unfair, as Chinese marine manufacturers can automatically obtain a MED certification from the CCS or another classification society approved by the EU, allowing them full access to the European market and vessels flying flags of any Member State.

In addition, some European manufacturers are also subject to higher certification costs by the CCS than local manufacturers, even though their products are similar and have similar safety criticality or environmental performance. Likewise, it is unclear whether Chinese authorities will approve ballast water treatment systems (BWTSs) manufactured by European or other foreign equipment manufacturers for installation on Chinese vessels, regardless of whether they have an International Maritime Organization-TAC issued by the CCS or other classification society.

This issue has been a long-term concern for working group members, as previously detailed in the *Shipbuilding Working Group Position Paper 2019/2020*.[39] One member company noted that although it first applied for the TAC in 2015, it did not obtain approval until 2018. In addition, the approval was granted as a 'one-off' by the CSS on behalf of the MSA but did not include approval for China-flagged vessels. While it has since become easier for foreign BWTS manufacturers to obtain both the CCS and the MSA-TAC approval, the process for certifying other foreign-made energy efficient technology and marine equipment is still unclear and complicated.

According to the Asian Development Bank, in 2020, more than 90 per cent of Chinese domestic, inland vessels operated on traditional diesel engines.[40] Depending on sources consulted, estimates of the number of domestic, inland river vessels in China range between 115,000 to 200,000, and all will need to be replaced or upgraded over the next 40 years.[41&42]

European suppliers would be able to deliver around a quarter of this upgrading demand if barriers were lowered. Therefore, considering the average price of a new inland ship is approximately euro (EUR) 1.5 million, with equipment representing about 70 per cent of the newbuilding cost, the yearly market potential for European suppliers would be between EUR 650 million and EUR 2 billion. Apart from the business opportunities, the decarbonisation of domestic shipping could be accelerated if foreign-made marine equipment (with suitable technology) could be made readily available to Chinese vessels.

Recommendations

- Ensure that the Maritime Safety Administration-Type Approval Certificate application process is transparent, and clearly designate a single point of contact with whom to liaise and submit relevant documentation to.
- Issue official documentation once the application has been received.
- Stipulate the timeline for reviewing an application from when it is received to when the permits will be issued.
- Create a mechanism that allows companies to track their applications.

39 *Shipbuilding Working Group Position Paper 2019/2020*, European Union Chamber of Commerce in China, 24th September 2019, viewed 22nd April 2025, <https://www.europeanchamber.com.cn/en/publications-archive/711/Shipbuilding_Working_Group_Position_Paper_2019_2020>

40 *People's Republic of China: Study on the Development of Green Ports and Shipping*, Asian Development Bank, December 2021, viewed 22nd April 2025, <https://www.adb.org/projects/55032-001/main>

41 Information on the number of domestic ships is not precise and varies largely depending on the sources consulted. Both the ADB and the Chinese consultancy Zhi Yan estimate that there were 115,000 domestic inland vessels in 2020, but Statista estimates there were 126,800 vessels at the end of 2020. See: *Ibid.; Current Competition and Investment Outlook of Transport Vessel industry in China 2021–2027*, Zhi Yan Consultancy, 3rd June 2021, viewed 22nd April 2025, <https://www.chyxx.com/industry/202106/954998.html>; Zhang, W, *Number of transport vessels in China from 2008 to 2021 (in 1,000s), Statista,* 1st February 2022, viewed 22nd April 2025, <https://www.statista.com/statistics/258515/number-of-vessels-in-china/>

42 In 2021, the working group held a meeting with the China Transport Planning and Research Institute, which noted that there were approximately 200,000 inland river vessels in China.

Abbreviations

BWTS	Ballast Water Treatment System
CO_2	Carbon Dioxide
CCS	China Classification Society
COSCO	China Ocean Shipping Company
EU	European Union
EUR	Euro
LNG	Liquefied Natural Gas
MED	Marine Equipment Directive
MIIT	Ministry of Industry and Information Technology
MOT	Ministry of Transport
MSA	Maritime Safety Administration
R&D	Research and Development
TAC	Type Approval Certificate
VAT	Value-added Tax

European Chamber
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Petrochemicals, Chemicals and Refining Working Group

Key Recommendations

1. Streamline Chemical Management Regulations to Build a Sustainable, Digitalised and Favourable Business Environment 3

- Revise the draft Hazardous Chemicals Safety Law to balance safety and sustainability.
  - Replace the mandate for immediate public announcements of new hazards by producers/importers with timely updates to safety data sheets and labels.
  - Promote, instead of mandating, traceable electronic labelling to allow for phased implementation that accommodates regional regulatory disparities.
  - Allow importers to complete labelling corrections or reapply labels at the port of entry.
  - Exempt small-scale hazardous chemicals (HCs) packaging from overlapping labelling and disposal rules to ensure practicality for niche applications (e.g., laboratory reagents, medical uses).
- Improve the Traceability Code System.
  - Accelerate the release of the national standard *GB 15258*.
  - Categorise the Beijing traceability code system as a recommended standard rather than a mandatory standard.
- Optimise chemical registration.
  - Continue to optimise the online registration system for new chemicals.
- Ensure the application of import control exemption for strictly controlled toxic chemicals and prohibited import goods.
  - Regularly update the lab-use exemptions in customs announcements to ensure effective implementation.
  - Establish a unified standard and provide clear guidelines to facilitate customs execution for strictly controlled toxic chemicals and prohibited imported goods.
- Strengthen industry-to-government dialogue after HCs inspections.
  - Encourage ongoing dialogue to improve compliance awareness.
  - Establish a whitelist for good-performing enterprises for reduced inspection requirements.
- Continue exempting laboratory-scale research products from import restrictions.
  - Promote innovation by continuing to exempt low-volume research chemicals from import inspections.

2. Sustainability and Green Chemistry

2.1 Promote Green Projects and Investment for Chemical Parks to Boost Their Green Capacities 6

- Strengthen unified planning for the construction and management of industrial gas, public pipelines, heating, HCs waste disposal facilities and other public utilities at chemical parks.

Section Three: Goods

- Encourage chemical parks to lead the closed-loop circular treatment of different wastes with technology and policy support.
- Provide detailed carbon management roadmaps for industrial parks.

2.2 Standardise and Clarify the Methodology for Calculating the Product Carbon Footprint (PCF) to Ensure Consistency and Transparency

- Establish a unified and internationally recognised PCF accounting standard for the chemical industry.
- Prioritise PCF standards development for basic chemicals, raw materials and emerging materials such as biomass, recycled content and green hydrogen/ammonia/alcohol.
- Ensure transparency and national preference when identifying key products for standard setting.
- Promote the adoption of chain of custody systems and mass balance methodology in PCF accounting.

3. Simplify the Regulatory Process to Support New Investments and Market and Technology Innovation in Fine Chemicals and HCs Manufacturing 5

- Streamline the permit allocation process for:
  - Minor recipe changes within the same product category to enable quick market responses and foster innovation.
  - Permit increases in production capacity without altering the main production process or escalating emissions.
- Enhance application and approval processes for the Safety Production Licence permit:
  - Implement an online application and approval service.
  - Establish fast-track and simplified procedures for companies that demonstrate excellent performance during the validity period.
- Regulate third-party safety consulting agencies and experts.
- Allow employees of foreign companies to join the expert pool for safety inspections.

4. Reduce Ambiguities in Environmental Laws and Regulations to Ensure Regulatory and Implementational Consistency 3

- Clarify the 'one kilometre' policy in the Yangtze River Protection Law:
  - Provide official clarification regarding the scope of the tributaries of the Yangtze River.
  - Maintain consistency in the implementation of the 'one kilometre' policy between the local (municipal and provincial) and central authorities.
- Strictly enforce the *Provisions on Environmental Administration of New Chemical Substances* (*Provisions*).
  - Ensure that violations of the *Provisions* are investigated.
  - Increase penalties for non-compliance with the *Provisions*.
  - Simplify experimental data requirements and reduce the total approval timeline to within one year.

Section Three: Goods

Recent Developments

In 2024, China's petroleum and chemical industry demonstrated mixed performance. The industrial added value of enterprises above designated size[1] rose 6.9 per cent year-on-year, reflecting continued expansion. Operating revenue reached Chinese yuan (CNY) 16.28 trillion, a modest increase of 2.1 per cent, while total profit declined by 8.8 per cent to CNY 789.71 billion. Foreign trade remained under pressure, with the total import and export volume contracting by 2.4 per cent to United States dollar 948.81 billion. Crude oil processing declined by 1.6 per cent, amounting to 708 million tonnes, whereas national oil and gas production increased by four per cent, reaching 435 million tonnes of oil equivalent. Meanwhile, the output of major chemicals grew by approximately 7.2 per cent, indicating ongoing resilience in core manufacturing segments.[2]

Despite these sectoral developments, global economic growth remained subdued, with post-pandemic recovery falling short of expectations. Growth rates stood at 3.3 per cent in 2023 and 3.2 per cent in 2024. In China, the economy maintained a steady trajectory, with gross domestic product expanding by five per cent and total output reaching CNY 134.9 trillion – contributing approximately 30 per cent to global economic growth.[3]

However, the domestic business environment posed increasing challenges. According to the *European Business in China Business Confidence Survey 2025*, nearly four in five petrochemical companies (79 per cent) reported a deterioration in the ease of doing business in China, citing weaker overall demand, particularly from the real estate sector.[4]

At the same time, structural shifts in the global chemical industry are becoming more pronounced. Growth momentum is gradually moving away from traditional segments towards emerging areas such as new energy and advanced materials. This transition, coupled with increasing regional differentiation, is reshaping the competitive landscape and generating new opportunities for specialty chemical producers.[5]

Other recent developments that have impacted members of the Petrochemicals, Chemicals and Refining Working Group are outlined in the rest of this section.

Management of Hazardous Chemicals (HCs) and Pollutants

The Chinese Government aims to gradually improve its management of HCs and production safety agenda. Guangdong Province was among the first to implement a HCs traceability Quick Response Code (QR code) policy in 2021. In late 2023 and early 2024, regions like Shanghai and Beijing adopted similar measures, issuing local standards for HCs traceability codes.[6&7] However, different local traceability code requirements have caused significant compliance challenges for chemical companies.

Another significant development in chemical management was the publication of the draft Hazardous Chemicals Safety Law. In December 2024, the National People's Congress (NPC) reviewed the draft law and called for public comments.[8] The draft law introduced robust regulations, including mandatory electronic labelling, lifecycle information management and immediate announcements of newly identified hazards. However, while emphasising safety and accountability, the draft also imposes extensive regulations that could burden chemical production enterprises.

Implementing the *National Plan for Centralised Management of Hazardous Chemicals Safety Risks* has been a challenge for companies.[9] Specifically, it requires companies to make quick changes under stringent timelines, posing

1 'Enterprise above designated size' is a statistical term that China has been using since 1996. Since January 2011, it has been used to refer to all industrial enterprises with annual main business revenue of RMB 20 million or more.
2 *2024 China Petroleum and Chemical Industry Economic Operation Report,* Modern Chemical Industry, Volume 45, Issue 4, April 2025
3 *The Situation and Prospects Facing the Development of China's Petrochemical Industry,* Sinopec, March 2025
4 *European Business in China Business Confidence Survey 2025*, European Union Chamber of Commerce in China, 28th May 2025, viewed 30th June 2025, p.4, <https://www.europeanchamber.com.cn/en/publications-archive/1278>
5 *Finding Direction in Change, Creating Advantages in Competition— Review of Global and Chinese Chemical Markets in 2024 and Outlook for 2025,* China Petroleum and Chemical Industry, January 2025
6 *The Promotion of 'One Company, One Product, One Code' Based on the Information Management of the Entry and Exit of Hazardous Chemicals and the Handling of Dangerous Goods,* Shanghai Emergency Management Bureau (SEMB) and Shanghai Municipal Transportation Commission (SMTC), 9th February 2024, <https://yjglj.sh.gov.cn/xxgk/zfxxgk/zcwj/aqscgl/20240218/9c7db26fd6bb45d4a278fd5c2b285444.html>
7 *Technical Specification for Full Process Traceability Management of Hazardous Chemicals*, Beijing Municipal Administration for Market Regulation, 25th December 2023, <http://bzh.scjgj.beijing.gov.cn/bzh/apifile/file/2023/20231228/ed9eb38d-0128-4059-94e4-fef89e843a4f.pdf>
8 *Seven Draft Laws Call for Public Comments,* NPC, 25th December 2024, viewed 30th June 2025, <http://www.npc.gov.cn/npc/c2/kgfb/202412/t20241225_442053.html>
9 This policy proposes enhancing the digital and intelligent control of HC risks throughout a product's entire life cycle: *National Plan for Centralised Management of Hazardous Chemical Safety Risks*, Ministry of Emergency Management, 5th January 2022, viewed 8th May 2025, <https://www.mem.gov.cn/gk/zfxxgkpt/fdzdgknr/202201/t20220105_406261.shtml>

huge compliance challenges for European multinational corporations (MNCs) given their internal reporting procedures to headquarters and the involvement of multiple stakeholders.[10]

While the working group appreciates China's efforts to optimise the national framework for pollutant management [11,12&13] and to strengthen local implementation, there is still a lack of detailed guidance on the management of new pollutants. The working group will continue to closely monitor the progress of the relevant regulations and recommend the timely release of supporting guidelines.

Sustainability and Green Chemistry

The chemical industry is in the midst of a broad transformation driven by intensified global competition, volatile energy markets, increasing de-industrialisation, and tightening global decarbonisation mandates. As a result, many companies are revisiting their corporate strategies to align with evolving sustainability frameworks.

China has progressively advanced its green development agenda in support of its 30/60 carbon goals. A cornerstone of this shift is the enhancement of the national carbon emissions trading scheme (ETS). While the ETS has faced delays in expanding to heavy-emitting sectors such as cement and petrochemicals due to data limitations, a milestone was reached in March 2025 when the Ministry of Ecology and Environment (MEE) released a work plan to include steel, cement and aluminium smelting industries in the ETS, thereby improving emissions data quality and management.[14] However, as of June 2025, dedicated ETS guidelines for the chemical sector are still pending.

The impact of the ETS remains constrained by its limited sectoral scope, low carbon pricing and the absence of an absolute emissions cap. This concern is highlighted in the European Chamber's *Carbon Neutrality: The Role of European Business in China's Race to 2060*.[15] More broadly, in July 2024, China's State Council issued the *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development*, establishing a macro policy framework for green production, consumption and resource efficiency.[16]

Sector-specific green transformation has also accelerated. The Ministry of Industry and Information Technology (MIIT) issued the *Guidelines on Accelerating the Green Transformation of the Manufacturing Sector* and updated standards for green factories.[17] In parallel, technical guidelines were published for specific industries, including dyeing and copper smelting.[18] Additionally, in May 2024, the State Council released the *2024–2025 Energy Conservation and Carbon Reduction Action Plan*, followed in August by the *Work Plan for Accelerating the Establishment of a Dual-control System for Carbon Emissions*.[19] These initiatives introduced comprehensive controls over both total carbon emissions and emission intensity.

Corporate accountability is also being strengthened. In November 2024, China released the *Corporate Sustainability Disclosure Standards – Basic Standard (Trial)*, with reporting guidelines from major stock exchanges issued in early 2025.[20] In April 2025, the *Climate Disclosure Standard No. 1* was published for

10 For instance, on 9th February 2024, the SEMB and SMTC jointly rolled out a policy to promote the informatisation management of HCs based on the aforementioned State Council policy, which requires enterprises to meet the requirements by the end of 2024: *Notice on Promoting the Informatisation Management of HC in and out of Storage and Dangerous Goods Loading and Unloading Based on the 'One Enterprise, One Product, One Code' System*, SEMB and SMTC, 9th February 2024, viewed 8th May 2025, <https://yjglj.sh.gov.cn/xxgk/zfxxgk/zcwj/aqscgl/20240218/9c7db26fd6bb45d4a278fd5c2b285444.html>

11 *The Action Plan for New Pollutants Treatment*, MEE, 24th May 2022, viewed 8th May 2025, <https://www.mee.gov.cn/zcwj/gwywj/202205/t20220524_983032.shtml?keywords=per centE6per cent96per centB0per centE6per centB1per centA1per centE6per cent9Fper cent93per centE7per cent89per centA9>

12 *List of New Pollutants for Priority Management (2023)*, MEE, 30th December 2022, viewed 8th May 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk02/202212/t20221230_1009167.html?keywords=>

13 *Measures for the Administration of Pollutant Discharge Permitting*, MEE, 1st April 2024, viewed 8th May 2025, <https://www.mee.gov.cn/gzk/gz/202404/t20240408_1070147.shtml>

14 *Work Plan for Inclusion of Steel, Cement and Aluminium Smelting Industries in the National Carbon Emissions Trading Market*, MEE, 21st March 2025, viewed 21st July 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk03/202503/t20250326_1104736.html>

15 *Carbon Neutrality: The Role of European Business in China's Race to 2060*, European Union Chamber of Commerce in China, 25th May 2022, viewed 30th June 2025, <https://www.europeanchamber.com.cn/en/publications-archive/974/en/working-groups-forums-desks/10/carbon-market>

16 *Opinions on Accelerating the Comprehensive Green Transition of Economic and Social Development*, State Council, 31st July 2024, viewed 21st July 2025, <https://www.mee.gov.cn/zcwj/zyygwj/202409/t20240911_1085676.shtml>

17 *Guidelines on Accelerating the Green Transformation of the Manufacturing Sector*, MIIT, 29th February 2024, viewed 30th June 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/yj/art/2024/art_f1be5a86074d46c99c20be36713f6838.html> ; Interim Measures for the Graded

18 *Technical Guidelines for Green and Low-Carbon Development in the Dyeing and Printing Industry (2024 Edition)*, MIIT, 8th October 2024, viewed 30th June, <https://www.gov.cn/zhengce/zhengceku/202410/content_6979287.htm> ; *Cleaner Production Evaluation Indicator System for Copper Smelting and Other Two Industries*, MIIT, 22nd February 2024, viewed 30th June 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202402/t20240222_1364189.html>

19 *Energy Conservation and Carbon Reduction Action Plan for 2024–2025*, State Council, 30th May 2024, viewed 30th June 2025, <https://www.mee.gov.cn/zcwj/gwywj/202405/t20240530_1074495.shtml> ; *Work Plan for Accelerating the Establishment of a Dual-Control System for Carbon Emissions*, State Council, 6th August 2024, viewed 30th June 2025, <https://www.mee.gov.cn/zcwj/gwywj/202408/t20240806_1083433.shtml>

20 *Corporate Sustainability Disclosure Standards – Basic Standard (Trial)*, Ministry of Finance, 20th November 2024, viewed 30th June 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6993358.htm>

public consultation, marking a pivotal step towards a unified sustainability reporting framework.[21]

Investment and Manufacturing Costs

The Yangtze River Protection Law prohibits constructing or expanding chemical parks and projects within one kilometre of the river,[22] with no recognition for projects intended to upgrade plants' safety and ecological protection. Several working group members have since reported that local authorities ordered them to shut down within unreasonably short timeframes. In addition, many companies received conflicting information from different government departments and encountered difficulties establishing direct negotiation channels with the relevant authorities. The government should avoid a 'one-size-fits-all' approach to closures, and provide transparent and fair criteria, as well as adequate timeframes for plant shutdowns to minimise business disruptions.

According to Chinese regulations, companies engaged in mining, construction, and the production of HCs must obtain the Safety Production Licence (SPL) before commencing production.[23] However, the SPL application procedure is complicated and time-consuming, placing a heavy administrative burden on companies and hindering efficient production. Moreover, in response to the ongoing revisions being made to SPL-related laws and regulations, enterprises are required to promptly adapt to new regulatory requirements by constantly updating their safety management systems, which generates high costs and further exacerbates their administrative burden.

Key Recommendations

1. Streamline Chemical Management Regulations to Build a Sustainable, Digitalised and Favourable Business Environment 3

Concern

The growing complexity of chemical management regulations further increases compliance costs and reduces profitability.

21 *Notice for Public Solicitation on Corporate Sustainability Disclosure Standard No. 1 – Climate (Trial)*, Ministry of Finance and MEE, 30th April 2025, viewed 30th June 2025, <https://kjs.mof.gov.cn/gongzuotongzhi/202504/t20250429_3962990.htm>

22 *The Yangtze River Protection Law*, NPC, 26th December 2020, viewed 8th May 2025, <http://www.npc.gov.cn/npc/c2/c30834/202012/t20201226_309444.html>

23 *Regulations on Safety Production Licence (2014 Revision)*, State Council, 29th July 2014, viewed 8th May 2025, <https://flk.npc.gov.cn/detail2.html?ZmY4MDgwODE2ZjNjYmIzYzAxNmY0MGVlOWVlNTBjMGY>

Assessment

Balancing Safety and Industry Sustainability: Key Recommendations for the Draft Hazardous Chemicals Safety Law

In December 2024, the 13th Meeting of the Standing Committee of the 14th NPC reviewed the draft Hazardous Chemicals Safety Law and invited public feedback.[24] This draft introduces systematic operational requirements for chemical park planning, lifecycle supervision, digital hazard monitoring and hazardous waste disposal. It also clarifies the responsibilities of HCs enterprises and regulatory oversight, underscoring the government's continued commitment to safety, particularly in light of incidents such as the 2015 Tianjin Port explosion.

While the draft strengthens accountability, some provisions risk placing undue administrative and operational burdens on chemical manufacturers. One such requirement mandates the immediate public announcement of newly identified hazards by producers and importers, as well as updates to safety data sheets (SDSs) and labels. This approach could result in an overwhelming volume of notifications, complicating hazard tracking for downstream users and disrupting supply chains. The existing practice of updating SDSs and labels in a timely manner already ensures adequate risk communication and should remain the standard.

Another area of concern is the proposed mandate for traceable electronic labelling and lifecycle information management. Given the significant disparities in regional implementation and regulatory alignment, enforcing a national standard prematurely may create serious compliance challenges for enterprises operating across multiple jurisdictions. A phased, promotional approach would be more practical until a unified national tracing system is established.

Furthermore, it is recommended that importers be permitted to rectify labelling issues at the port of entry. This aligns with international practices in jurisdictions such as the European Union (EU) and the United States, where customs clearance is allowed prior to final labelling compliance.

Finally, introducing exemptions for small-scale packaging

24 *Seven Draft Laws Call for Public Comments*, NPC, 25th December 2024, viewed 30th June 2025, <http://www.npc.gov.cn/npc/c2/kgfb/202412/t20241225_442053.html>

of HCs would ensure that safety regulations remain proportionate to risk, without imposing undue constraints on niche applications.

To mitigate potential disruptions, it is essential that regulators adjust overly prescriptive provisions and consult with affected stakeholders. By engaging in meaningful dialogue with industry representatives, regulatory authorities can help ensure that the revised law supports both safety objectives and practical implementation, thereby promoting a more sustainable and balanced regulatory framework.

Improve the Traceability Code System

Guangdong Province was among the first to implement a HCs QR code policy in 2021. Regions like Shanghai and Beijing soon adopted similar measures. As a result of continued advocacy, the national standard *GB 15258* is currently under revision and in the drafting stage to serve as a unified national traceability code policy. The working group welcomes this development. Despite the positive progress, the Beijing Municipality continues to enforce stricter traceability code requirements. Its policy mandates a 'one item, one code' system for HCs. This means that even when the enterprise, chemical, specification and batch number are the same, each unit of packaging must carry a distinct QR code. Additionally, the policy requires step-by-step affixing of traceability codes, where multi-layer packaging must display corresponding sub-codes on the inner packaging and parent codes on the outer packaging. Unlike Shanghai—which exempts small packages from needing QR codes affixed on internal layers—Beijing offers no such flexibility. This unique system places a significant administrative burden on trading enterprises, especially given the complexity and volume of their packaging operations. It also contributes to a higher risk of error. It is therefore recommended that the Beijing authorities reclassify their traceability code policy as a recommended standard rather than a mandatory requirement.

Optimising Chemical Registration

Since the implementation of the online registration system for new chemicals under *Order 12* in 2020,[25] the MEE has made commendable efforts to enhance its functionality and address user concerns. Notably, the upper limit of substances permitted in a single filing has been increased in response to stakeholder feedback. Nevertheless, further optimisation is needed to enhance efficiency and user experience.

One key issue is the system's inability to identify previously registered substances, which results in duplicate entries and unnecessary compliance burdens. To address this, a function should be introduced to flag duplicate submissions and detect formatting anomalies automatically. Additionally, it is recommended that a dynamic adjustment mechanism be introduced to enable timely system updates. The ability to create sub-accounts should also be reinstated to support internal compliance operations. Such enhancements would streamline compliance processes for enterprises and significantly improve the system's overall usability and reliability.

Ensure that Exemptions from Import Controls are Correctly Applied for Strictly Controlled Chemicals

In 2023, the MEE included provisions on low volume exemptions (LVEs) in its updated new pollutant catalogue.[26] However, challenges remain in the practical application of this exemption. Contrary to the newly released eighth and ninth batches of the *Catalogue of Prohibited Imported Goods*, the earlier sixth and seventh batches did not have LVE provisions.[27&28]

Additionally, the import process for substances eligible for exemption under China's catalogue of toxic chemicals that are strictly controlled for import and export[29] remains slow. This is primarily due to the absence of clear criteria for identifying substances that qualify for LVEs. As a result, customs authorities must consult the MEE on a case-by-case basis to determine eligibility,

25 *Measures for the Environmental Management Registration of New Chemical Substances ([2020] Order No. 12)*, MEE, 29th April 2020, viewed 20th May 2024, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk02/202005/t20200507_777913.html>

26 *List of Key Controlled New Pollutants (2023 Edition)*, MEE, 29th December 2022, <https://www.mee.gov.cn/gzk/gz/202212/t20221230_1009192.shtml>

27 *Announcement by the Ministry of Commerce, the General Administration of Customs, and the Ministry of Ecology and Environment on the Publication of the 'List of Prohibited Imported Goods (Eighth Batch)' and the 'List of Prohibited Exported Goods (Seventh Batch)'*, Ministry of Commerce, 21st July 2023, viewed 30th June 2025, <http://www.xjhegs.gov.cn/xjhegs/c114383/202307/43595c92d2c04158824f99b0ca33bf1b.shtml>

28 *Announcement by the Ministry of Commerce, the General Administration of Customs, and the Ministry of Ecology and Environment on the Publication of the 'List of Prohibited Imported Goods (Seventh Batch)' and the 'List of Prohibited Exported Goods (Sixth Batch)'*, Ministry of Commerce, 30th December 2020, viewed 30th June 2025, <https://www.mofcom.gov.cn/zcfb/dwmygl/art/2020/art_1b03265fc3f34077a4d0d79791426568.html>

29 *Announcement on the Publication of the Catalogue of Toxic Chemicals Strictly Restricted in China (2023)*, MEE, 18th October 2023, viewed 30th June 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk01/202310/t20231019_1043580.html>

leading to significant delays. To improve efficiency and reduce the administrative burden on both companies and regulators, it is recommended that the MEE establish a unified and transparent standard for LVE substances. This would enable customs to carry out assessments more independently and consistently, without the need for repeated consultations.

Post-inspection Dialogue

Over the years, the Chinese Government has strengthened inspections of HCs companies, with the Ministry of Emergency Management releasing updated inspection guidelines for HCs companies in 2025.[30] These guidelines include a newly introduced question and answer section that features case studies of non-compliance, offering practical reference points for enterprises. This addition serves as a valuable tool, enhancing understanding of regulatory expectations and helping to clarify compliance obligations. Moving forward, companies hope to engage in more interactive communication with authorities to strengthen their compliance awareness and improve adherence to inspection regulations. Moreover, as the post-registration inspections have now been in place for three years, it is recommended that a whitelist mechanism be introduced. This would allow enterprises with strong compliance records to benefit from appropriate exemptions or reduced inspection frequency.

Promote Innovation by Exempting Low-volume Research Chemicals from Import Inspections

Reagent companies primarily focus on the import and sale of chemical reagents, which are essential for clients conducting research and development (R&D). China's current inspection requirements have caused a significant increase in import costs and delayed product delivery for reagent companies compared to other countries.[31] To support innovation in the chemical and medical sectors, it is proposed that low-volume imported chemicals (≤500 millilitre (ml) or 500 grams (g)) be exempted from inspection requirements. The associated risk is minimal for the following reasons:

First, reagent products are characterised by small quantities, compact packaging and high turnover rates. These factors contribute to far lower aggregate import volumes than typical industrial chemicals. Life sciences reagents, for example, are often sold in units of just 5–500ml/g.

Second, their limited quantities indicate minimal exposure risks to human health and the environment. Extensive inspections for low-risk products can divert regulatory attention and resources away from higher-risk substances that warrant greater oversight. Lastly, international best practices—such as those in the EU—already recognise the unique role of R&D chemicals by granting regulatory exemptions that facilitate innovation.

The working group recommends that customs adopt a similar approach by exempting low-volume imports from inspection while maintaining standard inspection protocols for larger quantities.

Recommendations

- Revise the draft Hazardous Chemicals Safety Law to balance safety and sustainability.
  - Replace the mandate for immediate public announcements of new hazards by producers/importers with timely updates to safety data sheets and labels.
  - Promote, instead of mandating, traceable electronic labelling to allow for phased implementation that accommodates regional regulatory disparities.
  - Allow importers to complete labelling corrections or reapply labels at the port of entry.
  - Exempt small-scale HCs packaging from overlapping labelling and disposal rules to ensure practicality for niche applications (e.g., laboratory reagents, medical uses).
- Improve the Traceability Code System.
  - Accelerate the release of the national standard *GB 15258*.
  - Categorise the Beijing traceability code system as a recommended standard rather than a mandatory standard.
- Optimise chemical registration.
  - Continue to optimise the online registration system for new chemicals.
- Ensure the application of import control exemption for strictly controlled toxic chemicals and prohibited import goods.
  - Regularly update the lab-use exemptions in customs announcements to ensure effective implementation.
  - Establish a unified standard and provide clear

30 *2025 Guidance Catalogue of Priorities for Enforcement and Inspection of Safety at Hazardous Chemical Enterprises*, Ministry of Emergency Management, 5th March 2025, viewed 30th June 2025, <https://www.anchengaq.com.cn/news_show.aspx?id=73>

31 As reported by Chamber member companies.

guidelines to facilitate customs execution for strictly controlled toxic chemicals and prohibited imported goods.

- Strengthen industry-to-government dialogue after HCs inspections.
  - Encourage ongoing dialogue to improve compliance awareness.
  - Establish a whitelist for good-performing enterprises for reduced inspection requirements.
- Continue exempting laboratory-scale research products from import restrictions.
  - Promote innovation by continuing to exempt low-volume research chemicals from import inspections.

2. Sustainability and Green Chemistry

2.1 Promote Green Projects and Investment for Chemical Parks to Boost Their Green Capacities 6

Concern

Chemical parks' current infrastructure limits the ability to support plant rectification and green development.

Assessment

Chemical parks face challenges adapting to green development. This situation could be improved by establishing fast-track approval procedures for renewable energy investments, such as installing onsite photovoltaics and distributed wind power. Establishing guidance and providing support for energy transition tools, such as power purchase agreements, trade in renewable electricity between neighbouring entities and energy storage, would also accelerate green development in the industry.

The lack of facilities in chemical parks is largely due to the pressure on park management to attract further investment, which results in them neglecting important planning issues such as optimising public utilities, including access to electricity, heating and gas. To contribute meaningfully to China's 30/60 goals,[32] chemical parks need to optimise industrial waste treatment, steam generation, carbon capture, utilisation and storage, and other public utilities. It is also recommended that a national product carbon footprint standard compatible with European standards be developed to promote the reduction of scope 3 carbon emissions.[33]

In July 2025, the National Development and Reform Commission, the MIIT, and the National Energy Administration jointly released the *Notice on Launching the Construction of Zero-carbon Industrial Parks*.[34] The document outlines eight key tasks in areas such as transitioning energy structures, enhancing energy efficiency, optimising industrial structures, promoting resource conservation, upgrading infrastructure, applying advanced technologies, improving energy and carbon management, and fostering reform and innovation in park operations. Such a comprehensive sustainable framework shows a meaningful shift towards green development. The working group looks forward to more discussions with local foreign businesses.

Recommendations

- Strengthen unified planning for the construction and management of industrial gas, public pipelines, heating, HCs waste disposal facilities and other public utilities at chemical parks.
- Encourage chemical parks to lead the closed-loop circular treatment of different wastes with technology and policy support.
- Provide detailed carbon management roadmaps for industrial parks.

2.2 Standardise and Clarify the Methodology for Calculating the Product Carbon Footprint (PCF) to Ensure Consistency and Transparency

Concern

Companies face challenges in complying with inconsistent PCF standards, increasing administrative burdens and reducing transparency.

Assessment

Accurately quantifying a product's carbon footprint throughout its life cycle has become a priority for companies, policymakers and consumers alike. PCF is a critical tool for evaluating and managing greenhouse gas emissions associated with a product's life stages – from raw material extraction to production, usage and disposal.

32 China's 30/60 goals are to peak carbon emissions before 2030 and to achieve carbon neutrality by 2060.

33 Scope 3 emissions measure all indirect emissions that occur in the upstream and downstream activities of an organisation.

34 *Notice on Launching the Construction of Zero-Carbon Industrial Parks*, National Development and Reform Commission, 8th July 2025, viewed 17th July 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202507/t20250708_1399055.html>

Despite increasing engagement in PCF initiatives at national, industry and provincial levels, companies face substantial challenges due to the lack of a standardised, authoritative methodology. While international standards such as *ISO 14067* and China's *GB/T 24067* offer general frameworks, they lack the specificity required for consistent application in the chemical industry. This results in methodological discrepancies, which undermine comparability, increase administrative complexity and reduce the reliability of disclosed data.

The chemical industry has taken steps to address this gap. The Together for Sustainability (TfS) initiative[35] has produced a unified PCF guideline, offering a harmonised approach to calculation and reporting.[36] However, these international efforts have yet to be systematically adopted into China's regulatory frameworks. Without such alignment, companies operating in China continue to navigate divergent requirements from local authorities, industry groups and international partners.

Critical challenges persist across four key dimensions:

- **Data Quality and Availability:** Reliable PCF calculation depends on high-quality, granular data across the value chain. Many companies struggle with inconsistent or incomplete datasets, particularly when sourcing from upstream suppliers or managing complex chemical processes.
- **Methodological Consistency:** Divergent calculation methods—resulting from differing interpretations of international standards—compromise the comparability of PCF results. This impedes efforts to benchmark performance and hinders the creation of a level playing field in global and domestic markets.
- **Regulatory Alignment:** Local rules and industry guidelines vary in their requirements, creating uncertainty for businesses. National leadership is needed to streamline and harmonise PCF accounting rules, aligning them with global practices to reduce duplicative efforts and ensure compliance.
- **Verification and Disclosure:** The absence of clear protocols for third-party verification and public disclosure erodes trust in PCF data. Transparent, standardised verification mechanisms are essential to uphold credibility and encourage meaningful emissions reductions.

In this context, implementing a chain of custody system,[37] particularly using the Mass Balance approach,[38] offers significant advantages. These systems provide a practical and credible mechanism for tracing sustainable material flows through complex supply chains. The Mass Balance model allows for the integration of certified sustainable inputs (such as bio-based or recycled materials) with conventional inputs during production, while ensuring that the proportion of sustainable content is accurately tracked and attributed to final products. This enables more flexible, scalable adoption of low-carbon materials without requiring costly infrastructure changes or process segregation.

Coordinated efforts are also needed to integrate international best practices with national regulatory approaches. Industry engagement will be critical in advancing this agenda. At the national level, there are stakeholders like the China Petroleum and Chemical Industry Federation. At the local level, the CN100 alliance initiative was spearheaded by the Shanghai Development and Reform Commission.[39] By institutionalising a transparent and unified approach to PCFs, China can enhance its climate governance, support green transformation in industry, and ensure fair domestic and international competition.

Recommendations

- Establish a unified and internationally recognised PCF accounting standard for the chemical industry.
- Prioritise PCF standards development for basic chemicals, raw materials and emerging materials such as biomass, recycled content and green hydrogen/ ammonia/alcohol.
- Ensure transparency and national preference when identifying key products for standard setting.
- Promote the adoption of chain of custody systems and mass balance methodology in PCF accounting.

35 TfS is an industry-leading initiative driven by chemical procurement specialists dedicated to building sustainable chemical supply chains, regulatory requirements, and responding to the needs and expectations of society.

36 *The Gold Standard PCF Guideline is Now Complete,* Together for Sustainability, 16th November 2022, viewed 30th June 2025, <https://www.tfs-initiative.com/news/the-gold-standard-pcf-guideline-is-now-complete>

37 The 'chain of custody' is the process of following materials through every step of the supply chain as they go through various stages of sourcing, production, processing, shipping and retail.

38 The Mass Balance approach is a type of chain-of-custody model designed to track the total amount of sustainable content through the production system while ensuring an appropriate allocation of this content to the finished product. Mass Balance is more commonly used in the chemical industry.

39 *Action Plan of Shanghai Municipality on Accelerating the Establishment of Product Carbon Footprint Management System to Create a Green and Low-carbon Supply Chain*, General Office of the Shanghai Municipal People's Government, 18th March 2024, viewed 30th June 2025, <https://www.shanghai.gov.cn/nw12344/20240325/9ddcd99b89f14cb2a3c301ab8fc8c859.html>

3. Simplify the Regulatory Process to Support New Investments and Market and Technology Innovation in Fine Chemicals and HCs Manufacturing 5

Concern

Strict permit allocation requirements for increasing production capacity or making minor changes to product recipes hinder fine chemicals and HCs manufacturers from quickly adapting to market conditions.

Assessment

Fine Chemicals Manufacturing

The permit allocation process for fine chemicals manufacturing is very stringent, and includes requirements for safety, environmental impact and occupational health assessments, as well as capital expenditure thresholds. To adapt to market changes, downstream fine chemicals manufacturers sometimes need to adjust recipes or technologies. If these adjustments involve raw materials that are not on the plant's list of registered chemicals, the new materials must undergo an entirely new permit allocation process, even if they are replacing an ingredient with similar properties and do not bring any additional operational risks or create more pollution.

The same constraint is true for production increases. Permit allocation processes stipulate maximum production capacity. Therefore, to increase manufacturing capacity—for instance, when debottlenecking is required—manufacturers must relaunch the permit process, which usually takes six months to one year.[40] Creating a simplified permit allocation process for minor replacements of fine chemical ingredients or slight capacity increases would reduce administrative burdens and allow manufacturers to respond more competitively to market changes.

HCs Manufacturing

The SPL application process for manufacturing HCs is excessively complicated[3] and includes requirements for the submission of numerous documents and materials on the safety production responsibility system, safety production procedures, safety training certificates and safety assessment reports. Preparing and submitting this documentation is time-consuming and places high demands on managers. Additionally, in response to the continuous revisions of relevant laws and regulations related to production safety, companies are required to promptly adapt to new regulatory requirements by making constant changes to their safety management systems, which imposes a heavy administrative burden. Qualified safety assessment consulting agencies are entrusted to conduct safety assessment reports in accordance with the law and rectify existing safety production issues. However, the scope of application between new and old laws and regulations is unclear, which can lead to third-party agencies advising companies to modify production facilities to an extent that may be unnecessary under the new laws and regulations. Nevertheless, in such cases, European MNCs will still make the advised changes to ensure compliance, resulting in unnecessary additional operating costs.

Moreover, most of the inspection personnel have gained professional experience from Chinese universities, state-owned enterprises or design institutes, with few having worked with MNCs. These experts tend to adopt a conservative approach, relying solely on Chinese national standards without considering actual situations or the advanced and proven methods deployed by international companies. This has led to redundant and contradictory standards systems co-existing within the same company: one (the GB standards) just for passing inspection checks to obtain the SPL; and the other (the company's own system) for actual operations.

Recommendations

- Streamline the permit allocation process for:
  - Minor recipe changes within the same product category to enable quick market responses and foster innovation.
  - Permit increases in production capacity without altering the main production process or escalating emissions.
- Enhance application and approval processes for the Safety Production Licence permit:
  - Implement an online application and approval service.
  - Establish fast-track and simplified procedures for companies that demonstrate excellent performance during the validity period.
- Regulate third-party safety consulting agencies and experts.

40 *Debottlenecking: What It Is and How It Can Help Optimise Downstream Processes*, Audubon, 21st August 2014, viewed 9th May 2024, <https://auduboncompanies.com/debottlenecking-what-it-is-and-how-it-can-help-optimize-downstream-processes/>

- Allow employees of foreign companies to join the expert pool for safety inspections.

4. Reduce Ambiguities in Environmental Laws and Regulations to Ensure Regulatory and Implementational Consistency 3

Concern

The lack of communication between companies and government creates legislative and regulatory ambiguity, leading to inconsistent implementation of regulations that hinders companies' operations.

Assessment

Yangtze River Protection Law

The *Outline of Yangtze River Economic Belt Development Plan,* issued by the Central Committee of the Communist Party of China in 2016, explicitly proposed formulating a dedicated law for protecting the Yangtze River.[41] This led to the issuance of the Yangtze River Protection Law in 2020, which came into force on 1st March 2021.[42]

Chapter 9 of the law prohibits constructing or expanding chemical parks and projects within one kilometre of the Yangtze River's main tributaries. However, the law has not clearly defined the scope of a 'tributary', leaving it unclear whether 'tributary' refers to the primary tributary or tributaries of all grades. If it is in fact all grades, a broad application of the restriction could effectively bar most chemical companies from developing new projects across the entire Yangtze River Basin, where nearly all rivers could be classified as tributaries. While certain provincial authorities have issued guidance,[43&44] interpretations vary significantly across jurisdictions, and many areas still lack clear explanatory criteria. This inconsistency increases investment risk for new projects. For example, even where municipal authorities grant exemptions, companies may still face compliance risks if provincial or national regulators apply differing interpretations during inspections or permit allocation evaluations.

Regulations on the Registration of New Chemical Substances for Environmental Management

The MEE updated the *Provisions on Environmental Administration of New Chemical Substances* (*Provisions*) in 2020, replacing the earlier 2010 version.[45] The revised *Provisions* took effect in 2021. The updates are based on the principle of risk control, which is an improvement in management methods but has also introduced significant complexity in practical implementation.

According to the *Provisions*, depending on the annual production or import volume, substances are categorised for (1) regular registration, (2) simplified registration or (3) filing. The regular registration has two phases: the experimental phase and the approval phase. Since the data requirements are even stricter than the EU standard, the entire experimental phase can take up to one year. Upon completion of experiments, the substance proceeds to the approval phase, which includes expert reviews conducted approximately every 60 days. It often takes three to five review cycles to secure approval, extending this phase by six months to a year. As a result, the total registration process may span between one and a half and two years. Given the fast pace of change in the chemical industry, such prolonged timelines significantly increase market-entry uncertainty for companies. The complexity also drives up costs, with regular registration typically requiring investments ranging from several hundred thousand up to CNY one million.

Conversely, enforcement remains relatively weak. Penalties for non-compliance range from only CNY 10,000 to CNY 30,000, undermining the regulation's effectiveness. European companies typically prioritise compliance and are willing to conduct full business assessments before undertaking regular registration. However, local competitors often bypass the process due to an imbalanced cost-benefit structure, leading to unfair market competition.

41 *Outline of Yangtze River Economic Belt Development Plan,* MEE, 12th September 2016, viewed 30th June 2025, <https://www.mee.gov.cn/xxgk/hjyw/201609/t20160912_363929.shtml>

42 *Yangtze River Protection Law,* NPC, 26th December 2020, viewed 8th May 2025, <http://www.npc.gov.cn/npc/c2/c30834/202012/t20201226_309444.html>

43 *Negative List for the Development of the Yangtze River Economic Belt (Trial Version, 2022 Edition) Implementation Rules for Shanghai Municipality,* Shanghai Municipal Office of the Leading Group for Promoting the Development of the Yangtze River Economic Belt, 14th July 2022, viewed 30th June 2025, <https://www.shqp.gov.cn/env/xfxg/20221206/1062477.html>

44 *Negative List for the Development of the Yangtze River Economic Belt (Trial Version, 2022 Edition) Implementation Rules for Jiangsu Province,* Jiangsu Provincial Office of the Leading Group for Promoting the Development of the Yangtze River Economic Belt, 16th August 2022, viewed 30th June 2025, <https://www.yixing.gov.cn/doc/2022/08/16/1065916.shtml>

45 *Provisions on Environmental Administration of New Chemical Substances,* MEE, 29th April 2020, viewed 8th May 2025, <https://www.mee.gov.cn/xxgk2018/xxgk/xxgk02/202005/t20200507_777913.html>

Recommendations

- Clarify the 'one kilometre' policy in the Yangtze River Protection Law:
  - Provide official clarification regarding the scope of the tributaries of the Yangtze River.
  - Maintain consistency in the implementation of the 'one kilometre' policy between the local (municipal and provincial) and central authorities.
- Strictly enforce the *Provisions*.
  - Ensure that violations of the *Provisions* are investigated.
  - Increase penalties for non-compliance with the *Provisions*.
  - Simplify experimental data requirements and reduce the total approval timeline to within one year.

Abbreviations

CNY	Chinese Yuan
ETS	Emissions Trading System
EU	European Union
g	Gram
HC	Hazardous Chemical
LVE	Low Volume Exemption
MEE	Ministry of Ecology and Environment
MIIT	Ministry of Industry and Information Technology
ml	Millilitre
MNC	Multinational Corporation
NPC	National People's Congress
PCF	Product Carbon Footprint
QR Code	Quick Response Code
R&D	Research and Development
SDS	Safety Data Sheet
SEMB	Shanghai Emergency Management Bureau
SMTC	Shanghai Municipal Transportation Commission
SPL	Safety Production Licence
TfS	Together for Sustainability

Pharmaceutical Working Group

Key Recommendations

1. Continue to Harmonise the Regulatory System with International Standards 6

- Accelerate the Alignment of the China Pharmacopoeia (ChP) with international standards and monographs.
- Streamline approvals and testing.
  - Optimise management of post-approval chemistry, manufacturing and control (CMC) changes, such as allowing pre-testing.
  - Waive import quality control testing for commercial biologics.
  - Include imported products in the pilot scheme for accelerated approval of supplementary application.
- Optimise marketing authorisation holder (MAH)-related policies.
  - Protect MAH rights (nationality, trade names, segmented production).
  - Broaden biologics manufacturing pilots including cross-border and province manufacturing and segmented manufacturing.

2. Align Pharmaceutical Intellectual Property (IP) Regulations with Global Best Practices, and Ensure Consistent Enforcement among Central and Local Government Agencies 4

- Expedite regulatory data protection (RDP) reforms.
  - Accelerate implementation of RDP measures with clearer definitions of key terms including the RDP scope, durations and retroactivity.
  - Broaden RDP protection for 'new to China' drugs by applying 10 years to chemicals and 12 years to biologics, and cover all NDA data irrespective of disclosure status.
  - Apply a minimum of six years' RDP protection for overseas-approved originator drugs.
- Optimise the patent term extension (PTE) system.
  - Extend PTE to cover all approved indications for 'new to China' drugs and apply retroactively.
  - Grant PTE for medical uses where a patent and an approved indication overlap, even if the patent scope is narrower than the approved indication, rather than outright denying PTE.
- Improve the patent linkage system.
  - Clarify that the system is equally applicable to chemical drugs, biological products and traditional Chinese medicines, and include all patent types.
  - Prevent premature generic drug launches after Category Three declarations.
  - Establish challenge procedures for erroneous declarations.
- Optimise patent standards.
  - Adopt European Patent Convention 2000-type claims for secondary patents.
  - Broaden co-administration patent protection.
  - Refine inventive step tests to reduce invalidations.

- Optimise rules related to the admission of post-filling data and inventive step tests for pharmaceutical patents to reduce invalidation rates.
- Strengthen IP protection in central/local drug procurement by exempting drugs that are still the subject of patent disputes.
- Continue to explore new measures for pharmaceutical IP protection based on the Shanghai pilot example.

3. Improve Patients' Access to Innovative Pharmaceuticals by Optimising the Price Formation Mechanism, and the Payment and Reimbursement Systems 3

3.1 Design an innovation-centric price formation mechanism

- Remove economic constraints and price risk alerts for drugs with a high score for innovation.
- Increase the weight given to innovation in pricing assessments.
- Allow market-driven pricing for non-reimbursed segments.
- Pilot regional pricing autonomy programmes allowing for enterprise-led pricing or retail/reimbursement decoupling.

3.2 Continue to optimise the overall National Reimbursement Drug List (NRDL) negotiation mechanism

- Ensure balanced treatment for imported and domestic products.
- Enhance price confidentiality protocols by designating price-sensitive drugs on provincial procurement platforms, creating company request procedures and piloting market-based confidentiality systems.
- Establish differentiated incentive mechanisms for locally manufactured originator drugs and drugs with sustained research and development (R&D) investments in the local market, including accelerated value recognition during initial pricing negotiations and expedited renewal procedures.
- Implement price reduction caps and safety-net provisions for NRDL renewal negotiations.
- Improve the NRDL evaluation framework for innovation.
  - Improve the cost-effectiveness analysis for drugs with a first-in-class (FIC) mechanism by properly accounting for their clinical value when justifying their price premium.
  - Optimise health technology assessments (HTAs) to implement evidence-and-value-based pricing for high-value innovation, including rare disease drugs, cell and gene therapy, Category 2.4 drugs with globally synchronised new indications, and breakthrough therapies for chronic disease management.
  - Optimise the selection of comparators through value and science-based assessments, e.g., excluding the volume-based procurement (VBP) winning molecules from the comparator selection, or alternatively, comparing with originators' pre-VBP price if the winning molecules were selected as comparators.
  - Adopt real world evaluation (RWE) in budget assessment and price calculation.
  - Evaluate chronic disease medication pricing using the five-year average annual dosage as the benchmark.
  - Eliminate 'reimbursement less than or equal to the listed price' caps in NRDL-negotiated drug pricing agreements.
  - Improve access to innovative drugs and associated biomarker testing, thereby standardising disease diagnosis and treatment.

Section Three: Goods

- Establish price safeguards for newly listed NRDL-negotiated drugs to prevent ultra-low pricing, with expedited renewal pathways for drugs meeting any of these criteria: (i) Priced over 60 per cent below the Lowest International Reference Price (LIRP); (ii) Demonstrating international price disparity (within same drug class), or, (iii) Having undergone significant cumulative NRDL price reductions.

- Optimise the process for NRDL listing by improving hospital listings and dual-channel management.
  - Strengthen inter-departmental and cross-provincial coordination.
  - Expedite provincial hospital listing of NRDL-negotiated drugs by establishing green channels for drugs with high clinical demand and increasing the frequency of Pharmaceutical Affairs Committee (PAC) meetings.
  - Standardise reimbursement rules for NRDL-negotiated drugs.
  - Ensure all medicines in combination use for treatment of specified indications in the instructions are reimbursed.

3.3 Refine the VBP system

- Implement long-term quality/cost monitoring.
- Respect clinical/patient choice in drug selection (VBP and non-VBP drugs).
- Align policies across VBP and NRDL by incorporating VBP-winning molecules into the NRDL, irrespective of the molecule's launch timeline.
- Exclude patent-disputed drugs (including but not limited to patent disputes on compounds), PTE-protected indications, biologics and narrow therapeutic index (NTI) drugs.
- Caution against regional expansion of VBP for biologics and NTI drugs.

3.4 Refine the Diagnosis-related Group (DRG)/Diagnosis-intervention Packet systems

- Increase the payment standards for innovative drugs and update the DRG grouping for disease categories related to innovative drugs in a timely manner.
- Establish an exemption mechanism for innovative drugs (including rare disease therapies) at the local level and allocate a dedicated budget to promote innovative drugs' application.
- Ensure balanced resource allocation between surgery and internal medicine within medical institutions, particularly for innovative drugs and therapies with high costs yet significant clinical value.

3.5 Establish a tiered medical insurance system to meet the demands of high-quality/value healthcare and medical treatments

- Accelerate the drafting of a dedicated *CHI Innovative Drug List* to expedite commercial health insurance (CHI) development.
  - Establish transparent negotiation frameworks with standardised, predictable processes.
  - Prioritise high-value therapies for inclusion, focussing on: FIC drugs and drugs with a novel mechanism of action (MoA), oncology and ultra-rare disease treatments, and domestically manufactured originator products.
  - Pilot innovative contract/payment methods such as (i) uniform reimbursement rates evaluating equity between healthy enrolees and pre-existing condition patients, (ii) direct CHI claim settlements, and (iii) risk-sharing agreements (finance- and/or outcome-based).
  - Implement dynamic adjustment mechanisms to ensure ongoing list optimisation.
- Enhance data sharing for CHI development.

- Clarify the basic medical insurance (BMI)-CHI coordination mechanism.
- Enhance collaboration between pharmaceutical companies, commercial insurers and healthcare institutions through supported policies and regulatory frameworks.
  - Promote regional pilots featuring tailored evaluation/payment models for breakthrough therapies.

4. Enhance Primary Healthcare Infrastructure and Capabilities for Chronic Disease Management

4.1 Include all the Healthy China 2030-prioritised chronic diseases in the National Basic Public Health Services Programme

4.2 Update disease priorities and include more conditions under the systemic management of chronic diseases to meet evolving patient demands

- Ensure patients' equal access to essential and innovative medicines.
- Encourage socio-economic and environmental studies on chronic disease emergence, dissemination and containment strategies.

4.3 Continue to optimise the tiered diagnosis/treatment and transfer/referral systems to enable comprehensive, coordinated care across all stages of disease management

- Ensure medication continuity for patients by exempting drugs for prioritised chronic diseases from hospital drug quotas and total expenditure caps.
- Expand access to innovative and high-quality drugs for chronic diseases at primary healthcare institutions to ensure treatment continuity across all tiers of hospitals.
- Formulate sustainable strategies for disease prevention and management to alleviate health burdens, while leveraging digital innovations and cross-disciplinary research to deliver safe, effective and affordable diagnostic/therapeutic solutions.
- Conduct healthcare quality monitoring coupled with community education and professional training to strengthen primary-level capabilities and knowledge of standardised and specialised diagnosis/treatment/monitoring protocols, etiological treatment approaches, biomarker testing methodologies and the overall (co-)management of chronic diseases.
- Develop specialised outpatient services for common chronic diseases.

4.4 Promote joint prevention, treatment and management of significant comorbidities

- Pilot a multidisciplinary collaborative diagnosis and treatment model for comorbidities.
- Implement integrated intervention methods including common risk factor prevention, joint screening, coordinated follow-up management, lifestyle guidance and rehabilitation for comorbid conditions.

4.5 Strengthen multi-party coordination and collaboration on chronic disease management

- Foster collaboration across healthcare agencies, insurance and pharmaceutical companies by integrating data systems to establish a comprehensive system covering patient monitoring, care delivery, medication availability and diagnostic support.
- Explore the possibility of including advanced therapies for major chronic diseases into the NRDL through negotiations and improving hospital access to NRDL drugs at all levels.
- Expand local governments' best practices of multi-disease co-management to other regions.

5. Increase Access to Innovative Preventive and Therapeutic Healthcare Solutions for Improved Public Health Outcomes

5.1 Improve rare disease management

- Strengthen rare disease legislation and regulation.
  - Explore legislation to provide a structured framework to enhance R&D and access to treatments.
  - Update the *Rare Disease Catalogue* every two years using current selection criteria.
  - Accelerate clinical trial recruitment and drug approvals and enhance epidemiological data collection to support evidence-based policies.
  - Optimise Customs regulations to facilitate rare disease-specific imports and align import regulations across the National Health Commission (NHC), the National Medical Products Administration (NMPA) and Customs.
  - Launch Free Trade Zone pilots for specific rare disease-related imports such as plasma-derived therapies (PDT).
- Establish a central-level special fund for ultra-rare diseases while continuously developing the tiered payment system (BMI/CHI/charity) for rare diseases.
- Empower patient organisations in decision-making along the rare disease-specific value chain to improve therapy affordability.
- Improve rare disease diagnosis and treatment capabilities.
  - Expand diagnostic access (genetic testing, specialist consultations), particularly in rural areas.
  - Optimise the diagnosis and treatment networks and strengthen primary care capabilities for rare diseases.
  - Increase education for public and healthcare professionals (HCPs) on early recognition and management.

5.2 Introduce innovative cancer treatments and raise awareness for cancer recurrence prevention

- Optimise the approval process and encourage R&D and clinical application of innovative radiopharmaceuticals.
  - Clarify the definition, management attribute, registration pathway, and technical requirements of radiopharmaceuticals and their components, and formulate implementation regulations and technical guidelines, including to encourage localisation of radiopharmaceuticals production.
  - Promote development of nuclear medicine departments by upgrading infrastructure in selective tertiary hospitals in major cities with sufficient novel isotope quotas, establishing standardised isotope therapy centres in key regions, and optimising radiation safety standards for waste management and outpatient treatment.
  - Build a value-based access mechanism by facilitating hospital listing; explore innovative payment models to improve patient affordability; and align medical service pricing in line with regional economic conditions to appropriately value clinical expertise.
- Strengthen recurrence awareness in cancer prevention.
  - Include lifetime recurrence risks into treatment protocols and healthcare policies.
  - Incorporate cutting-edge solutions for preventing recurrence as standard adjuvant therapy into major national cancer guidelines.

5.3 Enhance respiratory disease prevention.

- Clarify and broaden the legal definition of 'preventative biological products' in major laws and regulations to include non-vaccine prophylaxis.
- Strengthen legal interpretations to ensure consistent implementation across disease control institutions, securing clear responsibility divisions and public health protection.
- Pilot Respiratory Syncytial Virus non-vaccine prophylaxis prevention programmes at vaccination points, paediatric and obstetrics/gynaecology (OB) wards, and community health centres to improve infant access.
- Leverage existing global clinical trial data to expedite or obtain conditional approval for vaccines to address urgent and unmet public health needs.
- Explore inclusion of preventive treatments in primary care drug catalogues to enhance early intervention.

Recent Developments

China's continued healthcare reforms in 2024–2025 focussed on expanding access, driving pharmaceutical innovation and controlling costs to promote the development of the healthcare sector.[1,2&3] The State Council's *Document No. 53*, released in January 2025, aims to further improve the regulatory system and national medical insurance system over the short and long terms.[4] Local governments, led by Beijing[5,6&7] and Shanghai,[8&9] implemented tailored measures to reinforce national priorities.

Looking ahead, the 2025 Government Work Report outlined concrete goals,[10] including pricing reforms, an innovative drug catalogue, and enhanced support for research and development (R&D). It also attached importance to optimising the volume-based procurement

1 *Government Work Report: Accelerating the development of new quality productivity,* State Council, 5th March 2024, viewed 30th April 2025, <https://www.gov.cn/zhengce/jiedu/tujie/202403/content_6936388.htm>

2 *Opinions of the State Council on Further Optimising Foreign Investment Environment and Strengthening Efforts to Attract Foreign Investment,* State Council, 13th August 2023, viewed 30th April 2025, <https://www.gov.cn/zhengce/content/202308/content_6898048.htm>

3 *The State Council executive meeting adopted the Action Plan for High-Quality Development of the Pharmaceutical Industry (2023–2025) and other measures, Xinhua,* 25th August 2023, viewed 30th April 2025, <https://wap.miit.gov.cn/xwdt/szyw/art/2023/art_8ec3bf30ffb7467ca114e67406a9f925.html>; *Circular on the Action for Comprehensive Improvement of Healthcare Quality (2023–2025),* National Health Commission (NHC) and National Administration for Traditional Chinese Medicine, 26th May 2023, viewed 30th April 2025, <https://www.gov.cn/zhengce/zhengceku/202305/content_6883704.htm>; *Guidance Catalogue for Industrial Structure Adjustment (2024)*, National Development and Reform Commission (NDRC), 27th December 2023, viewed 30th April 2025, <https://www.gov.cn/zhengce/202401/content_6924187.htm>

4 *Opinions of the General Office of the State Council on Comprehensively Deepening the Reform of Pharmaceuticals and Medical Device Regulation to Promote High-Quality Development of the Pharmaceutical and Healthcare Industry,* State Council, 3rd January 2025, viewed 28th April 2025, <https://www.gov.cn/zhengce/content/202501/content_6996115.htm>

5 *Notice of Issuing the Beijing Action Plan for Boosting Pharma-Healthcare Innovation (2024-2026)*, Beijing Municipal Government, 15th May 2024, viewed 8th May 2025, <https://www.beijing.gov.cn/zhengce/zhengcefagui/202405/t20240523_3692425.html>

6 *Notice on Issuing the Interim Measures for the Negative List Management of Cross-Border Data Transfer in the China (Beijing) Pilot Free Trade Zone* and the *Cross-Border Data Transfer Management List (Negative List) (2024 Edition) for the China (Beijing) Pilot Free Trade Zone,* Beijing Cyberspace Administration and Two Other Departments, 26th August 2024, viewed 8th May 2025, <https://www.beijing.gov.cn/zhengce/zhengcefagui/202409/t20240902_3787646.html>

7 *Notice of Issuing the Beijing Action Plan for Promoting High-Level Opening-Up in Advanced and Precision Industries (2025),* Beijing Economy and Informatisation Bureau, 22nd May 2025, viewed 28th April 2025, <https://invest.beijing.gov.cn/zwgk/zcjd/202505/t20250529_4101624.html>

8 *Several Opinions of Shanghai Municipal Government on Promoting Innovation across the Biopharmaceutical Industry Chain,* Shanghai Municipal Government, 18th July 2024, viewed 8th May 2025, <https://www.shanghai.gov.cn/nw12344/20240730/0fe29fc2246e4b478757dee3a01ccd08.html>

9 *Notice of Issuing the Pilot Plan for the Import of Items for Biopharmaceutical Research and Testing in Shanghai,* Shanghai Municipal Commission of Commerce and Five Other Departments, 27th September 2024, viewed 8th May 2025, <https://sww.sh.gov.cn/zwgkhsgwj/20240927/eddf8c11721f4a77818e4e77725c5d62.html>

10 *Report on the Work of the Government Delivered at the Third Session of the 14th National People's Congress of the People's Republic of China on 5th March 2025, Xinhua,* 12th March 2025, viewed 28th April 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm>

(VBP) policies with stricter quality oversight, which has been well received by the industry.[11]

Upcoming reforms include a *CHI Innovative Drug List*,[12] expanded commercial health insurance (CHI),[13] and continuous alignment with global standards,[14] which are in line with China's commitment to openness, boosting its competitiveness in healthcare innovation.

The global pharmaceuticals market has achieved steady growth, and was valued at United States dollar (USD) 1.7 trillion in 2024 with a compound annual growth rate (CAGR) of 5.79 percentage points. It is projected to exceed USD 2.8 trillion by 2033.[15] China remains the world's second-largest pharmaceutical market, demonstrating increasing influence in terms of the number of clinical trials,[16] competitive local players, continued investments by global multinationals and policy improvements. The working group remains committed to collaborating with authorities to foster a sustainable and competitive healthcare system.

Key Recommendations

1. Continue to Harmonise the Regulatory System with International Standards 6

Concern

Gaps in the harmonisation of China's regulatory framework with international standards remain a key barrier when pharmaceutical multinational corporations (MNCs) consider whether or not to position China as a tier-one market for the development and marketing of their products.

Assessment

Since 2015, China's National Medical Products Administration (NMPA) has undertaken significant reforms in its drug and medical device review and approval system to address the lengthy approval times and backlog of innovative products. As a result, the clinical trial approval time has been successfully reduced from an average of six to 12 months down to 30 working days,[17] effectively facilitating simultaneous drug development globally. In addition, a series of important procedures have been announced—including breakthrough therapy designation (BTD), conditional approval and priority review—to accelerate innovative drug development and approval in China. Furthermore, China adopted the International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use (ICH) technical requirements for drug registration and became a key global player in drug approval and regulation. However, further joint efforts are still needed for the full implementation of ICH in China.

China Pharmacopeia (ChP)

Notable progress has been made in the ChP 2025 revision to align with global standards.[18] However, there are still gaps in the general monographs in the ChP that have already been harmonised by the Pharmacopeial Discussion Group (PDG), as well as differences in the requirements of some ICH guidelines.

Management of post-approval changes

The lengthy approval time for post-approval changes of chemistry, manufacturing and control (CMC) in China creates significant supply chain challenges.[19] For major changes, manufacturers face a wait of up to 19 months[20] before changed products can enter the Chinese market, forcing companies to stockpile materials—sometimes valued at hundreds of millions of euros—to maintain

11 The tenth round of national volume-based procurement (VBP) for drugs underwent historic price reductions, sparking concerns about 'balancing drug accessibility and medication safety.' See: *Report on the Work of the Government Delivered at the Third Session of the 14th National People's Congress of the People's Republic of China on 5th March* 2025, *Xinhua*, 12th March 2025, viewed 28th April 2025, <https://www.gov.cn/yaowen/liebiao/202503/content_7013163.htm>

12 *The first edition of the CHI Innovative Drug List is estimated to be released within this year, Xinhua*, 17th January 2025, viewed 8th May 2025, <https://www.gov.cn/lianbo/bumen/202501/content_6999350.htm>

13 *Ibid.*

14 *NMPA becomes the applicant for PIC/S*, NMPA, 9th November 2023, viewed 30th May 2025, <https://english.nmpa.gov.cn/2023-11/09/c_937791.htm#:~:text=In%20late%20September%202023%2C%20the%20National%20Medical%20Products,application%20to%20the%20Pharmaceutical%20Inspection%20Co%02operation%20Scheme%20%28PIC%2FS%29.>

15 *Pharmaceutical Market Size to Surpass USD 2.82 Trillion by 2033, BioSpace*, 29th January 2025, viewed 18th June 2025, <https://www.biospace.com/press-releases/pharmaceutical-market-size-to-surpass-usd-2-82-trillion-by-2033>

16 The number of clinical trials in China registered on the International Clinical Trial Registration Platform (ICTRP) of the World Health Organization (WHO) surpassed the United States in 2024 ranking top for the first time. *Ibid.*

17 *Notice on Issuing the Pilot Work Plan for Optimising the Review and Approval of Clinical Trials for Innovative Drugs,* NMPA, 31st July 2024, viewed 18th June 2025, <https://www.gov.cn/zhengce/zhengceku/202408/content_6965736.htm>; *Notice on Optimising the Review and Approval of Clinical Trials for Innovative Drugs,* NMPA, 16th June 2025, viewed 18th June 2025, <https://www.nmpa.gov.cn/xxgk/zhqyj/zhqyjyp/20250616142133128.html>

18 *NMPA and NHC Announcement on Issuing the 2025 Edition of Chinese Pharmacopoeia (No. 29, 2025),* NMPA and NHC, 25th March 2025, viewed 6th May 2025, <https://www.nmpa.gov.cn/xxgk/fgwj/gzwj/gzwjyp/20250325183810122.html?type=pc&m=>

19 Regulatory actions for post-approval CMC changes are classified into three categories depending on the scale of changes: (i) major CMC changes need review and approval before implementation; (ii) moderate changes can be implemented immediately after notification; and, (iii) minor changes can be implemented directly and included in the annual report. However, none of these actions can take place simultaneously in China and overseas.

20 Reported by European Chamber member companies.

supply while waiting for approval. However, these reserves can expire within nine months, creating a high risk of supply disruptions. This regulatory gap strains inventory management and delays patient access to updated medicines.

Cross-border holding and segmented manufacturing

Unlike the European Union (EU) and the United States (US)—where their marketing authorisation holder (MAH) systems enable segmented global manufacturing[21] that ensures continuous drug supply to patients in various markets—China currently requires MAH nationality to match the production site.[22] This restriction creates registration challenges when transferring the innovative product's manufacturing from overseas to domestic facilities, limiting supply chain optimisation.

There have been recent approval cases for cross-border segmented manufacturing of MNCs with the manufacturing of biological drug substances (DSs) in China and drug products (DPs) overseas. However, foreign MAHs still face restrictive bundled DS/DP requirements for localisation[23] – a practice misaligned with global supply chain optimisation that delays market access.[24] For investigational drug products,[25] cross-border production is not allowed during the stages of a New Drug Application (NDA)/Biologics License Application (BLA) in China, impeding China's participation in global R&D activities.

Issues are also observed in the context of localisation due to the absence of a cross-provincial coordination and data-sharing platform to manage an MAH's various manufacturing sites within China.

The industry continues to call for additional pilot plans to further optimise China's pharmaceutical regulatory framework.

MAH status and rights in cross-border technical transfer

China encourages the transfer of imported products already established in the domestic market to local production, granting them priority regulatory review. However, the submission of an NDA which fundamentally alters the originator drug's identity and turns it into a domestic generic,[26] has caused industry concern over whether the originator's identity, such as trade name, can be inherited accordingly. If not, it would significantly impact the originator drug's due rights and innovative status, and increase the complexity of, and uncertainty over, registration and marketing channels for the originator drug.[27]

Recommendations

- Accelerate the alignment of the ChP with international standards and monographs.
- Streamline approvals and testing.
  - Optimise management of post-approval CMC changes, such as allowing pre-testing.
  - Waive import quality control testing for commercial biologics.
  - Include imported products in the pilot scheme for accelerated approval of supplementary application.
- Optimise MAH-related policies.
  - Protect MAH rights (nationality, trade names, segmented production).
  - Broaden biologics manufacturing pilots including cross-border and province manufacturing, and segmented manufacturing.

2. Align Pharmaceutical IP Regulations with Global Best Practices, and Ensure Consistent Enforcement among Central and Local Government Agencies 4

Concern

China's pharmaceutical intellectual property (IP)

21 There is no official definition of 'segmented manufacturing'. However, according to the understanding commonly shared among those in the pharmaceutical industry, it means that the whole process of drug production is divided into two or more stages to complete the manufacturing of one product in multiple production sites. Each production site is responsible for its production and quality management, with the MAH fully responsible for the overall product quality.

22 The MAH and its manufacturing sites must be either both Chinese or both overseas. In this case, the domestic production of a biological product cannot adopt a drug substance produced from a foreign manufacturing site, and vice versa.

23 Licence-in products are those resulting from a process in which a company (the licencee) acquires the rights to a product, technology or piece of intellectual property from another organisation (the licensor). This can include rights to develop, manufacture and market a particular pharmaceutical product.

24 Under a MAH's global production and supply scheme, the common practice is that the biologics' drug substance (DS) is produced centrally and then distributed to local markets for next-stage production, including the DP. Since the early-stage production take place overseas, it defines the foreign nationality of the MAH in question.

25 Investigational drug products refer to the drug products that are under development and not yet approved.

26 *Call for Consultation on the Draft Dossier Requirements on Marketing Authorisation Application for Marketed Drug Product Transferring from Foreign to Domestic (for chemical drugs)*, Center for Drug Evaluation (CDE), 23rd March 2023, viewed 30th April 2025, <https://www.cde.org.cn/main/news/viewInfoCommon/7e936f4af8b9e86e22ee3f2e48a08c31>

27 For instance, after obtaining registration approval and domestic production certification, also known as technology transfer certification, the manufacturer of the originator drug is required to submit additional material and an application for the RLD identity. The whole approval process can take from six months to three years, preventing drugs from entering local hospitals in a timely manner.

protections—including regulatory data protection (RDP), patent term extensions (PTEs), patent linkage and secondary patents—still lack sufficient coverage and alignment with global standards to effectively protect innovation.

Assessment

IP protections are essential for driving pharmaceutical innovation by incentivising R&D to address unmet medical needs. Despite China's progress in establishing PTEs and patent term adjustment (PTAs),[28] further efforts are needed to strengthen the implementation and effectiveness of these protections.

RDP

China's *Draft Implementation Measures for Drug Trial Data Protection*[29] require immediate promulgation and implementation with critical refinements: extending the protection period for new drugs, covering all data submitted in their NDA/BLA irrespective of disclosure status, applying retroactively per the 2002 *Drug Administration Law Implementation Regulations,* and ensuring proportional coverage.

PTEs

Currently, PTEs are still not applicable to innovative drugs that are 'new to China'. In addition, existing drugs are not entitled to the retroactive application of a PTE, which is not encouraging for innovative drugs that are made available to Chinese patients early rather than tactically waiting for PTE implementation in China.

Patent linkage

China's patent linkage system provides only nine months' protection for chemical drugs and none for biologics. The system is limited in scope, excluding key patents such as polymorph patents, and lacks penalties for inaccurate generic or biosimilar patent declarations.[30] Furthermore, it cannot prevent the premature generic launches after Category Three patent declarations.[31]

Protection for secondary patents

China's examination standards for secondary patents—permitting only narrowly construed Swiss-type claims[32]—have fallen behind recent global developments. Unlike Europe and the US, China excludes coverage for new indications, combination therapies and co-administration methods.[33] Adopting European Patent Convention 2000-type claims would better protect R&D investments in clinically valuable advances like dosage regimens and combination therapies.

Invalidation of pharmaceutical patents

The high invalidation rate of pharmaceutical patents in China is a concern for the industry, particularly for patents covering important drugs. Rules related to the admission of post-filing data and inventive step tests for pharmaceutical patents should be optimised to mitigate the invalidation rate.

Recommendations

- Expedite RDP reforms.
  - Accelerate implementation of RDP measures with clearer definitions of key terms including the RDP scope, durations and retroactivity.
  - Broaden RDP protection for 'new to China' drugs by applying 10 years to chemicals and 12 years to biologics,[34] and cover all NDA data irrespective of disclosure status.
  - Apply a minimum of six years' RDP protection for overseas-approved originator drugs.
- Optimise the PTE systems.
  - Extend PTE to cover all approved indications for 'new to China' drugs and apply retroactively.

28 Following the establishment of the PTE and PTA mechanisms for medicinal products in the Patent Law (Fourth Amendment) in 2021, the corresponding implementation rules were issued in 2023 providing detailed provisions on implementing PTE and PTA. In response to the demands of the pharmaceutical industry, a maximum of five years of patent term compensation has been granted for new drugs licensed in China.

29 The European Chamber Pharmaceutical Working Group has submitted the collated comments on the *Measures for the Implementation of Drug Regulatory Data Protection (Draft)* and on the *Work Procedure of Drug Regulatory Data Protection (draft)* to the NMPA. *Measures for the Implementation of Drug Regulatory Data Protection (Draft)*, NMPA, 19th March 2025, viewed 28th April 2025, <https://www.nmpa.gov.cn/xxgk/zhqyj/zhqyjyp/20250319181537196.html?type=pc&m=>

30 The NMPA has established a new module on the Platform for Registration of Patent Information on Marketed Drugs, which includes a section for filing objections, but the rules on how objections will be handled are not yet clear.

31 A Category 3 patent declaration means that the patent information registration platform for drugs marketed in China includes a patent related to the relevant originator drug, and the generic drug applicant undertakes that the generic drug will not be marketed before the expiration date of the relevant patent.

32 In China, based on Section 4.5.2 of Chapter 10 of the *Guidelines for Patent Examination (2010)* and the actual practice, Swiss-type claims are treated as method-type claims, as they essentially seek to protect a process for manufacturing a pharmaceutical product. Typically, the Swiss-type claims in China are defined by three categories of technical features: (i) treatment subject (i.e., the patient population), (ii) the mode of administration, and (iii) the dosing regimen. See: *Challenges and Strategies in Patent Protection for Pharmaceutical Uses: The Swiss-Type Claim*, TiPlab, 28th July 2017, viewed 3rd June 2025, <https://www.tip-lab.com/article/?uuid=6dc64ffae8594db8ab56f9b91059c3e2>

33 For example, in China, co-administration patents are narrowly interpreted as not covering the use of one active pharmaceutical ingredient (API) in the manufacture of a pharmaceutical composition for use with a separate API/pharmaceutical composition.

34 These are the current standards practiced by the US Food and Drug Administration and European Medicines Agency.

- Grant PTE for medical uses where a patent and an approved indication overlap, even if the patent scope is narrower than the approved indication, rather than outright denying PTE.
- Improve the patent linkage system.
  - Clarify that the system is equally applicable to chemical drugs, biological products and traditional Chinese medicines, and include all patent types.
  - Prevent premature generic drug launches after Category Three declarations.
  - Establish challenge procedures for erroneous declarations.
- Optimise patent standards.
  - Adopt European Patent Convention 2000-type claims for secondary patents.
  - Broaden co-administration patent protection.
  - Refine inventive step tests to reduce invalidations.
- Optimise rules related to the admission of post-filling data and inventive step tests for pharmaceutical patents to reduce invalidation rates.
- Strengthen IP protection in central/local drug procurement by exempting drugs that are still the subject of patent disputes.[35]
- Continue to explore new measures for pharmaceutical IP protection based on the Shanghai pilot example.

3. Improve Patients' Access to Innovative Pharmaceuticals by Optimising the Price Formation Mechanism, and the Payment and Reimbursement Systems 3

Concern

The current focus on price over efficacy hinders the sustainable development of, and innovation in, the pharmaceutical industry.

Assessment

A stable and predictable system of evaluation, pricing and reimbursement is crucial to foster innovation and ensure patient access to innovative drugs. Current challenges for innovative drugs include undervalued innovation in assessments, price-cut focussed reforms that discourage R&D, inconsistent policy implementation and an inadequate reimbursement framework.

3.1 Price formation mechanism

Since 2015, China's drug pricing reforms have expanded cost controls across hospitals (including outpatient services),[36,37&38] basic medical insurance (BMI), online pharmacies,[39] and, in some regions, even non-VBP retail drugs – potentially stifling innovation and market competition.

While key policy documents released in 2024[40] and 2025[41] emphasise better pricing mechanisms for innovative drugs, urgent action is needed to implement market-driven pricing that preserves retail competition and patient access.[42]

3.2 National Reimbursement Drug List (NRDL)

(1) NRDL Negotiation

While the NRDL annual adjustment mechanism, introduced in 2017, improved access to innovative drugs and pricing predictability, its current framework undervalues innovative therapies, demonstrating the following issues:

- Rigid cost-effective models reflected in inadequate incremental cost-effectiveness ratio (ICER) alternatives.
- Low and inflexible price ceilings.

35 For further details, please refer to Key Recommendation 4 of the *Pharmaceutical Working Group Position Paper 2025/2026*.

36 *Notice on Strengthening the Supervision of Pricing Activities in the Pharmaceutical Industry,* NDRC, 5th May 2015, viewed 30th April 2025, <https://www.gov.cn/xinwen/2015-05/05/content_2857226.htm>

37 *Notice on the Promotion of Fair and Honest, Transparent and Balanced Interprovincial Prices of Drugs with the Same Generic Name and the Same Brand Name,* NHSA, 5th January 2024, viewed 30th April 2025, <http://www.nhsa.gov.cn/art/2024/1/5/art_53_11914.html>

38 At the national level, health insurance-designated retail pharmacies are encouraged to join VBP; at the local level, in regions such as Shanghai and Zhejiang, health insurance-designated outpatient clinics and pharmacies are guided to purchase through local online bidding and purchasing platforms. In some places, such as Nanjing, the retail pricing of non-VBP drugs is also advised to be capped at online bidding prices, which has removed pharmacies' discretion to add any mark-ups.

39 The retail price of an online pharmacy will be used as reference to request a price reduction in both provincial listings and retail pharmacies that are covered by BMI.

40 *The 'Comprehensive Chain Support Plan for the Development of Innovative Medicines' has been reviewed and approved, and the industry has responded enthusiastically, DrugTimes,* 6th July 2024, viewed 8th May 2025, <https://www.drugtimes.cn/2024/07/06/thecomprehensivechainsupportplanforthedevelopmentofinnovativ/#:~:text=On%20July%205%2C%202024%2C%20Li%20Qiang%2C%20the%20Premier,of%20Innovative%20Drug%20Development%E2%80%9D%20was%20reviewed%20and%20approved.>

41 The 2025 Government Work Report further emphasised improving the drug pricing mechanism, listing innovative drug development support as a key priority.

42 In March 2024, China introduced a draft pricing mechanism for chemical drugs aimed at market-driven pricing. However, measures like price risk alerts (categorising drugs A-C by cost, favouring cheaper Category A drugs), mandatory price cuts for NDRL listing, and post-stabilisation price reductions of 15 per cent undermine pricing autonomy and discourage pharmaceutical innovation. These policies risk disincentivising high-quality drug development. The European Chamber's Pharmaceutical Working Group submitted detailed related comments to the NHSA on 26th February 2024. See: *China issues the Draft Document on Innovative Chemical Drug Pricing*, Pacific Bridge Medical, 5th March 2024, viewed 30th April 2025, <https://www.pacificbridgemedical.com/news-brief/china-issues-draft-document-on-innovative- chemical-drug-pricing/>

- Flawed comparator selection: prices of the molecules that have won VBP bids are used as benchmarks for innovative drug pricing.
- Lack of transparency in the overall processes.
- Inadequate reimbursement for biomarker testing for precision treatment.[43]

(2) Hospital Access to NRDL Drugs

Despite the progress made by local Pharmaceutical Affairs Committees (PACs) in accelerating access to hospitals for NRDL-negotiated drugs, challenges remain – including inconsistent regional policies, outpatient reimbursement hurdles and strict hospital drug quotas.[44] Despite a slight rise to 44 per cent in 2024,[45] NRDL-negotiated drug adoption rates in hospitals remain low, while innovative drugs face even greater barriers due to restrictive reimbursement coverage.[46]

(3) NRDL Reimbursement

Some local healthcare administrations have inconsistent policies when reimbursing NRDL-negotiated combination therapies – approving newly added molecules while denying coverage for previously eligible molecules. As a result, clinicians tend to avoid optimal treatment combinations due to financial concerns, limiting patient access to effective therapies.

3.3 VBP

China's pharmaceutical VBP system[47] prioritises low prices, with average bids slashed over 50 per cent across 10 rounds.

The VBP system lacks consistency evaluation and can risk patient safety and therapeutic continuity by forcing non-interchangeable drug switches. This is particularly dangerous for narrow therapeutic index drugs[48] and biological products.[49] VBP-winning biologics face greater supply risks[50] than traditional drugs due to manufacturing complexities, lengthy production cycles, specialised equipment requirements and workforce shortages.

Furthermore, despite VBP contractual obligations covering only 60 to 80 per cent of hospital procurement, hospitals still tend to avoid purchasing VBP non-selected[51] originator drugs due to budget constraints.

Discrepancies between local policies have also led to administrative complexities in contract renewals and other aspects of VBP. In addition, due to the inconsistency between VBP and NRDL policies, some VBP-winning molecules are not covered by the NRDL, and, as a result, must bear price cuts while also being excluded from reimbursement.

Lastly, China's current policy of excluding products with compound patent disputes from VBP is helpful to innovation and should be applied to national and regional VBP activities.[52] Extending its scope to cases beyond compound patents would be more conducive to pharmaceutical innovation.

3.4 Diagnosis-related Group (DRG)/Diagnosis-intervention Packet (DIP)

The reforms to the DRG/DIP payment systems, introduced in 2019[53] and further deepened in 2024—following the publication of a work plan that provided a more refined and precise classification of disease groups and categories, supported by a broader clinical

43 *Guidance on the Clinical Application of Novel Antineoplastic Drugs (2022 Version),* NHC, 30th December 2022, viewed 30th April 2025, <https://www.nhc.gov.cn/yzygj/c100068/202212/fd6148a5383246b1851dff937507bcb9.shtml>

44 'Dual channel management' refers to a mechanism that meets the reasonable demand for negotiated drugs in terms of supply guarantee and clinical use through two channels (designated medical institutions and designated retail pharmacies) and synchronises them into the BMI payment. See: *Guidance on Establishing and Improving the 'Dual Channel' Management Mechanism of NRDL Negotiation Drugs*, NHSA & NHC, 10th May 2021, viewed 30th April 2024, <http://www.nhsa.gov.cn/art/2021/5/10/art_37_5023.html>

45 44 per cent of the NRDL-negotiated drugs achieved a hospital listing only nine months after the successful negotiation. See: *Developing a Sustainable Pharmaceutical Innovation Ecosystem in China 2025-2030,* R&D Based Pharmaceutical Associations Committee (RDPAC), Beijing, March 2025, p.27

46 *Research on the Current Situation on NRDL Negotiation Products Implementation and Local Practice Experience,* RDPAC, January 2024, viewed 30th April 2025, <https://cnadmin.rdpac.org/upload/upload_file/1706526864.pdf>

47 *Notice on the 14th Five-year Plan for National Medical Security,* State Council, 29th September 2021, viewed 30th April 2025, <https://www.gov.cn/zhengce/content/2021-09/29/content_5639967.htm>

48 NTI drugs are those for which small differences in dose or blood concentration may lead to serious therapeutic failures and/or adverse drug reactions that are life-threatening, or result in persistent or significant disability or incapacity. Therefore, an ultra-high level of dosage precision and product quality is essential. Given this characteristic, NTI drugs are highly uninterchangeable. See: Jiang, W, *FDA Drug Topics: Understanding Generic Narrow Therapeutic Index Drugs,* Food and Drug Administration (FDA), viewed 30th April 2025, <https://www.fda.gov/ media/162779/download>

49 Biological drugs exhibit high molecular weight, structural variability and complex manufacturing processes – factors that may lead to clinically meaningful differences between originator biologics and biosimilars in efficacy, safety and immunogenicity. See: Fangxu, W, and Libo, T, 2022, *Characteristics, Difficulties and Policy Progress of VBP of Biological Drugs*, vol. 2022, no. 4, pp. 18–21, viewed 30th April 2025, China Health Insurance, item: 10.19546/j.issn.1674-3830.2022.4.003.

50 Ensuring a stable supply of VBP-winning drugs is a top priority, as reflected in national procurement rules like multi-winner selection.

51 Refers to unsuccessful bidders in the VBP of pharmaceuticals.

52 *Opinions on Strengthening Intellectual Property Protection in the Field of Pharmaceutical Volume-based Procurement,* NHSA and CNIPA, 5th December 2022, viewed 30th April 2025, <https://www.gov.cn/zhengce/zhengceku/2023-01/02/content_5734611.htm>

53 *The Three-year Action Plan on DRG/DIP Payment Reform,* NHSA, 26th November 2021, viewed 30th April 2025, <http://www.nhsa.gov.cn/art/2021/11/26/ art_104_7413.html>

case database[54]—have improved care standardisation and resource allocation, and reduced patient costs and wait times.[55] However, the DRG/DIP systems encounter implementation challenges globally,[56] with China facing the following specific difficulties:

- Outdated cost benchmarks disadvantage innovative therapies[57] limiting their timely access to hospitals.[58]
- Surgical specialties are disproportionately favoured over internal medicine, risking skewed resource allocation and uneven specialty development.[59]
- Reimbursement remains restrictive.[60]

3.5 A tiered medical security system

(1) Lack of specialised funding schemes for innovative pharmaceutical products

The current payment system is still underdeveloped, failing to provide specialised funding and sufficient reimbursement for high-value innovative and breakthrough therapies.[61]

(2) Development of CHI and the *CHI Innovative Drug List*

China's 14th Five-year Plan (2021–2025) aims to expand reimbursement for innovative treatments by integrating BMI and CHI[62&63] into a multi-tiered medical insurance system.[64] While there has been progress in the drafting progress of the National Healthcare Security Administration's (NHSA's) *CHI Innovative Drugs List* (dedicated to CHI)[65], its implemenration details remain unclear. Key coordination challenges persist—including misaligned coverage scope and standards,[66] payment systems, and information sharing between stakeholders (across healthcare authorities, insurers, pharmaceutical companies and medical institutions)—and are bottlenecks to building an effective system.

Recommendations

3.1 Design an innovation-centric price formation mechanism

- Remove economic constraints and price risk alerts for drugs with a high score for innovation.
- Increase the weight given to innovation in pricing assessments.
- Allow market-driven pricing for non-reimbursed segments.
- Pilot regional pricing autonomy programmes allowing for enterprise-led pricing or retail/reimbursement decoupling.

3.2 Continue to optimise the overall NRDL negotiation mechanism

- Ensure balanced treatment for imported and domestic products.
- Enhance price confidentiality protocols by designating price-sensitive drugs on provincial procurement platforms, creating company request procedures and piloting market-based confidentiality systems.
- Establish differentiated incentive mechanisms for locally manufactured originator drugs and drugs with sustained R&D investments in the local market, including accelerated value recognition during initial pricing negotiations and expedited renewal procedures.
- Implement price reduction caps and safety-net provisions for NRDL renewal negotiations.
- Improve the NRDL evaluation framework for innovation.
  - Improve the cost-effectiveness analysis for drugs with a FIC mechanism by properly accounting for their clinical value when justifying their price premium.
  - Optimise HTAs to implement evidence-and-value-based pricing for high-value innovation including rare disease drugs, cell and gene therapy,

54 *Notice on Issuing the DRG/DIP Version 2.0 Grouping Methodology and Further Advancing Implementation,* NHSA, 17th July 2024, viewed 30th April 2025, <https://www.gov.cn/zhengce/zhengceku/202407/content_6964136.htm>

55 *The road to deepening DRG payment method reform*, Medical Insurance China, 22nd April 2025, viewed 11th May 2025, <https://mp.weixin.qq.com/s/nrsHkj_iCS5Nr5-66Kj9eA>

56 As reported by a Pharmaceutical Working Group member that has decades of experience working in the health and pharmaceutical sector in the EU.

57 The reliance on three-year historical cost averages creates artificially low reimbursement rates, particularly disadvantaging internal medicine departments that use innovative therapies (e.g., haematology).

58 *Breaking down institutional barriers and bringing innovative medical products closer to patients,* CPPCC.gov.cn, 1st March 2025, 30th April 2025, <https://baijiahao.baidu.com/s?id=1825380222761556296&wfr=spider&for=pc>

59 *The reasons behind hospitals' reluctance to take on certain 'complex patients', News China*, 18th April 2024, viewed 30th April 2025, <https://baijiahao.baidu.com/s?id=1796633726380722407&wfr=spider&for=pc>

60 Reported by European Chamber member companies.

61 High-value innovative/breakthrough therapies such as cell and gene therapies, drugs for rare and ultra-rare diseases, and nuclear medicines, etc.

62 In 2021, the NHSA and the China Banking and Insurance Regulatory Commission both issued policies to encourage the development of CHI and provide guidance on the development of city supplementary insurance.

63 It is expected that CHI be leveraged to partly cover innovative treatments and technologies that may not be affordable under BMI alone.

64 *Circular of the General Office of the State Council on the Issuance of the '14th Five-year Plan for Universal Healthcare Security',* State Council, 29th September 2021, viewed 30th April 2025, <https://www.gov.cn/zhengce/content/2021-09/29/content_5639967.htm>; *Circular of the General Office of the State Council on the Issuance of the Key Tasks for Deepening the Reform of the Medical and Health System in 2024*, State Council, 6th June 2024, viewed 30th April 2025, <https://www.gov.cn/zhengce/content/202406/content_6955904.htm>

65 *NHSA to Release First Edition of CHI Innovative Drug List by 2025, CCTV News*, 17th January 2025, viewed 30th April 2025, <https://content-static.cctvnews.cctv.com/snow-book/index.html?item_id=12121294793041756242>

66 It covers mainly oncology drugs and rare disease drugs that are already on the CHI-city supplementary insurance list.

Category 2.4 drugs with globally synchronised new indications, and breakthrough therapies for chronic disease management.
- Optimise the selection of comparators through value and science-based assessments, e.g., excluding the VBP winning molecules from the comparator selection, or alternatively, comparing with originators' pre-VBP price if the winning molecules were selected as comparators.
- Adopt RWE in budget assessment and price calculation.
- Evaluate chronic disease medication pricing using a five-year average annual dosage as the benchmark.
- Eliminate 'reimbursement less than or equal to the listed price' caps in NRDL-negotiated drug pricing agreements.
- Improve access to innovative drugs and associated biomarker testing, thereby standardising disease diagnosis and treatment.
- Establish price safeguards for newly listed NRDL-negotiated drugs to prevent ultra-low pricing, with expedited renewal pathways for drugs meeting any of these criteria: (i) Priced over 60 per cent below the LIRP; (ii) Demonstrating international price disparity (within same drug class), or, (iii) Having undergone significant cumulative NRDL price reductions.

- Optimise the process for NRDL listing by improving hospital listings and dual-channel management.
  - Strengthen inter-departmental and cross-provincial coordination.
  - Expedite provincial hospital listing of NRDL-negotiated drugs by establishing green channels for drugs with high clinical demand and increasing the frequency of PAC meetings.
  - Standardise reimbursement rules for NRDL-negotiated drugs.
  - Ensure all medicines in combination use for treatment of specified indications in the instructions are reimbursed.

3.3 Refine the VBP system

- Implement long-term quality/cost monitoring.
- Respect clinical/patient choice in drug selection (VBP and non-VBP drugs).
- Align policies across VBP and NRDL by incorporating VBP-winning molecules into the NRDL, irrespective of the molecule's launch timeline.
- Exclude patent-disputed drugs (including but not limited to patent disputes on compounds), PTE-protected indications, biologics and NTI drugs.
- Caution against regional expansion of VBP for biologics and NTI drugs.

3.4 Refine the DRG/Diagnosis-intervention Packet systems

- Increase the payment standards for innovative drugs and update the DRG grouping for disease categories related to innovative drugs in a timely manner.
- Establish an exemption mechanism for innovative drugs (including rare disease therapies) at the local level and allocate a dedicated budget to promote innovative drugs' application.
- Ensure balanced resource allocation between surgery and internal medicine within the medical institution, particularly for innovative drugs and therapies with high costs yet significant clinical value.

3.5 Establish a tiered medical insurance system to meet the demands of high-quality/value healthcare and medical treatments

- Accelerate the drafting of a dedicated *CHI Innovative Drug List* to expedite CHI development.
  - Establish transparent negotiation frameworks with standardised, predictable processes.
  - Prioritise high-value therapies for inclusion, focussing on: FIC drugs and drugs with a novel MoA, oncology and ultra-rare disease treatments, and domestically manufactured originator products.
  - Pilot innovative contract/payment methods such as (i) uniform reimbursement rates evaluating equity between healthy enrolees and pre-existing condition patients, (ii) direct CHI claim settlement, and (iii) risk-sharing agreements (finance- and/or outcome-based).
  - Implement dynamic adjustment mechanisms to ensuring ongoing list optimisation.
- Enhance data sharing for CHI development.
- Clarify the BMI-CHI coordination mechanism.
- Enhance collaboration between pharmaceutical companies, commercial insurers and healthcare institutions through supported policies and regulatory frameworks.
  - Promote regional pilots featuring tailored evaluation/payment models for breakthrough therapies.

4. Enhance Primary Healthcare Infrastructure and Capabilities for Chronic Disease Management

Concern

The current primary healthcare infrastructure provides inadequate support to the tiered diagnosis and treatment systems for chronic diseases.

Assessment

As a result of persistent gaps in policy support, tiered management and cross-sector coordination, China faces significant health burdens from chronic diseases.

4.1 Policy priorities and management frameworks for chronic diseases are sometimes inconsistent

Certain critical chronic conditions that are prioritised in the Healthy China 2023 initiative have not yet been included in the National Basic Public Health Services Programme.[67&68] This leads to a lack of early screening and diagnosis, and low public awareness of chronic diseases.

4.2 Many chronic diseases are not receiving appropriate attention

Due to changing demographics[69] and pharmaceutical/ medical advancements,[70] a growing category of conditions now meets the criteria for chronic diseases and requires correspondent long-term management. However, these conditions do not receive proper attention or systematic management.

4.3 The underdeveloped tiered system restricts chronic disease capacity in community health centres

Despite the efforts to improve resource allocation and equitable healthcare access,[71] China's primary care system still has significant weaknesses, which disrupt treatment continuity and patient follow-up for maintenance therapies.

Primary healthcare facilities lack sufficient medication variety and storage, and face medication safety and quality challenges. To avoid medication disruptions and receive quality treatment, patients choose to stay with higher-level hospitals leading to tertiary hospital visits rising 13.1 per cent across 2015–2023.[72]

Moreover, primary care providers often lack specialised training to manage long-term and complex conditions.[73&74] It causes diagnostic challenges and delays in adopting newer therapies, limiting patient access to timely and advanced care.[75]

4.4 Insufficient capacity to manage and prevent comorbidities in patients with chronic diseases impacts the healthcare system's efficiency

China's rapidly ageing population and evolving lifestyles have led to a dramatic rise in comorbidities. However, the current healthcare system remains fragmented, with

67 For instance, dyslipidaemia is a key risk factor for atherosclerotic cardiovascular diseases (ASCVDs) which in turn account for 61 per cent of CVD-related deaths: Zhang, M, Li, M, Zhuo, X, et al., 2010, *Trends of a burden on atherosclerotic cardiovascular disease and its related risk factors in China, 1990 to 2019*, Chinese Journal of Epidemiology, vol.42, no.10, pp. 1797–1803, viewed 28th May 2025, item: 10.3760/cma.j.cn112338-20201208-01390.

68 Thyroid disorders also pose a significant risk factor for cardiovascular diseases. It is often insidious, with a disease awareness rate of only 18 per cent. See: Li Y and Shan Z., 2025, *Thyroid Disorders: A Chronic Disease that Cannot Be Ignored,* vol.24, no.1, pp.7-10, viewed 28th May 2025, item: 10.3760/cma.j.cn114798-20241005-00789.; Li, Y, Teng, D., and Ba, J., et al., 2020, *Efficacy and Safety of Long-Term Universal Salt Iodization on Thyroid Disorders: Epidemiological Evidence from 31 Provinces of Mainland China*, Chinese Journal of General Practitioners, vol. 30, no. 4, pp. 568–579, viewed 28th May 2025, item: 10.1089/thy.2019.0067. Epub 2020; *Guidelines for Primary Care Diagnosis and Treatment of Hyperthyroidism (2019)* vol. 18, no. 12, pp. 1118–1128., viewed 11th May 2025, item: 10.3760/cma.j.issn.1671-7368.2019.12.002.

69 For instance, gynaecological inflammatory diseases (e.g., chronic pelvic inflammatory disease, and recurrent vaginitis), paediatric allergic conditions (e.g., allergic rhinitis, asthma, and eczema), and chronic skin disease (e.g., atopic dermatitis and psoriasis).

70 Oncology survival maintenance: medical advances made in China have enabled increasingly higher long-term survival rates for many oncology patients. For instance, oncology departments now have an 83.2 per cent five-year survival rate for breast cancer, with early-stage cases often achieving a total cure.

71 Two-way patient referrals surged from 10.58 million (2015) to 30.32 million (2023), supported by the establishment of 18,000 medical alliances. See: *China has achieved phased progress in establishing its tiered healthcare delivery system, CCTV News*, 3rd March 2021, viewed 10th May 2025, <https://news.cctv.com/2021/03/03/ARTICGvYGTt7aVqkf7dblchz210303.shtml> ; Dong, R, and Li, H, *China has established over 18,000 medical alliances of various forms nationwide, Xinhua*, 28th February 2025, viewed 10th May 2025, <https://www.gov.cn/lianbo/bumen/202402/content_6934829.htm>

72 *China Health Statistics Yearbook 2023,* NHC, 24th January 2025, viewed 11th May 2025, <https://www.nhc.gov.cn/mohwsbwstjxxzx/tjtjnj/202501/8193a8edda0f49df80eb5a8ef5e2547c.shtml>; *Bulletin of China Health Statistics 2023,* NHC, 29th August 2024, viewed 11th May 2025, <https://www.nhc.gov.cn/guihuaxxs/c100133/202408/0c53d04ede9e4079afff912d71b5131c.shtml>; *China Health Statistics Yearbook 2015,* NHC, 13th June 2016, viewed 5th June 2025, <https://www.nhc.gov.cn/mohwsbwstjxxzx/c100228/201606/0db443cfc20b46ddb7f7851de3e00372.shtml>

73 For instance, effective long-term lipid management requires regular monitoring, personalised therapy, lifestyle integration and comorbidity control to reduce cardiovascular risk sustainably.

74 For instance, thyroid disorders present diverse clinical manifestations and therefore require tailored treatments: Xing, X, *Applying Knowledge to Practice: Enhancing the Diagnosis, Treatment and Management of Hyperthyroidism by Primary Care Physicians*, 2019, Chinese Journal of General Practitioners, vol.18, no.12, viewed 11th May 2025, item: 10.3760/cma.j.issn.1671-7368.2019.12.001; Shan, Z, *Pay Close Attention to Hypothyroidism in Primary Care,* 2019, Chinese Journal of General Practitioners, vol. 18, no. 11, viewed 11th May 2025, item: 10.3760/cma.j.issn.1671-7368.2019.11.001.

75 Liu, Y, Zhang, X, and Zhou, J, et al., 2015, *Self-assessment survey on faculty qualification standards for community teaching bases in standardised residency training of general practitioners in Shanghai,* Chinese Journal of General Practitioners, vol. 14, no. 7, viewed 11th May 2025; Yang, K, and Ma, Y, 2006, *Analysis of Misdiagnosis and Missed Diagnosis in 80 Cases of Hyperthyroidism,* Clinical Misdiagnosis & Mis-therapy, vol. 19, no. 4, p. 74, viewed 11th May 2025.

specialists treating diseases in isolation. It results in disjointed care delivery, including unnecessary duplicate testing, contradictory treatment plans, unnecessary hospital admissions and increased costs, and hence a failure to provide holistic treatments for patients.[76]

4.5 Multi-party collaboration is insufficient across healthcare, insurance and pharmaceutical companies

Lack of cross-sector coordination—among relevant government agencies of different levels and across regions, insurance companies and the pharmaceutical industry—leads to significant policy disparities, reflected in disease categorisations, medical insurance coverage scopes, payment methods, reimbursement policies, hospital listing and advanced therapy adoption. Furthermore, China's underdeveloped CHI system limits chronic disease patients' choices for innovative and effective therapies that could improve outcomes, slow progression and enhance life quality.

Recommendations

4.1 Include all the Healthy China 2030-prioritised chronic diseases into the National Basic Public Health Services Programme

4.2 Update disease priorities and include more conditions under the systemic management of chronic diseases to meet evolving patient demands

- Ensure patients' equal access to essential and innovative medicines.
- Encourage socio-economic and environmental studies on chronic disease emergence, dissemination and containment strategies.

4.3 Continue to optimise the tiered diagnosis/treatment and transfer/referral systems to enable comprehensive, coordinated care across all stages of disease management

- Ensure medication continuity for patients by exempting drugs for prioritised chronic diseases from hospital drug quotas and total expenditure caps.
- Expand access to innovative and high-quality drugs for chronic diseases at primary healthcare institutions to ensure treatment continuity across all tiers of hospitals.
- Formulate sustainable strategies for disease prevention and management to alleviate health burdens, while leveraging digital innovations and cross-disciplinary research to deliver safe, effective and affordable diagnostic/therapeutic solutions.
- Conduct healthcare quality monitoring coupled with community education and professional training to strengthen primary-level capabilities and knowledge of standardised and specialised diagnosis/treatment/monitoring protocols, etiological treatment approaches, biomarker testing methodologies and the overall (co-)management of chronic diseases.
- Develop specialised outpatient services for common chronic diseases.

4.4 Promote joint prevention, treatment and management of significant comorbidities

- Pilot a multidisciplinary collaborative diagnosis and treatment model for comorbidities.
- Implement integrated intervention methods including common risk factor prevention, joint screening, coordinated follow-up management, lifestyle guidance and rehabilitation for comorbid conditions.

4.5 Strengthen multi-party coordination and collaboration on chronic disease management

- Foster collaboration across healthcare agencies, insurance and pharmaceutical companies by integrating data systems to establish a comprehensive system covering patient monitoring, care delivery, medication availability and diagnostic support.
- Explore the possibility of including advanced therapies for major chronic diseases into the NRDL through NRDL negotiations and improving hospital access to NRDL drugs at all levels.
- Expand local governments' best practices of multi-disease co-management to other regions.[77]

5. Increase Access to Innovative Preventive and Therapeutic Healthcare Solutions for Improved Public Health Outcomes

Concern

China faces challenges in ensuring timely access to innovative healthcare solutions, hindering optimal public health outcomes.

76 An example is type 2 inflammatory diseases - interconnected conditions like moderate-to-severe asthma, atopic dermatitis and chronic rhinosinusitis with nasal polyps that share common immunological roots. Rather than isolated disorders, these represent different clinical manifestations of the same underlying type 2 immune dysfunction.

77 For instance, since 2021, Shandong Province has pioneered an innovative 'Three-High Co-Management and Six-Complication Prevention' programme through its medical alliances, targeting concurrent hypertension, hyperglycaemia and hyperlipidaemia while preventing associated complications including nephrotic syndrome and retinal disorders across multiple pilot sites.

Assessment

5.1 Rare disease treatment

Despite significant improvements to its regulatory framework, China still lacks a clear scientific and legislative definition of a 'rare disease'. The current definition, based on a 2021 expert consensus,[78] has not been formalised, and the updated *Rare Disease Catalogue* released in 2023 remains inconsistent with the 2021 definition due to insufficient epidemiological data. In addition, just 207 conditions are recognised in the 2023 catalogue – far fewer than in international equivalents.[79] The catalogue requires more frequent updates, ideally every two years, to remain relevant.

Awareness and management of rare diseases[80] remain insufficient due to healthcare providers' limited expertise, patients' restricted access to genetic testing (particularly in rural areas) and fragmented data collection. These gaps result in delayed diagnoses and suboptimal care for patients. The diagnosis/referral systems are also underdeveloped, leading to prolonged diagnostic cycles, frequent misdiagnoses and unnecessary patient transfers. Although over 400 hospitals participate in a national rare disease diagnosis/treatment network, significant regional disparities persist and challenges remain in disease awareness, testing accessibility and data collection.

Treatment options are scarce, with few approved therapies, forcing reliance on off-label drug use. Additionally, the current BMI reimbursement cap and the absence of a rare disease-specific funding mechanism intensify affordability challenges and fail to incentivise the costly R&D required for rare disease treatments.

78 The latest definition of a 'rare disease' was released on 11th September 2021 at the third multidisciplinary expert seminar on the definition of rare disease in China. A rare disease is defined as a condition satisfying at least one of the following three criteria: an incidence among newborns of less than 1/10,000, a prevalence of less than 1/10,000, and an affected population of less than 140,000. Before this new definition, rare diseases were defined by different agencies with different parameters in China. See: *A Research Report on the Definition of Rare Disease in China (2021)*, PubMed Central, 11th September 2021, viewed 8th May 2025, <https://pmc.ncbi.nlm.nih.gov/articles/PMC8898396/>

79 The first rare disease catalogue was released in 2018 and the second in 2023. In comparison, a total of 7,000 rare diseases are recognised globally. See: *Notice of publication of the first catalogue of rare diseases,* NHC, 11th May 2018, viewed 8th May 2025, <https://www.gov.cn/zhengce/zhengceku/2018-12/31/content_5435167.htm>; *Notice of publication of the second catalogue of rare diseases*, NHC, 18th September 2023, viewed 8th May 2025, <https://www.gov.cn/zhengce/zhengceku/202309/content_6905273.htm>

80 For instance, idiopathic pulmonary fibrosis (IPF)/progressive pulmonary fibrosis (PPF).

5.2 Cancer treatment and recurrence prevention

Advanced therapies for cancer treatment

Some highly advanced cancer treatments, despite their effective role in diagnosis and treatment, have not obtained sufficient policy attention. Taking nuclear medicines as an example: (i) management standards for radiopharmaceuticals and components are unclear, and incentive policies for approval lack implementation guidelines; (ii) clinical guidelines for novel radionuclide drugs and institutional radiation safety protocols remain insufficient; and (iii) nuclear medicine's clinical framework is underdeveloped, with weak radionuclide therapy capacity and undervalued departmental services.

Cancer recurrence prevention therapies

The overall five-year survival rate for cancers in China has continuously increased in recent years. However, cancer prevention and control remains weak[81] due to the low awareness of recurrence risk among policymakers and the public. Many highly innovative and effective therapies for recurrence prevention are not yet included in health policies for cancer treatment.

5.3 Respiratory diseases prevention

As technology evolves, innovative passive immunity antibodies—distinct from traditional active immunity vaccines—have emerged as effective protection for vulnerable groups against infectious diseases. However, current health policies and frameworks recognise only vaccines within the preventive management pathways hindering the integration of passive immunity solutions into public health programmes. It undermines the effectiveness of disease prevention and control, and risks discouraging future innovation. In comparison, other countries have addressed similar challenges by integrating scientific evidence and real-world data into immunisation strategies, facilitating new preventive approaches.

Recommendations

5.1 Improve rare disease management

- Strengthen rare disease legislation and regulation.
  - Explore legislation to provide a structured framework to enhance R&D and access to treatments.

81 For instance, breast cancer is the cancer with the highest morbidity and mortality rates among women globally. In recent years, the five-year survival rate for breast cancer in China reached 83 per cent, on par with Western standards. However, due to scarce awareness of recurrence prevention in China, its recurrence rate remains high – accounting for around one-third for HR+/HER2- early breast cancer.

- Update the *Rare Disease Catalogue* every two years using current selection criteria.
- Accelerate clinical trial recruitment and drug approvals and enhance epidemiological data collection to support evidence-based policies.
- Optimise Customs regulations to facilitate rare disease-specific imports and align import regulations across the NHC, the NMPA and Customs.
- Launch Free Trade Zone pilots for specific rare disease-related imports such as PDT.

- Establish a central-level special fund for ultra-rare diseases while continuously developing the tiered payment system (BMI/CHI/charity) for rare diseases.
- Empower patient organisations in decision-making along the rare disease-specific value chain to improve therapy affordability.
- Improve rare disease diagnosis and treatment capabilities.
  - Expand diagnostic access (genetic testing, specialist consultations), particularly in rural areas.
  - Optimise the diagnosis and treatment networks and strengthen primary care capabilities for rare diseases.
  - Increase education for public and HCPs on early recognition and management.

5.2 Introduce innovative cancer treatments and raise awareness for cancer recurrence prevention

- Optimise the approval process and encourage R&D and clinical application of innovative radiopharmaceuticals.
  - Clarify the definition, management attribute, registration pathway, and technical requirements of radiopharmaceuticals and their components, and formulate implementation regulations and technical guidelines, including to encourage localisation of radiopharmaceuticals production.
  - Promote development of nuclear medicine departments by upgrading infrastructure in selective tertiary hospitals in major cities with sufficient novel isotope quotas, establishing standardised isotope therapy centres in key regions, and optimising radiation safety standards for waste management and outpatient treatment.
  - Build a value-based access mechanism by facilitating hospital listing; explore innovative payment models to improve patient affordability; and align medical service pricing in line with regional economic conditions to appropriately value clinical expertise.
- Strengthen recurrence awareness in cancer prevention.
  - Include lifetime recurrence risks into treatment protocols and healthcare policies.
  - Incorporate cutting-edge solutions for preventing recurrence as standard adjuvant therapy into major national cancer guidelines.

5.4 Enhance respiratory disease prevention

- Clarify and broaden the legal definition of 'preventative biological products' in major laws and regulations to include non-vaccine prophylaxis.
- Strengthen legal interpretations to ensure consistent implementation across disease control institutions, securing clear responsibility divisions and public health protection.
- Pilot Respiratory Syncytial Virus non-vaccine prophylaxis prevention programmes at vaccination points, paediatric and OB wards, and community health centres to improve infant access.
- Leverage existing global clinical trial data to expedite or obtain conditional approval for vaccines to address urgent and unmet public health needs.
- Explore inclusion of preventive treatments in primary care drug catalogues to enhance early intervention.

Abbreviations

API	Active Pharmaceutical Ingredient
BLA	Biologics License Application
BMI	Basic Medical Insurance
CHI	Commercial Health Insurance
ChP	China Pharmacopoeia
CMC	Chemistry, Manufacturing and Control
DALIR	Drug Administration Law Implementation Regulations
DIP	Diagnosis-intervention Packet
DP	Drug Product
DRG	Diagnosis-related Group
DS	Drug Substance
EU	European Union
HCP	Healthcare Professional
ICH	International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use
IP	Intellectual Property
MAH	Marketing Authorisation Holder
NDA	New Drug Application
NMPA	National Medical Products Administration
NRDL	National Reimbursement Drug List
NTI	Narrow Therapeutic Index

NHC	National Health Commission
NHSA	National Healthcare Security Administration
PAC	Pharmaceutical Affairs Committee
PTA	Patent Term Adjustment
PTE	Patent Term Extension
R&D	Research and Development
RDP	Regulatory Data Protection
US	United States
VBP	Volume-based Procurement

Rail Working Group

Key Recommendations

1. **Remove Technical Trade Barriers that Prevent Foreign-invested Enterprises (FIEs) from Fairly Participating in China's High-speed Rail System**
    - Establish an independent, impartial and transparent certification system, issue a unified certification guide, and provide real-time feedback on review progress and results through an official platform.
    - Create cross-departmental coordination and supervision mechanisms.
        - Clarify the boundaries of the authority and responsibilities of original equipment manufacturers, certification agencies, local railway groups, railway bureaus and vendor companies in the certification process, to avoid diffuse management and avoidance of responsibilities.
    - Establish an independent, third-party technical review mechanism to eliminate the China Railway Test and Certification Centre's monopoly in providing high-speed rail certification.
    - Develop certification exemptions or priority evaluation mechanisms for rail products with certification according to international standards, provided safety standards are maintained.

2. **Fully Implement Policies that Create a Level Playing Field for FIEs and Chinese Companies in the Urban Rail Industry**
    - Urge the China Association of Metros to fully communicate new regulations to the industry, and eliminate de facto discrimination against FIEs caused by differing interpretations of the same policy by local rail transit companies.
    - Establish a special monitoring and feedback mechanism to review tender documents for urban rail projects across various regions.
    - Collect industry feedback to identify and rectify instances of non-enforcement of new regulations or hidden thresholds.

3. **Increase the Participation of FIEs and Utilise their Advantages in National Initiatives and Projects in Order to Boost the High-quality Development of China's Rail Industry and Overall Economic Development** 5
    - Promote dialogue and exchange between FIEs in China and their headquarters and the Chinese Government, and take into account the views of FIEs in China when formulating and implementing national initiatives.
    - Promote the exchange of industry leading practices and technologies by increasing the participation of European companies in rail infrastructure projects in China and globally.

4. Promote the Adoption and Absorption of FIEs' Advanced Technologies in the Rail Industry in Order to Help the Formulation of Domestic Standards and Technical Specifications, and Improve the Participation of FIEs and Joint Ventures in and Transparency of the Formulation Process 5

- Provide equal access to all companies legally registered in China to participate in the standardisation activities of relevant technical committees or working groups.
- Ensure FIEs can participate equally in the formulation of national standards, industry standards and social organisation standards.
  - Encourage close and non-discriminatory coordination between standardisation technical committees, standard-setting bodies and FIEs.
- Encourage the adoption of advanced technologies in Chinese standards and their convergence with international standards.
- Accelerate the modernisation of the rail standards system to make it fair, reasonable, inclusive and transparent.
  - Make the extensive participation of stakeholders in the standards-setting process an important evaluation indicator.
- Regulate the standardisation activities of social organisations and avoid applying standards formulated by social organisations to government inspections, product certification and public procurement.

5. Optimise the Rail Industry Supply Chain through Improved Enforcement of Intellectual Property Rights (IPR) 5

- Implement a rapid response mechanism to handle IPR infringement disputes and reduce the cost of IPR protection.
- Provide legal advice and guidance to small and medium-sized enterprises, and encourage their participation in the rail industry supply chain.
- Encourage industry associations to strengthen self-regulatory mechanisms, issue regular reports on the status of IPR protection and advocate for enterprises to enhance awareness of IPR protection.

Recent Developments

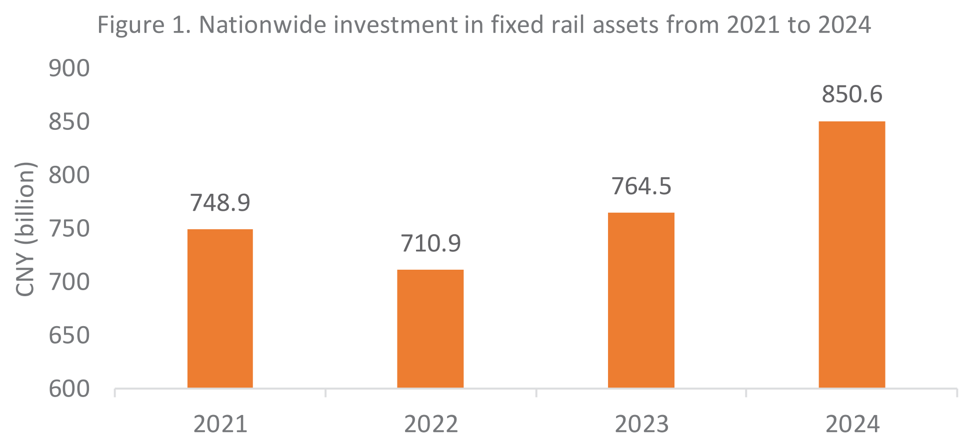
In 2024, the length of railways in operation in China totalled 162,000 kilometres (km), of which high-speed railways accounted for 48,000 km, a year-on-year (y-o-y) increase of 3,000 km, with 4.08 billion railway passenger trips completed nationwide, up 10.8 per cent y-o-y.[1] As of 31st December 2024, the total length of operational urban rail in 58 major cities in the Chinese mainland was 12,160 km, up 936 km y-o-y, with 25 new lines coming into operation. 763 km of new subway lines were constructed in 2024, which mainly accounts for the newly built urban rail lines in the past year, with the total length of subways in China just exceeding 9,306 km.[2]

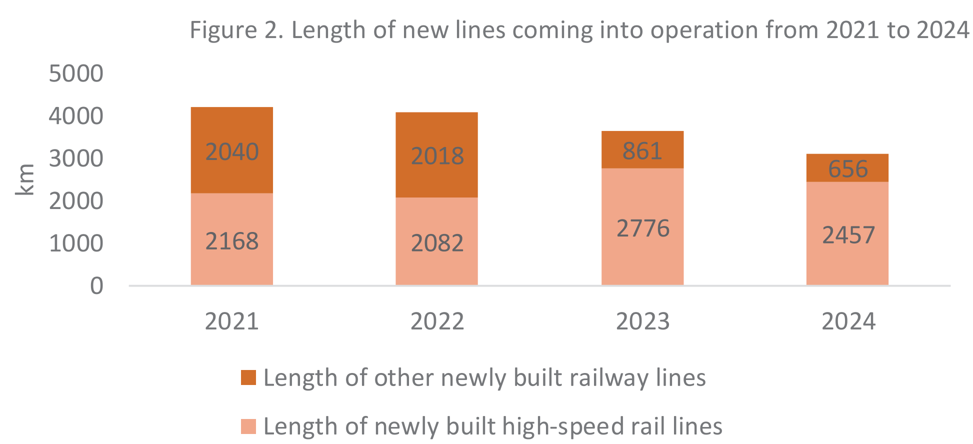
In October 2024, the State Council issued the *Regulation on Urban Public Transport*, which clarified the responsibilities of regulatory authorities, construction companies and operators for urban public transport at all levels, with the aim of improving the service level of urban public transport and promoting urban modernisation.[3] In December 2024, the Communist Party of China Central Committee General Office and

1 *China's Investment in 2,457 Kilometres of High-speed Railway in 2024, People's Daily,* 3rd January 2025, viewed 21st April 2025, <https://www.gov.cn/yaowen/liebiao/202501/content_6996027.htm>

2 *2024 Statistics and Analysis Report of China's Urban Rail Transit,* China Association of Metros (CAMET), 28th March 2025, viewed 21st April 2025, <https://www.camet.org.cn/xytj/tjxx/660844283682885.shtml>

3 *State Council Order No. 793,* State Council, 23rd October 2024, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/202410/content_6982322.htm>





the General Office of the State Council issued the *Opinions on Accelerating the Construction of a Unified and Open Transportation Market*, which emphasises improving the market system, optimising the allocation of key resources, improving regulation, promoting the green and smart transition, and the high-level opening-up of the transport sector.[4]

However, tighter national restrictions have also been imposed on urban rail and subway projects in recent years to address current issues and prevent further debt risks for local governments resulting from urban rail investments. Although investments in railways continued to grow in 2024, reversing the dip due to the COVID-19 pandemic, the length of new lines coming into operation has declined y-o-y, with more prudence observed in the construction of new lines (see Figures 1 and 2).[5]

In June 2024, the Ministry of Transport (MOT) and other departments issued the *Action Plan for Large-scale Transportation Equipment Updating*, which provides policy support for the replacement of old railway locomotives with those using green energy.[6] In the same month, the China Association of Metros (CAMET) released the *Development Guide for Urban Rail Integration*, which calls for the further integration

4 *Opinions of the General Office of the State Council on Accelerating the Construction of a Unified and Open Transportation Market*, State Council, 12th December 2024, viewed 21st April 2025, <https://www.gov.cn/gongbao/2025/issue_11786/202501/content_6997038.html>

5 *China's Investment in 2,457 Kilometres of High-speed Railway in 2024, People's Daily*, 3rd January 2025, viewed 21st April 2025, <https://www.gov.cn/yaowen/liebiao/202501/content_6996027.htm>

6 *Action Plan for Large-scale Transportation Equipment Updating*, MOT, 7th June 2024, viewed 21st April 2025, <https://xxgk.mot.gov.cn/2020/jigou/zhghs/202406/t20240607_4142138.html>

of urban rail transport projects with urban planning, the overall economy and social services provision, with the aim of advancing sustainable and high-quality development of the urban rail industry.[7]

Key Recommendations

1. Remove Technical Trade Barriers that Prevent FIEs from Fairly Participating in China's High-speed Rail System

Concern

Foreign-invested enterprises (FIEs) have largely been excluded from the development of China's high-speed rail system, primarily due to technical trade barriers, including the challenge of obtaining necessary certification from the China Railway Test and Certification Centre (CRCC).

Assessment

The working group recognises that the Chinese Government has launched policy initiatives aimed at safeguarding the legitimate rights and interests of FIEs, as well as promoting fair competition.[8] However, there are still areas where FIEs struggle to participate in China's rail industry.

Although the CRCC certification is a prerequisite for entry into China's high-speed rail system, it is difficult to obtain for FIEs producing the signalling, traction, braking, power distribution equipment, doors and air conditioning products for rail vehicles. The lack of certification prevents them from entering the market, which greatly limits the application of advanced technology in China's high-speed rail market.

The ability of FIEs to obtain CRCC certification often depends not only on whether their product itself meets the relevant technical requirements, but also involves the original equipment manufacturers (OEMs) and multiple other entities such as railway bureaus and local railway groups. For example, it is still a prerequisite as part of the certification process to receive a recommendation or official approval from the OEM, which many foreign product suppliers lack. This results in FIEs being unable to start the certification process even when they have mature products and services.

Some foreign rail component manufacturers in the working group have communicated with OEMs on obtaining their endorsement to get CRCC certificates. However, some OEMs have clearly stated that they must wait for specific directives from their superior department or from vendors of a designated vehicle model before disclosing to product suppliers relevant technical drawings, communication protocols or technical requirements. Such delays create a de facto obstacle with each separate party relinquishing their duties, with the manufacturer not signing, the supervisor not approving and the certification body not processing the case.

The overall process not only compromises the transparency of the entire certification system, hindering FIEs from fairly competing in the market, but also represents a breach of the relevant provisions of the World Trade Organization's (WTO's) Technical Barriers to Trade Agreement (TBT Agreement). The TBT Agreement stipulates that WTO members must follow the principles of non-discrimination and transparency in the development of technical regulations, standards and conformity assessment procedures, to ensure that such measures do not constitute unnecessary barriers to international trade.[9] The working group therefore recommends that the high-speed rail system certification process be further optimised and the division of responsibilities between various participants be clarified, to ensure the system is fair to all industry participants. This will further enhance the openness of the high-speed rail equipment industry and bring related technologies up to the most advanced levels.

China's high-speed rail achievements have proved that its domestic technologies, products and supply chains

7 *Development Guide for China Urban Rail Transit Integration*, CAMET, 13th June 2024, viewed 21st April 2025, <https://www.camet.org.cn/gzbg/cgfz/>

8 At the beginning of 2025, the *2025 Action Plan for Stabilising Foreign Investment* stated that "for areas excluded from the negative list of foreign investment access, discrimination against foreign investment access should be strictly prohibited." See: *2025 Action Plan for Stabilising Foreign Investment,* General Office of the State Council, 12th March 2025, viewed 20th April 2025, <https://ca.mofcom.gov.cn/jmxw/art/2025/art_1e8ce57ed4534afa8c845ec77da4b865.html>

9 To summarise, the technical regulations and conformity assessment procedures shall provide national and most-favoured-nation treatment to all members' products. This means that the treatment of imported products shall not be less favourable than that of similar domestic products. The conformity assessment procedures should be applied on a non-discriminatory basis, ensuring equal opportunities for all member suppliers. Technical regulations should be based on performance rather than design or descriptive features, to avoid unnecessary trade restrictions. WTO members should inform other members in advance of the development of new technical regulations or conformity assessment procedures and provide sufficient time for comments to ensure transparency. See: *Technical barriers to trade*, World Trade Organization, viewed 20th April 2025, <https://www.wto.org/english/tratop_e/tbt_e/tbt_e.htm>

have all matured substantially. At the same time, FIEs in the industry have invested heavily in localisation in terms of both production, and research and development (R&D), and their broad participation has promoted innovation and diversification of high-speed rail products and systems, providing a window for the domestic industry to exchange technology. Furthermore, many FIEs also hold certifications for some recognised international standards (e.g., European Norms, International Union of Railways standards and International Organization for Standardization standards). This should remove concerns about any potential negative impacts that FIEs could have on the stable development of the Chinese rail industry, and in the meantime, support the establishment of a streamlined evaluation mechanism that recognises internationally certified rail products, to facilitate China's adoption of advanced technologies already recognised in many overseas markets.

Therefore, the working group recommends eliminating barriers to CRCC certification, as this will not only help FIEs participate more effectively in China's high-speed rail market, but also help domestic rail companies continuously improve their technology through healthy competition.

Recommendations

- Establish an independent, impartial and transparent certification system, issue a unified certification guide, and provide real-time feedback on reviews and results through an official platform.
- Create cross-departmental coordination and supervision mechanisms.
  - Clarify the boundaries of the authority and responsibilities of original equipment manufacturers, certification agencies, local railway groups, railway bureaus and vendor companies in the certification process, to avoid diffuse management and avoidance of responsibilities.
- Establish an independent, third-party technical review mechanism to eliminate the CRCC's monopoly in providing high-speed rail certification.
- Develop certification exemptions or priority evaluation mechanisms for rail products with certification according to international standards, provided safety standards are maintained.

2. Fully Implement Policies that Create a Level Playing Field for FIEs and Chinese Companies in the Urban Rail Industry

Concern

Discretionary policy interpretation and ineffective implementation of policies that guarantee fair competition by different local rail authorities may result in de facto discrimination against FIEs in local urban rail projects.

Assessment

In the past decade, inconsistent rules that apply to domestic and foreign players in urban rail project bidding—specifically the 'one-point scoring system'—have severely impacted their orders and market share, while undermining their investment confidence in China.[10]

The working group was therefore encouraged to see recent policy developments which stress the removal of "all kinds of trading barriers and unreasonable restrictions in the bidding sector" and the facilitation of foreign investors' fair participation in government procurement and public bidding.[11&12] In this context, the new *Tender Evaluation Method for Urban Rail Transit Vehicles* (*Tender Evaluation Method*) was officially released at the end of December 2024,[13] completely removing the provisions on differentiated treatment of domestic and foreign-owned enterprises in urban rail project bidding, in line with China's macro policy guidance.[14]

10 The *Tender Evaluation Method for Urban Rail Transit Vehicles*, formulated by the CAMET, included a localisation evaluation form that has a section on 'application of localised key components'. In this template, different scoring criteria are clearly set for domestic and foreign ownership: wholly foreign-owned enterprises and joint ventures (JVs) controlled by foreign investors often receive no points; JVs controlled by Chinese investors or in which Chinese and foreign stakeholders have equal shares can receive half a point; while Chinese domestic enterprises receive a full point. This is referred to as the 'one-point scoring system'.

11 *Review Rules for Fair Competition in Tendering and Bidding, Order No. 16 of 2024,* National Development and Reform Commission (NDRC), 3rd April 2024, viewed 20th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202404/t20240403_1365443.html>

12 *2025 Action Plan for Stabilising Foreign Investment,* General Office of the State Council, 12th March 2025, viewed 20th April 2025, <https://ca.mofcom.gov.cn/jmxw/art/2025/art_1e8ce57ed4534afa8c845ec77da4b865.html>

13 *2024 Sunshine Bidding and Procurement Conference Held in Haikou*, Chinabidding.com, 20th December 2024, viewed 20th April 2025, <https://www.chinabidding.com.cn/pageInfoSsr/3000000016066/1087000000783261>

14 It is understood by the working group that the new *Tender Evaluation Method* was also subject to a cross-departmental review according to the principles of fair competition review.

Despite this, the practical impact still depends on how local rail bureaus and rail groups interpret and enforce the new document. In particular, discretionary enforcement of the new *Tender Evaluation Method* at the local level can give rise to de facto discrimination through added technical thresholds, opaque qualification requirements or informal preferences for domestic component suppliers. This will undermine the intention of a non-discriminatory evaluation framework for project tendering.

Critically, the CAMET is expected to bridge this gap by translating the newly revised *Tender Evaluation Method* into standard operating procedures for local procurement officers and bidders. Proactive guidance from the CAMET as the policymaker, including interpretation for local rail stakeholders on the new revisions in the document, can help flag potential early deviations in tender documents for local rail projects and better align central directives to local practices.

To ensure that the revision of the *Tender Evaluation Method* translates into consistent practice at all levels, the working group recommends that clear communication of the new rules, anchored by the CAMET, be paired with a robust monitoring and feedback mechanism that promptly identifies and addresses any deviations or hidden barriers. With the establishment of a coordinated communication, monitoring and feedback mechanism for rail procurement in China, members of the working group look forward to further participating in related rail projects and contributing to the high-quality development of China's rail industry.

Recommendations

- Urge the CAMET to fully communicate new regulations to the industry, and eliminate de facto discrimination against FIEs caused by differing interpretations of the same policy by local rail transit companies.
- Establish a special monitoring and feedback mechanism to review tender documents for urban rail projects across various regions.
- Collect industry feedback to identify and rectify instances of non-enforcement of new regulations or hidden thresholds.

3. Increase the Participation of FIEs and Utilise their Advantages in National Initiatives and Projects in Order to Boost the High-quality Development of China's Rail Industry and Overall Economic Development 5

Concern

Unless there is greater support for FIEs' participation in national initiatives and projects, their level of investment and contribution to China's economic development will remain low.

Assessment

China has emphasised the importance of 'new infrastructure' in its domestic development framework in a number of policy documents and laws.[15&16] The high-quality development of China's rail industry has been highlighted in this 'new infrastructure' initiative.[17&18]

Members of the working group welcome these national policies and are willing to deepen their presence in the Chinese market, share their technology and experience, and increase their investment in the country. However, the participation of FIEs in the rail industry is still relatively low, the dialogue between the headquarters of FIEs and Chinese authorities is insufficient and only a few are still participating in large rail projects.

Since the Belt and Road Initiative (BRI) was announced by the Chinese Government in 2013, it has brought new opportunities for the construction of rail infrastructure across the Eurasian continent.[19] The huge trade volume

15 'New infrastructure' mainly includes information infrastructure, converged infrastructure and innovative infrastructure. See: *What is New Infrastructure, Xinhua*, 26th April 2020, viewed 21st April 2025, <http://www.xinhuanet.com/politics/2020-04/26/c_1125908061.htm>

16 *January Press Conference of the National Development and Reform Commission,* NDRC, 18th January 2023, viewed 21st April 2025, <https://www.ndrc.gov.cn/xwdt/wszb/1yfxwfbh/>

17 *NDRC Identified the Scope of New Infrastructure for the First Time*, CCTV.com, 21st April 2020, viewed 21st April 2025, <http://www.mofcom.gov.cn/article/i/jyjl/e/202004/20200402957398.shtml>

18 *Notice of the Ministry of Transport on Issuing the 'Action Plan for New Infrastructure Construction in the Transportation Sector (2021-2025)'*, MOT, 31st August 2021, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/2021-09/29/content_5639987.htm>

19 For example, the China-Europe Railway Express (CR Express) under the BRI has greatly stimulated the development of the rail-related industrial chain, from vehicle manufacturing and track construction to operation and maintenance, showing a vigorous development trend. For more information on the CR Express, please refer to: *The State Council's Opinions on Promoting Inner Mongolia's High-quality Development and Striving to Write a New Chapter of Chinese Modernisation*, State Council, 16th October 2023, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/202310/content_6909412.htm>; *As of the End of the March, the Cumulative Number of Trains Departing on the China-Europe Railway Express Has Exceeded 87,000, Chinanews*, 14th April 2024, viewed 21st July 2025, <https://chinanews.com/cj/2024/04-14/10198495.shtml>

under the BRI provides more opportunities for FIEs to invest and develop in China, expanding the scope of cooperation between FIEs and Chinese enterprises, and creating more opportunities for cooperation between the two sides.[20]

Many European rail companies have established strong local service and operations teams in Belt and Road projects, and are widely recognised.[21] Despite this, European companies are still struggling to increase their participation in BRI projects. According to a report by the European Chamber on the BRI, out of the small number of European companies in China that are involved in construction for the initiative, "nearly 40 per cent of [surveyed] companies believe that procurement systems for BRI projects are not transparent enough".[22] The limited involvement of FIEs in the BRI has intensified in the years following its inception. This situation is characterised by the predominance of project awards to Chinese contractors, the majority of whom are state-owned enterprises.[23]

To ensure the healthy development of China's rail market, it is necessary to establish fair market competition and provide reciprocal investment opportunities, including encouraging more European companies to participate in national policies and projects such as the BRI. The introduction of the world's most advanced technology and services will help improve the quality, feasibility and sustainability of rail transit projects. In addition, the expertise of European equipment manufacturers and service providers can help to develop the international competitiveness of Chinese OEMs.

20 In 2023, China's imports and exports to countries co-building the BRI were Chinese yuan 19.47 trillion, an increase of 2.8 per cent, accounting for 46.6 per cent of total import and export value, an increase of 1.2 percentage points. See: *The State Council Information Office Held a Press Conference on the 2023 Import and Export Situation*, State Council, 12th January 2024, viewed 21st April 2025, <https://www.gov.cn/lianbo/fabu/202401/content_6925700.htm>

21 *European logistics company expands business thanks to China-Europe Express Rail, Xinhua*, 29th March 2024, viewed 9th June 2025, <https://english.news.cn/europe/20240329/2a38ee6d23234cde97545c91e5d85907/c.html>; *BRI stabilizes China-Europe trade, transport, says rail CEO, Xinhua*, 28th May 2024, viewed 9th June 2025, <https://eng.yidaiyilu.gov.cn/p/06UAF6U9.html>

22 *The Road Less Travelled: European Involvement in China's Belt and Road Initiative*, European Chamber, 16th January 2020, viewed 21st April 2025, pp. 15–18, <http://europeanchamber.com.cn/en/publications-archive/762/The_Road_Less_Travelled_European_Involvement_in_China_s_Belt_and_Road_Initiative>

23 Ghossein, T, Hoekman, B, and Shingal, A, 2021, *Public Procurement, Regional Integration, and the Belt and Road Initiative, The World Bank Research Observer*, Vol. 36, no. 2, pp. 131–163, viewed 25th June 2025, Oxford Academic, <https://doi.org/10.1093/wbro/lkab004>; Fu, X, Li, J, Li, L, Qian, G, and Van Assche, A, 2022, *The Belt and Road Initiative and international business policy: A kaleidoscopic perspective,* Journal of International Business Policy, vol. 5, no. 2, pp. 135-151. Europe PMC, viewed 8th July 2025, <https://pmc.ncbi.nlm.nih.gov/articles/PMC9014839/>

In short, providing European companies with equal treatment and access to national projects will accelerate the development of China's rail industry, which will align with the government's long-term goal of building 'new infrastructure' and developing a sustainable economy.

Recommendations

- Promote dialogue and exchange between FIEs in China and their headquarters and the Chinese Government, and take into account the views of FIEs in China when formulating and implementing national initiatives.
- Promote the exchange of industry leading practices and technologies by increasing the participation of European companies in rail infrastructure projects in China and globally.

4. Promote the Adoption and Absorption of FIEs' Advanced Technologies in the Rail Industry in Order to Help the Formulation of Domestic Standards and Technical Specifications, and Improve the Participation of FIEs and Joint Ventures in and Transparency of the Formulation Process 5

Concern

FIEs in the rail industry generally do not have the same opportunities to participate in the formulation of standards as local enterprises, and they also have very limited opportunities to put forward opinions and suggestions, which may create market entry barriers and result in unfair competition.

Assessment

FIEs often face several key issues when trying to participate in the setting of Chinese standards.[24]

First, following the reform of China's standardisation system, social organisations have been endowed with the legal status to formulate social organisation standards for themselves.[25] While such standards are

24 For more information on ensuring FIEs participate equally in standards setting and the development of standards for social organisations, please refer to the relevant content in Key Recommendation 3 of the *Standards and Conformity Assessment Working Group Position Paper 2025/2026*.

25 Social organisations include both more autonomous organisations and those set up by state agencies specifically to carry out social welfare functions. See: *Notice of the State Council on Printing and Distributing the Report Plan for Deepening the Standardisation Work*, State Council, 26th March 2015, viewed 21st April 2025, <http://www.gov.cn/zhengce/content/2015-03/26/content_9557.htm>

often applied to government inspections, certification and public procurement activities, only mandatory national and industry standards can fully cover the interests of all enterprises in the industry, and thus should be widely used. Although many FIEs are also members of standard-setting organisations, it is difficult for them to participate in the formulation of standards and specifications and provide input into the decision-making process on an equal footing with local enterprises. This constitutes a de facto barrier to market access.

Second, large domestic state-owned enterprises have been pressuring external suppliers to adopt their internal standards in recent years. However, due to the lack of involvement of stakeholders along the industry chain in their formulation, these internal standards often lack sophistication and have low universality. This has affected the application of advanced technologies in China to an extent, and it has become a significant hidden barrier to FIEs trying to enter the market.

Third, China's rail standards lack transparency, with some information only available to a small number of FIEs, and standard updates are relatively opaque.[26]

The MOT, the National Railway Administration (NRA) and other government departments have also issued policies to improve the quality of rail standards and those of the overall transport industry, and promote the participation of foreign enterprises in the standards development process. For example, *the Opinions of the Ministry of Transport on Several Issues Concerning Promoting the Modernisation of the Transport Governance System and Governance Capability* emphasises, "improving the standard system in [the] transportation sector, strengthening effective supply of standards in key areas and making use of the guiding role of standardisation."[27]

Other general policy guidelines, including the *14th Five-year Plan for Transportation Standardisation* and the *Opinions on Encouraging the High-quality and Standardised Development of Social Organisation Standards*, emphasise the strengthening of standardised management systems.[28&29] Both documents proposed requirements to further encourage FIEs to participate in standards setting, requiring "the participation of a wide range of stakeholders including production, operation, management, construction, consumption, testing, certification, and other entities." For the standardisation of the rail transit industry, the *14th Five-year Plan of Railway Standardisation Development* also proposed that a more transparent and inclusive system for standardisation of China's rail transit industry be established, and more stakeholders—including FIEs—be encouraged to participate in standards setting.[30]

In addition, relevant authorities such as the MOT and the NRA have also formulated regulations for the management of railway technical standards,[31] strengthening the management of standards in the rail industry and eliminating the unfair treatment of FIEs in the setting of standards for social organisations. By stipulating the conditions, procedures and management models for translating social organisation standards into mandatory national and industry standards, the authorities further emphasised the right of FIEs to participate equally in setting standards for social organisations.[32,33&34]

Therefore, FIEs should be allowed equal participation in China's standardisation activities, as enshrined in the

26 *The Shape of Things to Come: The Race to Control Technical Standardisation,* European Chamber, 2nd December 2021, viewed 21st April 2025, pp. 15–17, <https://www.europeanchamber.com.cn/en/publications-archive/966/The_Shape_of_Things_to_Come_The_Race_to_Control_Technical_Standardisation>

27 *The Opinions of the Ministry of Transport on Several Issues Concerning Promoting the Modernisation of the Transport Governance System and Governance Capability,* MOT, 24th October 2020, viewed 21st April 2025, <http://xxgk.mot.gov.cn/2020/jigou/zcyjs/202010/t20201024_3479808.html>

28 *Notice of the Ministry of Transport, Standardisation Administration of China, National Railway Administration, Civil Aviation Administration of China and State Post Bureau on Issuing the 14th Five-year Plan for Transportation Standardisation,* MOT, 15th November 2021, viewed 21st April 2025, <https://xxgk.mot.gov.cn/2020/jigou/kjs/202111/t20211112_3625878.html>

29 *17 Government Agencies Including the Standardisation Administration of China Jointly Issued the Opinions on Encouraging the High-quality and Standardised Development of Social Organisation Standards,* Ministry of Commerce, 18th March 2022, viewed 21st April 2025, <https://ltbzh.mofcom.gov.cn/article/ltbznmgg/202203/2301_1.html>

30 *14th Five-year Plan of Railway Standardisation Development,* NRA, 27th December 2021, viewed 21st April 2025, <https://www.nra.gov.cn/jglz/kjgl/zywj/202112/t20211227_272220.shtml?eqid=e94056d00000cb7b00000003647eeaef>

31 *Notice of the National Railway Administration on the Issuance of the 'Administrative Measures for Railway Technology Standards',* NRA, 17th December 2024, viewed 21st April 2025, <https://www.nra.gov.cn/xxgk/gkml/ztjg/gfzd/gfxw/bumen/kjyfz/202412/t20241217_347518.shtml>

32 *Interim Regulations on the Transformation of Group Standards and Enterprise Standards into National and Industry Rail Standards*, NRA, 15th November 2023, viewed 21st April 2025, <https://www.nra.gov.cn/xxgk/gkml/ztjg/gfzd/gfxw/zuti/kjgl/202311/t20231122_343727.shtml>

33 *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment,* State Council, 13th August 2023, viewed 21st April 2025, <https://www.gov.cn/zhengce/zhengceku/202308/content_6898049.htm>

34 *Action Plan for Solidly Promoting High-level Opening to the Outside World and Making Greater Efforts to Attract and Utilise Foreign Investment,* State Council, 19th March 2024, viewed 21st April 2025, <https://www.gov.cn/zhengce/content/202403/content_6940154.htm>

Foreign Investment Law, the Standardisation Law, and the *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment*.[35] Through their deep presence in the markets of other countries and regions, FIEs in the rail industry have rich experience in the development and use of relevant standards. Encouraging FIEs to participate equally in China's standards setting will help both its modernisation and internationalisation, while promoting the high-quality development of its rail industry overall.

Recommendations

- Provide equal access to all companies legally registered in China to participate in the standardisation activities of relevant technical committees or working groups.
- Ensure FIEs can participate equally in the formulation of national standards, industry standards and social organisation standards.
  - Encourage close and non-discriminatory coordination between standardisation technical committees, standard-setting bodies and FIEs.
- Encourage the adoption of advanced technologies in Chinese standards and their convergence with international standards.
- Accelerate the modernisation of the rail standards system to make it fair, reasonable, inclusive and transparent.
  - Make the extensive participation of stakeholders in the standards-setting process an important evaluation indicator.
- Regulate the standardisation activities of social organisations and avoid applying standards formulated by social organisations to government inspections, product certification, and public procurement.

5. Optimise the Rail Industry Supply Chain through Improved Enforcement of IPR

Concern

Insufficient intellectual property rights (IPR) enforcement and low efficiency hinder technological innovation in the rail industry, especially among small and medium-sized enterprises (SMEs).

Assessment

In the past year, the working group has witnessed China's continuing efforts to optimise IPR protection, e.g., the China Intellectual Property Administration's *Annual Work Guidelines for Promoting High-quality Development of Intellectual Property (2024)*.[36] The *2025 Action Plan for Stabilising Foreign Investment* also emphasises the strengthening of IPR protection to ensure the rights and interests of FIEs in fair competition and technological innovation in the Chinese market.[37] However, FIEs, especially SMEs, still face concerns about IPR protection when working with Chinese partners, as well as the long processing times, difficulty in evidence collection and high costs of IPR protection.

The European Chamber's report *Siloing and Diversification: One World, Two Systems* notes that while most FIEs expect to benefit from China's innovation ecosystem, weak IPR protection overall is particularly problematic.[38] The Chamber's *Business Confidence Survey 2025* also confirms the concerns of member companies about IPR infringement.[39] Some respondents indicated that their companies were reluctant to bring the latest technology to China for production or R&D-related purposes, mainly due to concerns about IPR-related infringement. Companies that believe that the risks outweigh the potential rewards will isolate R&D in China or even abandon their R&D presence in the country altogether.

The Rail Working Group therefore recommends developing a sound IPR protection system, combined with effective and efficient law enforcement. This will not only protect the innovative achievements of FIEs, but also help promote the technological diversification within the rail industry, foster healthy market competition, and boost the quality of standards and international competitiveness in China's rail industry.

35 FIEs' interest in taking part in the setting of rail-related standards and technical specifications derives from their willingness to access the Chinese rail market and specific projects, and is in line with the economic and technological security objectives that China's indigenous innovation policies seek to achieve.

36 *Notice of the China National Intellectual Property Administration on the Issuance of the 'Annual Work Guidelines for Promoting High-quality Development of Intellectual Property (2024)'*, China National Intellectual Property Administration, 29th March 2024, viewed 20th April 2025, <https://www.gov.cn/zhengce/zhengceku/202404/content_6945105.htm>

37 *2025 Action Plan for Stabilising Foreign Investment*, General Office of the State Council, 12th March 2025, viewed 20th April 2025, <https://ca.mofcom.gov.cn/jmxw/art/2025/art_1e8ce57ed4534afa8c845ec77da4b865.html>

38 *Siloing and Diversification: One World, Two Systems*, European Chamber, 9th January 2025, viewed 20th April 2025, p. 30, <https://www.europeanchamber.com.cn/en/publications-archive/1272/Siloing_and_Diversification_One_World_Two_Systems>

39 *Business Confidence Survey 2025*, European Chamber, 10th May 2025, viewed 8th July 2025, p. 25, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>

Recommendations

- Implement a rapid response mechanism to handle IPR infringement disputes and reduce the cost of IPR protection.
- Provide legal advice and guidance to SMEs and encourage their participation in the rail industry supply chain.
- Encourage industry associations to strengthen self-regulatory mechanisms, issue regular reports on the status of IPR protection and advocate for enterprises to enhance awareness of IPR protection.

Abbreviations

BRI	Belt and Road Initiative
CAMET	China Association of Metros
FIE	Foreign-invested Enterprise
JV	Joint Venture
IPR	Intellectual Property Rights
km	Kilometre
MOT	Ministry of Transport
NDRC	National Development and Reform Commission
NRA	National Railway Administration
OEM	Original Equipment Manufacturers
R&D	Research and Development
SME	Small and Medium-sized Enterprise
TBT Agreement	Technical Barriers to Trade Agreement
WTO	World Trade Organization
y-o-y	Year-on-Year

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4 Section Four

Services

Services

The Services section of the *Position Paper* includes papers from three working groups and two sub-working groups of the European Chamber:

- Aviation and Aerospace
- Information and Communication Technology (ICT)
  - Cybersecurity Sub-working Group
- Logistics
  - International Liner Shipping Sub-working Group

Over the past decade, the share that the services sector contributes to China's gross domestic product (GDP) has been steadily increasing. In 2024, the services sector overall accounted for 56.7 per cent of China's GDP, with trade in services representing 5.3 per cent of the total and having reached a record high value of Chinese yuan (CNY) 7,523.8 billion that year.[1,2&3] As of 2023, China was the European Union's (EU's) fourth-largest destination for trade in services, accounting for around four per cent of total services exports.[4]

Activity in the services industry continued to be stable throughout 2024 and the first half of 2025, slowing down in July 2025, although it still remained in positive territory, according to the National Bureau of Statistics' services purchasing managers index.[5]

While, according to the European Chamber's *Business Confidence Survey 2025* (BCS 2025), China's economic headwinds remained the top source of concern for 71 per cent of respondents, market access and regulatory barriers also played a key role in subduing business confidence. A record 63 per cent of respondents reported missing business opportunities because of market access and regulatory barriers, a number that rises to 73 per cent in the case of respondents in the information and communication technology (ICT) industry.[6]

Some of the market access barriers in China's services industry are long-standing. For example, the country's commitment to allow foreign players to provide computer reservation system services in the travel industry was part of its World Trade Organization (WTO) accession agreement more than two decades ago.[7] Foreign participation in this segment remains extremely limited, with global

1 *Services, value added (% of GDP) – China*, World Bank, 2024, viewed 1st August 2025, <https://data.worldbank.org/indicator/NV.SRV.TOTL.ZS?locations=CN>
2 *Trade in services (% of GDP) – China,* World Bank, 2024, viewed 1st August 2025 <https://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS?locations=CN>
3 *An official from the Department of Trade in Services at the Ministry of Commerce introduced the development of trade in services for the full year of 2024*, State Council, 28th January 2025, viewed 3rd September 2025, <https://www.gov.cn/lianbo/fabu/202501/content_7001564.htm>
4 Data extracted in January 2025 (2023 is the most up-to-date record for trade in services). See: *International Trade in Services – Main trading partners*, Eurostat, viewed 2nd August 2025, <https://ec.europa.eu/eurostat/statistics-explained/index.php?title=International_trade_in_services#Main_trading_partners>
5 *National Data*, National Bureau of Statistics of China, viewed 2nd August 2025, <https://data.stats.gov.cn/english/easyquery.htm?cn=A01>
6 *European Business in China Business Confidence Survey 2025,* European Union Chamber of Commerce in China, 28th May 2025, viewed 2nd August 2025, <https://www.europeanchamber.com.cn/en/publications-archive/1278/Business_Confidence_Survey_2025>
7 *Trade in Services – Schedule Of Specific Commitments,* WTO, 14th February 2002, viewed 2nd August 2025, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/SCHD/GATS-SC/SC135.pdf&Open=True>

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distribution system providers only allowed to offer ticket reservation services for international flights, while continuing to face onerous licensing procedures and unclear regulations.[8]

In other areas, long-standing industry asks have been addressed in a limited way, leaving plenty of room for policy and regulatory improvements. For example, while the three-year extension of the international cargo relay pilot in Shanghai Yangshan Port announced by the Ministry of Transportation on 31st December 2024 is welcomed by industry, there is a need for further optimisation of this initiative.[9] In particular, its temporary nature, the fact the pilot has a limited geographical scope—as it can only be trialled by ships at Yangshan Port in Shanghai arriving from, or departing for, the three northern ports of Dalian, Qingdao and Tianjin—and the restrictions on the carriers and vessels allowed to participate in the pilot, mean that foreign companies are not able to take full advantage of this initiative. According to members of the International Liner Shipping Sub-working Group, if these restrictions were to be lifted and the policy to become permanent, carriers would be able to provide more diversified shipping products to customers, and at the same time benefit from much shorter transit times, thereby increasing efficiency and saving fuel.[10]

Access to China's procurement market is another long-standing pain point, which, in certain sectors, has been exacerbated by the country's focus on localisation and achieving self-reliance in strategic technologies. European companies in the ICT industry, for example, report that tenders give significant weight to domestic suppliers or, in some cases, specify a required localisation percentage in the qualification criteria. The impact of these and other types of restrictions is abundantly clear in telecommunications, with the market share of European vendors having dropped from around 30 per cent in 4G services (the share that Chinese vendors still enjoyed in Europe for 5G as of the end of 2022) to three per cent in 5G services as of Q4 2024.[11] In addition, procurement-related programmes for IT application innovation products clearly favour domestic ICT suppliers, as no international suppliers have so far managed to qualify for these programmes.[12]

In this context, although policy documents rolled out throughout 2023 and 2024 pledging to ensure equal treatment for foreign players were well-received by European companies, other recently released draft regulations have contributed to increasing uncertainty.[13] Of particular note is the Ministry of Finance's (MOF) draft *Notice on Matters Related to Domestic Product Standards and Implementation Policies in the Field of Government Procurement* (*Notice*).[14] This draft *Notice,*

8 For more information, please refer to Key Recommendation 4 of the *Aviation and Aerospace Working Group Position Paper 2025/2026*, p. 291.

9 *MOT Announcement over Extension of Pilot International Cargo Relay Accessible to Non-Chinese-Flagged Marine Vessels Operated by Foreign International Liner Carriers,* Ministry of Transport, 31st December 2024, viewed 2nd August 2025, <https://xxgk.mot.gov.cn/2020/jigou/syj/202412/t20241231_4161878.html>

10 For more information, please refer to Key Recommendation 1 of the *International Liner Shipping Working Group Position Paper 2025/2026*, p. 333.

11 *RAN Market Down 10 to 20 percent 1Q-3Q24, According to Dell'Oro Group,* Dell'Oro Group, 13th November 2024, viewed 5th August 2025, <https://www.delloro.com/news/ran-market-down-10-to-20-percent-1q-3q24/>

12 For more information, please refer to Key Recommendation 1 of the *Information and Communication Technology Position Paper 2025/2026*, p. 301.

13 Recent examples of wording on ensuring equal access to procurement processes include the *Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment* and the *Action Plan for Solidly Promoting High-level Opening to the Outside World and Making Greater Efforts to Attract and Utilise Foreign Investment. Opinions of the State Council on Further Optimising the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment*, State Council, 13th August 2023, viewed 20th July 2024, <https://www.gov.cn/zhengce/zhengceku/202308/content_6898049.htm>; *Action Plan for Solidly Promoting High-level Opening to the Outside World and Making Greater Efforts to Attract and Utilise Foreign Investment,* State Council, 19th March 2024, viewed 5th August 2025, <https://www.gov.cn/yaowen/liebiao/202403/content_6940174.htm>

14 *Public Consultation Notice on the Draft Notice Concerning Standards and Implementation Policies for Domestic Products in Government Procurement,* China Government Procurement Network, 5th December 2024, viewed 10th August 2025, <https://www.ccgp.gov.cn/news/202412/t20241205_23796937.htm>

which aims to develop a unified standard for what qualifies as 'domestic product' and establishes preferential policies for such products in government procurement, has sparked concerns among European businesses regarding overly restrictive definitions and insufficient transition periods, among others. At the multilateral level, there have been repeated calls for China to speed up its efforts to join the WTO's Government Procurement Agreement, which it committed to do decades ago during its WTO accession process.

Beyond the above-mentioned regulatory developments, the key metric for success will have to be measured by on-the-ground improvements for foreign businesses. Failure to achieve meaningful progress has already resulted in and may continue to exacerbate tensions with key trading partners, as exemplified by the EU's investigation into access to the Chinese procurement market for medical devices under the International Procurement Instrument and the subsequent retaliatory moves by the MOF.[15&16]

European companies in the services industry also encounter challenges linked to China's green and digital transitions, be it due to a lack of international harmonisation of standards, regulatory gaps and constraints or insufficient incentives. For example, in the aviation industry, it is extremely important to develop internationally recognised standards for sustainable aviation fuels (SAF), as any divergence would detract from the motivation for scaling up production, as the economic benefits of doing so would not be as great. This would disincentivise the adoption of SAF, which in turn would significantly hinder the decarbonisation of the industry.[17] For companies in the shipping industry, ensuring that incentive schemes for green fuel utilisation are developed within the framework of the International Maritime Organization will be key to accelerating the adoption of green fuels by bridging the price gap between these and fossil fuels.[18] Meanwhile, in the field of road transportation, industry is calling for further support towards the development of an infrastructure, technology and supply chain framework for hydrogen and new energy vehicles (NEVs), as well as incentives for adoption of NEVs.[19]

Looking at digitalisation, European industry players are aware of the security considerations influencing policymaking on emerging technologies across the world, and of the importance of striking a balance between security considerations and fostering the development of such industries. Members of both the Information and Communication Technology Working Group and the Cybersecurity Sub-working Group are therefore calling for the international harmonisation of governance frameworks in emerging technologies, such as artificial intelligence and the internet of things. This includes, but is not limited to policies, regulations, standards and conformity assessment programmes.[20]

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15 *Commission restricts Chinese participation in medical devices procurement,* European Commission, 20th June 2025, viewed 5th August 2025, <https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1569>

16 *Ministry of Finance Notice on Implementing Relevant Measures Regarding Medical Devices Imported from the European Union in Government Procurement Activities,* Ministry of Finance, 6th July 2025, viewed 5th August 2025, <https://gks.mof.gov.cn/guizhangzhidu/202507/t20250704_3967295.htm>

17 For more information, please refer to Key Recommendation 1 of the *Aviation and Aerospace Working Group Position Paper 2025/2026*, p. 291.

18 For more information, please refer to Key Recommendation 5 of the *International Liner Shipping Sub-working Group Position Paper 2025/2026*, p. 333.

19 For more information, please refer to Key Recommendations 2.1 and 2.2 of the *Logistics Working Group Position Paper 2025/2026*, p. 325.

20 For more information, please refer to Key Recommendations 1, 2 and 3 of the *Information and Communication Technology Working Group Position Paper* 2025/2026, and Key Recommendation 1 of the *Cybersecurity Sub-working Group Position Paper 2025/2026*, p. 301 and 315.

Another key issue linked to the digital transition affecting companies across nearly all industries and sectors is cross-border data transfer (CBDT). The release of the *Provisions on Promoting and Regulating Cross-border Data Flows* on 22nd March 2024 represented a positive first step towards establishing an efficient regulatory ecosystem for CBDT, as it alleviates some of the compliance burdens for certain companies.[21] At the same time, there are still several outstanding issues that need to be addressed by different government stakeholders at both the national and local levels, as well as among different ministries and regulators. These include the interpretation of the 'necessity' of conducting CBDTs, the conflation of large volumes of personal information on the one hand and important data on the other, as well as restrictions or uncertainties associated with both the security assessment and the definition of 'important data'. Addressing these issues will be key to developing a CBDT framework that does not create additional operating barriers and costs for foreign businesses and does not therefore discourage foreign investment.[22]

The position papers in the following section provide additional input and constructive recommendations from European industry across the services sector on these and other key market access and regulatory issues.

21 *Provisions on Promoting and Regulating Cross-border Data Flows*, Cyberspace Administration of China, 22nd March 2024, viewed 5th August 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

22 For more information, please refer to Key Recommendation 2 of the *Cybersecurity Sub-working Group Position Paper 2025/2026*, p. 316.

Aviation and Aerospace Working Group

Key Recommendations

1. Accelerate the Development of a Sustainable Aviation Ecosystem in China by Actively Involving Industry Players in Green House Gas (GHG) Emissions Reduction Schemes as well as through Bilateral Cooperation with the European Union (EU) and Global Commitments 5

- Involve more market players in the carbon market thereby encouraging airlines to invest in fleet renewal, and offer more sustainable credits and loans to airlines to incentivise their sustainable development.
- Create a detailed policy framework to promote the use of sustainable aviation fuel (SAF) in commercial flights to encourage investment in the full value chain of SAF including production, transport, storage and distribution.
- Create a trusted and long-term communication channel between the EU and China, dedicated to the development of sustainable aviation.
- Cooperate on scenarios to prepare for the future of decarbonised aviation, including but not limited to SAF, power-to-liquid technology and hydrogen.
- Relaunch projects on the industrialisation of alternative fuels, including power-to-liquid technologies and hydrogen, by creating concrete-use cases.

2. Airworthiness

2.1 Optimise Implementation of the EU-China Bilateral Aviation Safety Agreement (BASA) 4

- Encourage frequent exchanges at all levels between airworthiness certification authorities in China and the EU, with the aim of enhancing mutual understanding and ensuring all aviation products are certified as per the requirements of applicable airworthiness certification procedures.
- Strengthen joint efforts between the European Union Aviation Safety Agency (EASA), the Civil Aviation Administration of China (CAAC) and industry players to find ways to optimise implementation of the BASA.

2.2 Improve Parts Manufacturer Approval (PMA) Regulations by Restricting the Use of Raw Materials for Aircraft Products

- Issue guidance on raw material utilisation and traceability for China's PMA approvals.
- Limit the use of polyvinyl chloride (PVC) inside and outside of aircraft.

3. Optimise Interline Transfers by Upgrading Passenger and Baggage Handling at Chinese Airports

- Eliminate redundant customs requirements for airlines and passengers in accordance with international standards, while permitting interline passenger and baggage transfers based on bilateral agreements between operating carriers.
- Expedite the implementation of automated baggage handling systems across Chinese airports to enhance operational efficiency.

4. Fully Open the Computer Reservation System (CRS) Market in China 4

- Simplify the qualification review procedure for sales agencies eligible to issue licences to provide meaningful market access to foreign CRS providers.
- Stipulate a new regulation to fully open the Chinese CRS market by allowing foreign global distribution system (GDS) providers to offer ticket reservation services for both international and domestic flights.
- Clarify the authorisation process for foreign GDS providers to operate itinerary printing software and validation website services.

5. Increase the Efficiency of Airspace Utilisation in China

5.1 Ease Airspace Congestion by Adopting New Technology and Enhancing Systems Interoperability 9

- Expand the scope of the flexible entry/exit point policy by allowing airlines to designate more routes for daily operations.

5.2 Clarify the National Strategy for the Development of Low-altitude Airspace 3

- Strengthen exchanges with departments and organisations in charge of low-altitude airspace reform and the existing pilot zones to provide a better understanding of the helicopter market and development trends in helicopter operations.
- Develop a roadmap that clarifies the percentage of altitude below 6,000 metres per province dedicated to general aviation activities and when the relevant local-level regulations will be issued.
- Improve coordination between national and local airspace management offices to optimise helicopter operations for emergency rescue services.
- Accelerate the construction of helicopter fields and temporary landing points, especially to serve large hospitals, forests, grasslands and hazardous materials facilities.

Recent Developments

Civil Aviation Transport

In 2024, the civil aviation sector saw significant growth in total turnover, passenger traffic, and cargo and mail traffic. International passenger flights achieved 84 per cent of pre-pandemic levels, and are projected to reach 90 per cent by the end of 2025. The number of flights between Europe and China also recovered to levels surpassing those of 2019.[1]

During the past 12 months, China issued policies to further facilitate cross-border, people-to-people exchanges. For example, the visa-free transit policy was increased from six days' stay to 10 days, and 21 ports of entry were added.[2] At the time of writing, China had granted unilateral visa-free entry to 47 countries, including many European countries.[3&4] European businesses welcome and appreciate these policy changes.

However, while Chinese airlines have been expanding routes to Europe, a growing number of European carriers have been cutting flights to China, mainly due to pressure stemming from rerouting—because of

1 *The National Civil Aviation Work Conference Was Held in Beijing in 2025*, CAAC, 9th January 2025, viewed 8th April 2025, <http://www.caac.gov.cn/PHONE/XWZX/GDTPXW/202501/t20250109_226380.html>

2 *China's Transit Visa Exemption Policy Fully Relaxed and Optimised*, National Immigration Administration (NIA), 17th December 2024, viewed 8th April 2025, <https://www.nia.gov.cn/n897453/c1688948/content.html>

3 Of the 47 countries, 32 are European ones, including 24 EU Member States. See: *China's Unilateral Visa-free "Circle of Friends" Expands to 47 Countries, Xinhua*, 9th June 2025, viewed 24th July, <https://www.news.cn/20250609/3da52577efdf46639dd0f66a912b8a49/c.html>

4 *Country List of Unilateral Visa-free Policies*, NIA, 27th June 2025, viewed 14th July 2025, <https://www.nia.gov.cn/n741440/n741577/c1731154/content.html>

geopolitical issues—and sluggish market demand.[5] Data shows that over 80 per cent of planned China-Europe capacity for passenger flights in 2025 is attributable to Chinese carriers.[6]

Sustainable Aviation

China

In May 2024, the State Council issued the *2024–2025 Action Plan on Energy Conservation and Carbon Reduction*, emphasising the promotion of advanced bio-liquid fuels and sustainable aviation fuels (SAFs).[7] On 18th September 2024, the National Development and Reform Commission (NDRC) and the Civil Aviation Administration of China (CAAC) held a launch ceremony in Beijing for the SAF application pilot programme.[8]

Europe

On 6th February 2025, the European Commission adopted a support mechanism under the European Union's (EU's) Emissions Trading System (ETS) to promote the use of SAFs. This mechanism sets the rules for the yearly calculation of the price difference between eligible aviation fuels and fossil kerosene and allows airlines to use a portion of their EU ETS allowances to offset the higher cost of SAF compared to traditional jet fuel. European flights to, from and within the EU's outermost regions, could apply for this support mechanism by reporting their use of these fuels during 2024 to the European Commission.[9]

Key Recommendations

1. Accelerate the Development of a Sustainable Aviation Ecosystem in China by Actively Involving Industry Players in GHG Emissions Reduction Schemes as well as through Bilateral Cooperation with the EU and Global Commitments 5

Concern

Greater efforts and more ambitious targets are needed to encourage more industry players to contribute to the reduction of GHG emissions in the civil aviation industry, as China and Europe share the same goal of reaching carbon neutrality, albeit over different timelines.

Assessment

China's *14th Five-year Special Plan for Green Development of Civil Aviation* (*Special Plan*) and the *2023–2035 Green Aviation Manufacturing Development Outline* lay down the guiding principles for the sustainable development of China's civil aviation industry.[10&11] The *Special Plan* stipulates that airlines' cumulative SAF consumption should reach 50,000 tonnes between 2020 and 2025. At the 2024 China Civil Aviation Green Development Conference, the CAAC unveiled plans for a decade-long industry sustainability roadmap, focussing on advancing SAFs and developing an aviation carbon market.[12]

Many aviation players are already acting to reduce their carbon emissions. Chinese airlines and airports have participated in local carbon markets for years, with some now required to report emissions under the national carbon trading system.[13] Others are adopting measures like expanding electric vehicle fleets and

5 Chan, H, and Philip, G, *Chinese airlines rush into Europe as western carriers retreat, Financial Times*, 8th January 2025, viewed 8th April 2025, <https://www.ft.com/content/a3eeb268-5daa-4525-858b-eab93b28d3c7>

6 *China Expands International Network but will Demand Follow?*, OAG, 2nd August 2024, viewed 6th April 2025, <https://www.oag.com/blog/china-expands-international-network-will-demand-follow>

7 *China Issues the 2024–2025 Action Plan on Energy Conservation and Carbon Reduction*, State Council, 30th May 2024, viewed 6th April 2025, <https://www.mee.gov.cn/zcwj/gwywj/202405/t20240530_1074495.shtml>

8 *China Launches Pilot Aapplication of Sustainable Aviation Fuel*, CAAC, 19th September 2024, viewed 16th April 2025, <https://www.gov.cn/lianbo/bumen/202409/content_6975320.htm>

9 *Adoption of EU rules on the ETS support system to accelerate the use of sustainable aviation fuels*, European Commission, 6th February 2025, viewed 6th April 2025, <https://climate.ec.europa.eu/news-your-voice/news/adoption-eu-rules-ets-support-system-accelerate-use-sustainable-aviation-fuels-2025-02-06_en>

10 *China unveils 5-year plan to advance civil aviation development, Xinhua*, 7th January 2022, viewed 28th April 2025, <https://english.news.cn/20220107/4f5efb8b93124f88be4257e4e3b60325/c.html>

11 *Green aviation ecosystem gets bigger thrust, China Daily*, 12th October 2023, viewed 28th April 2025, <https://english.www.gov.cn/policies/policywatch/202310/12/content_WS65274388c6d0868f4e8e0270.html>

12 *Emission Cuts Accelerate: China's Green Aviation Development Plan for the Next Decade, China News*, 9th November 2024, viewed 28th April 2025, <https://www.chinanews.com.cn/cj/2024/11-09/10316157.shtml>

13 *Beijing Municipal Ecology and Environment Bureau Notice on the List of Emission Units to be Included in the Management of the National Carbon Market for the Year of 2024*, Beijing Municipal Ecology and Environment Bureau, 21st December 2023, viewed 28th April 2025, <https://sthjj.beijing.gov.cn/bjhrb/index/xxgk69/zfxxgk43/fdzdgknr2/zcfb/hbjfw/326071951/543417161/index.html>

reducing auxiliary power unit use.[14&15] Notably, in September 2024, Air China, China Eastern Airlines and China Southern Airlines began using SAF on select flights from four Chinese airports.[16]

However, further efforts are required, especially to reduce the use of traditional aviation fuel. China currently burns around 40 million tonnes of aviation kerosene annually in its civil aviation sector,[17] a number that will rise as air traffic increases. SAF therefore provides an effective way to rapidly decarbonise, thereby facilitating the green transition of the aviation industry.[18] Other means identified by the International Air Transport Association to achieve net zero include the use of 'new technology, electric and hydrogen' (13 per cent), 'infrastructure and operational efficiencies' (three per cent) and 'offsets and carbon capture' (19 per cent).[19]

Both the EU and China view SAF as the most viable short-term path to sustainable aviation, given its drop-in compatibility with existing infrastructure. With China ramping up SAF production, aligning international standards is critical, as any divergence could disrupt the aviation ecosystem and limit economic gains from scaling up. In the long run, power-to-liquid (eSAF) and hydrogen technologies will be essential for full decarbonisation. Therefore, strengthening EU-China talks on industrialising and deploying these new fuels would be a timely next step.

Moreover, a global commitment to scaling the SAF market could further incentivise industry players in China to ramp up investments in this sector. Such commitments have historically played a crucial role in accelerating green technologies—such as the Global Renewables and Energy Efficiency Pledge at the 28th United Nations Climate Change Conference (COP28)—and could help similarly catalyse the development of a robust global SAF market, providing producers with the confidence to invest and operate at scale.[20]

To balance emission cuts with rising flight demand, the aviation industry must, in addition to increasing the utilisation of SAF, collaborate on shared goals. This presents the EU and China with a key opportunity to revive cooperation, such as exchanging best practices on market-based measures like the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and their respective carbon markets (the EU ETS and the China ETS).[21] Now is also the time to develop joint climate-energy scenarios factoring in air traffic trends, renewable energy pathways and regulatory frameworks. Through such cooperation, both the EU and China can maximise the benefits of a decarbonised aviation industry.

Since 2005, EU-China collaboration through coordination and support actions (CSAs) has driven successful joint research in sustainable aviation. However, while past initiatives delivered mutual benefits, some long-term CSAs have concluded with no new plans announced.[22] It is therefore recommended that the EU and China establish fresh cooperation frameworks, particularly in standardising and certifying cutting-edge sustainable aviation technologies.

Recommendations

- Involve more market players in the carbon market thereby encouraging airlines to invest in fleet renewal, and offer more sustainable credits and loans to airlines to incentivise their sustainable development.
- Create a detailed policy framework to promote the use of SAF in commercial flights to encourage investment in the full value chain of SAF including production, transport, storage and distribution.

14 Hu, T, Liu, E, and Zhou Y, *Across China: Hub airports go green for low-carbon aviation, Xinhua*, 4th July 2023, viewed 28th April 2025, <https://english.news.cn/20230704/d10b6b403da749f3ae491416a3f16fc5/c.html>

15 Zhang, J, *Beijing Daxing Airport Installs APU Replacement Facilities at All Nearby Aircraft Positions to Promote Energy Saving and Emission Reduction*, 14th July 2020, viewed 28th April 2025, <http://www.caacnews.com.cn/1/5/202007/t20200714_1306453.html>

16 *China Launches Pilot Programme for SAF Application with 12 Flights to Begin Using SAF, CCTV News*, 19th September 2024, viewed 6th April 2025, <https://www.gov.cn/lianbo/bumen/202409/content_6975320.htm>

17 Petrochemical Decoding: Aviation Fuel—Aviation Kerosene, China Petrochemical News, 18th June 2025, viewed 14th July 2025, <http://www.sinopecnews.com.cn/xnews/content/2025-06/18/content_7127465.html>

18 It is estimated that SAF could contribute around 65 per cent of the reduction in emissions needed by global aviation to reach net-zero in 2050. See: *International Civil Aviation Organisation (ICAO) guidance on policy measures for SAF development and Deployment*, ICAO, October 2024, viewed 28th April 2025, <https://www.icao.int/environmental-protection/Pages/saf_guidance_potential_policies.aspx>

19 *Our Commitment to Fly Net Zero by 2050*, International Air Transport Association, viewed 28th April 2025, <https://www.iata.org/en/programs/environment/flynetzero/>

20 *Global Renewables and Energy Efficiency Pledge*, COP28, viewed 10th June 2025, <https://energy.ec.europa.eu/system/files/2023-12/Global_Renewables_and_Energy_Efficiency_Pledge.pdf>

21 Market-based measures (MBMs) refer to economic measures that act for decarbonisation in a sector by complementing other solutions until the sector can rely only on in-sector emission reductions. There are two types of MBMs in the aviation industry: carbon offsetting schemes, such as CORSIA; and carbon trading systems, such as the EU ETS. *Market-based Measures for more sustainable aviation*, EASA, 19th December 2019, viewed 1st July 2025, <https://www.easa.europa.eu/en/light/topics/market-based-measures-more-sustainable-aviation>

22 *Seventh framework programme of the European Community for research and technological development including demonstration activities (FP7)*, European Commission, 29th June 2015, viewed 24th July 2025, <https://cordis.europa.eu/programme/id/FP7>

- Create a trusted and long-term communication channel between the EU and China, dedicated to the development of sustainable aviation.
- Cooperate on scenarios to prepare for the future of decarbonised aviation, including but not limited to SAF, power-to-liquid technology and hydrogen.
- Relaunch projects on the industrialisation of alternative fuels, including power-to-liquid technologies and hydrogen, by creating concrete-use cases.

2. Airworthiness

2.1 Optimise Implementation of the EU-China BASA 4

Concern

The EU-China Bilateral Aviation Safety Agreement (BASA) has not reached its full potential, delaying the technical-based assessment process between both parties, thereby preventing numerous business opportunities.

Assessment

Every aircraft produced is certified under long-standing safety standards developed by aviation safety authorities in the product's manufacturing country before it is allowed to fly. Technical-based assessments on already-certified products by independent airworthiness agencies, such as the EASA and the CAAC, remain a fundamental process that affects the global operations of aerospace manufacturers.

The EU-China BASA, which entered into force in September 2020, has established a robust framework for cooperation in aviation safety. Recently, China initiated validation projects for European aviation products and fully implemented them in accordance with the BASA. Notably, China's first BASA-aligned validation project was completed successfully in January 2025.[23]

With several European aircraft having recently been issued type certificates by the EASA,[24] European manufacturers are well-positioned to share their experiences on airworthiness processes with the CAAC. Such collaboration would facilitate China's smooth implementation of BASA-compliant procedures for issuing airworthiness certificates.

Recommendations

- Encourage frequent exchanges at all levels between airworthiness certification authorities in China and the EU, with the aim of enhancing mutual understanding and ensuring all aviation products are certified as per the requirements of applicable airworthiness certification procedures.
- Strengthen joint efforts between the EASA, the CAAC and industry players to find ways to optimise implementation of the BASA.

2.2 Improve PMA Regulations by Restricting the Use of Raw Materials for Aircraft Products

Concern

China's current parts manufacturer approval (PMA) certification creates a grey area through which products with safety concerns could find their way into aircraft supply chains.

Assessment

China is projected to be the largest aviation services market by 2043, with an increasing demand for maintenance, repair and overhaul (MRO) services.[25] In the MRO industry, both original equipment manufacturer (OEM) and PMA parts play vital roles, each offering distinct benefits.[26]

In China, PMA certification verifies the final part's performance, safety and compatibility while not mandating disclosure of raw material details. This creates a grey area in which PMA parts made from cheap and unqualified raw materials could be approved by the aviation safety authorities and enter the aeronautical supply chain. For example, in recent months, CAAC-approved PMA placards have been found in the market, carrying the corresponding OEM parts numberings with an additional '-SH' indicating that they are produced by a local manufacturer. Laboratory testing by the OEM showed that these PMA products would lead to safety

23 *Airbus A330neo Aircraft Receives Type Certificate from CAAC, CAAC News*, 13th January 2025, viewed 7th June 2025, <http://www.caacnews.com.cn/1/88/202501/t20250113_1384238.html>

24 *EASA issues Type Certificate to Airbus A321XLR: how we certified a design novelty*, EASA, 19th July 2024, viewed 7th June 2025, <https://www.easa.europa.eu/en/newsroom-and-events/press-releases/easa-issues-type-certificate-airbus-a321xlr-how-we-certified>

25 *China aviation services market is expected to be the largest by 2043*, Airbus, 20th December 2024, viewed 16th May 2025, <https://aircraft.airbus.com/en/newsroom/press-release/2024-12-china-aviation-services-market-is-expected-to-be-the-largest-by-2043>

26 PMAs are design and production approvals for aircraft parts that are not produced by OEMs. These parts are approved by aviation authorities and can be installed on type-certificated products.

concerns as they are made of polyvinyl chloride (PVC), a material that is not included in the OEM's Qualified Products Lists due to its toxicity, poor lifetime and poor colour stability.[27] In the worst-case scenario, an aircraft flying with such parts in airspace outside of China could be grounded until the components were replaced by properly certified ones.

While not every country might have a mandatory rule, regulatory bodies like the United States' Federal Aviation Administration and the EASA have guidance and standards for PMA approvals. These typically include elements that address quality assurance, including raw material traceability and acceptance. Since 2003, the EASA has been issuing Safety Information Bulletins regarding the use of airworthy materials inside and on the fuselage of an aircraft (e.g., leather for seat-covers, material for placards and technical markings).[28] These approaches can provide valuable references for China's regulation of PMA parts.

PVC's production, use and disposal stages release toxic chemicals, including microplastics and dioxins, which build up in the environment and can lead to health problems.[29] The EU included PVC and its additives in a 2022 list of hazardous chemicals that should be restricted—known as the Restriction Roadmap—and is currently considering restricting or banning the use of PVC and its additives in products due to health and environmental concerns.[30]

Recommendations

- Issue guidance on raw material utilisation and traceability for China's PMA approvals.
- Limit the use of PVC inside and outside of aircraft.

3. Optimise Interline Transfers by Upgrading Passenger and Baggage Handling at Chinese Airports

Concern

A lack of both automated baggage handling systems for transferring passengers in China's airports and non-discriminatory policies for foreign passenger airlines may hinder the development of 'megahubs' in China and result in passengers being channelled to other travel gateways in Asia.

Assessment

In 2019, China introduced policies on 'international through-flight services' with the aim of enhancing the transfer passenger experience and developing international aviation hubs.[31] In 2024, the country set the goal of comprehensively establishing a fully functional international aviation hub system by 2035.[32] In February 2025, further measures were introduced to facilitate customs clearance formalities at China's airports, with an emphasis on expanding through-flight scope and supporting checked-through baggage services at international aviation hubs.[33]

Since 2019, domestic carriers have launched 'international through-flight services' at multiple aviation hubs across the country. However, China's current transfer facilitation policies are not yet in full alignment with international conventions, and with their complex approval procedures and a lack of automated baggage transfer systems in some airports, they impede foreign airlines from developing and operating international through-flight services.

The internationally recognised protocol for interline passenger and baggage transfers is governed by two principal conditions: 1) an active interline agreement

27 To ensure the high quality of materials, an OEM selects raw materials based on their QPL, which specifies approved suppliers and materials that meet quality standards. In practice, OEMs often use polycarbonate or polyester, which is in their QPLs, instead of unlisted materials such as PVC, to produce placards for aircrafts.

28 One example is regarding the use of PVC adhesive films (vinyl wrap). According to the EASA, the use of PVC in film layers is not encouraged and may require more airworthiness requirements due to safety concerns such as a reduced ability to detect structural damage beneath the film layer. See: *Information Bulletin no. 2018/03, EASA*, December 2018, 5th June 2025, <https://www.easa.europa.eu/sites/default/files/dfu/EASA_J-News_December_2018.pdf>

29 *European Chemicals Agency (ECHA) identifies risks from PVC additives and microparticle releases*, ECHA, 28th November 2023, viewed 31st May 2025, <https://echa.europa.eu/-/echa-identifies-risks-from-pvc-additives-and-microparticle-releases>

30 *Restrictions Roadmap under the Chemicals Strategy for Sustainability,* European Commission, 25th April 2022, viewed 5th June 2025, <https://ec.europa.eu/docsroom/documents/49734/attachments/1/translations/en/renditions/native>

31 An 'international through-flight service' is an operational model under which inbound and outbound transfer passengers complete check-in procedures for both their origin airport and transfer in a single transaction at their point of departure, undergo customs, health quarantine and security screening for both checked baggage and hand luggage at the transfer hub, and finally retrieve their checked baggage at the destination airport. See: *Announcement of the General Administration of Customs on Regulatory Matters Concerning the 'International Through-flight Service' Operation*, General Administration of Customs of China (GACC), 14th August 2019, viewed 6th June 2025, <https://www.gov.cn/xinwen/2019-08/14/content_5421104.htm>

32 *Guidelines on Advancing the Development of International Aviation Hubs*, CAAC, 23rd August 2024, viewed 6th April 2025, <https://app.caac.gov.cn/XWZX/MHYW/202408/t20240823_225145.html>

33 *Notice on Further Measures to Facilitate Customs Clearance at Aviation Ports*, GACC, 6th February 2025, viewed 6th June 2025, <https://www.gov.cn/zhengce/zhengceku/202503/content_7010145.htm>

between the operating carriers; and, 2) appropriate baggage handling facilities at the transit airport. When these criteria are fulfilled, transfer passengers may avail themselves of through-check services, with their luggage automatically forwarded to connecting flights at the hub airport without manual intervention.

In China, however, there are two additional customs requirements for airlines and passengers. First, beyond standard interline agreements, airlines must file customs applications specifying partner airlines for each connecting flight. Frequent changes in partnerships and schedules make maintaining accurate filings operationally difficult. Crucially, foreign carriers must secure cooperation from Chinese partners to jointly submit customs applications, without which through-flight services cannot be processed at Chinese hubs, creating barriers for foreign carriers offering international-domestic transfers in China.

Foreign carriers face additional system challenges. Their check-in systems, built on internationally recognised protocols, would require costly modifications to accommodate China's unique customs verification requirements. This situation creates operational risks: a foreign airline's system may automatically process baggage transfers to an unapproved connecting flight and potentially incur penalties. As a result, China's current transfer policies effectively only support its domestic airlines' transfers (e.g., Air China to Air China in Beijing, China Eastern to China Eastern in Shanghai).

Second, transfer passengers must complete a pre-check-in electronic declaration allowing Chinese customs to screen baggage without passenger presence at transit hubs – a requirement unique to China that creates operational complexities for foreign carriers. As most foreign airline passengers transfer through international megahubs before reaching China, carriers would need to notify travellers about this declaration at their original departure points. Implementing this manual process across entire airline networks increases operational complexity and baggage mishandling risks. Chinese carriers face fewer challenges in this regard, as their international flights (e.g., Paris-Shanghai services) primarily carry point-to-point passengers originating at the foreign departure point, making passenger notification significantly simpler.

In addition, while some Chinese airports have recently implemented international transfer service systems,[34] many still lack dedicated and automated baggage handling systems for international transit, which could potentially impede the development of international aviation hubs.

Recommendations

- Eliminate redundant customs requirements for airlines and passengers in accordance with international standards, while permitting interline passenger and baggage transfers based on bilateral agreements between operating carriers.
- Expedite the implementation of automated baggage handling systems across Chinese airports to enhance operational efficiency.

4. Fully Open the CRS Market in China 4

Concern

Despite China having included the liberalisation of its CRS market among its commitments to the World Trade Organization (WTO) in 2001, foreign CRS providers still do not have market access.

Assessment

China's WTO commitments on CRS include the following:

- When agreements are in place with Chinese aviation enterprises and Chinese CRS providers, foreign players may provide CRS services to Chinese aviation enterprises and Chinese aviation agents by connecting with the Chinese CRS.
- Foreign players may provide CRS services to representative offices and sales offices established in China by foreign aviation enterprises that have the right to engage in business according to bilateral aviation agreements.
- Direct access to and use of foreign CRS by Chinese aviation enterprises and agents of foreign aviation enterprises is subject to approval by the CAAC.[35]

In August 2012, the CAAC promulgated the *Interim Permit Management Measures of Using and Entering*

34 *China's First Civil Aviation International Transfer Service System Officially Launched*, *Beijing News*, 13th December 2024, viewed 6th June 2025, <https://www.bjnews.com.cn/detail/1734068113129036.html>

35 *Report of the Working Party on the Accession of China (WT/MIN(01)/3/Add.2)*, WTO, 10th November 2001, viewed 18th April 2025, <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/MIN01/3A2.pdf&Open=True>

the Foreign Computer Tickets Reservation System by the Sales Agency Appointed by Foreign Airline Carriers in China (*CCAR315*), which marked the first important step by China to open up its CRS market.[36] According to the *CCAR315*, foreign players can offer global distribution system (GDS) services in China for international flights by foreign airlines to sales agencies in cases where foreign airlines have obtained a relevant CAAC licence on behalf of their sales agencies. However, the CAAC's qualification review procedure of sales agencies before allowing them to issue licences takes more than 50 business days, which is too long for most companies. In addition, China's CRS market was opened in a limited way, with foreign GDS providers only allowed to offer ticket reservation services for international flights, with domestic flights being excluded, which is not in compliance with China's WTO commitments.

The State Taxation Administration (STA) and the CAAC issued the *Administration Measures of Air Transport Itineraries of Electronic Tickets (Interim)* (*STA No. 54 [2008]*) in 2008, and a subsequent notice on the *Issues on International Flights using Air Transport Itineraries of Electronic Tickets* (*STA No. 83 [2012]*) in 2012.[37&38] According to the measures, the itinerary printing software and validation website must be developed, operated and maintained by units authorised by the CAAC. However, in practice, it is not clear how the authorisation process applies to foreign GDS providers. As a result of the invisible market access barriers, although European GDS providers were able to provide itinerary printing and validation services as of 2015, this lasted less than one year.

Following the release of the *Special Measures on Foreign Investment* (*Negative List 2021*) by the NDRC and the Ministry of Commerce on 27th December 2021, government agencies were urged to review previous policies and regulations and promptly abandon those not in compliance with the updated list. However, some incumbent regulations that are not consistent with the *Negative List 2021* are still in force and need to be rescinded or replaced, including but not limited to: *CCAR315*, *STA No. 54 [2008]* and *STA No. 83 [2012]*.

Given that the implementation of European CRS systems in China requires cooperation and support from relevant Chinese Government departments, following the cancellation of *CCAR315* and *STA No. 83 [2012],* it is recommended that the CAAC formulate positive management measures that encourage the deployment of European CRS systems in China.

Recommendations

- Simplify the qualification review procedure for sales agencies eligible to issue licences to provide meaningful market access to foreign CRS providers.
- Stipulate a new regulation to fully open the Chinese CRS market by allowing foreign GDS providers to offer ticket reservation services for both international and domestic flights.
- Clarify the authorisation process for foreign GDS providers to operate itinerary printing software and validation website services.

5. Increase the Efficiency of Airspace Utilisation in China

5.1 Ease Airspace Congestion by Adopting New Technology and Enhancing Systems Interoperability 9

Concern

Congested airspace in China—caused by both limited air routes and a lack of data exchange/communication, in conjunction with inefficient air traffic management—leads to additional costs, longer flying times and increased carbon emissions for air carriers.

Assessment

Access to China's airspace by commercial flights is heavily restricted, resulting in airlines being unable to cope with the current demand. Unlike in Europe, where airlines can freely choose flight paths based on weather conditions, operating costs and flying times, airlines are limited to choosing from fixed flight paths in China, leading to congestion under adverse weather conditions, and additional carbon emissions, flying times and fuel costs.

36 *Interim Permit Management Measures of Using and Entering the Foreign Computer Tickets Reservation System by the Sales Agency Appointed by Foreign Airline Carriers in China*, CAAC, 28th March 2016, viewed 18th April 2025, <http://www.caac.gov.cn/XXGK/XXGK/MHGZ/201605/t20160530_37632.html>

37 *Administration Measures of Air Transport Itineraries of Electronic Ticket (Interim),* STA & CAAC, 19th May 2008, viewed 18th April 2025, <http://www.gov.cn/gongbao/content/2008/content_1157921.htm>

38 *Issues on International Flights Using Air Transport Itineraries of Electronic Ticket,* STA & CAAC, 30th August 2012, viewed 18th April 2025, <https://wenku.baidu.com/view/d91dbff8f705cc17552709d6.html?_wkts_=1751352016269&needWelcomeRecommand=1>

In addition, the closure of Russian airspace to EU airlines further limits flightpaths for airlines flying between Europe and Asia. Furthermore, because of the lack of open airspace in China, airlines flying to locations beyond southern China lack options for overflying China, leading to longer flight times and more delays.

The CAAC has begun offering airlines some flexibility to have more than one flight path. By expanding this policy further, traffic congestion and the associated carbon emissions, fuel costs and flying times could all be reduced.

Recommendation

- Expand the scope of the flexible entry/exit point policy by allowing airlines to designate more routes for daily operations.

5.2 Clarify the National Strategy for the Development of Low-altitude Airspace 3

Concern

A clear roadmap is needed for the further opening of low-altitude airspace following the December 2023 publication of China's National Airspace Basic Classification Method.[39]

Assessment

Since the issuance of the *Opinions on Deepening the Reform of China's Low-altitude Airspace Management* by the State Council and the Central Military Commission in 2010,[40] the Chinese Government has introduced a series of policies related to the reform of low-altitude airspace management and launched related provincial-level pilot projects.[41] In 2022, China issued the *14FYP on the Civil Aviation Industry Development*, noting that the reform of low-altitude airspace management should be effectively promoted in terms of airspace classification, low-altitude air route network planning, and supervision and management.[42] At the end of 2023, China released the *National Airspace Basic Classification Method* and the draft *Regulations on Airspace Management of the People's Republic of China*.[43&44] In both documents, China added two low-altitude uncontrolled airspace categories ('G' and 'W' classes of airspace), marking an important milestone in China's low-altitude reform process.[45] In March 2024, the term 'low-altitude economy' was included in the Government Work Report for the first time, and more than 20 provincial governments' work reports also mentioned related work arrangements.[46] This seems to indicate that the government is committed to growing China's low-altitude economy.

Meanwhile, Hunan, Jiangxi, Anhui, Sichuan and Hainan provinces have already launched experimental low-altitude airspace projects, and designated airspace at altitudes below 3,000 metres in their territories to implement classification management. It is of paramount importance that European companies operating in the helicopter business in China understand these projects, how they are practically applied on a day-to-day basis for helicopter operations, and what their impact is on the development of helicopter sales, flying hours and missions in China. This will help them to anticipate the market's development and allow them to bring their best practices and know-how to jointly grow the Chinese general aviation market safely, smartly and sustainably. The working group recommends that departments and organisations in charge of low-altitude airspace reform strengthen exchanges with the existing pilot zones to provide a better understanding of the helicopter market and development trends in helicopter operations. At the same time, a roadmap clarifying the percentage of altitude below 6,000 metres per province dedicated to general aviation activities, along with a timeline for issuing local-level regulations on low-altitude airspace management, will give visibility to investors in the low-altitude airspace economy.

39 *Notice of Issuance on the National Airspace Basic Classification Method*, CAAC, 21st December 2023, viewed 18th April 2025, <http://www.caac.gov.cn/PHONE/XXGK_17/XXGK/TZTG/202312/t20231221_222397.html>

40 Wang, Q, and Xin, D, *Golden decade takes off for aviation, China Daily*, 16th October 2010, viewed 18th April 2025, <https://www.chinadaily.com.cn/china/2010-10/16/content_11417648.htm>

41 'Low-altitude airspace' refers to airspace lower than 1,000 metres above ground level (AGL).

42 *China unveils 5-year plan to advance civil aviation development, Xinhua*, 7th January 2022, viewed 18th April 2025, <https://english.news.cn/20220107/4f5efb8b93124f88be4257e4e3b60325/c.html>

43 *Notice of Issuance on the National Airspace Basic Classification Method*, CAAC, 21st December 2023, viewed 18th April 2025, <http://www.caac.gov.cn/PHONE/XXGK_17/XXGK/TZTG/202312/t20231221_222397.html>

44 *Regulations on Airspace Management of the People's Republic of China (Draft for Comments)*, CAAC, 8th November 2023, viewed 18th April 2025, <https://app.caac.gov.cn/PHONE/HDJL/YJZJ/202311/t20231108_221957.html>

45 The draft *Regulations on Airspace Management of the People's Republic of China* categorised airspace into seven classes: A, B, C, D, E, G, and W, with A to E being controlled airspace, and G and W uncontrolled airspace. The newly introduced G-class airspace (less than 300 metres AGL and the W-class airspace (less than 120 metres AGL) correspond to the primary operating areas for general aviation, electric vertical take-off and landing (eVTOL) aircraft, and small unmanned aerial vehicles.

46 *Trillion-yuan new industry gears up for 'takeoff' as low-altitude economy in China gains momentum, Global Times*, 21st March 2024, viewed 18th April 2025, <https://www.globaltimes.cn/page/202403/1309270.shtml>

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In March 2024, China issued the *Implementation Plan for Innovative Application of General Aviation Equipment (2024–2030)*, which mentions that China will promote the application of large and medium-sized fixed-wing aircraft, helicopters and drones in full-area emergency rescue scenarios.[47] To deliver on-time air emergency rescue services by helicopter, it is essential to have good coordination among national and local airspace management offices and to construct enough helicopter fields and temporary landing points, especially to serve large hospitals, forests, grasslands and hazardous material facilities.

Recommendations

- Strengthen exchanges with departments and organisations in charge of low-altitude airspace reform and the existing pilot zones to provide a better understanding of the helicopter market and development trends in helicopter operations.
- Develop a roadmap that clarifies the percentage of altitude below 6,000 metres per province dedicated to general aviation activities and when the relevant local-level regulations will be issued.
- Improve coordination between national and local airspace management offices to optimise helicopter operations for emergency rescue services.
- Accelerate the construction of helicopter fields and temporary landing points, especially to serve large hospitals, forests, grasslands and hazardous materials facilities.

Abbreviations

BASA	Bilateral Aviation Safety Agreement
CAAC	Civil Aviation Administration of China
CRS	Computer Reservation System
EASA	European Union Aviation Safety Agency
ETS	Emissions Trading System
EU	European Union
GDS	Global Distribution System
OEM	Original Equipment Manufacturer
PMA	Parts Manufacturer Approval
PVC	Polyvinyl Chloride
SAF	Sustainable Aviation Fuel
STA	State Taxation Administration
WTO	World Trade Organization

47 *Notice on Issuance on the Implementation Plan for Innovative Application of General Aviation Equipment (2024–2030),* State Council, 27th March 2024, viewed 18th April 2025, <https://www.gov.cn/zhengce/zhengceku/202403/content_6942115.htm>

Information and Communication Technology Working Group

Key Recommendations

1. Remove Barriers to European Information and Communication Technology (ICT) Companies' Market Access and Secure Foreign Investment by Avoiding Bifurcation of both Global Supply Chains and the ICT Ecosystem in General 4

- Implement measures to improve market access for European ICT companies to ensure long-term equal treatment in the China market.
  - Avoid an overly restrictive definition of 'made in China' in the context of government procurement.
  - Identify all ICT market segments where market access is lacking or bidding rules are unfair for European companies (especially those related to localisation requirements) and develop actions—jointly defined by Chinese and European stakeholders—that address the key challenges to doing business in China.
  - Review the status of market openness and market share regularly, and take effective measures to address any issues.
- Ensure that regulatory controls improve overall supply chain resilience, instead of pursuing self-sufficiency and localisation at the expense of long-term interdependencies and cooperation prospects.
- Rely on internationally harmonised standards to the largest extent possible, rather than imposing undue restrictions on both the usage of such standards, and the scenarios in which they can be used.
- Ensure technology neutrality in ICT policies, regulations and standards to drive innovation, competition and long-term growth.
- Limit regulatory controls to what is strictly necessary, including by clearly delineating the boundaries of concepts like 'national security' and 'critical information infrastructure' (CII).
- Ensure that commercial markets are free from undue regulatory controls and interventions by government authorities and related organisations.
- Remove inconsistencies and contradictions in rolling out technical regulations and standards, including by ensuring their scope of application is not arbitrarily expanded.

2. Ensure Commercial Cryptography Laws, Regulations and their Enforcement are Transparent, Internationally Aligned and Treat Foreign-invested Enterprises (FIEs) Equitably 6

- Allow the adoption of international standards related to commercial cryptography.
- Adopt the primary function test in further rulemaking and in the roll-out of relevant mechanisms.
- Limit the scope of commercial cryptography testing, certification and application security assessment to CII.
  - Adopt a holistic approach to address the unauthorised and discretionary expansion of the

scope of application of such programmes across geographies and industries.
- Clarify the requirements related to the export control of commercial cryptography.
- Ensure technology-neutral and streamlined conformity assessment processes for commercial cryptography, and the protection of intellectual property and trade secrets.
- Define 'commercial cryptography in mass consumer products' as 'cryptography features in components and products openly available to the public, that can be either charged or free, for personal or business use, and where the cryptographic functionality cannot be modified by the end user'.
- Increase the transparency of catalogue amendments, broadly solicit opinions from industry and conduct a public review before official publication.
- Ensure that any implementing regulations and standards are fully in line with the Cryptography Law.

3. Create a Policy, Regulatory and Standards System Conducive to the Sustainable Development of Emerging and Future-orientated Industries 2

- Ensure the timely availability of the 57–64 gigahertz band for unlicensed use.
- Strengthen European Union (EU)-China exchanges on spectrum regulation, including by integrating spectrum topics into relevant government-to-government dialogues.
- Promptly define the right conditions for the industry to access public datasets, and to ensure the secure and collaborative use of such data.
- Strengthen industry participation in exploring the best data governance approach to improve the availability, quality and interoperability of data.
- Increase international harmonisation of the governance frameworks for emerging and future-orientated industries, and identify EU-China synergies in key fields.
- Adopt a risk-based approach to regulating relevant industries, so that low-risk technologies and applications are free from undue limitations, including market access restrictions.
- Incorporate green development mandates into development plans for emerging and future-orientated industries at an early stage, and encourage the adoption of energy-efficient and low-carbon technologies.
- Take a collaborative approach to developing the carbon emissions statistical accounting system and the carbon footprint accounting rules and standards for ICT products.
- Ensure orderly industrial development and healthy competition in emerging and future-orientated industries.

4. Accelerate the Opening-up of the Value-added Telecommunications Services (VATSs) Sector to Drive Innovation and Attract Quality Foreign Investment 16

- Open key VATS segments, including internet resource coordination (IRC), internet protocol virtual private networks, internet service providers, and online data processing and information services, to unrestricted foreign participation.
- Expand the pilot programme for foreign investment in VATSs to cover all categories.
- Accelerate the national rollout of pilot measures and progressively remove foreign equity restrictions in VATSs across the board.
- Amend the Telecommunications Services Catalogue to reflect a more open, forward-looking regulatory framework.

Cybersecurity Sub-working Group

1. Ensure that Chinese Cybersecurity Legislation Does Not Create Discriminatory Market Access Barriers 9

- Define 'national security' as narrowly as possible and differentiate it from 'commercial security' in a clear manner.
- Narrow the scope of industries subject to foreign investment security reviews and scenarios subject to the Cybersecurity Review Measures.
- Limit the applicability and influence of non-binding cybersecurity regimes, in such a manner that they do not go beyond binding legislation.
- To reduce market access barriers, limit the scope of mandatory product certification to what is absolutely necessary.
- Refrain from imposing undue restrictions on the use of information and communication technology products and services in level three networks under the Classified Cybersecurity Protection System.
- Promote mutual recognition, adoption and reliance upon applicable international standards and global industry best practices.

2. Continue to Optimise China's Cyber and Data Security Policies to Ensure they Facilitate Industry, Foreign Investment and Global Exchanges 10

- Expand the scope of coverage of the free trade zone (FTZ) lists to more industries and fields in which European companies are active, and expand the geographical scope of application of these lists to cities with sufficient technical and law enforcement capabilities.
- Release guidance on assessing the necessity of cross-border transfers of both personal information and important data, covering more sectors.
- Ensure that European industry has the opportunity to provide comments on forthcoming sectoral guidance, important data identification guidelines and related documents.
- Ensure that any necessity assessments allow cross-border data transfers (CBDT) that are necessary for production, research and development (R&D), and remote maintenance and upgrading to take place.
- Provide a sufficient grace period between any future release of 'important data' identification guidelines and their implementation.
- Strengthen European Union-China dialogue on data and cybersecurity, and identify concrete areas for cooperation where possible.
- Avoid mandating the disclosure of information related to unmitigated vulnerabilities to parties irrelevant to the coordinated vulnerability disclosure process.
- Ensure a coordinated and unified approach for oversight and enforcement among the authorities involved.
- Clearly delineate the boundaries between critical information infrastructure (CII) and non-CII, and avoid interpreting and applying relevant requirements in an expansive manner to cover broader networks.

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3. Ensure Proportionality, Industry Involvement, Global Harmonisation and Non-discrimination when Future-proofing Security Legislation 2

- Establish transparent, timely and structured mechanisms for meaningful consultation with European industry in the development of security-related legislation for emerging industries.
- Prioritise proportionate, risk-based regulatory measures that reflect both security needs and business realities.
- Align national frameworks with internationally accepted standards to reduce both regulatory fragmentation and compliance burdens.
- Promote cross-border cooperation in developing and implementing cybersecurity governance frameworks, particularly for emerging technologies.
- Ensure equal treatment of foreign-invested enterprises (FIEs) in the drafting and enforcement of security regulations.
- Continue building on the positive direction of the *Provisions on Promoting and Regulating*
- *Cross-border Data Flows* by expanding pilot zones and flexible frameworks for secure, compliant cross-border data operations.

Recent Developments

Emerging and future-orientated industries

The 2025 Government Work Report emphasised the continued development of 'new quality productive forces'. This envisages increasing overall productivity through the cultivation and growth of emerging industries, the transformation and upgrading of traditional industries, and the promotion of innovation in the digital economy, thereby accelerating the construction of a modern industrial system.[1]

One such future-orientated industry is artificial intelligence (AI). The Ministry of Industry and Information Technology (MIIT) and three other government agencies published the latest guidelines on standardising the AI industry in 2024. The aim is that, by 2026, more than 50 national and industry AI standards will have been developed and that China will have participated in the drafting of over 20 international standards.[2] On 9th May 2024, the State Council issued its *2024 Legislative Work Plan*, citing the draft Artificial Intelligence Law as a legislative project in progress.[3] On 27th December 2024, the AI Standardisation Technical Committee under the MIIT was officially established.[4]

The 2025 Government Work Report also states that China will continue to advance the AI Plus initiative, supporting the widespread application of large AI models while developing AI applications in intelligent connected new energy vehicles, electronic devices (such as smartphones and computers), and next-generation intelligent terminals like smart robots. On 26th August 2025, the State Council issued the *Opinions on Deepening the Implementation of the 'Artificial Intelligence Plus' Initiative*.[5]

Spectrum

The *Radio Frequency Allocation Provisions* (*Provisions*),[6] updated by the MIIT in 2023, contain several notable revisions, including the allocation of the 6425–7125–megahertz frequency band for international mobile

1 *Full text: Report on the Work of the Government,* State Council, 12th March 2025, viewed 19th May 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

2 *Notice of the four ministries on the issuance of Guidelines for the Construction of a Comprehensive Standardisation System for the National Artificial Intelligence Industry (2024 edition),* MIIT, 2nd July 2024, viewed 19th May 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_e8ebf5600ec24d3db644150873712c5f.html>

3 *Circular of the general office of the State Council on the issuance of the Legislative Work Plan of the State Council for the Year 2024,* State Council, 9th May 2024, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202405/content_6950094.htm>

4 *The establishment of AI standardisation technical committee of MIIT,* MIIT, 30th December 2024, viewed 19th May 2025, <https://www.miit.gov.cn/jgsj/kjs/gzdt/art/2024/art_547fca4ba3cf4f0b8189d8ed7569fe85.html>

5 *Opinions on Deepening the Implementation of the 'Artificial Intelligence Plus' Initiative*, State Council, 26th August 2025, viewed 3rd September 2025, <https://www.gov.cn/zhengce/content/202508/content_7037861.htm>

6 *Radio Frequency Allocation Provisions,* MIIT, 27th June 2023, viewed 19th May 2025, <https://wap.miit.gov.cn/gyhxxhb/jgsj/cyzcyfgs/bmgz/wxdl/art/2023/art_1e98823e689f42ca9ed14dcb6feec07a.html>

telecommunications (IMT), including fifth-generation mobile technology (5G) and sixth-generation (6G) mobile technology, making China the first country to do so. The *Provisions* also made clear that the 79–81 gigahertz (GHz) frequency band will be reserved for applications like automotive radar on a priority basis. With China now at a critical stage of expanding the application of 5G on a large scale, priority is now being given to the evolution of 5G, supporting 5G-A development and increasing 6G technology research and development.[7,8&9] As of the end of March 2025, China had cumulatively built and activated nearly 4.4 million 5G base stations.[10]

Over the past year, the MIIT also published spectrum regulations related to ultra-wide band radio equipment, civilian drones and radio frequency identification. In February 2025, the *Regulations on Radar Radio Management (Trial)* were issued.[11] The information and communication technology (ICT) industry is now awaiting the identification of additional, large and contiguous millimetre wave frequency ranges for unlicensed use. For more information, please refer to Key Recommendation (KR) 3 of this paper.

Data systems and infrastructure

Over the past year, China has released a series of policies and guidelines focussing on data elements, data infrastructure and trusted data spaces to further stimulate innovation in the digital economy, accelerate the improvement of basic systems for data, and deepen the development and utilisation of data resources, including but not limited to:

- The *Opinions on Promoting the Development and Utilisation of Enterprise Data Resources*.[12]
- The *Guidelines on Promoting High-quality Development of the Data Industry*.[13]
- The *Implementation Plan for Improving Data Circulation Security Governance to Better Promote Marketisation and Value Realisation of Data Elements*.[14]
- The *National Data Standardisation System Construction Guidelines*.[15]
- The *National Data Infrastructure Construction Guidelines*.[16]
- The *Trusted Data Space Development Action Plan (2024–2028)*.[17]

Telecommunications

In April 2024, the MIIT issued the *Circular on the Pilot Scheme for the Further Opening of Value-added Telecom Services to Foreign Investment*, aiming to eliminate, under certain conditions, foreign ownership restrictions in six domestic value-added telecom services (VATSs) across four key pilot regions – Beijing, Shanghai, Hainan and Shenzhen.[18] On 17th February 2025, the *2025 Action Plan for Stabilising Foreign Investment* was issued, reiterating the expansion of pilot programmes to open up the telecommunications sector.[19] Subsequently, on 28th February, the MIIT granted approvals for VATSs pilot operations to 13 foreign-invested enterprises (FIEs) in Beijing, Shanghai, Hainan

7 5G-A (5G-Advanced), which is based on the evolution and enhancement of the 5G network in function and coverage, is a key information technology to support the digital upgrading of industries such as the '3Disation' of the internet industry, the 'cloudisation' and 'intelligentisation' of the internet of everything, the integration of communication and perception, and flexible intelligent manufacturing.

8 *How to view the situation of China's industrial development? How to promote the development of small and medium-sized enterprises? Jin Zhuanglong, Minister of Industry and Information Technology, talked about promoting new industrialisation on the 'Minister's Corridor'*, MIIT, 9th March 2024, viewed 19th May 2025, <https://www.miit.gov.cn/jgsj/bgt/xwxc/art/2024/art_272488abf1e0454e8925f49606ddb9f2.html>

9 *Full text: Report on the Work of the Government,* State Council, 12th March 2025, viewed 19th May 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

10 *MIIT: China had built and activated 4.395 million 5G base stations by the end of March, Xinhua*, 18th April 2025, viewed 19th May 2025, <https://baijiahao.baidu.com/s?id=1829708683111463671&wfr=spider&for=pc>

11 *Circular of the Ministry of Industry and Information Technology on the issuance of the Regulations on Radar Radio Management (Trial),* MIIT, 14th February 2025, viewed 19th May 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2025/art_5d939f69fa5f42a29b57fdd4a2586e22.html>

12 *Opinions of the National Data Administration and other departments on promoting the development and utilisation of enterprise data resources*, State Council, 20th December 2024, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6994570.htm>

13 *Guidelines of the National Development and Reform Commission and other departments on promoting high-quality development of the data industry,* State Council, 28th December 2024, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202412/content_6995430.htm>

14 *Circular on the issuance of the Implementation Plan for Improving Data Circulation Security Governance to Better Promote the Marketisation and Value Realisation of Data Elements*, NDRC, 15th January 2025, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202501/content_6998668.htm>

15 *Circular on the issuance of National Data Standard System Construction Guidelines,* NDRC, 8th October 2024, viewed 19th May 2025, <https://www.ndrc.gov.cn/xwdt/tzgg/202410/t20241008_1393510.html>

16 *Circular on the issuance of National Data Infrastructure Construction Guidelines,* NDRC, 6th January 2025, viewed 19th May 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202501/t20250106_1395455_ext.html>

17 *Circular of the National Data Administration on the issuance of the Trusted Data Space Development Action Plan (2024-2028)*, State Council, 21st November 2024, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202411/content_6996363.htm>

18 *Circular on the Pilot Work for the Further Opening of Value-added Telecom Services to Foreign Investment,* MIIT, 10th April 2024, viewed 21st May 2025, <https://wap.miit.gov.cn/zwgk/zcwj/wjfb/tg/art/2024/art_2326271e1b424e09b6e5924ad2948863.html>

19 *Circular of the General Office of the State Council on the transmission of the 2025 Action Plan for Stabilising Foreign Investment by the Ministry of Commerce and the National Development and Reform Commission,* State Council, 19th February 2025, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202502/content_7004410.htm>

and Shenzhen.[20] In accordance with the approvals, these enterprises are permitted to operate VATSs, such as internet access and information services. As of now, a total of approximately 40 FIEs have received approval.[21]

On 11th April 2025, the Ministry of Commerce (MOFCOM) issued the *Comprehensive Pilot Work Plan on Accelerating the Expansion and Opening Up of the Service Sector*, proposing further support for the opening of the telecommunication services sector, including: opening domestic internet virtual private network (VPN) services to FIEs (with foreign equity capped at 50 per cent); removing foreign equity caps for app store services (excluding sectors prohibited for foreign investment) and internet access services (limited to providing internet access to end-users); and further exploring expansion of VATSs openness in Tianjin, Shanghai, Chongqing, Hainan, Shenyang, Nanjing, Hangzhou, Wuhan, Guangzhou and Chengdu.[22]

Commercial Cryptography

On 4th September 2024, the *Measures for the Administration of Electronic Authentication Services* in E-government Services were issued by the State Cryptography Administration (SCA), stating that FIEs participating in electronic authentication services in e-government services are subject to a foreign investment security review if they may affect national security.[23] On 15th November 2024, the SCA issued the *Regulations on Commercial Cryptography Usage Management for Critical Information Infrastructure (Draft for Comments)*,[24] stipulating management requirements for commercial cryptography in critical information infrastructure.

20 *First batch of 13 foreign-invested enterprises receive approval for VATSs pilot operation, Xinhua,* 28th February 2025, viewed 19th May 2025, <https://www.gov.cn/lianbo/bumen/202502/content_7007991.htm>

21 *China-International Media Briefing on Industrial and Informatization Cooperation at the 2025 SCO Summit Press Center,* the Paper, 28th August 2025, viewed 3rd September 2025, <https://m.thepaper.cn/newsDetail_forward_31497198>

22 *Circular of the Ministry of Commerce on issuance of the Comprehensive Pilot Work Plan on Accelerating the Expansion and Opening Up of the Service Sector,* State Council, 11th April 2025, viewed 19th May 2025, <https://www.gov.cn/zhengce/zhengceku/202504/content_7019915.htm>

23 *Measures for the Administration of Electronic Authentication Services in E-Government Services,* State Council, 4th September 2024, viewed 21st May 2025, <https://www.gov.cn/gongbao/2024/issue_11626/202410/content_6978634.html>

24 *Circular of the National Cryptography Administration on the public consultation on the Regulations on Commercial Cryptography Usage Management for Critical Information Infrastructure (Draft for Comments),* SCA, 15th November 2024, viewed 19th May 2025, <https://www.oscca.gov.cn/sca/hdjl/2024-11/15/content_1061217.shtml>

Key Recommendations

1. Remove Barriers to European ICT Companies' Market Access and Secure Foreign Investment by Avoiding Bifurcation of both Global Supply Chains and the ICT Ecosystem in General 4

Concern

The declining market share of foreign ICT firms is putting European companies' business sustainability at risk, which jeopardises the development of future technologies, standards and supply chains.

Assessment

Due to their many years of operating in China, European ICT companies are deeply aware of the importance of sustainable market access for players across industry segments and along the value chain to develop and thrive. Yet a number of them are facing existential threats to their business sustainability in the China market, due to the challenges posed by domestic substitution and other forms of market access barriers; meanwhile, other companies are monitoring the situation with increasing anxiety and diminishing confidence. The dynamic of the Chinese mobile market in recent years has been emblematic of the unfortunate impact that indirect barriers can have on market access.

The global success of the mobile industry relies on harmonised standards. In this field, China and the EU have made the most contributions and have cooperated on both fourth-generation (4G) and now 5G standards, to mutual benefit. However, as China's commercial development of 5G exploded,[25] European firms' market share dropped from around 30 per cent in 4G to low single digits in 5G – a drop so sharp it cannot be explained by commercial reasons alone. According to the latest data published in November 2024,[26] European industry's accumulated 5G market share in China was around just three per cent by the end of Q3 2024, compared to 92 per cent for domestic vendors.

25 In 2019, China began a massive deployment of 5G technology, and now has the world's largest and most advanced 5G network. According to MIIT statistics, by the end of 2024, China had deployed 4.25 million 5G base stations, a net increase of 874,000 from the end of the previous year, and had more than one billion 5G subscribers: *ICT Industry Statistics 2024*, MIIT, 26th January 2025, viewed 31st May 2025, <https://www.miit.gov.cn/jgsj/yxj/xxfb/art/2025/art_1ba37f13e02149d4b1cdffc41c78cc68.html>

26 *RAN Market Down 10 to 20 percent 1Q-3Q24, According to Dell'Oro Group,* Dell'Oro Group, 13th November 2024, viewed 31st May 2025, <https://www.delloro.com/news/ran-market-down-10-to-20-percent-1q-3q24/>

Meanwhile, Chinese vendors had won more than 30 per cent of the European 5G market by the end of Q3 2024,[27] representing a ten-fold imbalance.

This enormous imbalance is a significant concern and has seriously weakened the importance of the China market to European investors in key ICT market segments, led to a de-prioritisation of China in global investment planning, and jeopardised the outlook for EU-China global collaboration in the broader ICT industry.

Looking beyond the mobile industry, domestic substitution and other localisation requirements have become a serious challenge to fair competition and increasingly a de-facto market access barrier for European companies doing business in China. Although localisation requirements vary among different industries, the commonly observed trend is for increased localisation requirements, which may become an existential threat to segments of the European ICT industry in the future.

European ICT companies are concerned about the pending definition of 'made in China' in government procurement, including fears that it may be defined in an overly restrictive manner and without a sufficient grace period for adjustments to be made. They are even more concerned about growing localisation requirements—albeit often non-public—in government procurement and even commercial markets, which either mandate domestic supply chain support by giving it significant weighting in the tender scoring system or, more severely, by specifying a required localisation percentage in the qualification criteria.

Added to these concerns are several other challenges that exist in more technical forms and could further bifurcate ICT supply chains and ecosystems, leading to diminishing investment returns:

- Some ICT standards differ from internationally harmonised ones. Restrictions may be imposed either on the usage of international standards or on the scenarios in which they can be used.
- Certain policies, regulations and standards contain specific technology mandates. The lack of technological neutrality hinders interconnectivity, technological innovation, competition and long-term growth.
- As the boundaries of concepts such as 'national security' and 'critical information infrastructure', as well as between the concepts of 'critical information infrastructure' and 'Level 3 networks under the Classified Cybersecurity Protection System',[28] are blurred, regulatory controls sometimes go beyond what is necessary or stipulated in the upper-level legislation.
- Procurement-related programmes like information technology application innovation (ITAI) and security and reliability testing and evaluation, favour domestic ICT suppliers, as no international suppliers have managed to qualify for these programmes to date. The ITAI's scope is reportedly being expanded from party and government procurement to eight industries including financial services, telecommunications, electricity and healthcare.
- The application scope of certain technical regulations and standards may be arbitrarily expanded. For example, the Ministry of Finance and the MIIT jointly released standards defining a list of requirements—including passing security and reliability testing and evaluation—for seven types of basic hardware and software products. While the standards apply only to government procurement and not broader sectors, in practice, sectors like healthcare and education also mandate security and reliability testing and evaluation through other policies.

The ICT Working Group would like to highlight that while industrial policy support for indigenous industries is understandable within reasonable and proportionate limits, commercial markets must be free from undue localisation mandates. Ensuring market access by giving all companies fair and equal opportunities to fully contribute to market development is crucial to maintaining and further promoting vital interdependencies.

Recommendations

- Implement measures to improve market access for European ICT companies to ensure long-term equal treatment in the China market.
  - Avoid an overly restrictive definition of 'made in China' in the context of government procurement.
  - Identify all ICT market segments where market access is lacking or bidding rules are unfair for

27 Morris, I, *Huawei has hardly been weakened in European 5G, data shows*, LightReading, 2nd January 2025, viewed 30th May 2025, <https://www.lightreading.com/5g/huawei-has-hardly-been-weakened-in-european-5g-data-shows>

28 For more details, please see KR 1 of the *Cybersecurity Sub-working Group Position Paper 2025/2026*.

European companies (especially those related to localisation requirements) and develop actions—jointly defined by Chinese and European stakeholders—that address the key challenges to doing business in China.
- Review the status of market openness and market share regularly, and take effective measures to address any issues.

- Ensure that regulatory controls improve overall supply chain resilience, instead of pursuing self-sufficiency and localisation at the expense of long-term interdependencies and cooperation prospects.
- Rely on internationally harmonised standards to the largest extent possible, rather than imposing undue restrictions on both the usage of such standards and the scenarios in which they can be used.
- Ensure technology neutrality in ICT policies, regulations and standards to drive innovation, competition and long-term growth.
- Limit regulatory controls to what is strictly necessary, including by clearly delineating the boundaries of concepts like 'national security' and 'critical information infrastructure'.
- Ensure that commercial markets are free from undue regulatory controls and interventions by government authorities and related organisations.
- Remove inconsistencies and contradictions in rolling out technical regulations and standards including by ensuring their scope of application is not arbitrarily expanded.

2. Ensure Commercial Cryptography Laws, Regulations and their Enforcement are Transparent, Internationally Aligned and Treat FIEs Equitably 6

Concern

The implementation of the Cryptography Law and its supporting regulations has introduced ambiguous compliance requirements, inconsistent technical standards and restrictive market access conditions.

Assessment

While most jurisdictions do not apply strict restrictions to the domestic production and use of cryptography, China has long been one of the most challenging environments in this regard for FIEs to navigate. The Chinese commercial cryptography regulatory system needs to be further improved for it to remain aligned with the Cryptography Law,[29] established international practices and the World Semiconductor Council principles, which call for deregulating commercial cryptography in mass-marketed ICT products. In particular, the regulatory system should continue to rely on the 'core function' principle clarified by the SCA in 2000,[30] or on a similar concept.

a. Testing and certification

The Cryptography Law replaced the previous administrative licensing-based market access system with one that features mandatory and voluntary testing and certification.[31] Given the product certification catalogue's significance to market entry, it is critical to align with the industry, FIEs included, on its scope before any eventual release. Unfortunately, there has so far not been any transparency for European ICT companies, with no consultation having taken place prior to the release of the initial three batches of the catalogue in 2020, 2023 and 2025.[32]

China's commercial cryptography product certification still largely constitutes a process that favours domestic products and technology, at the expense of international ones. Going forward, the working group hopes that European companies' products can continue to be certified in a timely and transparent manner. Meanwhile, to ensure that cryptography policies and regulations do not constitute an unfair advantage for domestic enterprises, SCA-approved technologies should include international ones; and the certification should be designed so as to remain technology-neutral and focussed only on elements conducive to improving overall security. Furthermore,

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29 *China unveils revised commercial cryptography regulations, Xinhua,* State Council, 24th May 2023, viewed 30th May 2025, <https://english.www.gov.cn/news/202305/24/content_WS646df14dc6d03ffcca6ed567.html>

30 In March 2000, the State Cryptography Administration's Office of Security Commercial Code Administration (OSCCA) released the *Year 2000 Clarification: Relevant Questions Regarding Commercial Cryptography Management,* which clarifies that the OSCCA's 1999 *Commercial Cryptography Regulations* only apply to "specialised hardware and software for which encryption and decryption operations are core functions".

31 *Announcement on Releasing the Commercial Cryptographic Products Certification Catalogue (First Batch) and the Commercial Cryptographic Products Certification Rules,* SCA, 11th May 2020, viewed 30th May 2025, <http://www.oscca.gov.cn/sca/xwdt/2020-05/11/content_1060749.shtml>

32 On 27th March 2025, the State Administration for Market Regulation (SAMR) and the SCA jointly announced the *Catalogue of Commercial Cryptographic Product Certification (Third Batch).* At present, the catalogue contains a total of 32 product categories. See: *Announcement of the General Administration of Market Supervision State Cryptography Administration on the Release of Commercial Cryptographic Product Certification Catalogue (Third Batch)*, SAMR and SCA, 27th March 2025, viewed 30th May 2025, <https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/rzjgs/art/2025/art_2d6ced073d784f4fa74b4fe5e5d60b4b.html>

commercial cryptography—to the extent considered for certification—needs to be limited to cases in which encryption is the primary function. That means a component in a product should not be considered the product's primary function if encryption is not the core function or set of functions of the component, or the feature set is not specifically designed or fixed and cannot be modified to customer specification. There also needs to be adequate protection for applicants' intellectual property (IP) and trade secrets, ensuring that source code, non-public design information and trade secrets cannot be systematically demanded and that international laboratories are allowed to conduct relevant testing activities.

b. Application promotion

There is a worrying tendency for voluntary commercial cryptography product certification to be mandated via broader cybersecurity rules, sectoral rules and local rules, often under the guise of 'application promotion'.

According to the *Administrative Measures on the Security Assessment of Commercial Cryptography Applications*, for networks and information systems that are "required by laws, administrative regulations and other relevant provisions of the state to be protected by commercial cryptography",[33] their operators must carry out a regular security assessment of commercial cryptography applications, a process associated with the commercial cryptography product certification. In this respect, it is crucial that government agencies avoid expanding the scope of security assessments of commercial cryptography applications, and of the certification, to Grade III networks under the classified cybersecurity protection system, something that goes beyond the upper-level legislation but has already taken place at the local level.[34&35] Not only are Grade III networks vast in number, they also present no significant risk to national security, public order and social interests.

Overall, the working group is extremely concerned about such unauthorised and discretionary expansion of the application scope of commercial cryptography product certification. Rather than adopting a reactive and piecemeal approach, the working group calls for a holistic approach to address such expansions that are mushrooming across geographies and industries, inviting the competent authorities to reassess the legality of all such rules and to give clear reassurances that the voluntary commercial cryptography product certification will not be mandated.

c. Standardisation

The working group is pleased to note that the National Technical Committee 260's (TC260's) Working Group 3 has accepted new FIE members, and recommends that more European companies be granted equal access to these standardisation bodies. This is important because while foreign companies are under-represented, they are equally bound by relevant standards.[36]

At the same time, certain standards developed by these standardisation bodies contain requirements that are incompatible with both China's commitments in the World Trade Organization Technical Barriers to Trade Agreement and the Cryptography Law, as well as being ineffective at improving overall security. For example, although TC260 has been actively pushing domestic Chinese algorithms to become international standards, and with some success, certain standards for information system cryptography applications still demand compliance with national and industry standards, while referring to international standards only when global interconnection is needed.[37]

Notably, cryptography standards are steadily covering more and more commercial scenarios. For example, on 18th April 2025, the MIIT released the *Key Points of Automotive Standardisation Work in 2025*, re-emphasising the development of standardisation in the automotive industry in 2025, with the requirement to continuously strengthen the overall planning of mandatory national automotive standards, and to raise the expectations for the formulation and implementation

33 *Administrative Measures on the Security Assessment of Commercial Cryptography Applications*, SCA, 7th October 2023, viewed 30th May 2025, <https://www.sca.gov.cn/sca/xxgk/2023-10/07/content_1061109.shtml>

34 *Chongqing Municipal Cryptography Administration Issues Circular on Further Standardising the Requirements Related to the Application of Passwords for the City's Important Networks and Information Systems*, Chongqing Municipal Cryptography Administration, 26th February 2024, viewed 30th May 2025, <http://www.cqsmxh.cn/xinxigongkai/tongzhigonggao/1858713632959250434.html>

35 *Guidelines for Cryptographic Application and Security Assessment of Important Networks and Information Systems in Shanghai (Version 2024)*, Shanghai Municipal Cryptography Administration, 9th April 2025, viewed 30th May 2025, <https://mgj.sh.gov.cn/apps/user-view/index#!/home/articleView/524671>

36 KR 3 of the *Standards and Conformity Assessment Working Group Position Paper 2025/2026* also discusses FIEs' lack of access to certain Chinese standards development organisations.

37 KR 4 of the *Standards and Conformity Assessment Working Group Position Paper 2025/2026* discourages the adoption of recommended national standards as market access requirements and calls for improving the adoption rate of international standards.

of mandatory national standards.[38] The working group is concerned that such standards could discriminate against international algorithms.

d. Import licences and export controls

In November 2021, China released both the import licence and export control lists dedicated to commercial cryptography and the revised *Catalogue of Technologies Subject to Import Prohibition and Restriction*,[39] which lists foreign "data encryption technology employing a key strength greater than 256 bits" as a technology that requires an import permit. The following aspects in both the lists and the catalogue would benefit from additional clarification in explicit, written form, in order to facilitate import and export compliance, especially in the face of technological advancements such as post-quantum cryptographic algorithms:

- **Mass consumer product exemption:** While the lists seem to have implicitly exempted 'commercial cryptography in mass consumer products' as per the Cryptography Law, this term should be clearly defined as 'cryptography features in components and products openly available to the public, that can be either charged or free, for personal or business use, and where the cryptographic functionality cannot be modified by the end user'.
- **Scope of security chips:** A clearer definition is needed for 'security chips' subject to export controls, excluding general-purpose chips, and including only security chips with indigenous, non-public algorithms tailor-made for such sectors as electricity, taxation, public security and finance, and which meet the technical thresholds.
- **Key strength:** The threshold of "key strength greater than 256 bits" should explicitly refer to symmetric algorithm keys, as asymmetric algorithms generally have much longer keys for equivalent resistance to attack.

Recommendations

- Allow the adoption of international standards related to commercial cryptography.
- Adopt the primary function test in further rulemaking and in the roll-out of relevant mechanisms.
- Limit the scope of commercial cryptography testing, certification and application security assessment to CII.
  - Adopt a holistic approach to address the unauthorised and discretionary expansion of the scope of application of such programmes across geographies and industries.
- Clarify the requirements related to the export control of commercial cryptography.
- Ensure technology-neutral and streamlined conformity assessment processes for commercial cryptography, and the protection of intellectual property and trade secrets.
- Define 'commercial cryptography in mass consumer products' as 'cryptography features in components and products openly available to the public, that can be either charged or free, for personal or business use, and where the cryptographic functionality cannot be modified by the end user'.
- Increase the transparency of catalogue amendments, broadly solicit opinions from industry and conduct a public review before official publication.
- Ensure that any implementing regulations and standards are fully in line with the Cryptography Law.

3. Create a Policy, Regulatory and Standards System Conducive to the Sustainable Development of Emerging and Future-orientated Industries 2

Concern

For China to develop emerging and future-orientated industries in a sustainable way, related policies need to be developed in collaboration with industry to ensure that they are practical and implementable and that resulting governance frameworks are globally interoperable.

Assessment

The 2025 Government Work Report pledged to foster emerging industries and industries of the future, such as the low-altitude economy, embodied AI and 6G technology, and to develop the digital economy and its many key components, like large-scale AI models, intelligent connected new energy vehicles and intelligent robots. At the same time, policies, regulations and standards for these areas are being quickly advanced, to guide their development.

38 *Key Points of Automotive Standardisation Work in 2025*, MIIT, 28th April 2025, viewed 27th May 2025, <https://wap.miit.gov.cn/jgsj/zbys/gzdt/art/2025/art_b82ccf5eb9d54eb8896d590c712f8cf6.html>

39 *Catalogue of Technologies Subject to Import Prohibition and Restriction,* Ministry of Commerce, 19th November 2021, viewed 30th May 2025, <http://cnzh.gov.cn/UploadFile/SiteFile/798/2021/11/19/9e1ff36542654997ae508932492c9b9c.pdf>

Spectrum
Successful spectrum management serves as an enabler of the ICT industry and many emerging and future-orientated industries such as the internet of things (IoT), intelligent and connected vehicles (ICVs), and the low-altitude economy. It is therefore advisable for China to identify key frequency bands in a timely manner and consistent with international standards, to underpin growth and secure long-term competitive advantages in the global ecosystem.

Recent progress has been made to meet the spectrum needs of such technologies as IMT and ultra-wide band radio equipment. However, China does not currently provide any large and contiguous millimetre wave frequency ranges for unlicensed use, which is important for a broad spectrum of industries such as ICVs, drones, industrial automation, smart home and smart building technologies, smart health and elderly care, and augmented reality/virtual reality (AR/VR).

Currently, the best candidate frequency range for unlicensed use is the 57–64GHz band, which allows for communication links with high-speed data transmission with very high data rates and, for radar, a much higher range resolution that enables detection of micro motions in the millimetre range. In addition, the high free-space path loss and strong oxygen absorption at this band effectively reduce interference risks between devices. These features make this band suitable for short-range technologies like radar, contactless connectors and wireless gigabit protocols.

The working group recommends that the 57 – 64GHz frequency band be made available for unlicensed use as soon as possible, and stands ready to provide necessary industry support.

Data
Seamless data flows underpin the development of most if not all emerging industries and industries of the future. With the aim of fully leveraging its abundant data resources and rich application scenarios, while building trust along the data sharing value chain, China is piloting the creation of trusted data spaces at the enterprise, industry, municipality, personal and cross-border levels. As the value of data can be best maximised by the establishment of a comprehensive system of internationally harmonised data flow standards, and open, secure and efficient data sharing networks, the working group encourages the National Technical Committee 609 on Data to accept more FIEs as members; and for China to take a proactive role in international standardisation activities, and promote alignment of Chinese and international standards. As data flows and sharing are also central to the European strategy for data, the working group believes the EU and China have ample room for exchanges, at both a horizontal level and with representatives from key, data-driven industries.

For industries such as digital healthcare and smart cities, access to public datasets is crucial for training algorithms and developing new technologies. The working group hopes the right conditions can be timely defined for these industries to access public datasets, and to ensure the secure and collaborative use of such data, such as through better delineation between government data, public data and non-public data, data anonymisation techniques and public-private collaboration.

Furthermore, Key Recommendation 3 of the *Cybersecurity Sub-working Group Position Paper 2025/2026* outlines the data protection requirements that need to be optimised in order to create a friendlier environment for emerging and future-orientated industries like AI to develop and thrive.

Harmonisation of governance frameworks
With new industries comes the need to establish new governance frameworks, including but not limited to policies, regulations, standards and conformity assessment programmes where appropriate. Bifurcation of the governance frameworks in China and elsewhere needs to be avoided to the greatest extent possible, to minimise the need for product reengineering, reduce costs, and leave room for subsequent international cooperation and exchanges. The working group encourages the EU and China to maximise cooperation by identifying common principles and pathways in areas like IoT, AI and ICT product testing and certification.

In developing these governance frameworks, a risk-based approach needs to be taken to ensure that low-risk technologies and applications are free from undue restrictions, including market entry limitations.

Green development
It is important that the environmental impact of

technological advances in emerging and future-orientated industries not be overlooked. Technologies like cloud computing and AI are increasingly power-hungry, and the energy required to run AI tasks is accelerating with an annual growth rate of between 26 per cent and 36 per cent.[40] Notably, data centres and data transmission networks each currently account for about one to 1.5 per cent of global electricity use,[41] with emerging services and technologies like blockchain, AI, machine learning and AR/VR only expected to further boost demand for data services.

To live up to China's green development promises, it is important to incorporate sustainability mandates into the relevant industry development plans at an early stage. This should be done by encouraging the adoption of energy-efficient and low-carbon technologies throughout the production process and the lifecycle of relevant products, and by handling energy more intelligently and efficiently at all stages of the energy chain. Here, the European business community is well positioned to improve the energy balance of the relevant industries.

Importantly, to advance green development, Chinese government agencies plan to develop a carbon emissions statistical accounting system at regional, industry, corporate, and product levels, and carbon footprint accounting rules and standards for key industrial products, including ICT and related products such as new energy vehicles and electronics. In these endeavours, it is advisable to take a collaborative approach to enhance trust and facilitate smoother integration with global systems.

Orderly industrial development and healthy competition

Finally, the working group welcomes the explicit reference, in the 2025 Government Work Report, to China's willingness to improve coordination and planning of relevant emerging industries and industries of the future, and to strengthen monitoring and early warning for production capacity. The industry would benefit from scientific and coordinated macro planning upfront.

40 Ammanath, B, *How to manage AI's energy demand — today, tomorrow and in the future*, World Economic Forum, 25th April 2024, viewed 30th May 2025, <https://www.weforum.org/agenda/2024/04/how-to-manage-ais-energy-demand-today-tomorrow-and-in-the-future/>

41 *Data Centres and Data Transmission Networks*, International Energy Agency, viewed 30th May 2025, <https://www.iea.org/energy-system/buildings/data-centres-and-data-transmission-networks>

Recommendations

- Ensure the timely availability of the 57–64 gigahertz band for unlicensed use.
- Strengthen EU-China exchanges on spectrum regulation, including by integrating spectrum topics into relevant government-to-government dialogues.
- Promptly define the right conditions for the industry to access public datasets, and to ensure the secure and collaborative use of such data.
- Strengthen industry participation in exploring the best data governance approach to improve the availability, quality and interoperability of data.
- Increase international harmonisation of the governance frameworks for emerging and future-orientated industries, and identify EU-China synergies in key fields.
- Adopt a risk-based approach to regulating relevant industries, so that low-risk technologies and applications are free from undue limitations, including market access restrictions.
- Incorporate green development mandates into development plans for emerging and future-orientated industries at an early stage, and encourage the adoption of energy-efficient and low-carbon technologies.
- Take a collaborative approach in developing the carbon emissions statistical accounting system and the carbon footprint accounting rules and standards for ICT products.
- Ensure orderly industrial development and healthy competition in emerging and future-orientated industries.

4. Accelerate the Opening-up of the VATSs Sector to Drive Innovation and Attract Quality Foreign Investment 16

Concern

Despite recent pilot reforms, barriers to entering China's VATSs market—one of the country's most restricted sectors—remain, which risks undermining investor confidence and slowing digital innovation.

Assessment

Since the 2017 revision of the *Catalogue for the Guidance of Foreign Invested Industries*,[42] China has maintained a 50 per cent foreign equity cap on most

42 *Catalogue for the Guidance of Foreign Invested Industries (Revised 2017)*, NDRC, 22nd January 2018, viewed 31st May 2025, <https://www.ndrc.gov.cn/xwdt/ztzl/gbmjcbzc/swb/201801/t20180122_1209171.html>

categories of VATSs (except e-commerce), with basic telecommunications services still requiring majority Chinese ownership.

Some progress has been made, staring in April 2024, when the MIIT launched a pilot programme in four key regions: Beijing, Shanghai, Hainan and Shenzhen, removing foreign ownership caps for six categories of VATSs, including internet data centres (IDCs), content delivery networks (CDNs), internet service providers (ISPs), online data processing, information delivery platforms and information protection services.

The *2025 Action Plan for Stabilising Foreign Investment* explicitly called for expanding openness in telecommunications pilot programmes. This was followed by the MOFCOM's *Work Plan for Accelerating the Comprehensive Pilot Programme for Expanding Opening-up of the Service Sector* in April 2025, which outlined concrete steps to relax or eliminate foreign ownership restrictions on services such as internet access and application distribution in key pilot cities.

However, the pilot nature of these reforms, confined to only four cities, creates uncertainty and limits the ability of international companies to plan long-term investments and bring their global expertise to the Chinese market.

To fully realise the benefits of foreign participation—such as improved service quality, increased innovation and healthy competition—it is crucial that these positive policy signals translate into a broader, nationwide liberalisation of the telecommunications sector. Expanding the pilot reforms to additional regions, reducing ambiguity in licensing requirements and allowing greater equity participation across all VATS categories would greatly enhance China's appeal as an investment destination for leading global ICT firms.

European enterprises in China are looking forward to full market opening in the following five types of services:

a. Internet Resource Coordination Services (IRC) under IDCs

Cloud services are commonly understood as comprising infrastructure-as-a-service (IaaS), platform-as-a-service (PaaS) and software-as-a-service (SaaS). While China has issued numerous policies promoting cloud services domestically, international providers still encounter market access barriers in the form of licensing requirements. Among the various types of VATs under the *Telecom Service Catalogue 2015*, IRC is one that European players most want to provide.[43] In addition, the provision of SaaS, of which there is no clear definition in Chinese policies, could also be subject to licensing, as some types of SaaS might fall within the scope of various telecommunications services under the *Telecommunications Service Catalogue,* such as information services.

b. Internet Protocol Virtual Private Networks (IP-VPNs)

Restricting FIE access to IP-VPN services hampers the efficient flow of data, which is critical for cross-border operations and innovation. Allowing FIEs to operate IP-VPN services would enhance business connectivity, benefiting both domestic and international firms, especially small and medium-sized enterprises.

c. ISP services

While inclusion in the pilot was an important signal, large-scale opening in ISP services is needed at the national level to ensure that this trial will have a positive impact on guiding overall industry openness and development.

d. Online data processing and transaction processing services (except e-commerce services)

These services underpin the growth of big data, AI and platform-driven economies. Clear definitions and licensing pathways for emerging digital business models are urgently needed to provide regulatory certainty for both domestic and foreign providers.

e. Information services (except application (app) store services)

The opening up of information publishing platforms and delivery services, and information protection and processing services in the pilot zones is only a small step forward. Information services encompass a variety of services that are of particular interest to international companies operating in China, but it is an area that is still highly regulated. As mobile internet and the IoT continue to develop, these kinds of restrictions are increasingly burdensome to European businesses that wish to bring their expertise and contribute to the development of the Chinese market.

43 IRC is defined as a sub-category of IDC services, while IaaS is a type of IDC service (IDC with or without IRC). PaaS likely falls into the category of IRC.

Recommendations

- Open key VATS segments, including IRC, internet protocol virtual private networks, internet service providers, online data processing and information services, to unrestricted foreign participation.
- Expand the pilot programme for foreign investment in VATSs to cover all categories.
- Accelerate the national rollout of pilot measures and progressively remove foreign equity restrictions in VATSs across the board.
- Amend the *Telecommunications Services Catalogue* to reflect a more open, forward-looking regulatory framework.

Abbreviations

4G	Fourth Generation
5G	Fifth Generation
6G	Sixth Generation
AI	Artificial Intelligence
AR	Augmented Reality
CII	Critical Infrastructure Information
EU	European Union
FIE	Foreign-invested Enterprise
GHz	Gigahertz
IaaS	Infrastructure as a Service
ICT	Information and Communication Technology
ICV	Intelligent and Connected Vehicle
IDC	Internet Data Centre
IMT	International Mobile Telecommunications
IoT	Internet of Things
IP	Intellectual Property
IP-VPN	Internet Protocol Virtual Private Network
ISP	Internet Service Provider
ITAI	Information Technology Application Innovation
KR	Key Recommendation
MIIT	Ministry of Industry and Information Technology
OSCCA	Office of Security Commercial Code Administration
PaaS	Platform as a Service
SCA	State Cryptography Administration
SaaS	Software-as-a-Service
TC260	National Technical Committee 260 on Cybersecurity of Standardisation Administration of China
VATS	Value-added Telecoms Service
VR	Virtual Reality

Cybersecurity Sub-working Group

Recent Developments

At the time of writing, most key cyber and data security laws and regulations are already in effect, and several earlier ones have entered the revision phase.

On 28th March 2025, the Cyberspace Administration of China (CAC) released the *Notice on Publicly Soliciting Opinions on the Cybersecurity Law of the People's Republic of China (Draft Amendment for Further Comments)*,[1] with a focus on increasing administrative penalties.

On 24th September 2024, the *Regulations on Network Data Security Management* were officially promulgated.[2] These long-awaited regulations provide an official definition for the term 'important data' and outline other network data security management requirements, including obligations for network data processors when identifying and reporting important data. They also clarify that only network data handlers handling the personal information of over 10 million people—not one million as previously specified—will need to assume certain important data protection obligations.

Over the past year, sectoral cyber and data security rules have been released for sectors such as information technology (IT), financial services and transportation. These include but are not limited to the *Implementation Rules for Data Security Risk Assessment in the Industrial and Information Technology Sectors (Trial)*,[3] the *Civil Aviation Data Management Measures (Trial)*[4] and the *Guidelines for Promoting and Regulating Cross-border Data Flows in the Financial Sector*.[5]

The National Technical Committee 260 on Cybersecurity of Standardisation Administration of China (TC260) has released and is working on a number of recommended national standards as important references for rolling out cyber and data security requirements. These include but are not limited to *GB/T 43697-2024 Data Security Technology – Rules for Data Classification and Grading*,[6] which was appended with the *Guidelines for the Identification of Important Data*; *Information Security Technology – Security Requirements for Processing of Important Data (Draft for Public Comments)*;[7] and *Data Security Technology – Security Requirements for Processing of Sensitive Personal Information*, released on 25th April 2025, which establishes criteria for identifying and defining sensitive personal information.[8] A number of other standards are being drawn up or revised, including but not limited to those that have already appeared in the TC260's 2025 work plan, such as the standards for determining the boundaries of critical information infrastructure (CII) and personal information protection compliance audits.[9]

In addition, on 12th February 2025, the CAC issued the *Administrative Measures for Compliance Audits of Personal Information Protection*, which require personal information handlers the handle the personal information of over 10 million individuals to conduct a personal information protection compliance audit at least once every two years.[10] This is both a relaxation of the audit trigger threshold and a reduction in the frequency compared to the 2023 draft version.[11]

1 *Notice on Publicly Soliciting Opinions on the Cybersecurity Law of the People's Republic of China (Draft Amendment for Further Comments),* CAC, 28th March 2025, viewed 26th May 2025, <https://www.cac.gov.cn/2025-03/28/c_1744779434867328.htm>

2 *Regulations on Network Data Security Management,* State Council, 24th September 2024, viewed 26th May 2025, <https://www.gov.cn/zhengce/zhengceku/202409/content_6977767.htm>

3 *Circular of the MIIT on the Issuance of the Implementation Rules for Data Security Risk Assessment in the Industrial and Information Technology Sectors (Trial),* MIIT, 24th May 2024, viewed 26th May 2025, <https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_414d957b786c4a549c37acd5c6e80c71.html>

4 *Civil Aviation Data Management Measures (Trial),* Civil Aviation Administration of China, 24th March 2025, viewed 26th May 2025, <https://www.caac.gov.cn/XXGK/XXGK/GFXWJ/202503/t20250331_227078.html>

5 *Six Departments Issued Guidelines for Promoting and Regulating Cross-Border Data Flows in the Financial Sector,* State Council, 17th April 2025, viewed 26th May 2025, <https://www.gov.cn/lianbo/bumen/202504/content_7019409.htm>

6 *Data Security Technology - Rules for Data Classification and Grading,* TC260, 15th March 2024, viewed 26th May 2025, <https://std.samr.gov.cn/gb/search/gbDetailed?id=14156507D2210337E06397BE0A0AE656>

7 *Information Security Technology - Security Requirements for Processing of Important Data (for public comments),* TC260, 25th August 2023, viewed 27th May 2025, <https://www.tc260.org.cn/front/postDetail.html?id=20230830131050>

8 *Data Security Technology - Security Requirements for Processing of Sensitive Personal Information,* TC260, 25th April 2025, viewed 26th May 2025, <https://openstd.samr.gov.cn/bzgk/gb/newGbInfo?hcno=F9F3A2EBF49E9B4D73AD8C8912986D5A>

9 *Notice on the Issuance of the 2025 Work Points of the National Cybersecurity Standardisation Technical Committee,* National Information Security Standardisation Technical Committee, 17th April 2025, viewed 26th May 2025, <https://www.tc260.org.cn/upload/2025-04-18/1744968133800080004.pdf>

10 *Administrative Measures for Compliance Audit of Personal Information Protection,* CAC, 12th February 2025, viewed 26th May 2025, <https://www.cac.gov.cn/2025-02/14/c_1741233507681519.htm>

11 *Notice of the CAC on the Public Consultation on the Administrative Measures for Compliance Audit of Personal Information Protection (Draft for Comments),* CAC, 3rd August 2023, viewed 27th May 2025, <https://www.cac.gov.cn/2023-08/03/c_1692628348448092.htm>

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Cross-border Data Transfer (CBDT)

On top of the *Provisions on Promoting and Regulating Cross-border Data Flows* (*CBDT Provisions*)[12] and their accompanying guidelines,[13] regulators have been making other changes to the channels of security assessment and standard contract filing. For example, the CAC has been publishing monthly questions and answers on its website. The regulators have also released draft or finalised guidelines for CBDTs in the automotive and financial services sectors, as well as guidelines on the identification of important data in fields like IT, telecommunications, and geographic information.

In addition, a number of general and negative lists of data have been published by the free trade zones (FTZs) in Beijing, Shanghai, Tianjin, Fujian, Hainan, Zhejiang, Guangxi and Jiangsu, covering around 20 industries and fields. These lists have largely relaxed the triggering thresholds of ex-ante cross-border personal information transfers for the concerned industries and fields, while offering more detailed guidance on the identification of important data.

With regard to the last transfer channel, the *Measures for the Certification of Personal Information Protection for Cross-border Personal Information Transfers (Draft for Comments)* were released for public consultation on 3rd January 2025.[14]

Network and product security

On 8th March and 27th April 2025, the Ministry of Public Security published two documents proposing updates to China's long-standing Classified Cybersecurity Protection System (CCPS).[15] The CCPS is a system that divides networks in China into five ascending levels of security, with corresponding security safeguards. According to the latest documents, the operators of Grade 2 and above networks are required to fill out the grading report and filing form for a second time, and should also fill out a new data mapping questionnaire, which is aimed at implementing the requirements of the Data Security Law. Then, on 14th May 2025, the State Council released its 2025 legislative work plan, which included plans to draft a CCPS regulation that is expected to codify existing CCPS-related normative documents and standards.[16]

When it comes to product security, the *Catalogue of Critical Network Equipment and Specialised Cybersecurity Products* has not been updated since its 2023 revision. Compared to the 2017 version, the 2023 version significantly expanded the scope of specialised cybersecurity products from 11 to 34, covering secure storage, security management, traffic control, load balance and log analysis, among many others.[17] While the previous catalogue defined the affected product categories by performance, the updated catalogue contains no references to technical parameters, so that both high-end and low-end products are covered.

In December 2023, China introduced a long list of government procurement standards requiring key tech components like central processing units and operating systems to pass security and reliability evaluation.[18] Subsequently, on 20th March 2024, the China National Information Technology Standardization Technical Committee released a batch of standards for public review on products that need to be secure and reliable.[19] These standards were officially issued on 19th July 2024, and took effect on 1st October 2024.[20]

Emerging technologies

While the State Council legislative plan in 2024 foresaw the submission of a draft Artificial Intelligence (AI) Law to the National People's Congress Standing Committee for deliberation and review, the 2025 legislative plan became less specific, only calling for promoting legislation for AI's healthy development. In lieu of a

12 *Provisions on Promoting and Regulating Cross-border Data Flows,* Cyberspace Administration of China, 22nd March 2024, viewed 27th May 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

13 *Cyberspace Administration of China Issues Version 3.0 of Guidelines for Security Assessment,* Cyberspace Administration of China, 27th June 2025, viewed 4th August 2025, <https://www.cac.gov.cn/2025-06/27/c_1752652339765002.htm>

14 *Notice of the CAC on the Public Consultation on the Measures for the Certification of Personal Information Protection for Cross-Border Personal Information Transfers (Draft for Comments),* CAC, 3rd January 2025, viewed 26th May 2025, <https://www.cac.gov.cn/2025-01/03/c_1737600915141373.htm>

15 *MPS: Further Clarification on Matters Related to the Work of CCPS*, 163.com, 7th May 2025, viewed 7th June 2025, <https://www.163.com/dy/article/JUVV5PSO05386WWT.html>

16 *State Council 2025 Legislative Plan,* State Council, 14th May 2025, viewed 7th June 2025, <https://www.gov.cn/zhengce/content/202505/content_7023697.htm>

17 *Catalogue of Critical Network Equipment and Specialised Cybersecurity Products*, CAC, 3rd July 2023, viewed 27th May 2025, <http://www.cac.gov.cn/2023-07/03/c_1690034742530280.htm>

18 *Rules and Regulations*, Ministry of Finance, 26th December 2023, viewed 27th May 2025, <https://gks.mof.gov.cn/guizhangzhidu/>

19 *The Ministry of Industry and Information Technology Takes the Lead, Issuing New Secure and Reliable Standards for the Xinchuang Initiative,* NetEase , 22nd March 2024, viewed 27th September 2025, <https://www.163.com/dy/article/ITRHKQM605386WWT.html>

20 *People's Republic of China Monthly Report on Industry Standards Filing*, National Standards Information Public Service Platform, 1st September 2024, viewed 27th May 2025, <https://std.sacinfo.org.cn/gnocHb/queryInfo?id=7B7DBD868634A9F87E730524B6346E85D840C938C16E6BC07A1B84FAE7B33B6F>

general piece of legislation, regulators have resorted to an array of dedicated measures and standards to govern China's booming industry, such as the *Trial Measures for the Administration of Generative Artificial Intelligence Services*,[21] the *Basic Security Requirements for Generative Artificial Intelligence Service*,[22] the *Regulations on Network Data Security Management*,[23] the *Cybersecurity Technology – Labelling Methods for Content Generated by Artificial Intelligence*,[24] and the *Measures for Labelling AI-Generated Synthetic Content*.[25]

Key Recommendations

1. Ensure that Chinese Cybersecurity Legislation Does Not Create Discriminatory Market Access Barriers 9

Concern

Certain cybersecurity schemes and the vlack of clear definitions of 'national security' and 'important data' may lead to the creation of a business environment that is discriminatory towards international businesses.

Assessment

Certain requirements under Chinese security legislation may present *de facto* market access barriers for international businesses.

a) Foreign investment security reviews in IT and internet services

The foreign investment security review has been in force since 18th January 2021, following the release of the *Foreign Investment Security Review Measures* by the National Development and Reform Commission and the Ministry of Commerce.[26] The security review requires foreign investors to pass relevant reviews when investing in, "important IT and internet products and services, key technologies and other important fields deemed as being related to national security". However, the scope remains unclear, possibly leading to discretionary enforcement of regulations. This uncertainty increases the burden on foreign investors, which could delay or even discourage them from making investments in IT and internet services in China. With the rapid evolution of emerging technologies such as AI, there is a particular need for more clarity and updates on the scope of IT and internet services that are subject to foreign investment security reviews.

The *Regulations on Network Data Security Management* require enterprises to report data disposal plans to the relevant Chinese authorities during acquisitions, spin-offs, or insolvency proceedings involving important data. However, as Chinese cybersecurity and industry regulators have yet to publish important data catalogues as mentioned in the document above, uncertainty remains around important data identification, creating compliance risks for companies entering new investment areas.

b) Data localisation and CBDT

The sub-working group commends the relaxation of CDBT restrictions contained in the *CBDT Provisions* and the recent policies adopted by regulators in selected FTZs and industry sectors such as the financial industry.

However, in the near term, some foreign companies in strategic and data-driven sectors still find it difficult to move forward with decisions to bring innovative products and services to the Chinese market as a result of certain remaining restrictions or uncertainties associated with both the security assessment and the definition of 'important data'. The sub-working group therefore recommends that the sectoral regulators clearly and narrowly define the scope of important data as soon as possible, especially by not capturing the production, R&D and supply chain data of multinational corporations (MNCs) in general, while allowing CBDTs with sufficient business necessity to be approved, provided that relevant security safeguards are in place. In light of the overall trend of promoting cross-border data flows, the sub-working group would also like to underline the importance of ensuring equal treatment in bidding processes, instead of considering MNCs to be inherently less secure because they have to transfer

21 *Trial Measures for the Administration of Generative Artificial Intelligence Services*, CAC, 10th July 2023, viewed 27th May 2025, <https://www.cac.gov.cn/2023-07/13/c_1690898327029107.htm>

22 *TC260-003 Basic Security Requirements for Generative Artificial Intelligence Service published,* TC260, 1st March 2024, viewed 27th May 2025, <https://www.tc260.org.cn/front/postDetail.html?id=20240301164054>

23 *Regulations on Network Data Security Management*, State Council, 24th September 2024, viewed 26th May 2025, <https://www.gov.cn/zhengce/zhengceku/202409/content_6977767.htm>

24 *Bulletin of National Standards of the People's Republic of China*, National Standardisation Administration, 28th February 2025, viewed 27th May 2025, <https://std.sacinfo.org.cn/gnoc/queryInfo?id=B5F61B5260437B85AE42A2955EC0D558>

25 *Four Departments Jointly Published Measures for Labelling AI-Generated Synthetic Content*, CAC, 14th March 2025, viewed 27th May 2025, <https://mp.weixin.qq.com/s/lqz7fy7TIF6PKCsrpWlZyg>

26 *Foreign Investment Security Review Measures,* State Council, 19th December 2020, viewed 31st May 2025, <https://www.gov.cn/gongbao/content/2021/content_5582626.htm>

data across borders. Finally, the sub-working group would like to see more transparency on the rules and policies related to CBDT. For example, the full text of the *Guidelines for Promoting and Regulating Cross-border Data Flows in the Financial Sector* is not publicly accessible, which creates some practical difficulties for those companies looking to assess whether they would qualify for the CBDT flexibilities offered under these guidelines, even if they also engage in the financial industry.

c) Cybersecurity Review Measures (CSRM)

The CSRM mandate that CII operators must proactively apply for a non-transparent cybersecurity review when their purchases of network products and services affect or may affect national security. The CSRM include broadly defined triggers, including supply chain, political, diplomatic and trade factors.[27] These non-technical factors, as well as the review's lengthy processes and lack of transparency, pose market access restrictions for MNCs that supply to CII operators and/or share their advanced know-how and technologies with CII operators in China. Furthermore, suppliers may be put at risk of data exposure through the need to disclose confidential information and trade secrets, since disclosure of transactions and other documents may be required.

d) Cryptography Law

Ambiguities in both the Cryptography Law and its implementing regulations have given rise to requirements that are incompatible with well-established international principles, which call for governments to avoid restrictive or burdensome licensing, certification and other obligations that limit or delay the import, trade and export of mass-marketed information and communications technology (ICT) products to which commercial cryptography is ubiquitous.[28&29] Since regulations and standards are being developed or revised, as a result of the transformation and upgrading of traditional industries, or the development of emerging industries, the sub-working group sees a clear risk of relevant restrictions being replicated in future regulations and standards.

To avoid unnecessary market access barriers, it is important that the various regulatory mechanisms the law seeks to establish remain transparent and narrow in scope. This includes ensuring that commercial products with cryptography as a secondary feature are not subject to certification and import and export restrictions; that terms such as 'national security', 'national economy and people's livelihood', and 'public interests' are *not* interpreted too broadly; that the category of mass consumer products exempted from import and export restrictions is broadly defined; that voluntary certification is not enforced as a *de facto* mandatory requirement; that requirements applicable only to CII and party and government organs are not expanded to networks above level three; and that the adoption of international standards, protection of sensitive intellectual property (IP) and mutual recognition for certification and attestation are all taken into consideration.

e) CCPS

The CCPS classifies networks into five ascending protection levels based on their sensitivity to individuals' rights and interests, as well as the general public and national security, and specifies the corresponding security safeguards for each level. The system is based on a draft CCPS regulation released by the Ministry of Public Security (MPS) in June 2018,[30] as well as several standards already in effect.

In addition to being burdensome, the CCPS is increasingly being leveraged to advance restrictions on ICT products and services, by expanding the scope of application of security requirements that favour specific technology roadmaps. For example, it requires networks level two and above to use cryptography technology, products and services accredited by the State Cryptography Administration, and that networks above level three undergo security assessment for commercial cryptography applications. Such accreditation and assessment processes favour domestic technology and have long remained an obstacle for many MNCs in China. As these requirements go beyond the Cryptography Law, it is of paramount importance that they are not reintroduced into other state and local provisions.

27 *Cybersecurity Review Measures,* CAC, 28th December 2021, viewed 31st May 2025, <https://www.cac.gov.cn/2022-01/04/c_1642894602182845.htm>

28 *Joint Statement of the 17th Meeting of the World Semiconductor Council*, World Semiconductor Council, 23rd May 2013, viewed 31st May 2025, <http://www.semiconductorcouncil.org/wp-content/uploads/2016/07/May_2013_WSC_-_GAMS_version_Joint_Statement_of_the_17th_Meeting_of_the_WSC_Final_23_M-1.pdf>

29 For more details on cryptography-related market access issues, please refer to Key Recommendation 2 of the *Information and Communication Technology Working Group Position Paper 2025/2026.*

30 *Regulation on Classified Cybersecurity Protection (Draft for Comments),* Ministry of Public Security, 27th June 2018, viewed 31st May 2025, <http://www.mps.gov.cn/n2254536/n4904355/c6159136/content.html>

With a draft CCPS regulation having been included in the 2025 State Council legislative work plan, it is also crucial that the forthcoming regulation does not introduce undue restrictions on the use of ICT products and services in commercial, non-critical networks.

f) Conformity Assessment

With regard to the critical network equipment and specialised cybersecurity products testing and certification programme, the overly extensive mandatory product certification requirements resulting from the expanded scope of 'specialised cybersecurity products'—as outlined in the Recent Developments section—could create significant and unnecessary economic burdens for the industry, delay product delivery and create undue market access barriers. It is thus important for the regulators to avoid unnecessary mandatory product certification, and to fully align with the industry in adopting new product categories subject to such certification, ensuring that every new addition is fully communicated and publicly reviewed before eventual release.

At the same time, the sub-working group is monitoring progress and impacts relating to the security and reliability evaluation and the IT application innovation, especially as the latter is reportedly being expanded to more industries.

Recommendations

- Define 'national security' as narrowly as possible and differentiate it from 'commercial security' in a clear manner.
- Narrow the scope of industries subject to foreign investment security review and scenarios subject to the Cybersecurity Review Measures.
- Limit the applicability and influence of non-binding cybersecurity regimes, in such a manner that they do not go beyond binding legislation.
- To reduce market access barriers, limit the scope of mandatory product certification to what is absolutely necessary.
- Refrain from imposing undue restrictions on the use of information communication technology products and services in level three networks under the Classified Cybersecurity Protection System.
- Promote mutual recognition, adoption, and reliance upon applicable international standards and global industry best practices.

2. Continue to Optimise China's Cyber and Data Security Policies to Ensure they Facilitate Industry, Foreign Investment and Global Exchanges 10

Concern

Continued optimisation of cyber and data security schemes is needed to help further minimise uncertainty and operational challenges for international companies.

Assessment

Data protection

In addition to the release of the *CBDT Provisions* in 2024, China's CBDT rules have been continually optimised throughout 2024 and 2025, while CBDT compliance work has been gradually normalised.[31] During this period, the sub-working group has maintained regular access to Chinese data protection authorities, which has benefited from regular exchanges between the European Union (EU) and China at the government-to-government level.[32]

As mentioned in recent developments, a series of general and negative lists of data have been published by FTZs. In line with European requests, efforts have been made to ensure consistency. For example, if one FTZ has already issued a negative list for a certain industry or field, other FTZs can simply refer to this list rather than create a new one.[33] As these lists facilitate cross-border data flows and/or provide further guidance on the identification of 'important data', the sub-working group would like to see more lists covering more industries and fields in which European companies are active. The sub-working group also looks forward to the geographical scope of application of these lists being further expanded to cities with sufficient technical and law enforcement capabilities. In this regard, Beijing has started to explore the use of its negative lists by qualified local companies[34] outside the geographical

31 *Provisions on Promoting and Regulating Cross-border Data Flows*, CAC, 22nd March 2024, viewed 8th June 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

32 *EU and China launch Cross-Border Data Flow Communication Mechanism*, European Commission, 28th August 2024, viewed 7th June 2025, <https://policy.trade.ec.europa.eu/news/eu-and-china-launch-cross-border-data-flow-communication-mechanism-2024-08-28_en>

33 *Q&A on Data Cross-Border Security Management Policies (April 2025)*, CAC, 9th April 2025, viewed 7th June 2025, <https://www.cac.gov.cn/2025-04/09/c_1745906286623776.htm>

34 Companies with urgent needs, whose transfer scenarios match the negative lists, and who possess strong compliance capabilities.

scope of application of the lists on a case-by-case basis.[35]

As companies are required to demonstrate the necessity of their CBDTs, in the absence of any overarching guidance on what determines whether a transfer is necessary, authorities have resorted to other ways to shed light on the necessity criteria. This includes by outlining factors to be considered in a monthly question and answer (Q&A) document published by the CAC in April 2025,[36] and drafting sectoral guidelines on the cross-border transfer of data.[37&38] So far, these sectoral guidelines seem to have a different focus, with the financial guidelines being more about the transfers of personal information rather than important data, and the automotive guidelines being largely about important data identification rather than transfer necessity. The sub-working group would like to see the scope of the guidelines being expanded to more sectors, and to important data transfers, with clear instructions on how to assess the latter's necessity. Any necessity assessments should allow CBDTs that are necessary for production, R&D and remote maintenance and upgrading.

According to another Q&A released by the CAC in May 2025,[39] existing public guidelines for the identification of 'important data' in the industrial, telecommunications and other sectors can effectively trigger an important data reporting obligation for companies. Other authorities may communicate 'important data' identification rules through meetings, internal documents or direct notifications. In light of this, and given its strong business relevance, the sub-working group calls for 'important data' identification guidelines and other related documents to be subject to public consultation and review before release, to make sure that they are not overly stringent. Furthermore, because 'important data' generally refers to data that could affect national security, economic operation, social stability, and public health and safety, the sub-working group cautions against characterising 'important data' according to industry categories or data types, i.e., simply equating certain types of data generated by the operation of businesses in certain industries without conducting a sufficient impact assessment. Finally, a sufficient grace period should be provided between any future release of 'important data' identification guidelines and their implementation.

The sub-working group notes that challenges may also arise in enforcing compliance obligations related to multiple sets of data classification and grading requirements released by different authorities. For example, while the *CBDT Provisions* classifies data into 'core data', 'important data' and 'general data', the *Administrative Measures for Data Security of Banking and Insurance Institutions* introduced a distinct subcategory of 'sensitive data' within the 'general data' category.[40] As the financial industry standard *JR/T 0197-2020 Financial Data Security – Guidelines for Data Security Classification* further divides data security into five grades,[41] the industry would welcome guidance on how the 'general data' and 'sensitive data' categories fit into the national grading framework, and into the financial sector's five-grade framework. The sub-working group invites all authorities to ensure consistency in data classification and grading criteria.

There are also other data-related issues that would benefit from detailed guidance, additional technical developments, breakthroughs in the current Chinese regulatory system or further alignment between the Chinese and European data protection systems. These issues include but are not limited to the lack of unified criteria for 'anonymised data', the non-recognition of legitimate interests as a legal basis for data handling under the Chinese data protection regulatory framework, blurred boundaries between 'personal'

35 *Implementation Plan for the Comprehensive Supporting Reform to Facilitate Cross-Border Data Flows in Beijing Municipality, Beijing Municipal Cyberspace Administration,* Beijing Municipal Commerce Bureau and Beijing Municipal Administration of Government Services and Data Management, 27th March 2025, viewed 7th June 2025, <https://open.beijing.gov.cn/html/tzgg/2025/3/1743066859055.html>

36 These factors include whether the transfer is directly related to the purpose of the data handling activity, whether it minimises the impact on individual rights and interests, whether it is limited to the minimum scope needed for that purpose, and whether the data retention period is the shortest to fulfil that purpose.

37 *Compliance Guidelines on Promoting and Regulating Cross-border Data Flow in the Financial Sector is Issued,* People's Bank of China (PBOC), 17th April 2025, viewed 7th June 2025, <http://www.pbc.gov.cn/en/3688110/3688172/5552468/5679844/index.html>

38 *Draft Automotive Data Export Security Guidelines (2025 Edition),* 13th June 2025, viewed 16th June 2025, Ministry of Industry and Information Technology, <https://wap.miit.gov.cn/jgsj/waj/wjfb/art/2025/art_181a52f57d14451ba4c8517b79c05177.html>

39 *Q&A on Data Cross-Border Security Management Policies (May 2025),* CAC, 30th May 2025, viewed 7th June 2025, <https://www.cac.gov.cn/2025-05/30/c_1750315283722063.htm>

40 *Administrative Measures for Data Security of Banking and Insurance Institutions,* National Financial Regulatory Commission, 27th December 2024, viewed 7th June 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1192311&itemId=861&generaltype=1>

41 *JR/T 0197-2020 Financial Data Security — Guidelines for Data Security Classification*, PBOC, 23rd September 2020, viewed 7th June 2025, <https://cfstc.pbc.gov.cn/bzgk/detail/?id=0&bzId=1873>

and 'non-personal' data, and increased compliance efforts due to differences in data protection regulatory frameworks with sometimes distinct requirements.

Cybersecurity vulnerability management and incident notification

According to Article 10 of the *Regulations on Network Data Security Management*,[42] when network data handlers discover security defects, vulnerabilities or other risks in their network products and services, they should immediately take remedial measures, inform users and report to relevant authorities "within the required time limit". The regulations further require a report to be made within 24 hours in cases involving threats to national security or public interests. Similarly, Article 11 states that when a network data incident occurs, network data handlers shall "report to relevant authorities in accordance with regulations".

On vulnerability management, in July 2021, the Ministry of Industry and Information Technology (MIIT), the CAC and the MPS jointly released the *Administrative Provisions on Security Vulnerabilities of Network Products* (*Administrative Provisions*),[43] complemented by a mandatory national standard titled *Critical Network Devices Security Common Requirements*,[44] which contains provisions related to coordinated vulnerability disclosure (CVD). The *Administrative Provisions* includes a specific provision mandating the reporting of vulnerabilities to the MIIT, an obligation that significantly diverges from well-established best practices and international standards in the field of CVD and vulnerability handling—as articulated in standards such as *International Organization for Standardization (ISO)/International Electrotechnical Commission (IEC) 29147 (2018)* and *ISO/IEC 30111 (2019)*—and is being monitored with concern by the international community.[45]

42 *Regulations on Network Data Security Management,* State Council, 24th September 2024, viewed 26th May 2025, <https://www.gov.cn/zhengce/zhengceku/202409/content_6977767.htm>

43 *Administrative Provisions on Security Vulnerabilities of Network Products*, State Council, 12th July 2021, viewed 8th June 2025, <http://www.gov.cn/zhengce/zhengceku/2021-07/14/content_5624965.htm>

44 *Critical Network Devices Security Common Requirements*, MIIT, 20th February 2021, viewed 8th June 2025, <http://std.samr.gov.cn/gb/search/gbDetailed?id=BBE32B661B848FC8E05397BE0A0AB906>

45 *Coordinated Vulnerability Disclosure Policies in the EU*, Publications Office of the European Union, 13th April 2022, viewed 8th June 2025, <https://op.europa.eu/en/publication-detail/-/publication/40094872-6b02-11ed-b14f-01aa75ed71a1/language-en>

The process of CVD is a standardised, multi-step process through which stakeholders identify, develop, validate, distribute and deploy mitigations for security vulnerabilities. To minimise user risk and potential harm and costs associated with the vulnerability, CVD directs the recipient of a vulnerability to only disclose information about the vulnerability to other parties that are required to develop and deploy a mitigation, fix or 'patch'.

Unmitigated vulnerability information should only be communicated on a need-to-know basis, to prevent it from being exploited. This is particularly important considering the interdependencies between products. The sub-working group strongly urges a clear clarification that "reporting vulnerabilities to the MIIT within two days" is only required after remediations and mitigations are made available, and recommends disclosing information related to unmitigated vulnerabilities in a confidential manner, and only to the parties necessary to develop and test the proposed remediation or mitigation during the CVD process.

It should also be recognised that in certain limited cases, disclosure of information on an unmitigated vulnerability can support users' responses. For example, when the vendor no longer exists or the vulnerability concerns an open-source software/module or a commonly-used protocol, and there is no owner of the technology or a different coordinator that is developing a mitigation and leading a CVD process.

Another concern is that of mandatory incident notification to 'relevant competent authorities' in cases of cyber incidents and 'relevant authorities' in case of data breaches. In this regard, it is important to have a unified regulatory framework, with one agency coordinating the different authorities on incident notification. Multiple notifications to different authorities on the same incident may result in potentially different—if not conflicting—responses or demands in response, which will increase both the administrative burden and the level of uncertainty over the potential outcome.

The CAC's latest draft *Measures on the Administration of Cybersecurity Incident Notification* for public comments provides both a relatively broad scope of, and stringent notification requirements for, 'extremely significant', 'significant' and 'relatively significant' incidents,[46] which must be reported to the regulators within one hour. Such requirements will add to the cybersecurity compliance burden of enterprises. The MIIT's latest draft *Emergency Response Plan for Data Security Incidents in the Fields of Industry and Information Technology (Trial)* has made the situation more complicated, with overlapping reporting requirements, incident classification criteria and penalties for non-compliance. Some requirements in the two drafts are even regulated in an opposing way, such as roles and responsibilities.

CII protection

The CII protection requirements contained in various Chinese security legislation are being broadened in ways that bring about significant operational burdens to the business community. For example, the addressees of such requirements have been, or risk being, expanded, regardless of whether the networks/ infrastructure in question are truly critical for the normal functioning of the core business. Also, certain requirements that originally were only destined for CII have been expanded to cover networks with classified cybersecurity protection above level three, or even broader network operators, as is the case with the use of commercial cryptography products.

It is important for regulators to clearly determine what falls within the scope of CII and what falls outside, and to avoid interpreting and applying relevant requirements in an expansive manner. This is needed to increase legal certainty, reduce burdensome obligations and leave room for normal business activities, as well as international exchange and cooperation. In this respect, the sub-working group welcomes the fact that the National Cybersecurity Standardisation Technical Committee plans to expedite the rollout of urgently needed standards, such as the one delineating the boundaries of CII.[47]

Recommendations

- Expand the scope of coverage of the FTZ lists to broader industries and fields in which European companies are active, and expand the geographical scope of application of these lists to cities with sufficient technical and law enforcement capabilities.
- Release guidance on assessing the necessity of cross-border transfers of both personal information and important data covering more sectors.
- Ensure that European industry has the opportunity to provide comments on forthcoming sectoral guidance, important data identification guidelines and related documents.
- Ensure that any necessity assessments can allow CBDTs that are necessary for production, R&D and remote maintenance and upgrading.
- Provide a sufficient grace period between any future release of important data identification guidelines and their implementation.
- Strengthen European Union-China dialogue on data and cybersecurity, and identify concrete areas for cooperation where possible.
- Avoid mandating the disclosure of information related to unmitigated vulnerabilities to parties irrelevant to the coordinated vulnerability disclosure process.
- Ensure a coordinated and unified approach for oversight and enforcement among the authorities involved.
- Clearly delineate the boundaries between CII and non-CII, and avoid interpreting and applying relevant requirements in an expansive manner to cover broader networks.

46 *Measures on the Administration of Cybersecurity Incident Reporting (Draft for Comments)*, CAC, 8th December 2023, viewed 9th June 2025, <https://www.cac.gov.cn/2023-12/08/c_1703609634347501.htm>

47 *2024 Work Priorities of the National Cybersecurity Standardization Technical Committee*, National Information Security Standardisation Technical Committee, 8th April 2024, viewed 9th June 2025, <https://www.tc260.org.cn/front/postDetail.html?id=20240408133953>

3. Ensure Proportionality, Industry Involvement, Global Harmonisation and Non-discrimination when Future-proofing Security Legislation 2

Concern

Proportionality, industry involvement, global harmonisation and non-discrimination are critical to ensuring that security legislation enables—rather than obstructs—sustainable and secure growth in fast-evolving fields like AI, connected vehicles and the internet of things (IoT).

Assessment

While the release of the *CBDT Provisions* and accompanying implementation guidelines in 2024 have demonstrated a pragmatic shift towards risk-based, business-friendly regulation – an approach aligned with comments from China's top leadership, some of the existing regulatory requirements relating to cybersecurity and data protection are still seen as restrictive, complex, and costly for businesses, particularly for those working in emerging industries like AI, connected vehicles and the IoT. To foster innovation and attract foreign investment, some of these requirements may need to be made more proportionate, globally harmonised and non-discriminatory. Ensuring industry voices are heard—particularly those of multinational companies with experience navigating regulatory systems globally—will help regulators strike a more effective balance between innovation and control.

To start with, the PIPL imposes strict requirements for obtaining individual consent. While the requirements enhance privacy protections, they can be burdensome for industries like AI and IoT, where data-driven innovation relies on large-scale data aggregation and processing. The sub-working group therefore recommends allowing broader exemptions for handling personal data without consent, especially for legitimate interest purposes. Clear guidelines are needed on valid consent mechanisms for emerging industries, where obtaining explicit consent may not always be practical. Further guidelines are also warranted by the proliferation of data scraping and the increased uptake and rapid development of AI tools. Finally, regulatory sandboxes should be established for companies working on privacy-preserving technologies.

On the other hand, existing laws and regulations have also outlined requirements for the use of non-personal data—including important data and government- or public-related data—for CII operators and broader network operators. The sub-working group hopes to see a clear definition of what constitutes CII and important data when it comes to emerging industries, as the lack of clarity may leave companies uncertain about market entry prerequisites and compliance obligations.

As many countries and regions are developing IoT cybersecurity standards, the sub-working group would like to highlight that patchwork regulations across countries and regions create compliance burdens for IoT manufacturers and hinder global deployment. The sub-working group strongly recommends establishing globally harmonised IoT security standards to ensure consistency and reduce compliance complexity. In addition, tiered regulations should be provided for IoT devices, focussing stricter standards on high-risk applications, while relaxing rules for low-risk consumer products.

Finally, China's commercial cryptography regulations and standards have long presented challenges for foreign companies, particularly due to the mandatory use of domestic standards, and disproportionate testing and certification requirements. To make the regulatory environment for emerging industries like connected vehicles and industrial IoT more industry-friendly and encourage foreign participation, instead of replicating the market access restrictions, the sub-working group calls on relevant authorities to harmonise domestic cryptography standards with international benchmarks to enable interoperability and reduce reengineering costs for both foreign companies in China and domestic companies going global. Transparency in certification processes should be established to build trust. Exemptions to mandatory requirements for commercial cryptography product certification should be introduced for non-sensitive industries or applications to reduce compliance burdens.

While the aforementioned areas illustrate the importance of proportionality, industry involvement, global harmonisation and non-discrimination, the applicability of these principles is by no means limited to these areas. Generally, the sub-working group encourages regulators to work closely with both domestic and European business stakeholders—including industry associations and ideally through institutionalised mechanisms—to ensure new rules are technically credible, feasible to implement and reflective of operational realities. It is imperative to continue to align China's cybersecurity and digital governance practices with international standards—such as those from the International Standardization Organization / International Electrotechnical Commission—and engage constructively in global cybersecurity cooperation platforms. Emerging technology regulation should prioritise interoperability with the EU and other major markets' standards to facilitate cross-border trade, enable trusted digital supply chains and reduce regulatory fragmentation. A level playing field should be created for all market participants. Discriminatory treatment of foreign companies—whether direct or indirect—not only undermines investor confidence but also limits the benefits China can gain from international expertise, technology and cooperation. It is therefore essential that forward-looking legislation avoids echoing past regulatory barriers that have disadvantaged foreign firms or favoured domestic providers under the banner of security or indigenous innovation.

Recommendations

- Establish transparent, timely and structured mechanisms for meaningful consultation with European industry in the development of security-related legislation for emerging industries.
- Prioritise proportionate, risk-based regulatory measures that reflect both security needs and business realities.
- Align national frameworks with internationally accepted standards to reduce regulatory fragmentation and compliance burdens.
- Promote cross-border cooperation in developing and implementing cybersecurity governance frameworks, particularly for emerging technologies.
- Ensure equal treatment of FIEs in the drafting and enforcement of security regulations.
- Continue building on the positive direction of the *CBDT Provisions* by expanding pilot zones and flexible frameworks for secure, compliant cross-border data operations.

Abbreviations

AI	Artificial Intelligence
CAC	Cyberspace Administration of China
CBDT	Cross-border Data Transfer
CCPS	Classified Cybersecurity Protection System
CII	Critical Information Infrastructure
CSRM	Cybersecurity Review Measures
CVD	Coordinated Vulnerability Disclosure
EU	European Union
ICT	Information and Communication Technology
IEC	International Electrotechnical Commission
ISO	International Organization for Standardization
IT	Information Technology
MIIT	Ministry of Industry and Information Technology
MNC	Multinational Corporation
MPS	Ministry of Public Security
TC260	National Technical Committee 260 on Cybersecurity of Standardisation Administration of China

Logistics Working Group

Key Recommendations

1. Improve the Efficiency of Customs

1.1 Ensure Timely and Direct Communication Between Customs and Businesses

- Maintain close communications with logistics providers and their customers to ensure the smooth implementation of any policy changes.
- Publish local interpretations of policies issued at the central level.

1.2 Provide Better Resources for Industry Players to Ensure that Customs Policies are Understood 3

- Arrange regular training sessions for companies on policy updates.
- Publish answers to frequently asked questions on customs topics.
- Establish official hotlines for companies to consult on customs policies.

2. Support the Green Transition of the Logistics Industry

2.1 Promote the Use of Sustainable Fuels so that the Logistics Industry can Fully Contribute to China's Carbon Peaking and Carbon Neutrality Goals 2

- Adopt policies to encourage both supply and demand of sustainable fuels for the logistics industry.
- Accelerate the development of hydrogen vehicle technology as well as hydrogen production and fuelling infrastructure.

2.2 Improve Both Infrastructure and Related Policies to Support the Deployment of More New Energy Vehicles (NEVs) in the Logistics Industry 3

- Consider the characteristics of the logistics industry when formulating requirements for the use of NEVs.
- Accelerate infrastructure construction for logistics NEVs, such as charging piles and special parking spaces for delivery services.
- Provide more incentives to encourage logistics companies to switch to electric lorries.

3. Improve Transparency in Policy Drafting as well as in the Issuance and Implementation of Government Incentives

3.1 Ensure a Reasonable Value-added Tax (VAT) Policy for the Logistics Industry 2

- Standardise the VAT rates applicable to all transportation, courier and logistics services.
- Provide equal treatment for all logistics companies through standardised taxation.

3.2 Ensure Transparent Governance for the Logistics Industry

- Publish written notices detailing the specific requirements for business licence applications.
- Inform logistics providers of any newly added licence management requirements in a timely manner, and set up a reasonable timeline for preparing required materials.
- Publish calls for comments on draft policies and regulations in advance of promulgating them.
- Consolidate the opinions and suggestions of all industry players before making decisions, and ensure foreign-invested enterprises (FIEs) have the same access to information as their Chinese counterparts.

Section Four: Services

3.3 Ensure that Industry Regulations Take the Needs of Foreign Logistics Providers into Account

- Avoid one-size-fits-all regulation that does not reflect the operational reality of foreign-invested logistics providers.
- Ensure that regulations account for the differences between domestic and international express shipping businesses.

4. Provide Equal Treatment to Foreign Cargo Airlines when Allocating Take-off and Landing Slots 2

- Consider the need for cargo air carriers to efficiently coordinate take-off and landing times between important global cargo hubs when allocating landing slots.
- Ensure that cargo air carriers receive a reasonable balance of both daytime and nighttime landing slots.

International Liner Shipping Sub-working Group

1. Make the International Cargo Relay Pilot a Permanent Policy after Expanding Coverage to Vessels and Ports, and Simplify the Customs Declaration Process 4

- Upgrade the international cargo relay pilot to a permanent policy.
- Expand the international cargo relay to more Chinese ports, as either the port of transshipment or the port of origin/destination.
- Allow chartered vessels and short sea vessels to engage in international cargo relay.
- Encourage full support from original/destination ports to deploy a practicable international cargo relay network together with carriers.
- Implement a simplified customs declaration process for international relay cargo.

2. Establish Transparent Filing Rules for Ocean Freight and Associated Surcharges 6

- Refrain from imposing unjustified requirements on carriers for filing freight rate increases and new or increased surcharges.
- Create certainty by providing a clear definition of freight-associated charges and value-added service charges, specifying the documents and information required to be submitted during filing procedures.
- Abide by Article 14 of the *Regulations on International Maritime Transportation of the People's Republic of China* and lift the restriction of the current once-a-month filing frequency.
- Impose tariff filing and audit requirements on non-vessel operating common carriers, freight forwarders and booking agents, similar to those imposed on carriers.

3. Amend Current Regulations that Hold Carriers Liable for Misdeclarations of Dangerous Goods by Shippers 5

- Amend current regulations or correct the current practice that holds carriers liable for dangerous goods misdeclarations by shippers.

- Establish an official blacklist of entities with a record of dangerous goods misdeclarations.

4. Strengthen the Supervision of Port/Terminal Groups and Promote Fair Competition 6

- Monitor and report any potential infringement of competition law by port groups.
- Implement measures and controls to prevent port groups from abusing monopolistic positions both horizontally and vertically.

5. Accelerate Decarbonisation of the Shipping and Logistics Industry by Establishing Adequate Incentive Schemes Within the IMO's Framework for Green Fuel Utilisation 5

- Support the preferred reward scheme in future IMO discussions to bridge the price gap between fossil fuel and green fuel.

Recent Developments

Increasing uncertainty

Geopolitical factors, such as Russia's ongoing war with Ukraine and attacks on commercial ships in the Red Sea contributed to heightened uncertainty in the logistics industry in 2024. The onset of the United States (US)-China trade war in early 2025 further raised the stakes, with a sudden disruption to the demand for goods transport between the two countries having an impact on European logistics providers, many of whom are exposed to the US-China market.

European logistics providers in China have also experienced increased competition from Chinese competitors expanding their international presence with significant investments in the European Union (EU).[1] This, coupled with China's economic slowdown, meant that 2024 continued to be a challenging year.

However, despite geopolitical uncertainty, China's foreign trade reached a record high in 2024,[2] which benefited logistics providers and marked an improvement from 2023. Frontloading of exports to the US—to prepare for potential tariffs—was a factor in this, with a significant increase in exports at the end of 2024 that continued into the first quarter of 2025.[3]

Regulatory developments

In September 2024, China launched a sustainable aviation fuel (SAF) pilot scheme, under which SAF was used on selected flights at four airports during the final quarter of 2024.[4] Phase two of this pilot aims to increase the rollout of SAF throughout 2025.[5] Although it is currently limited to state-owned airlines, this scheme represents a positive development following the Logistics Working Group's 2024 recommendation to expand the use of SAF, which is essential for China to reach its decarbonisation goals.

Another regulatory improvement of note was the General Administration of Custom's (GAC's) decision to increase the maximum value of personal items shipments from overseas to Chinese yuan (CNY) 2,000. This follows a recommendation by the Logistics Working Group in 2024 to set the threshold for personal items at the same level as those purchased on cross-border, e-commerce channels, which is CNY 5,000. While the increase to CNY 2,000, which only applies to personal items being shipped to China, is just a

1 Fan, F, *Chinese couriers rapidly expanding global reach, China Daily*, 7th May 2024, viewed 22nd April 2025, <https://www.chinadailyhk.com/hk/article/582581>

2 *China's foreign trade hits new high in 2024, Xinhua*, 13th January 2025, viewed 16th June 2025, <https://english.www.gov.cn/archive/statistics/202501/13/content_WS6784a546c6d0868f4e8eec59.html>

3 Xie, SY, and Yiu, P, *China front-loading choppy as Trump uncertainty washes over trade, Nikkei Asia*, 13th March 2025, viewed 23rd April 2025, <https://asia.nikkei.com/Economy/Trade-war/China-front-loading-choppy-as-Trump-uncertainty-washes-over-trade>

4 *China starts sustainable aviation fuel pilot*, State Council, 19th September 2024, viewed 22nd April 2025, <https://english.www.gov.cn/news/202409/19/content_WS66ec1223c6d0868f4e8eb175.html>

5 *Ibid.*

marginal improvement, it will relieve some pressure on businesses during customs clearance.

Key Recommendations

1. Improve the Efficiency of Customs

1.1 Ensure Timely and Direct Communication Between Customs and Businesses

Concern

The destabilisation of the global trade environment necessitates increased communication between businesses and customs in order to limit the operational challenges that policy changes, such as tariffs, present.

Assessment

In a complex global trade environment, logistics providers and their customers are highly susceptible to operational impacts resulting from sudden policy changes. Timely and clear communication about how policy changes will be implemented, especially at the local level, can go a long way to reducing short-term disruptions in these situations. This has the benefit of not only improving operational efficiency for logistics providers and their customers but also helping to ensure the seamless implementation of customs policies.

Recommendations

- Maintain close communications with logistics providers and their customers to ensure the smooth implementation of any policy changes.
- Publish local interpretations of policies issued at the central level.

1.2 Provide Better Resources for Industry Players to Ensure that Customs Policies are Understood 3

Concern

The lack of understanding of customs policies among industry players affects operational efficiency, with a disproportionate impact on small and medium-sized enterprises (SMEs).

Assessment

Many SMEs either have only a small team to handle customs issues or must outsource customs issues to external partners. This can make it difficult for them to keep up to date with the most recent customs policies, which, given that customs policies frequently change to meet the government's most recent domestic and international strategies, compromises corporate efficiency. At the same time, when a company has concerns and questions about policies, they often have few channels for consultation and/or do not know which official channel to consult with. Even in cases in which written explanations of customs policies are available, companies may not have the knowledge to fully interpret and understand the policy, which raises compliance risks.

Recommendations

- Arrange regular training sessions for companies on policy updates.
- Publish answers to frequently asked questions on customs topics.
- Establish official hotlines for companies to consult on customs policies.

2. Support the Green Transition of the Logistics Industry

2.1 Promote the Use of Sustainable Fuels so that the Logistics Industry can Fully Contribute to China's Carbon Peaking and Carbon Neutrality Goals 2

Concern

There are currently no policies that provide incentives for logistics companies to use sustainable fuels to reduce carbon emissions, and availability of these fuels remains limited.

Assessment

China is a world leader in green energies, like wind and solar, and is rich in many natural resources.[6&7] This makes the country well placed to utilise green electricity to produce sustainable energy sources, like hydrogen and green methanol.[8] However, a lack of clear policy to encourage more usage makes these fuels relatively inaccessible to logistics providers in China.

The EU faced a similar challenge with the adoption of SAF – a lack of supply led to high prices, making SAF commercially unviable, which in turn prolonged the

6 Bella, V, *China's clean energy boom 'an example to the entire world', IEA analyst says*, *South China Morning Post*, 27th January 2024, viewed 22nd April 2025, <https://www.scmp.com/news/china/science/article/3249929/chinas-clean-energy-boom-example-entire-world-iea-analyst-says>

7 *Minerals of China*, Britannica, 15th June 2025, viewed 22nd April 2025, <https://www.britannica.com/place/China/Minerals>

8 Sharma, I, Shah, M, and Shah, V, *A comprehensive study on production of methanol from wind energy*, Environmental Technology & Innovation, vol. 28, November 2022, viewed 22nd April 2025, <https://www.sciencedirect.com/science/article/pii/S2352186422001675>

lack of supply.[9] Recognising that little progress was possible without a regulatory push, the EU introduced the RefuelEU Aviation Regulation. This mandates that aviation fuel suppliers provide fuel containing a mandatory share of SAF starting in 2025, with gradual increases to the required share planned over time.[10] It also requires that airlines procure 90 per cent of their fuel for flights departing the EU from the EU.[11] This policy ensures both supply and demand for SAF, helping the EU to reach its climate goals and allowing logistics providers to adopt SAF in a commercially viable way. With China facing the same challenge with sustainable fuels, including SAF, it is reasonable that this can also be solved more efficiently through a comparable policy push rather than waiting for demand to drive an increase in supply.

Another sustainable fuel—hydrogen—presents an even greater challenge. While hydrogen is a potential substitute to fossil fuels for longer range, uninterrupted lorry transport, significant investments in infrastructure and further technological development are necessary for it to be commercially viable. China would need to ensure a reliable supply, produced with renewable energy, as well as the rollout of adequate fuelling infrastructure. While this would require a sizeable upfront investment, it would provide a carbon-friendly alternative to complement electric vehicles (EVs) when they are not suitable, such as for long-range operation. Acting early to make hydrogen adoption feasible could also give China a chance to achieve global leadership in another next-generation technology, as was the case with EVs.

Recommendations

- Adopt policies that encourage both supply and demand of sustainable fuels for the logistics industry.
- Accelerate the development of hydrogen vehicle technology as well as hydrogen production and fuelling infrastructure.

9 Soubly, K, and Uppink, L, *What 6 aviation executives say about an EU sustainable aviation fuel blending mandate,* World Economic Forum, 16th July 2021, viewed 22nd April 2025, <https://www.weforum.org/stories/2021/07/what-6-executives-europe-aviation-sector-say-eu-sustainable-fuel-saf-blending-mandate-refueleu/>

10 *RefuelEU aviation initiative: Council adopts new law to decarbonise the aviation sector,* European Council, 9th October 2023, viewed 22nd April 2025, <https://www.consilium.europa.eu/en/press/press-releases/2023/10/09/refueleu-aviation-initiative-council-adopts-new-law-to-decarbonise-the-aviation-sector/>

11 *Ibid.*

2.2 Improve Both Infrastructure and Related Policies to Support the Deployment of More New Energy Vehicles (NEVs) in the Logistics Industry 3

Concern

Policy support and infrastructure are currently insufficient to support the transition towards the use of NEVs in the logistics industry.

Assessment

Compared with internal combustion lorries, electric lorries are often heavier and carry fewer goods. They also have a shorter operating range, meaning that charging times must be accounted for in daily operations. Therefore, more incentives are necessary to encourage logistics service providers to switch from internal combustion to electric lorries.

Central and local governments at all levels have issued policies and opinions to promote the replacement of traditional fuel vehicles with NEVs. This includes imposing special requirements for transportation and distribution vehicles used in the logistics industry. In fact, some regions have already stipulated the proportion of NEVs that must be used in express logistics operations when vehicles are updated or added to fleets. However, some provinces and cities have not taken into account the differences between international and domestic express delivery businesses when formulating relevant requirements. For example, international express delivery service providers usually use lorries or mini vans for both port-to-sorting-station routes and sorting-station-to-final customer routes, while domestic express delivery businesses usually use electric tricycles to deliver goods to final customers.

In addition, some supporting infrastructure, such as charging piles for electric vehicles, remains underdeveloped. This means that if logistics companies are required to replace large parts of their fleets with electric vehicles over a short time period, they may incur significant economic and administrative costs.

Recommendations

- Consider the characteristics of the logistics industry when formulating requirements for the use of NEVs.
- Accelerate infrastructure construction for logistics NEVs, such as charging piles and special parking spaces for delivery services.

- Provide more incentives to encourage logistics companies to switch to electric lorries.

3. Improve Transparency in Policy Drafting as well as in the Issuance and Implementation of Government Incentives

3.1 Ensure a Reasonable VAT Policy for the Logistics Industry 2

Concern

The current VAT regime imposes a nine per cent tax on transportation, while logistics services are taxed at six per cent, creating an overly complex compliance burden for logistics providers.

Assessment

In 2019, the VAT rate for express delivery and postal companies providing transportation services was lowered from 10 per cent to nine per cent, but the VAT rate for express delivery and postal companies providing sending and receiving services remained at six per cent.[12] While this slight decrease in VAT is positive for the industry, the effort companies must spend in delineating the difference between transportation services and sending and receiving services is significant, resulting in an unnecessarily large compliance burden.[13] Furthermore, the ability of only some companies to provide services at a six per cent VAT rate and the potential for advantageous accounting practices to change the taxable outcome puts other companies at a disadvantage. Introducing a unified VAT rate would not only reduce compliance costs, but also make the logistics industry fairer for all companies involved.

Recommendations

- Standardise the VAT rates applicable to all transportation, courier and logistics services.
- Provide equal treatment for all logistics companies through standardised taxation.

12 *New tax cuts implemented, six relate to the postal industry,* State Post Bureau, 17th April 2019, viewed 27th April 2025, <https://www.gov.cn/fuwu/2019-04/17/content_5383669.htm>

13 Transportation services are defined as "business activities that use transportation vehicles to deliver goods or passengers to their destinations, thereby transferring their spatial locations." Sending and receiving services are defined as "business activities that involve accepting consignments from senders and completing the collection, sorting, and delivery of letters and parcels within a promised time frame." *Notice on Fully Implementing the Pilot Programme for Replacing Business Tax with Value-added Tax (Cai Shui)* <https://12366.chinatax.gov.cn/bzds/010/010-5-2.html>

3.2 Ensure Transparent Governance for the Logistics Industry

Concern

The process of formulating and implementing regulations and incentives in the logistics industry often happens in an opaque, sometimes informal manner that makes it difficult to achieve equal treatment.

Assessment

There is a need for greater transparency in the process of formulating legislation, subsidies, regulations and standards that apply to the logistics industry. In many cases, only domestic enterprises are invited to participate in preliminary research and consultation, without sufficient prior communication with the entire industry. International logistics providers, especially foreign-invested ones, are therefore unable to obtain timely information on the details of policy formulation and regulatory requirements. This leaves them with insufficient time to prepare for any regulatory changes or apply for subsidies that could support their business operations.

Short timelines for policy comment periods and implementation often leave FIEs without enough time to understand new policies and make prudent changes. Many FIEs also do not have sufficient communication channels with relevant government agencies to get authoritative policy interpretation and compliance guidance.

Furthermore, implementation of policy often happens in a non-transparent manner. For example, there is no publicly available information on how to apply for express delivery service licences, one of the most fundamental licences for the international express industry. Since 2020, the authorities have started to systematise and standardise the express delivery service licensing process, and linked the licensing portal to the State Council's national integrated government online service platform.[14] However, enterprises still encounter many challenges with the application process, as well as with licence extensions and access to relevant information.

At present, neither the State Post Bureau (SPB) nor provincial and municipal postal administrations

14 *SPB Service Portal (trial)*, viewed 24th April 2025, <https://zwfw.spb.gov.cn/gjj/corp/login>

have officially released to the public the specific list of documentation required for licence approval. In the absence of clear written guidelines in which enterprises can find out which documents are required for licence approvals or to make changes or extensions to an existing licence, the requirements can only be understood indirectly through the Express Business Licensing Management Information System. This makes it difficult for companies to prepare adequately in advance for any changes.

Recommendations

- Publish written notices detailing the specific requirements for business licence applications.
- Inform logistics providers of any newly added licence management requirements in a timely manner, and set up a reasonable timeline for preparing required materials.
- Publish calls for comments on draft policies and regulations in advance of promulgating them.
- Consolidate the opinions and suggestions of all industry players before making decisions, and ensure FIEs have the same access to information as their Chinese counterparts.

3.3 Ensure that Industry Regulations Take the Needs of Foreign Logistics Providers into Account

Concern

Many regulations in the logistics industry are designed around the operational practices of domestic logistics providers, resulting in operational challenges for foreign logistics providers.

Assessment

European logistics providers often specialise in different services than their domestic competitors. For example, in the express delivery segment, most domestic companies focus on a high volume of domestic shipments, while FIEs are exclusively involved in the international express business, which is often lower volume.

At a regulatory level, this creates challenges that can constitute unequal treatment. For example, the SPB requires all express delivery providers to implement security measures on shipments, which include real-name verification for senders as well as security checks on the contents of shipments. For increased efficiency, the SPB allows for simplified security procedures for contract customers that do regular business. However, it ties eligibility for this to a volume requirement that is more typical of domestic express shipping customers. This puts foreign-invested express shipping providers at a disadvantage, as many of their customers do not meet the relevant volume threshold, even if the amount of business in value is comparable.

This exemplifies how the use of one-size-fits-all regulation in the logistics industry can inadvertently disadvantage European logistics providers. Situations like this could be reduced by more closely involving FIEs in the drafting process.

Recommendations

- Avoid one-sized-fits-all regulation that does not reflect the operational reality of foreign-invested logistics providers.
- Ensure that regulations account for the differences between domestic and international express shipping businesses.

4. Provide Equal Treatment to Foreign Cargo Airlines when Allocating Take-off and Landing Slots 2

Concern

Foreign cargo airlines are subject to an imbalanced allocation of nighttime and daytime landing slots.

Assessment

International air cargo is one of the most important services provided by international logistics companies. It offers timely and efficient delivery for customers worldwide and is an indispensable part of the global supply chain. For example, during the COVID-19 pandemic, the international air cargo industry played a crucial role in the global transportation of medical equipment, protective supplies and vaccines.[15] In order to provide such vital services in the most efficient way possible, international cargo carriers require an aviation cargo slot management system that is balanced and practical.

It is encouraging that the *Opinions on Promoting the Development of Aviation Cargo Facilities* highlight the

15 *Air Cargo in 2021: Fighting the COVID-19 Pandemic & Key Policy Challenges*, Airlines for Europe, 11th December 2023, viewed 24th April 2025, <https://a4e.eu/publications/air-cargo-in-2021-supporting-the-covid-19-crisis-and-key-policy-challenges/>

need to "continuously optimise the allocation of aviation cargo routes and slot resources."[16] They also explicitly call for a transition away from the current "passenger over cargo" preference.[17] However, despite this, landing slot allocation policy still favours passenger carriers, leaving cargo airlines with a disproportionately large allocation of nighttime take-off and landing slots. While cargo airlines, without the need to consider passenger preference, can make the best use of nighttime slots, they must also coordinate take-off and landing times with other airports globally. A more balanced approach to slot allocation between passenger and cargo airlines would give cargo airlines the flexibility they need to coordinate more efficient routes, which is essential for the healthy development of the international aviation industry.

Recommendations

- Consider the need for cargo air carriers to efficiently coordinate take-off and landing times between important global cargo hubs when allocating landing slots.
- Ensure that cargo air carriers receive a reasonable balance of both daytime and nighttime landing slots.

Abbreviations

CNY	Chinese Yuan
EU	European Union
EV	Electric Vehicle
FIE	Foreign-invested Enterprise
GAC	General Administration of Customs
NEV	New Energy Vehicle
SAF	Sustainable Aviation Fuel
SME	Small and Medium-sized Enterprise
SPB	State Post Bureau
US	United States
VAT	Value-added Tax

16 *Opinions on Promoting the Development of Aviation Cargo Facilities*, National Development and Reform Commission, 4th September 2020, viewed 24th April 2025, <https://www.ndrc.gov.cn/xxgk/zcfb/tz/202009/t20200904_1237640.html>
17 *Ibid.*

International Liner Shipping Sub-working Group

Recent Developments

Despite the impact of the ongoing Red Sea crisis in 2024,[1] global container volume increased by an impressive seven per cent from 2023, exceeding expectations at the beginning of the year.[2] This growth is largely attributable to the strong performance of the United States (US) economy, which resulted in a 15 per cent increase in container freight volume for US imports in 2024.[3]

China continues to be the leading global manufacturing hub and export base, providing strong support for the development of global trade. According to the Shanghai Shipping Exchange (SSE), around 35 per cent of total imports worldwide originated from China in 2024.[4]

Global container freight rates remained elevated in 2024. This is the result of strong global shipping demand and a shortage of shipping capacity due to the Red Sea crisis.

According to the SSE, the average composite SCFI index was only 2,000 points at the beginning of the Red Sea crisis in January 2024. It peaked at 3,733 points at the end of June, an increase of 87 per cent, before gradually declining towards the end of the year.

At the time of writing, the outlook for the Red Sea situation remains uncertain.

US-China Tensions

In 2024, the US Trade Representative (USTR) initiated a Section 301 investigation[5] into China's industrial policies in the maritime, logistics and shipbuilding industries, citing concerns over the country's dominance of those industries and the impact on US commerce and national security interests. After several rounds of hearings, the USTR concluded the investigation on 17th April 2025 with a phased plan to impose substantial fees on Chinese-built vessels entering US ports, effective from October 2025. Additional measures include escalating port fees based on the proportion of Chinese-built ships in a carrier's fleet and proposed tariffs on ship-to-shore cranes and other maritime equipment from China.[6] These measures have aroused concerns and objections from the global maritime and logistics industry.[7]

On top of the USTR Section 301 investigation, the escalation of the US-China trade war has also cast substantial uncertainty on the world economy in 2025. The shipping industry has already seen a considerable drop in shipping volume from China to the US since tariffs first started to be implemented in April 2025, only to rebound shortly after the Geneva talks.

Navigating the Green Transition

Decarbonisation continued to be a main focus of the maritime and logistics industry in 2024. Although green methanol is the most practical green fuel for the time being, there is no single-solution of green fuel available in the long run. However, the critical challenge is how to bridge the price gap between conventional fossil fuel and green fuel. Without a global regulatory framework to incentivise green fuel utilisation, the net zero strategy that many industry players have adopted will become difficult to sustain. One substantial development was the 83rd session of the International Maritime Organization's (IMO's) Marine Environment Protection Committee (MEPC 83) held in early April 2025. The committee approved the draft IMO Net-Zero Framework, introducing the first-ever global mandate that combines greenhouse

1 Due to attacks on commercial vessels in the Gulf of Aden by Yemen's Houthi military, vessels en route to North Europe and the Mediterranean often have to abandon navigating via the Red Sea. Instead, they are often rerouted around the Cape of Good Hope, increasing their total transit time by more than 10 days and requiring more vessels to maintain original schedules.

2 *Global Ports See 7% Cargo Volume Increase in 2024*, Shipco News, 3rd April 2025, viewed 21st April 2025, <https://media.shipco.com/global-ports-see-7-cargo-volume-increase-in-2024/>

3 Jay, T, *US Port Traffic Surges as Container Imports Hit 15-Month Growth Streak*, GlobalTrade, 31st January 2025, viewed 24th April 2025, <www.globaltrademag.com/u-s-port-traffic-surges-as-container-imports-hit-15-month-growth-streak/>

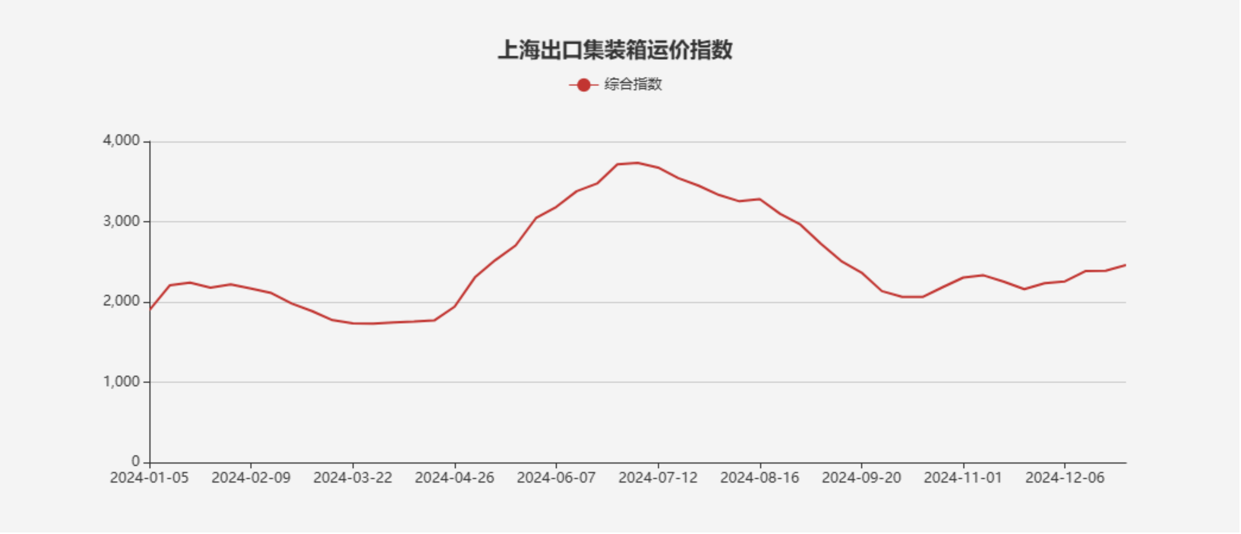
4 2024, *Shipping Market Information (2024.12)*, Shanghai Shipping Exchange, viewed 10th January 2025, paid subscription service

5 Section 301 of the Trade Act of 1974 is a provision of US trade law that empowers the USTR to investigate and respond to unfair trade practices by foreign governments. If a foreign country's practices are found to be unfair, the USTR is authorised to take appropriate action, such as imposing tariffs or other trade restrictions, to encourage the elimination of those practices.

6 *USTR Section 301 Action on China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance*, Office of the United States Trade Representative, 17th April 2025, viewed 21st April 2025, <https://ustr.gov/about/policy-offices/press-office/press-releases/2025/april/ustr-section-301-action-chinas-targeting-maritime-logistics-and-shipbuilding-sectors-dominance>

7 *World Shipping Council (WSC) Comments Concerning Proposed Action Pursuant to the Section 301 Investigation of China's Targeting of the Maritime, Logistics, and Shipbuilding Sectors for Dominance*, World Shipping Council, 23rd May 2025, viewed 21st April 2025, <https://www.worldshipping.org/regulatory-filings/wsc-ustr-comments-on-section-301-investigation>

Shanghai Containerized Freight Index (SCFI)



Source: Shanghai Containerized Freight Index (SCFI) in 2024, SSE

gas (GHG) emissions limits with a pricing mechanism across the shipping industry. This framework, set to be adopted in October 2025 and enforced from 2027, targets large ocean-going vessels with a gross tonnage of over 5,000 – vessels that are currently responsible for 85 per cent of international shipping's carbon dioxide emissions.[8] Key components of the framework include a global fuel standard requiring ships to progressively reduce their annual GHG fuel intensity. This is a promising step forward. However, continued international collaborations are critical to achieving a comprehensive green fuel reward mechanism.

Key Recommendations

1. Make the International Cargo Relay Pilot a Permanent Policy after Expanding Coverage to Vessels and Ports, and Simplify the Customs Declaration Process

4

Concern

The international cargo relay pilot in Shanghai Yangshan Port is currently only connected to four northern ports, and only for owned and long-haul service vessels, which can result in an unstable service schedule for routes using transshipment and limits routing possibilities.

Assessment

On 31st December 2024, the Ministry of Transport (MOT) announced a three-year extension for foreign carriers and vessels to trial international cargo relay via Shanghai Yangshan Port to and from the four northern ports of Qingdao, Tianjin, Dalian and Lianyungang until 31st December 2027.[9] However, the policy is restricted to carriers domiciled in countries that allow international cargo relay by Chinese carriers and to owned or fully-controlled vessels serving long-haul routes. If these restrictions were to be lifted and the policy were to become permanent, carriers would be able to take advantage of China's well-established service network to provide more diversified shipping products to customers, while also benefitting from much shorter transit times.

Furthermore, because half or more of carriers' capacity is derived from chartered vessels, restricting the scope of cargo relay only to carrier-owned vessels significantly impacts overall operational efficiency, which in turn limits the benefits that can be offered to customers. In addition to including chartered vessels in the scope of cargo relay, it would be prudent to also include short sea vessels, as this would contribute to creating a more competitive environment.

To ensure that the policy is as effective as possible, participation of more Chinese ports in North or South

8 *Marine Environment Protection Committee (MEPC 83)*, International Maritime Organisation, April 2025, viewed 10th June 2025, <https://www.imo.org/en/MediaCentre/MeetingSummaries/Pages/MEPC-83rd-session.aspx>

9 *MOT Announcement over Extension of Pilot International Cargo Relay Accessible to Non-Chinese-Flagged Marine Vessels Operated by Foreign International Liner Carriers*, Ministry of Transport, 31st December 2024, viewed 28th March 2025, <https://xxgk.mot.gov.cn/2020/jigou/syj/202412/t20241231_4161878.html>

China as transshipment hubs and further expanding export/import to South China ports could drive back the transshipment volume that is now done via Busan or other Asian ports.

Finally, the customs declaration process is complicated for cargo relay. For the current process, cargo descriptions in Chinese and the harmonised system code are required for import shipments. Furthermore, upon arrival at the destination port, onsite inspection of the container seal is mandatory. Compared to the customs process for regular shipments, these additional requirements and steps for cargo relay have imposed an administrative burden on carriers and Chinese customers, impeding the efficiency of customs clearance. The working group recommends a simplified process to reduce the overall transit time. Simplifying the customs declaration process could amplify the efficacy of the cargo relay policy.

Recommendations

- Upgrade the international cargo relay pilot to a permanent policy.
- Expand the international cargo relay to more Chinese ports, as either the port of transshipment or the port of origin/destination.
- Allow chartered vessels and short sea vessels to engage in international cargo relay.
- Encourage full support from original/destination ports to deploy a practicable international cargo relay network together with carriers.
- Implement a simplified customs declaration process for international relay cargo.

2. Establish Transparent Filing Rules for Ocean Freight and Associated Surcharges

6

Concern

The SSE only provides details of filing rules for ocean freight and associated charges through oral communication, sometimes leading to unexplained rejections, which contradicts MOT regulations.

Assessment

Chinese regulators acknowledged the consensus between the European Commission and China's MOT that "ocean freight and associated charges should be determined by the market, not by government interventions or instructions."[10] This consensus underpins the carriers' right to collect charges, including freight surcharges, behavioural charges and value-added service (VAS) charges. However, despite the consensus, SSE only provides details of filing rules orally. The vagueness of relevant filing rules leads to inconsistent filing outcomes and occasional rejection of filings without clear justification: carriers from time to time still face difficulties when filing for freight rate increases or charges for new VASs requested by customers with the SSE.

Vague regulations also make it difficult for carriers to achieve compliance, recover increased costs or capture surging market demand. For instance, Article 14 of the *Regulations on International Maritime Transportation of the People's Republic of China* (*Article 14*) only stipulates the filing of public freight rates and negotiated freight rates, with no reference to the filing of any associated surcharges.[11] Although the SSE's filing rules further specify freight to be ocean freight and associated surcharges—including Destination Terminal Handling Charges (DTHCs)—no details have been provided on what should be defined as freight-associated surcharges and what documents or information should be submitted during the filing process.

Moreover, *Article 14* obliges carriers to conduct freight rate filing, which should be interpreted as a 'notification' without the need to be approved by either the MOT or the SSE. If it is the case, carriers' filing for new VAS charges or freight rate increases should be automatically admitted by the SSE filing system once the filing is done. However, in some circumstances, carriers' filings get rejected due to ad-hoc adjustments of filing rules by the SSE without justification (e.g., the filing of an increase in DTHCs is not allowed unless accompanied by the filing of a reduction in ceiling freight rates).

While *Article 14* only requires carriers to file 30 days in advance,[12] there have been attempts by the SSE to control the pace of freight rate increases in practice by

10 The long-term consensus reached between the EU and the MOT that "ocean freight rates should be determined by the market, not by government interventions or instructions," was quoted in a press release concerning the MOT's responses to recent high freight rates. *Ministry of Transport replies to netizens' messages on "recent high sea freight charges"*, Government of China, 24th June 2021, viewed 25th April 2025, <http://www.gov.cn/hudong/2021-06/24/content_5620615.htm>

11 *Implementation Rules of the International Maritime Regulations of the People's Republic of China,* Ministry of Transport, 10th November 2023, viewed 25th April 2025, <https://www.gov.cn/gongbao/2024/issue_11146/202402/content_6930346.html>

12 The 30-day interval is between the time of freight rate filing and the time when the filed freight rate becomes effective. It is not a restriction for filing frequency.

allowing only one filing opportunity per calendar month (such as through enforcement of a 30-day interval between two filings). This has made it difficult for carriers to adapt to fluctuations in market rates, especially when facing unpredictable situations like COVID-19 or the future extra costs to be borne by carriers after the conclusion of the USTR 301 investigation.

Additionally, while the MOT has confirmed VASs to be beyond filing scope, the SSE seems to have discretion to decide which services qualify for VAS status. This has made it difficult for carriers to challenge the SSE when it deems a freight-associated charge a VAS.

It is important to note that the extremely high freight rates reported by media—which led to criticism of carriers—were most likely a result of the arbitrary price increase initiated by other market players in the logistics chain that are not subject to ceiling freight rates filed by carriers with the SSE. Therefore, in the interests of fairness and transparency, non-vessel operating common carriers (NVOCCs), freight forwarders and booking agents should also be subject to tariff filing and audit requirements similar to those imposed on carriers.

Recommendations

- Refrain from imposing unjustified requirements on carriers for filing freight rate increases and new or increased surcharges.
- Create certainty by providing a clear definition of freight-associated charges and value-added service charges, specifying the documents and information required to be submitted during filing procedures.
- Abide by Article 14 of the *Regulations on International Maritime Transportation of the People's Republic of China* and lift the restriction of the current once-a-month filing frequency.
- Impose tariff filing and audit requirements on non-vessel operating common carriers, freight forwarders and booking agents, similar to those imposed on carriers.

3. Amend Current Regulations that Hold Carriers Liable for Misdeclarations of Dangerous Goods by Shippers 5

Concern

Carriers are being held liable for shippers' misdeclaration of dangerous goods and consequently subjected to penalties, which is unreasonable as they have no means of detecting or preventing such misdeclarations.

Assessment

Although some port administrations have ceased to hold carriers liable for misdeclarations of dangerous goods, this is not the case for all of them. For example, Ningbo and Tianjin port authorities still refer to the *Regulation on Safety Administration of Dangerous Goods in Ports*,[13&14] issued by the MOT, which stipulates that carriers are the ultimate entrusted parties for terminal operation and makes them liable for misdeclarations of dangerous goods and subject to penalties. However, carriers only receive cargo information from shippers, booking agents or freight forwarders during the booking stage and have neither the right nor ability to check a container's content upon cargo receipt. As such, asking carriers to take responsibility and bear the legal consequences of any dangerous goods misdeclaration is both unfair and contrary to international practice.

Recommendations

- Amend current regulations or correct the current practice that holds carriers liable for dangerous goods misdeclarations by shippers.
- Establish an official blacklist of entities with a record of dangerous goods misdeclarations.

4. Strengthen the Supervision of Port/Terminal Groups and Promote Fair Competition 6

Concern

Insufficient oversight of port groups' market-dominant power is undermining fair competition.

Assessment

Over the past several years, the integration of port groups in China, both vertically and horizontally throughout the supply chain, has significantly increased their market dominance, reducing carriers' bargaining power.

Horizontal integration has also created monopolies that limit carriers' choices of terminal operators, as the integrated ports are all controlled by the same operator.

13 Only for import cargo in Tianjin.

14 *Regulations on Safety Administration of Dangerous Goods in Ports*, Government of China, 4th September 2017, viewed 25th April 2025, <http://www.gov.cn/gongbao/content/2017/content_5241924.htm>

This results in ports increasing handling charges, controlling terms of service agreements, offering little room for negotiation and imposing unreasonable conditions on carriers. For example, ports can impose certain transshipment volume targets, collect higher charges on rates, or seek a carrier's commitment to bring in additional business, etc. Such abuse of ports' dominant market position leaves carriers with no alternatives.

The integration of port groups and other conglomerates also leads to vertical integration (such as among container manufacturers, depots, feeders,[15] truckers and NVOCCs), significantly reducing competition in various sectors along the logistics supply chain. This puts ocean carriers at a disadvantage when choosing vendors. For instance, when such a specific port group operates feeders, ocean carriers have no choice but to use their feeders as vendors for specific trade instead of the carrier's own available space. The port group may refuse to load containers if the container is not shipped by a feeder operated by the port group, which is an abuse of market position.

Recommendations

- Monitor and report any potential infringement of competition law by port groups.
- Implement measures and controls to prevent port groups from abusing monopolistic positions both horizontally and vertically.

5. Accelerate Decarbonisation of the Shipping and Logistics Industry by Establishing Adequate Incentive Schemes Within the IMO's Framework for Green Fuel Utilisation 5

Concern

The absence of an incentive scheme for green fuel utilisation is slowing the adoption of green fuel due to the price gap with fossil fuel.

Assessment

The IMO has set a goal of achieving net-zero in the international maritime sector by 2050.[16] The industry has already been mobilised to achieve the objectives through sourcing green fuel and building dual-fuel container vessels. Green methanol is the most promising green fuel in the short-to-medium term, but the feasibility of green methane and green ammonia is also under study. China has abundant biomass resources and the world's strongest industrial manufacturing capabilities. Combining these two strengths, China can potentially become the main global production base for green energy.

However, the current price gap between fossil fuel and green fuel is hindering the adoption of green fuel in the maritime industry. Fossil fuel remains cheaper and more readily available, making it economically challenging for shipowners to switch to greener alternatives. Without mechanisms to offset higher costs, early adopters of green fuels may face financial disadvantages, deterring widespread adoption. Thus, an incentive scheme is needed to sustain the adoption of green fuels in the maritime shipping sector.

The IMO is currently the only international platform to develop a reward scheme that will be implemented worldwide by all its member states. As an influential member state of the IMO, China's full support for a reward scheme is critical for substantially narrowing the price gap between fossil and green fuels. The current MEPC 83 has achieved a meaningful consensus for carbon reduction by approving the draft IMO Net-Zero Framework – the first-ever global framework that combines mandatory GHG emissions limits with an industry-wide pricing mechanism.[17] Unlike previous meetings that focussed on voluntary targets, MEPC 83 finalised a legally binding draft and will form the basis for further discussion. The sub-working group hopes that China will continue to exert its influence in the upcoming IMO discussion for a sustainable incentive scheme to encourage the development and usage of green fuels.

Recommendation

- Support the preferred reward scheme in future IMO discussions to bridge the price gap between fossil fuel and green fuel.

15 A port service that relies on smaller vessels, know as feeder vessels, to transport cargo between major hub ports and smaller regional ports.

16 *The path to zero-emission shipping: A milestone for the ocean, people and sustainable business*, United Nations Global Compact, 14th April 2025, viewed 21st April 2025, <https://unglobalcompact.org/compactjournal/path-zero-emission-shipping-milestone-ocean-people-and-sustainable-business>

17 Habibic, A, *Aftermath of IMO's net-zero framework: 'Historic' agreement or 'total shipwreck'*, Offshore Energy, 14th April 2025, <https://www.offshore-energy.biz/aftermath-of-imos-net-zero-framework-historic-agreement-or-total-shipwreck/>

Abbreviations

DTHC	Destination Terminal Handling Charges
GHG	Greenhouse Gas
IMO	International Maritime Organization
MEPC 83	The 83rd Session of the IMO's Marine Environment Protection Committee
MOT	Ministry of Transport
NVOCC	Non-vessel Operating Common Carrier
SCFI	Shanghai Containerized Freight Index
SSE	Shanghai Shipping Exchange
US	United States
USTR	US Trade Representative
VAS	Value-added Service

5 Section Five

Financial Services

European Chamber
中国欧盟商会

Financial Services

In 2024, the European Chamber established the Financial Services Working Group to facilitate advocacy coordination and address the horizontal issues European financial institutions (FIs) face in the financial services sector. Issues specific to different segments of the sector are covered by the following sub-working groups:

- Banking and Securities
- Non-banking Financial Institutions
- Insurance
- Asset Management

The Financial Services Working Group welcomes China's continuous efforts to reform and open its financial services sector, and implement policies and measures aimed at developing a sound and sustainable financial industry. Open and constructive exchanges during meetings between Chinese financial regulators and the Financial Services Working Group have been extremely useful in increasing mutual understanding, identifying and addressing issues, and discussing possible regulatory developments to enable European Union (EU) FIs to further contribute to both the Chinese and European real economies.

To this end, the working group continues to recommend establishing a regular meeting programme—with at least one annual meeting each between the working group and the People's Bank of China, the National Financial Regulatory Administration and the China Securities Regulatory Commission—to systematically address issues currently preventing China's financial services industry from reaching its full potential. The working group appreciates opportunities to make progress on issues that substantially affect China's business climate and looks forward to meeting with a wide range of government stakeholders to address remaining issues. A successful meeting with the Ministry of Commerce was held in January 2025 on cross-sectoral multinational corporation issues like onshore borrowing and key performance indicators on attracting foreign direct investment.

The Financial Services Working Group was also able to provide a range of key concerns of European FIs to the Delegation of the European Union to China in preparation for the EU-China High-level Working Group on Financial Cooperation held in May 2025, around a dozen of which were discussed during the meeting. In the following position papers, the working group will highlight these and other concerns, which can broadly be divided into three areas: services to corporates, services to investors and operational sustainability, along with recommendations to address them.

To empower FIs to effectively serve both European and Chinese corporates and contribute meaningfully to the Chinese economy, several targeted reforms are merited. Among others, these include expanding cross-border cash pool schemes, enhancing the accuracy of classification indicators for small and medium-sized enterprises, expediting revision of the *Local Financial*

Supervision and Administration Regulations and increasing the involvement of European FIs in the Carbon Emission Reduction Facility. Such reforms would directly contribute to enhancing operational efficiency and ensuring that FIs can provide services that align with the unique needs of companies operating in the Chinese market.

Additionally, the working group emphasises the importance of better accommodating European investors, thereby enhancing the business case for investment in China. By boosting investor confidence, the investment climate stands to become more favourable, attracting additional foreign capital for long-term market participation. Reforms that would contribute to this objective include allowing European banks' participation in the Southbound Bond Connect Scheme, expanding offshore investment opportunities through a substantial increase in Qualified Domestic Institutional Investors and Qualified Domestic Limited Partnership quotas, and granting European asset management firms improved access to China's pension market across all three pillars.

Ultimately, European FIs must be empowered to operate sustainably in order to effectively serve clients; without this, maintaining a durable and robust presence in China will simply not be possible. Regulations should not hinder their ability to serve clients effectively, and the working group underscores the importance of resolving funding issues for foreign banks and bank branches, clarifying regulations on cross-border data transfer compliance issues and revising the supervisory rating framework for insurance companies.

Despite recent positive developments, these issues represent foremost concerns. The working group continues to observe the decrease in the market share of foreign-invested FIs in China. Most EU FIs in the banking and securities, non-banking finance, insurance and asset management sectors are facing difficulties in growing their activities and implementing business models that achieve minimum economies of scale. This situation is largely due to regulatory constraints and high associated costs, making it substantially more challenging to provide the same complementary products and services that their Chinese peers can by launching their own innovative products.

Members of the working group believe that significant potential for further contributions by European FIs to the real economy exists—including through enhanced cooperation and partnerships with Chinese FIs—to better serve their respective corporate, retail and institutional clients, both in China and overseas. The position papers in this section detail specific proposals for amendments to regulatory rules and guidelines that can help improve the abovementioned areas in terms of development and cooperation.

The Financial Services Working Group and its related sub-working groups look forward to deepening dialogue with Chinese and EU regulators and further contributing to the development of the real economy in both China and the EU.

Asset Management Sub-working Group

Recent Developments

Market Overview

China's asset management market has experienced continuous growth over the last year, with the assets under management (AUM) surpassing Chinese yuan (CNY) 30 trillion in several sectors. Key figures by the end of 2024 include:[1]

- **Wealth Management Companies (WMCs):** CNY 30.27 trillion AUM
- **Public Mutual Fund Management Companies (FMCs):** CNY 31.91 trillion AUM
- **Insurance-affiliated Asset Management Companies:** CNY 30.11 trillion AUM
- **Trust Funds:** CNY 27 trillion AUM
- **Private Equity Funds:** CNY 19.91 trillion AUM

Fixed-income products, favoured for their low risk and stable returns, are dominating the market with close to 70 per cent of the market share,[2] while the level of net management fees continues to decrease across the sector (25–35 basis points for mutual funds and 10–15 basis points for wealth management products), strongly impacting overall profitability. Although established European Union (EU)-backed fund firms have generally been profitable over the last five years, there has been a steady decline in profits. Currently, China is a low interest rate environment, and the yield pivot of cash management products is falling to below two per cent,[3] making a diverse range of available products instrumental for the sector.

The attractiveness of the 'Fixed Income Plus' strategy has grown,[4] and United States dollar (USD)-based products have increasingly gained investors' attention due to their relative return advantage. 2024 was also marked by significant inflows into exchange-traded funds (ETFs).[5] With cross-border business expanding significantly in the south-bound direction,[6] Qualified Domestic Institutional Investors (QDIIs) and Qualified Domestic Limited Partners (QDLPs) witnessed large inflows of capital as onshore investors were motivated by portfolio diversification and a widening spread between CNY and USD yields.[7] For the latter, mutual fund companies and WMCs with European shareholders did not account for a significant portion of the market—respectively 7.5 per cent and less than one per cent—despite their core competitive advantage of being in position to leverage seasoned global teams and asset allocation techniques while potentially generating higher fees.

Regulatory developments

Despite steady growth in AUM in 2024, Chinese regulators have significantly strengthened their oversight over the industry to enhance capability building. The issuance of licenses for bank WMCs has slowed, and only Zhejiang Bank Wealth Management was approved for set-up in 2024.[8] In December 2024, the National Financial Regulatory Administration (NFRA) also instructed wealth management companies to refrain from using self-built valuation models (e.g., using historical average prices to value bonds) to mask market fluctuations and to instead promote net asset value (NAV) transparency.[9] The NAV-

1 *China's economic and industry outlook for 2025*, Deloitte, 2nd January 2025, viewed 17th April 2025, <https://www2.deloitte.com/cn/en/pages/about-deloitte/articles/deloitte-research-issue-95.html>; *China's trust assets expand in second quarter, Xinhua*, 21st November 2024, viewed 17th April 2025, <https://english.news.cn/20241121/a159743a1bf34ebabb2bca0989e16dc3/c.html>; *China's Banking Wealth Management AUM Tops 30 Trillion Yuan, The Asset*, 30th December 2024, viewed 17th April 2024, <https://www.theasset.com/article/53142/china-s-banking-wealth-management-aum-tops-30-trillion-yuan>

2 *Inventory of the Asset Management Market in 2024: Both Wealth Management and Public Offerings Exceeded 30 Trillion Yuan, New Wealth Management*, 20th January 2025, viewed 18th April 2025, <https://www.yanglee.com/research/Details.aspx?i=132272>

3 Ibid.

4 The "Fixed Income Plus" strategy typically includes investments in various fixed-income securities, such as government and corporate bonds, while also allowing for exposure to equities, high-yield bonds and other alternative investments.

5 China's Stock Rescue in Full Swing as ETF Inflows Hit Record, Bloomberg, 14th April 2025, viewed 17th April 2025, <https://www.bloomberg.com/news/articles/2025-04-14/china-s-stock-rescue-in-full-swing-as-etf-inflows-hit-record>

6 Southbound investment refers to the flow of capital from mainland China to Hong Kong through schemes like the Southbound Stock Connect and the Southbound Bond Connect that allow mainland investors to access the city's stock and bond markets.

7 *Fund managers get creative to beat quota squeeze amid Chinese demand for offshore assets, SCMP*, 13th August 2024, viewed 21st May 2025, <https://www.scmp.com/business/banking-finance/article/3274345/fund-managers-get-creative-beat-quota-squeeze-amid-chinese-demand-offshore-assets>; Zhen, S, and Shen, S, *Chinese investors rush abroad, hitting outbound investment limit, Reuters*, 6th March 2024, viewed 21st May 2025, <https://www.reuters.com/markets/asia/chinese-investors-rush-abroad-hitting-outbound-investment-limit-2024-03-06/>

8 *Inventory of the Asset Management Market in 2024: Both Wealth Management and Public Offerings Exceeded 30 Trillion Yuan, New Wealth Management*, 20th January 2025, viewed 18th April 2025, <https://www.yanglee.com/research/Details.aspx?i=132272>

9 *The main line of bank wealth management supervision in 2024: the progress and retreat of low volatility of net value, 21st Century Business Herald*, 3rd January 2025, viewed 28th April 2025, <https://www.21jingji.com/article/20250103/herald/ffcdfa6c50c6c2babafbc6a3f0062e80.html>

based approach is now mandatory, requiring WMCs to ensure the net value of financial products genuinely reflects the risk and return of the underlying assets, and it prohibits the illegal adjustment of net value fluctuations through self-built valuation models, smoothing mechanisms or trust channels.[10]

In March 2025, the General Office of the State Council issued guidelines to encourage financial institutions (FIs) to promote development in five major areas: technology finance, green finance, inclusive finance, pension finance and digital finance.[11] Asset managers are to develop and implement environmental, social and governance (ESG) strategies, increase investment in new energy and low-carbon sectors, and significantly increase the scale of green financial products. Meanwhile, the investment scope of insurance funds has been expanded to increasingly include the science, technology and data industries, thereby supporting the flow of long-term capital to areas of innovation. Asset managers are also required to strengthen their digital capabilities to enhance operational efficiency and compliance.

China officially rolled out the private pension scheme nationwide on 15th December 2024, following a pilot in 36 cities and regions.[12] The tax-incentivised scheme allows the participants to invest up to CNY 12,000 each year in their individual pension accounts. Although the tax incentive for annual investment input is low and will contribute little to long-term capital formation, it marks a significant step in China's pension system reform in the context of an ageing population.

The China Securities Regulatory Commission (CSRC) has also sought to ease concerns for FMCs amid a market downturn and the underperformance of funds by pushing forward the reform of the management fees scheme and reigning in excessive remuneration in the FMCs.[13] Additionally, there is a target to lower the total expenses ratio in order to link the fees to the investment results and to induce more investors into the scheme. Scrutiny by the CSRC has also seemingly intensified following the appointment of Wu Qing as its new chair in February 2024, focussing primarily on excessive compensation and mini funds.[14] In May 2025, Wu announced new metrics in fund performance evaluation to prioritise returns for investors over fund growth, along with a floating fee collection system tied to investment returns.[15] Performance benchmarks will also place greater emphasis on long-term objectives, requiring firms to set three-year investment return targets. Deviations from these targets are expected to account for at least 80 per cent of a fund's performance evaluation.[16] Decreasing fees for asset managers will further reduce profitability, especially for European firms with an already limited market share in China. Nevertheless, the working group welcomes the reform as it will promote market stability and further safeguard investor interests.

Key Recommendations

1. Allow European Asset Management Companies Into the Pension Pilot and Provide Relevant Pension Licences for All Three Pillars

Concern

European asset management companies and their joint ventures (JVs) cannot fully and equally leverage their extensive knowledge and best practices, preventing them from contributing to a more efficient, effective and robust pension system centred on long-term growth and stability.

Assessment

As China continues to develop its pension system, the sub-working group expects authorities to focus on long-term investment strategies and integration of ESG, drawing inspiration from the successful implementation of these increasingly important practices in Europe. By incorporating global best practices, China will be able to build a robust, sustainable and efficient pension system that can provide long-term financial security for its ageing population.

10 *Ibid.*

11 *China's State Council Issues Guidelines on Advancing Key Areas in Financial Sector*, State Council, 5th March 2025, viewed 11th April 2025, <https://english.www.gov.cn/policies/latestreleases/202503/05/content_WS67c855d9c6d0868f4e8f0711.html>

12 *China announces nationwide roll-out of private pension scheme*, State Council, 12th December 2024, viewed 10th April 2025, <https://english.www.gov.cn/news/202412/12/content_WS675a8089c6d0868f4e8ede28.html>

13 Sun, Y, *What Will Be the Trend of the Wealth and Asset management Industry in 2024? What Are the Key Points for the Transformation of Financial Institutions? This Report Reveals the Answers, Interface News,* 12th May 2024, viewed 18th April 2025, <https://www.jiemian.com/article/11161305.html>

14 Yao, K, Cash, J, and Shen, S, *'Firefighter' Wu becomes China's market regulator after rout, Reuters*, 9th February 2024, viewed 30th April 2025, <https://www.reuters.com/markets/asia/firefighter-wu-becomes-chinas-market-regulator-after-rout-2024-02-08/>

15 Dou, S, *China Overhauls Mutual Fund Evaluation to Prioritize Returns, Yicai,* 7th May 2025, viewed 25th June 2025, <https://www.yicaiglobal.com/news/china-tightens-performance-evaluation-for-public-mutual-funds-improves-fee-regime>

16 *Ibid.*

European FIs have developed a strong expertise in long-term, low-risk investment products and were able to provide quality and useful investment solutions to their clients, including at a time when interest rates in the EU were particularly low. Due to their expertise in navigating the complexities of long-term investments and ensuring steady returns, European asset management companies can be instrumental to Chinese pension funds in shaping investment strategies within China's pension system.

European asset management companies have a wealth of knowledge and experience managing pension systems, with billions of AUM in pension products. This global experience can be leveraged to support the development of China's pension system. Unlike other pension systems that are heavily market-driven with a strong emphasis on defined contribution plans and high individual risk exposure, European pension systems prioritise stability, long-term returns and public-private collaboration, offering a more relevant model for China. European asset managers and life insurance companies are eager to develop these services in China, invest in human capital, and support the development of sound and stable long term investment solutions for Chinese investors.

Nevertheless, insurance companies are hindered from making such contributions by the NFRA, which requires them to have been established in China for a minimum of three years before being able to apply for the relevant licences.[17] Furthermore, European FIs aiming to enter the Chinese pension market must navigate a complex array of rules from multiple regulators specific to the different pillars,[18&19] creating a fragmented regulatory framework with significant barriers to entry. The specific factors preventing new managers from being included on approved entity lists are ambiguous, further hindering access and directly contributing to the limited overall dynamism among managers in the pension market, particularly in the second pillar. While the private pension scheme is a step in the right direction, few WMCs have been approved to issue products.

European asset managers can make significant contributions to the localisation of pension management in China, but only if they are permitted to do so. By fostering collaboration, Chinese pension funds can integrate global standards while tailoring them to domestic market conditions, strengthening the sustainability and efficiency of China's pension system. The sub-working group urges the regulators to change existing policies on granting licences for effective access to the different pillars.

Recommendations

- Allow European JV WMCs to join the private pension scheme so they can leverage their experience in the pension segment and grow the size of institutional money and patient capital in the Chinese market.
- Provide European asset management companies with pension licences (relevant for all three pillars) so that they can join their Chinese peers in the development of the pension market.

2. Improve Offshore Investment Opportunities by Expanding the QDII and QDLP Investment Schemes

Concern

European asset management companies possess the capacity for and access to global asset allocation through foreign shareholder capabilities, but limited access to adequate QDII and QDLP quotas hinders scalability in launching innovative and competitive products.

Assessment

Chinese investors increasingly seek comprehensive asset allocation, including domestic and offshore investments. This has led to a surge in demand for high-quality overseas investment products to meet client needs. Diversifying investments reduces the risk associated with exposure to single-market assets. The low correlation between domestic and offshore assets can stabilise portfolios and provide clients with opportunities for growth in international markets. European asset management companies can focus on innovation and competitive advantages in product

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17 *Insurance Law of the People's Republic of China*, National People's Congress, 28th February 2009, viewed 24th April 2025, <http://www.npc.gov.cn/zgrdw/englishnpc/Law/2011-02/15/content_1620648.htm> Article 68 states: "To establish an insurance company, the following requirements shall be satisfied: (1) The principal shareholders of the insurance company having a sustainable capability to make profits, a good credit standing, no record of major violations of laws or regulations in the previous three years and net assets worth not less than RMB 200 million yuan."

18 Sekine, E, and Song, L, 2023, *China's New Private Pension Scheme – Account-based Personal Pensions & Key Tax Incentives*, Nomura Foundation, vol. 7, no. 2, viewed 27th May 2025, p. 9, <https://www.nomurafoundation.or.jp/en/wordpress/wp-content/uploads/2023/03/NJACM7-2SP23-03.pdf>

19 The first pillar refers to the mandatory basic pension, funded by employer and employee contributions; the second includes optional corporate pension schemes, intended to supplement the basic pension of employees, and the third covers additional private pension products for enhanced retirement income.

development. They can utilise insights from major overseas markets to create unique QDII offshore investment products.

Based on analysis of figures released by the State Administration of Foreign Exchange, as of July 2025,[20] several observations can be made regarding QDII quotas for FIs and asset managers in particular:

- The cumulative approved QDII quota for all FIs in China amounted to USD 170.9 billion.
- FIs with exclusively Chinese shareholders received roughly 75 per cent of the quotas, whereas FIs with minority-ownership from the United Kingdom, Canada and United States each received around six per cent, the EU less than four per cent, and both Switzerland and Singapore under two per cent.
- However, the five majority-owned European FIs collectively secured just USD 460 million in QDII quotas, accounting for 0.27 per cent of the total.
- The asset management industry was allocated quotas totalling approximately USD 12 billion. European minority-owned fund companies (with Chinese majority ownership) secured roughly 10 per cent of the total QDII quota allocation industry-wide.
- Two European majority-owned WMCs collectively received USD 100 million, three American majority-owned WMCs received USD 430 million and a British majority-owned WMC received USD 90 million.

Such limited quotas for European FIs do not allow firms to develop sustainable and profitable QDII activity; the minimum sustainable QDII quota level is estimated at USD 400 to 500 million. Once more, despite the substantial size and potential of the EU market, the quota that European FIs in China receive are disproportionally smaller than those granted to institutions from other countries. European asset management companies' competitive positioning and seasoned expertise—especially in investing in Europe—should be considered when allocating future quotas, allowing for greater diversification of portfolios and thereby maintaining strict risk controls. European majority-owned asset managers are particularly well-positioned to make such investment decisions and ensure strict compliance with international regulations, notably of the EU and the US. If European firms are enabled to considerably amplify their QDII activity, this will also have a direct and lasting positive effect on the development of human capital in China, greatly benefitting the overall quality of Europe-bound investment. Unfortunately, firms that desire to expand their businesses still face severe challenges in leveraging their extensive global networks.

On the QDLP side, majority-owned international JV WMCs have not yet been granted any quota. Given that the QDLP quota was only granted to limited partnerships before, granting QDLP to JV WMCs will send a strong signal to the market and asset managers that China is fully committed to the high-quality opening up of its financial industry, therefore encouraging entrepreneurship by newly formed foreign majority-owned entities.

Considering the geopolitical and trade shocks that the international markets experienced at the start of 2025, closer ties between Chinese and European investors and markets stand to be greatly beneficial for the de-risking of investments. For European WMCs with special investment expertise in EU markets, QDLP strategies will focus on investing in underlying European or global funds managed by foreign shareholders. Meanwhile, the new QDLP quota will help Chinese investors diversify their portfolios, particularly by increasing their exposure to European assets to offset the risks associated with current geopolitical uncertainties.

Recommendations

- Provide substantially more offshore investment quotas to European FIs to allow for the sustainable development of QDII activity so foreign asset managers can add value through offshore investment.
- Facilitate the granting of QDLPs for JV WMCs.

3. Improve the Capital Intensive Nature of the Asset Management Industry in China

Concern

The capital-intensive nature of the Chinese asset management market, combined with unclear capital call conditions, complicate the business case for investment in China.

Assessment

The asset management business typically operates as a

20 *Qualified Domestic Institutional Investors (QDIIs) with Investment Quotas Granted by the SAFE*, State Administration of Foreign Exchange, 30th June 2025, viewed 1st July 2025, <https://www.safe.gov.cn/en/2019/0731/1537.html>

capital-light model globally, particularly when compared with banking. However, European asset managers operating in China have noted that the Chinese asset management market is considerably more capital-intensive. Locally, reserves and shareholder equity are viewed as commitments to the business and the country. While European shareholders recognise the necessity of capital allocation to mitigate certain risks, they also perceive the local capital requirements in China as disproportionately high, particularly given the lack of clarity surrounding the conditions under which this capital can be utilised. This capital intensity of the Chinese asset management market may weaken the business case for asset management in China compared to other geographies, especially as foreign asset managers continue to navigate complex operational challenges.

1. The Capital Intensity of the Chinese Asset Management Market

The Chinese mutual fund market is significantly influenced by money market funds, which account for approximately 40 per cent of the total market.[21] The CSRC's *Provisions on the Administration of Liquidity Risk of Publicly Offered Open-end Securities Investment Funds* requires money market fund managers to set aside at least 50 basis points in reserves for every currency unit managed.[22] This reserve accumulation must persist until total money market fund reserves reach one per cent of total assets under management, with no possibility of reclaiming reserves if the asset scale decreases. This 50 basis point capital charge appears considerably higher compared to several European markets. For example, in France, an asset manager must at all times be able to demonstrate only that its capital reserves exceed at least the highest of the two following thresholds:[23]

- **Calculation A:** EUR 125,000 plus 0.02 per cent of the AUM that exceed EUR 250 million. However, the total capital requirement cannot exceed EUR 10 million.
- **Calculation B:** One-quarter of the general operating expenses from the previous financial year.

Given that most mutual fund companies in China manage the equivalent of billions of euros of money market funds, the substantial capital required for money market fund operations poses a barrier to scalability from a shareholder perspective.

In addition to the money market fund reserves, China's Company Law requires mutual fund companies to allocate 10 per cent of their net income annually to surplus reserves until these reserves reach 50 per cent of the registered capital, regardless of their size.[24] For shareholders who have committed substantial capital, these surplus reserves must accumulate to even higher levels compared to those with lower capital commitments.

2. Impact on China's Asset Management Attractiveness

Until recently, the Chinese asset management market was synonymous with growth. Even though it required European firms to exhibit greater flexibility compared to their home markets due to rapidly changing demand, regulations and technology, alongside complex market access and diminished private market forces, it benefited all investors. However, the situation today is more complicated.

The entire industry is now experiencing a lower growth trajectory, driven by net inflows mostly feeding low-margin products such as money market funds and ETFs, eroding margins for local and foreign asset managers. The pressure on revenues has intensified as asset managers have faced the impact of reduced management fees on equity products since 2023.[25] There is also an increasing perception of a need for investments focussed on resilience and the development of a China-specific value chain, which limits the ability of European firms to leverage their global infrastructure and achieve economies of scale. Consequently, European firms often find themselves operating more like local enterprises with foreign shareholders rather than as global entities. Together, the lower growth trajectory, reduced net income margins, higher capital requirements, and the need for additional investments to establish a China-specific value chain complicate the business case for further investments in China when presenting to

21 *Public fund market data (May 2025)*, Asset Management Association China, 26th June 2025, viewed 30th June 2025, <https://www.amac.org.cn/sjtj/tjbg/gmjj/202506/P020250626622640443161.pdf>

22 Article 28 contains the specific reserve requirements for money market fund managers. See: *Provisions on the Administration of Liquidity Risk of Publicly Offered Open-end Securities Investment Funds*, CSRC, 31st August 2017, viewed 22nd May 2025, <https://www.pkulaw.com/en_law/c5b8089c723afb60bdfb.html>

23 *Book III, Title I, Chapter II, Section 1, Article 321-10*, Autorité des Marchés Financiers, viewed 27th June 2025, <https://www.amf-france.org/en/eli/fr/aai/amf/rg/article/321-10/20180103/notes>

24 Article 210 requires companies to mark 10 per cent of annual profits as the company's statutory common reserve, which it may stop doing when the aggregate balance of the common reserve accounts for over 50 per cent of the company's registered capital. See: *Company Law of the People's Republic of China, Xinhua*, 30th December 2023, viewed 22nd May 2025, <https://www.gov.cn/yaowen/liebiao/202312/content_6923395.htm>

25 *China mutual funds cut fees as regulator targets $3.7 trillion sector, Reuters*, 10th July 2023, viewed 30th April 2025, <https://www.reuters.com/business/finance/china-mutual-funds-cut-fees-regulator-targets-37-trillion-sector-2023-07-10/>

European headquarters, which are increasingly drawn to other markets that are less capital intensive and offer less complex environments for them to operate in.

3. Complications Related to Unclear Capital Usage

While European asset managers acknowledge the critical role certain products play in the mutual fund market, such as money market funds, they also emphasise the need for greater clarity regarding the conditions under which their capital can be utilised. In certain instances, it appears that Chinese asset management firms and their shareholders are expected to deploy their capital under vaguely defined extreme scenarios, potentially contradicting the principle of not providing capital protection. It is common practice for investors to accept the risk of potential losses on their investments, with the understanding that there are no guarantees their initial capital will be preserved. However, for example, articles 12 and 32 of the *Measures for the Supervision and Administration of Money Market Funds* suggest requirements for companies and their shareholders to use their capital to provide liquidity support or offset potential losses of money market funds.[26]

Recommendations

- Conduct a detailed comparison of capital regulations between China and European markets to explore the possibility of reducing reserve ratio requirements in China, particularly for money market funds.
- Provide clear guidance regarding the expectations for asset management companies and their shareholders regarding the use of their funds for liquidity support or to cover potential losses.
- Implement measures that allow for the reduction of capital and upstreaming of dividends when there is recurring excess capital and excess cash within corporate structures.

26 For example, Article 32 specifies: "Where a money market fund falls under any of the following circumstances of extreme risks, the fund management institution and its shareholders may, after implementing internal procedures, use their own funds to purchase financial instruments from the money market: [...] (3) It is necessary to purchase risk assets from the money market fund when the absolute value of negative deviation of the money market fund exceeds 0.25%." This indicates that while the investment risk is to be borne by the investors, asset managers "may" still have to use their own capital in case of certain "extreme scenarios", potentially create liabilities for asset managers in events of major market turbulence. See: *Measures for the Supervision and Administration of Money Market Funds*, Law of China, 17th December 2015, viewed 15th April 2025, paid subscription service, <http://lawinfochina.com/Display.aspx?lib=law&Cgid=261551&EncodingName=gb2312>

Abbreviations

AUM	Assets Under Management
CNY	Chinese Yuan
CSRC	China Securities Regulatory Commission
ESG	Environmental, Social and Governance
ETF	Exchange-traded Fund
FI	Financial Institution
FMC	Fund Management Company
JV	Joint Venture
NAV	Net Asset Value
NFRA	National Financial Regulatory Administration
QDII	Qualified Domestic Institutional Investor
QDLP	Qualified Domestic Limited Partner
USD	United States Dollar
WMC	Wealth Management Company

Banking and Securities Sub-working Group

Recent Developments

Since the last position paper was published, the European Chamber's Banking and Securities Sub-working Group has observed a series of positive developments in regulatory and relational spheres. From a regulatory perspective, the European Chamber welcomes the new *Management Measures on Margin Requirements for Non-centrally Cleared Derivative Transactions of Financial Institutions*[1] published by the National Financial Regulatory Administration (NFRA), which considerably enhance the framework for managing collateral for foreign exchange derivatives, aligning it closely with international standards. The sub-working group welcomes the recent joint release of the *Guidelines to Facilitate and Regulate Cross-border Data Flows*[2] by the Cyberspace Administration of China, the NFRA, the People's Bank of China (PBOC), the State Administration of Foreign Exchange (SAFE) and the China Securities Regulatory Commission, reflecting commendable coordination among regulators. The approval of the Anti-money Laundering Law[3] by the National People's Congress and the introduction of new ultimate beneficial owner registration requirements promise to add robustness and transparency to daily operations. Additionally, the Chamber acknowledges the NFRA's and the PBOC's publications on data security.[4]

Looking at European Union (EU)-China bilateral exchanges, 2024 and 2025 have been characterised by increased communication and interaction at both the diplomatic and commercial levels. From the EU-China High-Level Working Group exchanges between Xuan Changneng, deputy governor of the PBOC, and Sean Berrigan, director general of the Directorate-General for Financial Stability, Financial Services and Capital Markets Union; to a financial industry roundtable with European and Chinese banks held in Brussels in May 2025, and the signing of a memorandum of understanding between the PBOC and the European Central Bank in Beijing in June 2025, these events underscore the growing and productive dialogue between Chinese officials and European banks. The sub-working group welcomes these exchanges and looks forward to further strengthening these relationships, which enhance mutual understanding and underscore the complementary roles of Chinese and European banks in bridging both markets.

1 *Notice of the National Financial Regulatory Administration on Issuing the Management Measures on Margin Requirements for Non-Centrally Cleared Derivative Transactions of Financial Institutions*, NFRA, 30th December 2024, viewed 24th April 2025, <https://www.gov.cn/gongbao/2025/issue_11926/202503/content_7013994.html>

2 *Six Departments Issue Document to Promote and Regulate Cross-Border Flow of Data in the Financial Sector,* gov.cn, 17th April 2025, viewed 23rd April 2025, <https://www.gov.cn/lianbo/bumen/202504/content_7019409.htm>

3 *Anti Money Laundering Law of the People's Republic of China,* NFRA, 26th February 2025, viewed 23rd April 2025, <https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=1199538&itemId=927>

4 *Measures for Data Security Management of Banking and Insurance Institutions*, NFRA, 28th December 2024, viewed 23rd April 2025, <https://www.gov.cn/lianbo/bumen/202412/content_6995079.htm>; *Measures for the Administration of Data Security in the Business Areas of the People's Bank of China*, PBOC, 9th May 2025, viewed 17th June 2025, <http://www.pbc.gov.cn/tiaofasi/144941/144957/5702602/index.html>

Key Recommendations

1. Enable European Banks to Support China's Development Strategy by Broadening the Scope of Services Offered to Investors and Corporates in China

1.1 Optimise Services to Large Corporations by Adjusting the Classification Indicators for Micro and Small Enterprises 2

Concern

Subsidiaries of large multinational corporations (MNCs), Chinese state-owned enterprises and leading privately-owned enterprises unfairly qualify for bank fee charge exemptions due to classification indicators that do not indicate the real status of large enterprise subsidiaries.

Assessment

Within the current regulatory framework, micro and small enterprises are exempted from nearly all financing-related bank fee charges, including bilateral loan commitment fees, penalty and funding breakage costs under early repayment and bank acceptance draft exposure management commission, among others.[5] The indicators for what qualifies as a micro and small

5 *Supplementary Notice on Commercial Banks to Further Improve Financial Services for Small and Medium-sized Enterprises*, CBIRC, 25th October 2011, viewed 23rd April 2025, <https://www.gov.cn/gongbao/content/2011/content_2010612.htm>

enterprise are based on a 2011 circular published by the Ministry of Industry and Information Technology (MIIT) and rely heavily on the number of employees to indicate their status.[6] However, due to the impact of automation, this criterion is no longer an accurate reflection of a company's size. Large MNCs usually operate in China under a setup of multiple legal subsidiaries, with a large number considered as a 'micro and small enterprise' under the MIIT criteria. Exempting MNCs from these charges generates numerous unnecessary administrative complexities for MNCs and European banks, and minimises the effect of the support measures for the very companies targeted by the policy, which runs counter to its objectives. Adjusting the classification criteria can help ensure that banks' resources are directed to small businesses, thereby contributing to the development of China's real economy.

Recommendations

- Review the classification standards for micro and small subsidiaries of large enterprises.
- Clarify the scope of business exemption fees in accordance with the most recent guidance from the Ministry of Finance.

1.2 Support Financial Services' Sustainability Efforts by Broadening the Scope of the CERF to Include More Loan Types and Sectors, and Extend the Participation to Include European Bank Branches 4

Concern

Stringent Carbon Emission Reduction Facility (CERF) requirements and limitations on sectors, loan types and participating entities prevent European banks from taking part in the CERF tool, thereby limiting their contributions to China's emissions reduction goals.

Assessment

The CERF aims to support enterprises registered in China—mainly in the field of clean energy, energy saving and carbon abatement technology—to meet their pledges of achieving carbon neutrality targets by 2060. Although locally incorporated European banks' projects are eligible to participate in the CERF, only six have been approved by the PBOC, compared with 8,583 for domestic banks.[7] This is due to the different types of customers and financing models of European banks. Currently, the CERF only supports original loans for the development and construction of qualified greenfield projects. However, if the borrowers are either the suppliers of the project owner or leasing companies, the PBOC will reject the application to use the CERF. Refinancing loans and working capital loans are also not covered in the current scope of the CERF. European banks' contributions to onshore carbon emission reductions are often carried out through the abovementioned business model. The sub-working group recognises that the pilot programme's expansion of the scope of the CERF in Shanghai is meaningful in its support for areas such as process improvement and optimisation. However, very few MNCs have initiated significant projects in Shanghai, and some European banks are still excluded from certain programmes.[8]

In addition, international banks provide working capital loans to many qualified CERF projects, but the current policy only supports fixed asset term loans for project development and initial work capital outlay before operation, which does not include subsequent additional work capital needs after the project enters operation. Working capital is an indispensable element to ensure the normal operation of eligible projects and to maximise projects' impact on carbon emissions reduction. In this respect, working capital loans are just as important as fixed-asset project loans and should be included in the scheme.

Furthermore, CERF funding is disbursed at 60 per cent of the principal of the carbon reduction loan, with a maximum term of three years (initial term of one year, extendable twice).[9] However, the term of specific project loans is mostly five years or more, creating a mismatch

6 *Notice on Issuing the Regulations for Classification Standards for Small and Medium-sized Enterprises,* MIIT, 18th June 2011, viewed 23rd April 2025, <https://www.gov.cn/zwgk/2011-07/04/content_1898747.htm>

7 This is an aggregate of all the CERF information disclosure reports from financial institutions in the facility collected by member companies internally. For an example of a CERF information disclosure report, see: *Information Disclosure of Carbon Reduction Loans from Bank of China*, BOC, 25th June 2025, viewed 8th August 2025, https://www.boc.cn/cbservice/bi2/202506/t20250625_25395108.html>; *Deutsche Bank's Disclosure on Carbon Emission Reduction Loans*, Deutsche Bank, Q3 2023, viewed 25th April 2025, <https://country.db.com/china/documents/DB-China-Carbon-Reduction-Disclosure-2023-Q3-Final.pdf?language_id=3>

8 Although the publication of the *Notice on Expanding the Scope of Carbon Emission Reduction Support Tools in Shanghai's Pilot Programme* has been mentioned in Chinese media, the document does not seem to be publicly available. *[Green Finance] Enriching Shanghai's Green Financial Product System to Steadily Advance Low-Carbon Transition and Development*, Sina Finance, 6th March 2025, viewed 25th April 2025, <https://finance.sina.com.cn/roll/2025-03-06/doc-inensrzp6918587.shtml>

9 *The People's Bank of China Introduces Carbon Emission Reduction Financing Facility,* People's Bank of China, 8th November 2021, viewed 24th April 2025, <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4384185/index.html>

in the terms between the funds provided by the PBOC and the bank's project loans. This is also a serious issue for European bank branches that do not have equal access to apply for the facility, as it hinders their ability to support clients' green financing demands and compete in the market.

Recommendations

- Include within the scope of the CERF:
  - leasing companies and/or suppliers of the project owners as borrowers;
  - working capital loans provided after project completion for the operation of eligible projects; and,
  - refinancing and ongoing working capital loans.
- Broaden the scope of the CERF to include leasing and foreign bank branches.
- Extend the PBOC Shanghai pilot extension programme to all foreign banks and align it with national schemes.

1.3 Enhance the Service Offering to Local Investors by Allowing European Banks to Participate in the Southbound Bond Connect Scheme 2

Concern

European institutions are ineligible to invest in the Hong Kong bond market through the Southbound Bond Connect scheme, which restricts them from bringing liquidity to the market and facilitating domestic institutions' bond issuance in the offshore market.

Assessment

The Southbound Bond Connect scheme, launched in September 2021, allows Chinese mainland investors to invest in Hong Kong's bond market to encourage more credit issuance in Hong Kong.[10] Through this scheme, onshore investors are likely to find investment opportunities in offshore G3 bonds issued by European issuers. They are also able to gain diversification value in bonds supplied by issuers outside the Chinese mainland through offshore *renminbi* (RMB) bonds.

European banks have a sophisticated bond investment track record and rigid risk management frameworks that cover both domestic and overseas issuers. This has given them a unique understanding of both onshore and offshore markets, which can be leveraged to bring more liquidity to the international market. In addition, European banks can leverage their diversified and mature clientele to facilitate domestic institutions' bond issuance in the offshore market and can further boost the Dim Sum bond market.

However, one prerequisite for participation in the scheme is Open Market Operation (OMO) dealership certification. While the PBOC has tentatively defined the investor scope for the Southbound Bond Connect to include 41 banks that have been recognised as OMO dealers, no Chinese subsidiaries of European banks are currently eligible to participate in the scheme.

The sub-working group has observed that some Chinese securities companies have received approval to participate in the scheme without OMO dealership qualifications, but no such exemption has yet been granted to European banks.

Recommendation

- Allow European banks to participate in the Southbound Bond Connect Scheme independently of OMO dealership certification.

1.4 Improve Access to Onshore Markets by Allowing More Foreign Banks to Become Bond Connect Market Makers Without the Precondition of Being a Chinese Interbank Bond Trial Market Maker 6

Concern

Foreign banks encounter difficulties in qualifying to become Bond Connect market makers, which limits their ability to serve their offshore clients' needs for bond price quotes through this channel.

Assessment

Foreign banks in China often have stricter compliance requirements and smaller balance sheets than their Chinese peers, making it difficult to compete on bond-trading turnover and inventory size. However, foreign banks usually have bigger overseas client bases that are eager to trade with them via Bond Connect, as well as to get market updates and recommendations to access the onshore China Interbank Bond Market. Therefore, difficulties qualifying to become a Bond Connect market maker limit foreign banks' ability to

10 *Notice of the People's Bank of China on Carrying out Southbound Cooperation by Connecting the Bond Markets of the Mainland and Hong Kong*, PBOC, 14th September 2021, viewed 24th April 2025, <https://www.gov.cn/zhengce/zhengceku/2021-09/15/content_5637530.htm>

develop business and bring investment into China.

Recommendation

- Grant more qualified foreign banks the status of Bond Connect market makers without requiring them to first become a Chinese Interbank Bond trial market maker.

1.5 Release Clear Qualification Requirements for Foreign Banks Applying to Trade China Government Bond Futures 2

Concern

Unclear qualification requirements for foreign banks that wish to trade China government bond futures affect their application success rates.

Assessment

On 14th February 2020, the Ministry of Finance and the China Securities Regulatory Commission launched a pilot programme for eligible commercial banks and insurance companies to trade China government bond futures on the China Financial Futures Exchange.[11] On 28th February 2024, the State Council released the *Action Plan for Promoting High-level Opening-up through Attracting and Utilising Foreign Investment,* which aims to promote the participation of qualified foreign bonds in the treasury bond futures pilot.[12] However, the requirements and timeline for application remain unclear to foreign banks and, as of May 2025, only one foreign bank has successfully participated in this pilot.

European banks have sophisticated futures trading frameworks and associated risk controls. If allowed to trade on this market as another subset of participants, they can provide more liquidity to the bond futures market, thereby diversifying the participant base. By leveraging their more advanced risk management tools for bond futures, European banks can also help to further attract offshore investors into the Chinese bond market. In addition, the resulting increased experience sharing between European banks and domestic participants can boost the development of the bond futures market in China.

Recommendation

- Release clear qualification requirements and a timeline for foreign banks that wish to trade China government bond futures.

1.6 Relax Restrictions on Foreign Banks' Participation in Several Cross-border Cash Pooling Schemes

Concern

Several cross-border cash pooling schemes governed by the PBOC and the SAFE restrict European banks from operating their cash pooling business from their branch locations, thereby preventing them from supporting cross-border liquidity management solutions.

Assessment

The PBOC's RMB cross-border cash pooling scheme is available throughout the whole country.[13] As it has no restriction on the registration location of banks or companies, this flexibility favours foreign banks that do not have a wide network in China, because they can leverage existing branches to support corporate clients registered in any area of China. Currently, most of the existing cross-border cash pools are under this scheme, making it a vital component for the cash management business of European banks, as well as for many MNCs' cross-border liquidity management. While the sub-working group understands that this scheme has been suspended in the pilot areas for integrated RMB and foreign currency cash pooling, it recommends keeping it open nationwide.

Meanwhile, three other cross-border cash pools are managed by the SAFE: the nationwide SAFE cross-border cash pooling scheme launched in 2012 and currently regulated under the *Notice of the State Administration of Foreign Exchange on Issuing the Regulations on the Cross-border Capital Pooling Operations of Multinational Companies*;[14] the pilot

11 *Announcement on Commercial Banks and Insurers' Participation in the Trade of Treasury Bond Futures in the China Financial Futures Exchange,* CSRC, 14th February 2020, viewed 24th April 2025, <https://www.gov.cn/zhengce/zhengceku/2020-02/22/content_5481947.htm>

12 *Notice of the General Office of the State Council on Issuing Action Plan for Promoting High-level Opening-up through Attracting and Utilising Foreign Investment*, State Council, 19th March 2024, viewed 23rd April 2025, <https://www.gov.cn/zhengce/content/202403/content_6940154.htm>

13 *Notice of the People's Bank of China on Further Facilitating Cross-border, Two-way RMB Cash Pooling Business for Multinational Enterprise Groups*, PBOC, 5th September 2015, viewed 23rd April 2025, <http://www.pbc.gov.cn/tiaofasi/144941/3581332/3588245/index.html>

14 *Notice of the State Administration of Foreign Exchange on Issuing the Regulations on the Cross-Border Capital Pooling Operations of Multinational Companies,* SAFE, 15th March 2019, viewed 23rd April 2025, <https://www.gov.cn/gongbao/content/2019/content_5404162.htm>

programme of integrated RMB and foreign currency cash pooling, initiated in Beijing, Shenzhen and Guangdong;[15] and the advanced version of the pilot programme of integrated RMB and foreign currency cash pooling initiated in 2021 and now available in more than 20 provinces and cities, including Shanghai and Beijing.[16] These three schemes require that the operating bank be registered in the same province as the master company. With the continuous development of various domestic economic zones in China, many companies have adopted a multi-centre strategy for corporate management deployment to better utilise the geographical and talent advantages in different cities. Therefore, within the existing requirements, companies are constrained in their ability to handle business and enjoy differentiated preferential policies where management functions are located. Meanwhile, the limited network of European banks across China also restricts their ability to serve corporate clients. A relaxation in the restrictions on the same registration location of the bank and master company could enable European banks to facilitate the establishment of cross-border liquidity management solutions for corporate clients, especially between China and Europe. If the restrictions cannot be relaxed nationwide, then the Banking and Securities Sub-working Group recommends starting from selected pilot provinces/cities with a strong presence of foreign-invested enterprises.

Finally, the Shanghai Free Trade Zone (FTZ) cross-border RMB cash pooling and the full-function cross-border cash pooling, both applicable to entities registered in Shanghai and/or the FTZ only, are now under review by the PBOC Shanghai.[17] New applications have been suspended since 2024. While the sub-working group understands that the goal of the review is to establish a more detailed governance framework and eliminate potential risks, this may block certain companies from applying to these schemes for their normal cross-border liquidity management purposes. Therefore, the sub-working group calls for these two schemes to be reactivated for new applications within 2025.

Recommendations

- Keep the PBOC's cross-border cash pooling scheme open nationwide.
- Relax requirements related to having the same registration location for the bank and master company in the cross-border cash pooling schemes under the State Administration of Foreign Exchange.
- Re-open the Shanghai Free Trade Zone RMB and the full-function cross-border cash pooling schemes to applications from compliant banks and corporates.

1.7 Remove Cap Limits on Repo and Reverse Repo

Concern

Requirements that the balance of bond repo and reverse repo of a depository financial institution shall not exceed 80 per cent of its net assets at the end of the previous quarter hinder foreign banks from promoting RMB bonds and attracting onshore investments.

Assessment

The PBOC's *Notice on Regulating Bond Repo Business of Financial Institutions* and subsequent rules stipulate that the balance of bond repos (including repos and reverse repos) of financial institutions shall not exceed 80 per cent of their net assets at the end of the previous quarter.

In the case of foreign financial institutions, these restrictions negatively affect their ability to expand their RMB bond activities, thereby hindering them from attracting onshore investments.

15 *Notice of the Beijing Foreign Exchange Administration Department of the State Administration of Foreign Exchange on Issuing the Regulations on Cross-Border Integrated RMB and Foreign Exchange Fund Pooling Operations for Multinational Companies (Pilot),* SAFE Beijing, 30th June 2023, viewed 23rd April 2025, <https://www.safe.gov.cn/beijing/2023/0630/2161.html>; *Notice of the Shenzhen Foreign Exchange Administration Department of the State Administration of Foreign Exchange on Issuing the Regulations on Cross-Border Integrated RMB and Foreign Exchange Fund Pooling Operations for Multinational Companies (Pilot)*, SAFE Shenzhen, 4th July 2023, viewed 23rd April 2025, <https://www.safe.gov.cn/beijing/2023/0630/2161.html><https://www.safe.gov.cn/shenzhen/2023/0704/1524.html>; *Notice of the Guangzhou Foreign Exchange Administration Department of the State Administration of Foreign Exchange on Issuing the Regulations on Cross-Border Integrated RMB and Foreign Exchange Fund Pooling Operations for Multinational Companies (Pilot)*, SAFE Guangzhou, 30th June 2023, viewed 23rd April 2025, <https://www.safe.gov.cn/guangdong/2023/0630/2573.html>

16 *PBOC and SAFE Further Expand the Pilot Program of Integrated RMB and Foreign Currency Cash Pooling for Multinational Corporations,* PBOC, 13th March 2025, viewed 23rd April 2025, <http://www.pbc.gov.cn/en/3688110/3688172/5552468/5628459/index.html>

17 *Circular of the Shanghai Headquarter of the People's Bank of China on Supporting the Expansion of the Cross-border Use of Renminbi in the Pilot Free Trade Zone of China (Shanghai),* Shanghai Finance, 1st July 2015, viewed 23rd April 2025, <https://jrj.sh.gov.cn/ZCWJ158/20150701/0031-104586.html>; *Notice on Further Expanding FTZ Cross-Border Financial Services to Support Sci-Tech Innovation and the Real Economy,* PBOC, 23rd November 2016, viewed 23rd April 2025, <http://shanghai.pbc.gov.cn/fzhshanghai/115486/115511/3195832/2016112309522798708.pdf>

Recommendation

- Remove cap limits on repo and reverse repo.

2 Support European Banks' Growth by Enabling Better Funding and Liquidity Management and Optimising Financial Ratios

2.1 Improve Foreign Bank Branches' Access to Short-term Funding in China 18

Concern

Foreign banks and bank branches, which act as global liquidity insurers, are limited in their ability to grow due to funding constraints.

Assessment

Foreign bank branches in China act as gateways, helping EU companies enter the Chinese market and helping Chinese companies to explore opportunities in Europe. Their ability to play this role, however, is restricted by their limited operational setup, which constrains their access to competitive onshore funding. As such, the sub-working group calls on regulators to reduce constraints on foreign bank branches in China by expanding their access to competitive onshore funding through two levers: either directly via the interbank market, or via the issuance of negotiable certificates of deposits (NCDs). Improving access to the interbank market short-term funding via the China Foreign Exchange Trade System (CFETS) can be achieved by easing the 'two times capital' interbank funding limit set forth in Article 25 of the PBOC's *Measures for the Administration of Interbank Lending*.[18] Regulators could also relax the financial requirements to access the CFETS Market Interest Rate Self-Regulatory Framework, a key prerequisite for banks to be able to issue NCDs.[19]

Recommendations

- Improve foreign banks' access to short-term funding in China by:
  - easing the 'two times capital' interbank funding limit set forth in Article 25 of the PBOC's *Measures for the Administration of Interbank Lending*; and,
  - easing the financial requirements to access the China Foreign Exchange Trade System Market Interest Rate Self-regulatory Framework.

18 *Measures for the Administration of Interbank Lending*, PBOC, 3rd July 2007, viewed 23rd April 2025, <http://www.pbc.gov.cn/en/3688235/3688609/3688615/3926198/index.html>

19 *Access to the Market Interest Rate Pricing Self-Regulatory Framework goes through a Qualified Prudential Assessment. The most stringent conditions relate to financial ratios and pricing governance. See: Implementation Measures for Qualified Prudential Assessment (Revised in 2023),* China Foreign Exchange Trade System, 10th April 2023, viewed 23rd April 2025, <https://www.shibor.org/chinese/gg/20230410/2592198.html>

2.2 Re-evaluate Classifications of Capital and the Weight of Self-issued Bonds in Liquidity Matching Ratio Calculations 2

Concern

The classification of Tier 1 capital, the weight given to self-issued bonds and certificates of deposit with remaining tenor of less than three months, and the classification of financial companies under corporate groups as 'financial institutions' rather than 'corporates' discourage European banks from diversifying their funding sources.

Assessment

According to the *Administrative Measures on Liquidity Risk of Commercial Banks*, banks must maintain a liquidity matching ratio (LMR) of over 100 per cent.[20] However, easing some constraints on the local liquidity ratio could greatly improve the development of banks' corporate lending capabilities for local clients.

For example, in the LMR, Tier 1 capital is neither classified as a stable source of funds nor included in the calculation of the loan-to-deposit ratio as a source of funds.[21&22] In practice, Tier 1 capital is a stable source of funds used by foreign banks to provide corporate loans. Furthermore, within the LMR, 'interbank lending' does not distinguish between intragroup and external interbank lending, even though the source of funding for these two types is different.[23] In addition, in the LMR calculation, the weight of self-issued bonds and certificates of deposit with a remaining tenor of less than three months is zero per cent. This is consistent with the weight for interbank lending of the same

20 *Measures to Manage Liquidity Risks for Commercial Banks, CBIRC*, State Council, 23rd May 2018, viewed 23rd April 2025, <https://www.gov.cn/gongbao/content/2018/content_5312246.htm>

21 Tier 1 capital describes the capital adequacy of a bank and refers to core capital that includes equity capital and disclosed reserves. From a regulator's point of view, Tier 1 capital is the core measure of the financial strength of a bank because it is composed of core capital. See: Grant, M, *What Is Tier 1 Capital?*, Investopedia, 13th March 2023, viewed 23rd April 2025, <https://www.investopedia.com/terms/t/tier1capital.asp>

22 *Assessment of Basel NSFR regulations – China,* Bank for International Settlements, November 2019, viewed 5th August 2025, <https://www.bis.org/bcbs/publ/d480.pdf>

23 Intra-group funding is more stable than interbank funding given the relation between the subsidiary and its parent entity.

maturity. This discourages European banks both from issuing bonds and interbank deposit certificates, and from diversifying their funding sources.

Recommendations

- Treat local Tier 1 capital as a stable source of funds in the LMR and treat deposits from the head office or parent company as corporate deposits.
- Give intragroup funding the same value as 'corporate deposits' in the LMR.
- Distinguish between funding sources from intragroup and external interbank borrowing when calculating 'interbank lending' in the LMR.
- Increase the weight of bonds and certificates of deposit with a remaining tenor of less than three months in the LMR calculation.

2.3 Ease Monitoring Requirements for ICNCO Ratios 2

Concern

Cross-border funding controls and the treatment of certain deals as capital cashflow movements block normal deals between onshore foreign banks and their headquarters, thereby discouraging shareholder investment in China.

Assessment

To comply with regulatory provisions for liquidity management,[24] European banks are required to monitor their cross-border net capital outflow (ICNCO) ratios daily. If the ratio reaches 25 per cent, European banks must report the deviation to the regulatory authorities. While the sub-working group understands the need for cross-border funding regulations aimed at regulating capital outflow, normal money market deals between onshore European banks and their parent companies are also treated as capital outflow and are thereby limited by controls on the ICNCO. Categorising and limiting normal money flows between parent companies and Chinese subsidiaries brings uncertainty to headquarters regarding access to future returns on investment.

Recommendation

- Ease monitoring requirements for the ICNCO ratio for intragroup cross-border payments.

24 *Measures to Manage Liquidity Risks for Commercial Banks*, CBIRC, State Council, 23rd May 2018, viewed 23rd April 2025, <https://www.gov.cn/gongbao/content/2018/content_5312246.htm>

2.4 Allow Flexibility in Deposit Pricing Assessments for Smaller European Banks and Allow Banks to Justify Their Deposit Deviations on a Case-by-Case Basis 6

Concern

The close control exercised over many ratios, including the loan-to-deposit ratio and the deposit deviation ratio (DDR), disrupts foreign banks' daily activities.

Assessment

Banks in China must undergo assessments of their deposit business and comply with several deposit-related ratios, including the DDR.[25] For European banks with a smaller deposit base, complying with these requirements impacts both their business and the quality of service they can offer to clients.

The DDR, monitored at the end of each month, compares banks' deposit size at the end of the month with the daily average size during the calendar month. This is intended to prevent banks from unfairly collecting client deposits at the end of each month. In comparison to local Chinese banks, European banks have a significantly smaller deposit scale. This creates challenges in managing the month-end DDR because changes in the deposit balance of a single client can have a significant impact on the overall deposit balance. Thus, European banks may have to sacrifice customer deposit needs and service quality to meet DDR requirements or face regulatory penalties such as access restrictions, downgraded ratings, business restrictions and even stricter DDR requirements.

In addition to the DDR, the deposit pricing assessment results impact the annual prudential assessment of each bank. The assessment requires each bank to benchmark the interest rate of its term deposits and certificates of deposit with its own weighted average interest rate of one-year, two-year, three-year, and five-year term deposits and certificates of deposit during the second quarter.[26] If the decrease in the interest rate of a certain tenor during the assessment period is too great, points will be deducted during the assessment. European banks' deposit business is relatively concentrated in a small number of clients, particularly for long-term deposits. These large clients serviced by

25 *Ibid.*

26 The assessment and scoring criteria, published every year, are not publicly available.

European banks are sensitive to deposit prices and may choose to pull their deposits out if pricing is not favourable. This creates a dilemma for European banks with a smaller deposit balance, as they must maintain deposit stability while also meeting assessment scoring requirements.

Recommendations

- Allow flexibility in the deposit pricing assessment for smaller banks.
- Waive the deposit deviation ratio requirement for banks with smaller balance sheets.

2.5 Allow More Locally Incorporated European Banks to Become OMO Primary Dealers 2

Concern

European banks' access to OMO primary dealership certification is restricted, which hinders the implementation of monetary policy and limits opportunities for interbank business development.

Assessment

An OMO is an activity by a central bank to give (or take) liquidity in its currency to (or from) a bank. The central bank can either buy or sell securities in the open market or enter into a repo or securities lending transaction with other banks. Central banks usually use OMOs as the primary means of implementing monetary policy through steering interest rates, managing the amount of liquidity in the financial system and signalling their monetary policy stance. 'Primary dealers' are commercial banks and security firms approved for OMO participation by the PBOC.

Of the 49 financial institutions that have been granted OMO dealerships, only one is European.[27] This lack of OMO dealerships also impacts the ability of European financial institutions to participate in other schemes, such as the Southbound Connect.

Recommendation

- Allow more locally incorporated European banks to become OMO primary dealers.

3. Refine and Optimise Regulatory Frameworks to Foster Greater Operational Efficiency for European Banks

3.1 Allow Cross-border Intra-group Data Flows and Facilitate Cross-affiliate Information Sharing 6

Concern

The current 'one-size-fits-all' approach to data regulation imposes unreasonable compliance costs and burdens on financial institutions' global operating models.

Assessment

The Chinese regulations on cross-border data transfer (CBDT) are embedded in a broader framework encompassing the currently under-review Cybersecurity Law, the Data Security Law and the Personal Information Protection Law, as well as associated implementing and industry-specific measures.[28] These stringent regulatory requirements on CBDT put foreign financial institutions' global operating models at risk while increasing their operational risks and associated costs. They also constitute substantial barriers to market entry and sustainable business growth. One of the main challenges is the regulatory divergence across jurisdictions on data frameworks. For instance, some differences between the EU's General Data Protection Regulation (GDPR) and China's regulatory requirements for CBDTs include the following:[29]

- The binding corporate rules under the GDPR allow MNCs to transfer personal data internationally within the same corporate group.
- There are 'derogation provisions' specified in the GDPR, such as 'consent' and 'necessary for the performance of the contract' that make it possible to still carry out a transfer with explicit consent from the individual, even if there are binding corporate rules.
- There are no security assessments and standard

27 *Notice on Open Market Operation*, PBOC, 27th March 2019, viewed 24th April 2025, <http://www.pbc.gov.cn/zhengcehuobisi/125207/125213/125431/125469/3795508/index.html>

28 *Provisions on Standardising and Facilitating Cross-Border Data Flow*, Cybersecurity Administration of China (CAC), 22nd March 2024, viewed 23rd April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>; *Notice on Soliciting Public Feedback on the Cybersecurity Law of the People's Republic of China (Draft Amendment for Review)*, CAC, 28th March 2025, viewed 23rd April 2025, <https://www.cac.gov.cn/2025-03/28/c_1744779434867328.htm>; *Data Security Law of the People's Republic of China*, NPC, 10th June 2021, viewed 23rd April 2025, <http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html>; *Personal Information Protection Law of the People's Republic of China*, NPC, 29th December 2021, viewed 23rd April 2025, <http://en.npc.gov.cn.cdurl.cn/2021-12/29/c_694559.htm>

29 *General Data Protection Regulation*, 27th April 2016, viewed 23rd April 2025, <https://gdpr-info.eu/>

contract filing procedures administered by government authorities under the GDPR.

The April 2025 *Guidelines for Promoting and Regulating Cross-border Data Flow Compliance in the Financial Industry* are a positive step towards resolving the remaining CBDT issues in the banking and securities industries, particularly by defining CBDT transfer scenarios as 'necessary' for a majority of banks.[30] However, compatibility with the EU GDPR and the security assessment procedures can still be enhanced and simplified.

Recommendations

- Ensure coordination between various regulators responsible for data protection to promote clear compliance requirements and ease operational burdens.
- Allow more flexibility in the security assessment and standard contract requirements for the cross-border transfer of personal information.
- Simplify requirements for intra-group, cross-border data transfers.

3.2 Create the Conditions that Allow European Financial Institutions to Develop and Implement their Digitalisation Initiatives Sustainably 3

Concern

Localisation requirements incur high costs and prevent international financial institutions from leveraging their parent companies' overseas capabilities for the Chinese market, negatively impacting both their competitiveness and the quality of their services.

Assessment

Rapid technological advancements and evolving client needs have drastically increased the requirements for significant digitalisation within financial institutions. However, under the current Chinese regulatory framework, international financial institutions in China cannot efficiently leverage their parent companies' overseas capabilities (such as servers, software and data) and instead must localise most of their information technology (IT) systems and services. Unlike their large Chinese competitors, these specific developments result in significant investments and operating costs that can be difficult to justify economically for comparatively small subsidiaries and branches of European financial institutions in China.

Public Cloud

Adoption of cloud technology can greatly reduce the costs associated with maintaining banks' digital infrastructure by reducing expenses related to hardware maintenance and allowing groups to use the same data storage system. These cost savings would allow banks to allocate more funds to core business activities. However, there is uncertainty as to whether European banks are permitted to secure their data on public clouds outside of China and use internal group business systems for data storage. There is also a lack of criteria and relevant certification for approved local cloud service providers that European banks may cooperate with when designing their data security systems. Further guidance needs to be issued on the evaluation processes for a cloud provider's risk management measures.

Private Cloud

As public cloud regulation remains unclear and digitalisation needs continue to evolve, current policies require the use of private clouds by each financial institution. This requirement is a significant cost for European financial institutions with significantly smaller balance sheets than large domestic players – an issue shared with smaller Chinese banks. However, while this is an issue faced by all small players, European financial institutions, which play an extensive role in cross-border business, are disproportionately affected by the pressures posed by increasing demand for such services and the high costs associated with onshoring IT systems. As digitalisation demands rise, unaffordable solutions may render European players unable to serve their clients well and could force them out of the Chinese market altogether.

Artificial Intelligence (AI)

European banks at the group level are leveraging generative AI capabilities offered by global public cloud providers to develop innovative applications for client services or operational efficiency. Uncertainties relating to the use of global public clouds hinder European banks' access to these technologies for their business in China and may lead to a loss of competitiveness relative to local banks that can utilise domestic clouds

30 *Six Departments Issue Document to Promote and Regulate Cross-Border Flow of Data in the Financial Sector*, gov.cn, 17th April 2025, viewed 23rd April 2025, <https://www.gov.cn/lianbo/bumen/202504/content_7019409.htm>

to deploy AI-driven solutions more quickly. Furthermore, this puts European institutions at a disadvantage when serving their clients in China.

Recommendations
- Provide clear guidance on public cloud usage, including data storage and protection requirements, security measures and assessment methods.
- Provide certification to qualified financial industry cloud computing service providers and detailed guidelines for implementation.
- Allow European banks to use group business systems and internal office systems when information/data has been properly secured.
- Allow European financial institutions and small Chinese institutions to enter into service-level agreements with large Chinese banks or companies when the use of public cloud or group cloud services is not permitted.
- Allow multiple European financial institutions operating in China to pool resources and jointly develop a private cloud that allows the sharing of common IT systems when the use of public cloud or group cloud is not permitted.
- Allow European banks to use public cloud services outside of the Chinese mainland and to leverage AI capabilities offered by global public cloud service providers.
- Allow the usage of intra-group IT infrastructure for European banks.

3.3 Align Financial Reporting Requirements to Reduce Operational Burdens for European Financial Institutions

Concern

Multiple reporting guidelines and systems across financial regulators place heavy operational burdens on banks and bank branches.

Assessment

Information must often be duplicated across systems with small changes required. This places a significant strain on daily operations, in particular those of smaller banks and bank branches with limited resources. For instance, on average, European banks deal with more than 40,000 regulatory reports per year. Many of the duplicated reports are required by regulators across different cities, or they are required by different regulators. There are also numerous overlapping reports covering off-site surveillance and supervisory data standardisation required by the NFRA.[31]

Recommendation
- Harmonise, reduce and streamline duplicate reporting requirements, systems, locations and/or formats across regulators to reduce operational burdens for financial institutions.

Abbreviations

AI	Artificial Intelligence
CBDT	Cross-border Data Transfer
CERF	Carbon Emission Reduction Facility
CFETS	China Foreign Exchange Trade System
DDR	Deposit Deviation Ratio
EU	European Union
FTZ	Free Trade Zone
GDPR	General Data Protection Regulation
ICNCO	Intra-group Cross-border Net Capital Outflow
IT	Information Technology
LMR	Liquidity Matching Ratio
MIIT	Ministry of Industry and Information Technology
MNC	Multinational Corporation
NCD	Negotiable Certificate of Deposit
NFRA	National Financial Regulatory Administration
OMO	Open Market Operation
PBOC	People's Bank of China
RMB	*renminbi*
SAFE	State Administration of Foreign Exchange

31 Off-Site Surveillance Reports (1104) and Supervisory Data Standardisation (EAST) are both part of the CBIRC's three key regulatory reporting modules for banks. See: *A Complete Guide to [1104 + Customer Risk + EAST]: [Definitions, Reporting Content, Validation Rules & Regulatory Significance]*, Shangye Xinzhi, 13th January 2021, viewed 23rd April 2025, <https://www.shangyexinzhi.com/article/3210232.html>

European Chamber
中国欧盟商会

Non-banking Financial Institutions Sub-working Group

Recent Developments

During the 2025 National People's Congress, the Chinese Government set an economic growth target of around five per cent while running a budget deficit of approximately four per cent of the country's gross domestic product. In addition, boosting consumption and investment were designated key priorities in the Government Work Report delivered by Premier Li Qiang. Measures to support consumption include issuing Chinese yuan (CNY) 300 billion to support consumer goods trade-in programmes, changing the employee annual leave system to expand consumption in culture, tourism and sports, and increasing the supply of social support services for the elderly and childcare. CNY 735 billion was also earmarked for investment, simplifying approval processes and strengthening investment in the service sector. Two other key targets for 2025 include keeping the urban unemployment rate at around 5.5 per cent and creating over 12 million new urban jobs.[1]

Regulatory Updates for Non-banking Financial Institutions

On 18th March 2024, the *Management Measures for Consumer Finance Companies* were published, entering into force on 18th April of the same year.[2] The rules raise the access threshold for consumer finance companies by requiring that the main investor hold a 50 per cent stake, up from 30 per cent, and by raising the minimum level of capital. The rules also include measures aimed at enhancing the protection of consumer rights.[3]

On 14th September 2024, the National Financial Regulatory Administration (NFRA) unveiled the *Management Measures for Financial Leasing Companies*, which entered into force on 1st November.[4] They are aimed at maintaining strict oversight and risk control over Non-banking Financial Institutions (NBFIs) by mandating that the loan loss reserve be no less than 2.5 per cent of gross financial lease receivables, or requiring financial lessors to make annual public disclosures on their financial, operational and governance information, among other measures.[5]

On 24th January 2025, the NFRA released the *Supervisory Rating Measures for Financial Leasing Companies*. The document includes adjustments in the elements included in the rating criteria, a refined tiered rating system, optimised processes and strengthened links between rating results and market access procedures.[6]

Key Recommendations

1. Expedite Publication of the Draft Local Financial Supervision and Administration Regulations 4

Concern

Delays in finalising the draft *Local Financial Supervision and Administration Regulations* have resulted in significant uncertainty over new requirements for European businesses, leaving them unable to develop long-term operational and business strategies.

Assessment

Although China has made progress in enhancing its regulatory framework following the establishment of the NFRA, commercial leasing companies still face challenges. For example, while the December 2021 *Local Financial Supervision and Administration Regulations (Draft for Comments)* indicate the intention to strengthen financial oversight, delays in the publication of the regulations have resulted in significant uncertainty for European companies, impacting

1 *Full Text: Report on the Work of the Government,* State Council, 12th March 2025, viewed 22nd April 2025, <https://english.www.gov.cn/news/202503/12/content_WS67d17f64c6d0868f4e8f0c10.html>

2 *Management Measures for Consumer Finance Companies*, People's Republic of China Government, 18th March 2024, viewed 22nd April 2025, <https://www.gov.cn/zhengce/202403/content_6940035.htm>

3 *China's new rules on consumer finance to defuse risks, promote consumption, Xinhua*, 21st March 2024, viewed 22nd April 2025, <http://english.scio.gov.cn/m/chinavoices/2024-03/21/content_117075569.htm>

4 *Management Measures for Financial Leasing Companies*, People's Republic of China Government, 14th September 2024, viewed 22nd April 2025, <https://www.gov.cn/gongbao/2024/issue_11706/202411/content_6987946.html>

5 Hsu, S, and Ying, E, *China's Regulations for Financial Leasing Companies to Support Sustainable Growth*, Fitch Ratings, 7th October 2024, viewed 22nd April 2025, <https://www.fitchratings.com/research/non-bank-financial-institutions/chinas-regulations-for-financial-leasing-companies-to-support-sustainable-growth-07-10-2024>

6 *Supervisory Rating Measures for Financial Leasing Companies,* NFRA, 24th January 2025, viewed 22nd April 2025, <https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=1196824&itemId=915&generaltype=0>

operational and business strategies.[7] Swift finalisation of the draft rules would help to minimise much of the uncertainty currently experienced by commercial leasing companies, thereby enabling them to better contribute to China's real economy.

European commercial leasing companies are also concerned about proposed geographical restrictions and other potential new requirements. In particular, Article 11 of the draft regulation could inadvertently limit their operational flexibility.[8] Most of these companies are registered in Beijing or Shanghai, but a large percentage of their business is conducted in other locations. Removing proposed restrictions on cross-provincial leasing operations would reduce operational costs associated with establishing new branches and allow European leasing companies to continue contributing to the real economy.

Additional policies and requirements for bank-based leasing companies have raised further concerns among those with diversified business models. Although the intention is to limit shadow banking activities carried out by leasing companies, applying a one-size-fits-all approach to businesses would squeeze the operational space for small and medium-sized commercial leasing companies. Following the finalisation of the draft regulation, the NBFI Sub-working Group encourages regulators to focus on diversified development paths for small and medium-sized players that may enable them to better serve a diversified client base.

Recommendations

- Expedite the finalisation of the draft *Local Financial Supervision and Administration Regulations*.
- Revise Article 11 of the draft *Local Financial Supervision and Administration Regulations* and remove restrictions on cross-provincial operations.
- Maintain distinct operational guidelines for commercial leasing companies to focus on diversified development paths rather than solely on performance-based metrics.

7 *Local Financial Supervision and Administration Regulation (Draft for Comments)*, People's Bank of China (PBOC), 31st December 2021, viewed 22nd April 2025, <http://www.pbc.gov.cn/rmyh/105208/4436903/index.html>

8 If Article 11 of the draft regulation was to be enforced as proposed, financial leasing companies would in principle not be allowed to engage in cross-provincial business outside of the province they are registered in without establishing a new branch. See: *Local Financial Supervision and Administration Regulation (Draft for Comments)*, PBOC, 31st December 2021, viewed 22nd April 2025, <https://www.pbc.gov.cn/rmyh/105208/4436903/index.html>

2. Enable Equipment Leasing Companies (ELCs) to Acquire Cross-border Corporate and Bank Guarantees 7

Concern

European leasing companies can use their international connections to finance the Chinese subsidiaries of European companies, including large multinational corporations and small and medium-sized enterprises (SMEs), but eligibility restrictions on cross-border guarantees limit their risk appetite for supporting such investments in China.

Assessment

According to the State Administration of Foreign Exchange's (SAFE's) *Regulations on Foreign Exchange for Cross-border Guarantees*, issued on 15th May 2015, only banks registered in the Chinese mainland are eligible to receive cross-border guarantees.[9] Because of the higher leasing penetration levels in Europe, many of the subsidiaries of European companies tend to finance their asset investments through financial leasing. However, restricting equipment leasing companies (ELCs) from being able to receive cross-border guarantees in China makes it difficult for European players to support such investments. At the same time, assessing the quality of guarantees of European companies is challenging for Chinese banks, which makes them more reluctant to support the subsidiaries of European companies. This situation reduces the overall appetite of European companies to invest in China.

In some leasing practices, foreign-invested ELCs take cross-border guarantees for safeguarding lessees in China, to provide more comfort for rental payment obligations. Although this kind of guarantee is valid from a legal point of view, currency conversion restrictions will be encountered should an ELC want to call for this guarantee to compensate the non-performing debtor in China. The guarantee provider may be able to honour the guarantee in foreign currency, but when the funds arrive in China, they cannot be converted into *renminbi* to offset the non-performing exposure due to the fact that ELCs are not eligible to receive cross-border guarantees as per the SAFE regulation. According

9 *Notice of the State Administration of Foreign Exchange on the Issuance of the Regulations on Foreign Exchange for Cross-border Guarantees [2014] No. 29*, SAFE, 15th May 2015, viewed 22nd April 2025, <https://www.safe.gov.cn/shenzhen/2015/0515/133.html>

to industry estimates, these restrictions on foreign-invested ELCs result in an estimated 20 to 30 per cent of potential business remaining untapped.

Recommendation

- Allow ELCs to access cross-border corporate and bank guarantees in order to better support asset investments in China.

3. Define Clear Criteria for the Evaluation of Intangible Assets to Promote European ELCs' Participation in Intangible Asset Financing 6

Concern

The evaluation criteria for intangible assets lack clarity, thereby preventing ELCs from participating in local pilot programmes and sharing innovative solutions, hindering China's efforts to develop the real economy.

Assessment

The emerging trend of financing intangible assets, such as licence-based software, is a crucial way of providing financial support to China's information technology (IT) industry, which in turn supports the development of China's real economy and ELCs in the country.

According to one technological research firm, the total investment in global IT in 2024 was United States dollar 5.11 trillion. Software, IT and communication services investment accounted for 79 per cent of this investment, with hardware equipment investment accounting for the rest.[10] This reflects an important characteristic of the IT industry, in that the proportion of software and service investment remains much higher than that of hardware investment, with growth rates for software investment only exceeded by investment in data centres. Supporting the development of software is therefore inseparable from supporting the overall development of technology-related industries, so allowing ELCs to offer financing solutions for intangible assets would greatly support this development.

The know-how that European ELCs have developed over the years has allowed their customers to access expensive IT and industrial software, enabling them to achieve higher efficiency and become more sophisticated and technologically advanced. At the same time, members of the NBFI Sub-working Group continue to report difficulties participating in intangible asset financing activities in China. Regulatory uncertainty persists, especially regarding what constitutes a financeable intangible asset, and how such assets—ranging from software licences and data sets to algorithmic tools—can be evaluated and managed as part of a leasing or financing structure. While domestic financial institutions have begun to participate in pilot projects related to intangible asset leasing, these opportunities remain largely inaccessible or opaque to foreign-invested institutions. Even in free trade zones or special innovation corridors, such as the Zhongguancun Comprehensive Bonded Zone, the absence of clear qualification criteria and consistent valuation guidelines makes it difficult for ELCs to meaningfully engage in these initiatives.[11] This has led to missed opportunities for European players to deploy their mature intangible asset leasing models, which have proved effective in helping SMEs and industrial clients access advanced technologies. With clearer rules and more inclusive pilot mechanisms, European ELCs could make a valuable contribution to China's innovation economy by offering financing solutions tailored to the needs of software- and data-driven businesses.

The sub-working group therefore recommends that the regulator consider creating a new innovative corridor for ELC engagement in offering financing solutions for intangible assets, particularly through software leasing and new technologies such as core algorithms.[12] The sub-working group also recommends that qualification criteria and definitions for intangible assets be clarified, to enable European ELCs' participation in intangible asset financing, particularly in areas such as the Beijing Zhongguancun Comprehensive Bonded Zone, which is

10 *Gartner Forecasts Worldwide IT Spending to Grow 9.8% in 2025*, Gartner, 21st January 2025, viewed 22nd April 2025, <https://www.gartner.com/en/newsroom/press-releases/2025-01-21-gartner-forecasts-worldwide-it-spending-to-grow-9-point-8-percent-in-2025>

11 "An innovation corridor typically represents a strategic development zone where regions or cities overcome geographical constraints by implementing institutional reforms and supply-side adjustments. This facilitates the unrestricted flow of innovation factors—including talent, information, technology and capital—while fostering the emergence of advanced industrial clusters, attracting high-calibre professionals, and creating concentrated hubs of scientific and technological innovation. Given their characteristic linear, 'corridor-shaped' spatial distribution, these zones are termed 'innovation corridors.'"See: *Research on the Characteristics and Development Mechanisms of Innovation Corridors: A Case Study of Route 128 and the Guangzhou-Shenzhen Innovation Corridor*, 163.com, 1st March 2022, viewed 7th May 2025, <https://www.163.com/dy/article/H1D39V9D0511D98B.html>

12 *The State Council on Comprehensively Promoting Beijing's Service Industry; Approval of the Comprehensive Pilot Work Plan for Expanding Opening-up*, State Council, 22nd February 2019, viewed 22nd April 2025, <http://www.gov.cn/zhengce/content/2019-02/22/content_5367708.htm>

focussed on developing breakthrough technologies.[13]

Recommendations

- Promote innovation in financial services by permitting some ELCs to use leasing solutions to finance intangible assets, and by enabling ELCs to develop new leasing solutions for such assets.
- Enable ELCs to participate in intangible asset financing by defining clear qualification criteria and assessment processes for intangible assets.

Abbreviations

CNY	Chinese Yuan
ELC	Equipment Leasing Company
IT	Information Technology
NBFI	Non-banking Financial Institutions
NFRA	National Financial Regulatory Administration
PBOC	People's Bank of China
SAFE	State Administration of Foreign Exchange
SME	Small and Medium-sized Enterprise

13 *Beijing Zhongguancun Comprehensive Bonded Zone Obtains Official Approval for Establishment,* Beijing Municipal Government, 9th June 2023, viewed 22nd April 2025, <https://english.beijing.gov.cn/investinginbeijing/two_zones/updates/202306/t20230609_3129247.html>

Insurance Sub-working Group

Recent Developments

Market Landscape

China's economy grew five per cent in 2024, reaching Chinese yuan (CNY) 134.9 trillion,[1] supported by policy measures aimed at stabilising employment and prices. The insurance industry grew accordingly, with total assets climbing 19.9 per cent year-on-year to CNY 35.9 trillion, driven by a 5.7 per cent rise in original insurance premium income and a 37.6 per cent surge in new policy sales.[2] Solvency ratios remained robust, with composite and core adequacy ratios at 199.4 per cent and 139.1 per cent, respectively.[3] As such the insurance industry in China is in good financial health.

Life insurance emerged as the sector's primary growth engine, with premiums rising over 15 per cent,[4] while health insurance premiums grew 6.15 per cent,[5] reflecting strong demand for traditional products.[6] Property insurance premium growth remained stable with a year-on-year increase of 5.32 per cent.[7] In 2025, broad-ranging policy divergence globally is likely to increase external uncertainties. However, China's insurance market is expected to maintain robust expansion, with a projected average annual growth rate of over seven per cent,[8] solidifying its position as the world's second-largest insurance market.

Regulatory Developments

In September 2024, the State Council released the *Several Opinions on Strengthening Supervision, Preventing Risks, and Promoting High-quality Development of the Insurance Industry*.[9] This marks the third time comprehensive guidance has been issued at the national level for development and risk prevention in China's insurance sector.[10] The guidelines call for a high-quality development framework for the insurance industry by 2029, with steadily expanding coverage, increasingly comprehensive protection, continuous improvement of services, stable and balanced asset allocation, sufficient solvency, and effective governance and internal control. By 2035, the objective is to establish an insurance industry characterised by a complete market system, diversified products and services, scientific and effective supervision, and strong global competitiveness.

In March 2024, the National Financial Regulatory Authority (NFRA) issued the *Notice on the Issuance of Regulatory Rating Measures for Life Insurance Companies*,[11] which was followed by the *Notice on the Issuance of Regulatory Rating Measures for Insurance Companies* in January 2025.[12] The latter introduced a 'classified supervision' system to categorise all insurance companies in China, including insurance groups, property and casualty insurers, life insurers, reinsurance companies and branches of foreign insurance firms. These measures aim to create a comprehensive risk assessment framework and a mandatory annual evaluation process for insurance companies, assessing them across multiple dimensions, including corporate governance, solvency, assets and liabilities, information technology, risk management, operations, customer protection and more, while

1 *Statistical Communique on National Economic and Social Development of the People's Republic of China in 2024,* National Bureau of Statistics, 28th February 2025, viewed 9th April 2025, <https://www.stats.gov.cn/sj/zxfb/202502/t20250228_1958817.html>

2 *Main Regulatory Indicators of the Banking and Insurance Industries in 2024 Q4*, NFRA, 22nd February 2025, viewed 9th April 2025, <https://www.gov.cn/lianbo/bumen/202502/content_7004983.htm>

3 Ibid.

4 Ibid.

5 *The Operation Report of Life Insurance Companies for December 2024*, NFRA, 26th January 2025, viewed 22nd April 2025, <https://www.nfra.gov.cn/cn/view/pages/ItemDetail.html?docId=1197407&itemId=954>

6 Traditional life insurance products constitute low-risk investments with guaranteed returns, as opposed to non-traditional products which combine insurance with investment in pursuit of higher returns.

7 *Data on major regulatory indicators of the banking and insurance industries in the fourth quarter of 2024,* NFRA, 22nd February 2025, viewed 22nd April 2025, <https://www.gov.cn/lianbo/bumen/202502/content_7004983.htm>

8 *Allianz Global Insurance Report 2024: Transformative years ahead for the insurance sector,* Allianz, 23rd May 2024, viewed 22nd April 2025, <https://www.allianz.com/en/economic_research/insights/publications/specials_fmo/2024_05_23-Global-Insurance-Report.html>

9 *Several Opinions on Strengthening Supervision, Preventing Risks, and Promoting High-quality Development of the Insurance Industry,* State Council, 11th September 2024, viewed 10th April 2025, <https://www.gov.cn/zhengce/content/202409/content_6973834.htm>

10 *Ten New Policies for Insurance Emphasize Strict Regulation, Caixin*, 21st September 2024, viewed 21st May 2025, <https://www.caixinglobal.com/2024-09-21/weekly-early-read-new-ten-national-policies-for-insurance-emphasize-strict-regulation-as-high-quality-development-seeks-path-102238648.html#>

11 *Notice on the Issuance of Regulatory Rating Measures for Life Insurance Companies*, NFRA, 18th March 2024, viewed 10th April 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1155287&itemId=4215>

12 *Notice on the Issuance of Regulatory Rating Measures for Insurance Companies,* NFRA, 7th January 2025, viewed 10th April 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1195497&itemId=861>

integrating regulatory requirements from various sectors. Based on such classifications, the NFRA will implement measures to address risks and ensure compliance for insurance companies with different ratings. Higher-rated companies will enjoy greater operational autonomy, while lower-rated companies will be subject to more stringent supervision, enabling a risk-based allocation of supervisory resources.

In August 2024, the NFRA issued the *Notice on Improving the Pricing Mechanism of Life Insurance Products*, stipulating that predetermined interest rates should be dynamically adjusted to market interest rates in Article 3.[13] On 10th January 2025, the Life Insurance Department of the NFRA circulated the *Notice on the Establishment of a Mechanism for Linking Assumed Interest Rates to Market Interest Rates and Dynamic Adjustment*.[14] The latest circular aims to enhance the scientific and flexible pricing of insurance products and strengthen asset and liability management through insurance companies' prudent pricing strategies.

Key Recommendations

1. Ensure Consistent Treatment in Supervisory Ratings for Insurance Companies 2

Concern

The supervisory rating indicators lack clarity and consistency, and the reliance on relative rankings undermines an equitable assessment framework that does not adequately accommodate small and foreign insurers, thereby hindering China's efforts to create both a diversified market and a level playing field.

Assessment

In the Chinese insurance market, a few large domestic groups dominate the landscape and account for the majority of sector profits. As relatively small players, European firms must navigate a competitive environment that is heavily influenced by the scale and resources of their domestic counterparts. To achieve success in China, it is crucial for European insurers to focus on their unique business models and growth strategies. This focus will enable them to carve out a niche in a market that is otherwise dominated by larger entities.

Insurance companies need to regularly deliver different sets of figures and indicators to comply with different types of supervisory ratings. These include the supervisory rating; the integrated risk rating under the China Risk-orientated Solvency System (C-ROSS); the asset liability management rating; the consumer protection rating; the corporate governance rating; and the insurance operation rating, among others.[15] Some of the required indicators overlap, while others vary. For example, most of the indicators in the newly promulgated supervisory rating encompass the previous specialised ratings but require additional information such as the product mix, the proportion of long-term business and sales personnel retention figures.

The assessment of individual indicator requirements is also not transparent in either the newly promulgated supervisory rating or the integrated risk rating. Assessment scales for some indicators are not specified, so companies do not know what would result in a better rating and what would not. For example, with regard to the rate of insurance premium growth, there is a lack of clarity over which level of growth is acceptable to the regulator. For other indicators, such as the share of annuity business and the level of sum assured, it is unclear which result is acceptable or preferred in the long term. These uncertainties disproportionally affect insurers with smaller business volumes, as even slight variations in business operations may significantly shift the rating indicators and lead to lower scoring.

Other indicators assess companies relative to industry players and rankings, such as the share of related party transactions and commissions incurred during normal business operations through bancassurance channels.[16] The 'time to payment' of claims is also assessed in this

13 *Notice of the NFRA on Improving the Pricing Mechanism of Life Insurance Products*, NFRA, 2nd August 2024, viewed 14th April 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1175200&itemId=861>

14 Wang, H, *Exclusive | Regulator issues notice to establish a mechanism for linking the scheduled interest rate of life insurance products with the market interest rate and dynamic adjustment, CLS*, 10th January 2025, viewed on 14th April 2025, <https://www.cls.cn/detail/1914928>

15 Ratings may require insurers to submit ratings on an annual, quarterly or monthly basis. See: *Notice of the NFRA on Issuing the Measures for Regulatory Rating of Life Insurance Companies*, NFRA, 18th March 2024, viewed 23rd April 2025, <https://www.gov.cn/zhengce/zhengceku/202403/content_6940022.htm>; *C-ROSS Phase 2 Strengthens Chinese Insurers' Credit Profiles,* Fitch Ratings, 3rd January 2022, viewed 23rd April 2025, <https://www.fitchratings.com/research/insurance/c-ross-phase-2-strengthens-chinese-insurers-credit-profiles-03-01-2022>

16 Bancassurance refers to an agreement between a bank and an insurance company. In bancassurance, the insurance company can use the bank's distribution channels to sell products. Banks, in return, collect a certain fee from the insurance company. See: *Bancassurance*, Corporate Finance Institute, viewed 22nd April 2025, <https://corporatefinanceinstitute.com/resources/wealthmanagement/bancassurance>

manner.[17] However, most industry players have already achieved a very short 'time to payment', meaning that the differentiating effect of the ranking is lost.

In the abovementioned cases, insurance companies do not have access to other companies' results, so they cannot benchmark themselves within the industry. At the same time, ranking assessments are not carried out consistently by different provincial regulatory authorities and bureaus. In some cases, companies are ranked based on a nationwide assessment, while in others they are only assessed in comparison to companies within the same province.

Furthermore, the ratings penalise companies that have strategically chosen to sell their products through favoured channels to make full use of their shareholders' backgrounds, such as overweighting bancassurance channels. Bancassurance players also differentiate themselves in terms of product offerings to fulfil the needs of clients buying products through bank branches. However, in the supervisory ratings, any concentration in sales channels is penalised, despite this being a legitimate and healthy business model. Another example is penalties handed down to companies whose insurance premium growth deviates from the industry average. These assessments create an environment that favours large domestic companies with the resources to diversify their sales channels while penalising smaller foreign and domestic insurers that need to surpass the industry average to catch up with larger industry players and reach economies of scale. Given the limited resources of smaller insurers and the unique business model of bancassurance companies, it is necessary to have regulations and supervisory measures that reflect this.

The integrated risk rating system requires life insurance companies to attain a risk level and risk rating of 'A' to qualify to engage in certain types of life insurance business, such as sales over the internet.[18] Related-party transactions' risks are given high weights (40 per cent) in the 'company governance' section of the integrated risk rating system, and a minimum score of 70 in this category is one of the pre-conditions for being awarded an 'A or above' rating.[19] The current scoring rules for related-party transactions are solely based on a simple ranking of the proportion of such transactions among all life insurance companies, which leads to lower scores for bancassurance companies.

Furthermore, members have observed that feedback on the different rating results sometimes has a time lag of one to three months after the assessment period, and that the notice of assessment results often includes only limited and general information about indicators that must be improved. In many cases, the results of these ratings are used internally to assess staff performance and ensure progress, meaning timely and transparent feedback is vital for companies to manage their business consistently within the regulatory framework. The March 2024 decision to change the frequency of the internal risk rating from quarterly to bi-annually constitutes one positive development in this regard.[20] To improve the mechanism further, the sub-working group recommends that feedback be delivered in such a way that clarifies the impact of each indicator directly, and allows businesses to understand where additional points have been deducted for items not in the official framework. This includes deductions for not correcting findings promptly, or other matters that are important to regulatory authorities.

European insurers can bring diverse and innovative products to the growing Chinese insurance market if they are allowed to leverage their unique business models. Inconsistent assessment frameworks and related issues make European insurers unable to carve out a niche market. This stifles the innovation of insurance products at a time when innovation is vitally important for the Chinese insurance market in light of an ageing domestic population.

17 'Time to payment' refers to the amount of time that an insurance company takes to process and pay out a claim after it has been filed. A shorter 'time to payment' is indicative of an efficient and reliable insurer, which benefits customer satisfaction.

18 Integrated Risk Rating is a tool used by the supervisor that combines diverse risk assessment methods into a single, comprehensive approach to evaluate an insurer's overall risk profile. This helps to ensure a holistic view of an insurer's potential threats and opportunities by identifying, assessing and managing risks across different areas.

19 *Notice of CBIRC on Releasing the Solvency Regulatory Rules II for Insurance Companies*, China Banking and Insurance Regulatory Commission, 30th December 2021, viewed 22nd April 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1027902&itemId=861&generaltype=1>

20 *Notice of the NFRA on Issuing the Measures for Regulatory Rating of Life Insurance Companies*, NFRA, 18th March 2024, viewed 22nd April 2025, <https://www.gov.cn/zhengce/zhengceku/202403/content_6940022.htm>

Recommendations

- Consolidate the individual ratings into one single transparent supervisory rating over the next year to ensure the best use of regulatory resources, and streamline the use of an overall rating in other regulatory frameworks.
- Increase the consistency of the assessment framework and rely on relative rankings only when meaningful, to avoid adverse impacts on small and foreign insurers.
- Tailor the indicators for specialised and adaptable models, such as the weighting of sales channels and related parties' transactions, to ensure small and European insurers are not restricted in their ability to grow.

2. Implement a Simplified and Transparent Security Review Process for the Transfer of Low-risk Data Within Multinational Companies, in Particular for Reinsurance Business Data 2

Concern

Although regulatory advancements on cross-border data transfers have increased clarity, they have not been applied uniformly across the board, leading to ongoing compliance challenges causing difficulties and unfair disadvantages for European insurers developing intragroup businesses.

Assessment

European insurance groups have significant intra-group business between China and overseas subsidiaries as well as more international reinsurance operations. Current rules are stricter than international standards such as the European Union's General Data Protection Regulation (GDPR). This holds particularly true in areas such as data localisation and the security review mechanisms that require companies to file for new security clearances when they develop new intra-group business or products materially similar to those for which clearance had already been granted.[21] Progress has been made by Chinese regulators such as the Cyberspace Administration of China (CAC) in terms of clarifying the application of the new rules.[22] The CAC solicited public opinions on its draft for a revised Cybersecurity Law in March 2025 and issued the *Guidelines for the Declaration of Security Assessment for Cross-border Data Transmission (Third Edition)* in June 2025.[23&24] Nevertheless, remaining uncertainty on certain definitions and security reviews creates operational delays, limiting the development of these lines of business.

Overseas (re)insurance is a powerful tool to distribute risks across globally diversified portfolios, improving resilience against risks of a global nature. A better flow of technical data related to Chinese portfolios would allow for improvements in comprehensive risk assessment, which stands to benefit Chinese customers through competitive pricing and the introduction of new innovative products to address gaps in the market. A simple, transparent and predictable framework for cross-border data flows in (re)insurance transactions would contribute to enhancing access to the Chinese insurance market, thereby further enticing international groups to develop innovative insurance products in China based on their overseas expertise, as they would be better enabled to manage them through their international business lines.

The provisions of the Cybersecurity Law, the Data Security Law and the *Measures for the Security Assessment of Outbound Data Transfers* impose strict regulatory requirements on the processing of 'important data'. Each industry regulator is required to develop its own catalogue of important data that necessitates a high level of security protection.[25]

On 22nd March 2024, the CAC officially issued the *Provisions on Regulating and Facilitating Cross-border Data Flows*, which clarified that all non-personal information that is not defined as 'important data' will

21 Zhang, T, *GDPR Versus PIPL – Key Differences and Implications for Compliance in China,* China Briefing, 18th May 2022, viewed 30th April 2025, <https://www.china-briefing.com/news/pipl-vs-gdpr-key-differences-and-implications-for-compliance-in-china/>

22 *Frequently Asked Questions on Outbound Data Security Management Policies,* Cyberspace Administration of China, 9th April 2025, viewed 22nd April 2025, <https://www.cac.gov.cn/2025-04/09/c_1745906286623776.htm>

23 *Notice on Soliciting Public Opinions on the Cybersecurity Law of the People's Republic of China (Draft for Soliciting Comments on the Amendment),* Cyberspace Administration of China, 28th March 2025, viewed 27th May 2025, <https://www.cac.gov.cn/2025-03/28/c_1744779434867328.htm>

24 *The Cyberspace Administration of China (CAC) has released the "Guidelines for Data Outbound Security Assessment and Declaration (Third Edition)",* Cyberspace Administration of China, 27th June 2025, viewed 30th July 2025, <https://www.cac.gov.cn/2025-06/27/c_1752652339765002.htm>

25 Cybersecurity Law of the People's Republic of China, NPC, 7th November 2016, viewed 21st July 2025 <http://www.npc.gov.cn/zgrdw/npc/xinwen/2016-11/07/content_2001605.htm>; Data Security Law of the People's Republic of China, NPC, 10th June 2021, viewed 21st July 2025, <http://www.npc.gov.cn/englishnpc/c2759/c23934/202112/t20211209_385109.html>; *Measures for the Security Assessment of Outbound Data Transfers,* State Council, 7th July 2022, viewed 21st July 2025, <http://www.gov.cn/zhengce/zhengceku/2022-07/08/content_5699851.htm>

not be subject to a security assessment.[26] In addition, the transfer of any employee's personal information overseas for the purpose of cross-border human resources management under lawfully established labour rules and regulations is also exempted from a security assessment. These developments have significantly eased the burden on financial institutions (FIs).

The *Measures for Data Security Management of Banking and Insurance Institutions*, released by the NFRA in December 2024, includes definitions for 'important data' and mandates FIs to submit their 'important data' catalogues to the regulator for oversight.[27] This marks a further step toward clarifying the scope of the measures and reducing the uncertainty faced by insurers, even though the scope of 'important data'—i.e., the type of data that would require a specific security clearance—would generally apply for any large volume of personal data.[28]

Recommendations

- Apply a simplified security review process to the transfer of low-risk and/or anonymised data within multinational companies for management purposes, particularly reinsurance business data and the financial data of local companies.
- Exempt (re)insurance companies from filing for new security clearances when they develop new intra-group business or products materially similar to the ones for which clearance had already been granted.

3. Allow the Designation of Foreign Insurance Groups' RHQs as the Primary Service Provider and Shareholder Management Entity 2

Concern

Unclear regulations governing the regional headquarters (RHQs) of foreign insurance groups have limited their ability to provide services and perform equity management functions to entities within the group, thereby causing disruptions to day-to-day operations.

Assessment

Some foreign insurance groups have established RHQs in China, which serve as their sole head office and legal entity for authorised management. The purpose of these RHQs includes managing the equity of insurance institutions and other enterprises invested in by the foreign insurance group, as well as assisting shareholders to fully meet their obligations and exercise their rights in accordance with the law. However, the NFRA currently lacks clear regulatory requirements and guidelines specific to the RHQs of foreign insurance groups. As a result, the activities of these headquarters in equity management on behalf of foreign insurance groups cannot be verified for compliance and scale under existing insurance regulatory rules. This ambiguity has led to an unclear status for the RHQs in fulfilling their intended functions, resulting in various operational disturbances.

The NFRA allows authorised RHQs of foreign banks to designate a management bank in China and to authorise bank branches in China to open derivative trading business in Article 63 of the *Implementation Rules of the Regulations of the People's Republic of China on the Administration of Foreign-funded Banks* and Article 115 of the *Implementation Measures on Administrative Licensing Items for Foreign-funded*

26 *Provisions on Regulating and Facilitating Cross-border Data Flows*, CAC, 22nd March 2024, viewed 22nd April 2025, <https://www.cac.gov.cn/2024-03/22/c_1712776611775634.htm>

27 Article 18 defines important data as "data in specific fields, groups or regions, or data that reaches a certain level of precision and scale, which, if leaked, altered or destroyed, could directly harm national security, economic operations, social stability or public health and safety." See: *Measures for Data Security Management of Banking and Insurance Institutions,* NFRA, 27th December 2024, viewed 22nd April 2025, <https://www.nfra.gov.cn/cn/view/pages/governmentDetail.html?docId=1192311&itemId=861>

28 Article 4(1) defines 'personal data' as "…any information relating to an identified or identifiable natural person ('data subject'); an identifiable natural person is one who can be identified, directly or indirectly, in particular by reference to an identifier such as a name, an identification number, location data, an online identifier or to one or more factors specific to the physical, physiological, genetic, mental, economic, cultural or social identity of that natural person."; *Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation),* EUR-lex, 27th April 2016, viewed 21st May 2025, <https://eur-lex.europa.eu/eli/reg/2016/679/oj/eng>

Banks, respectively.[29&30] Thereby, the NFRA recognises the RHQs' management role at the bank supervisory level. The sub-working group believes it is reasonable for the NFRA to recognise a similar management role of the RHQs established by a foreign insurance group at the insurance supervisory level. To effectively manage domestic investment, RHQs established by foreign insurance groups urgently need to serve as a direct channel for communication with the NFRA. This would improve oversight of local insurance institutions in China and help foreign shareholders fulfil their investment obligations.

Foreign insurance groups, including their RHQs in China, face significant challenges due to regulatory restrictions on shareholding management and a lack of direct communication with the NFRA. Unlike domestic insurance groups, they have limited resources and channels to fully comprehend and accurately implement regulatory requirements. As a result, they must rely heavily on their China-based insurance institutions to navigate these complexities. This reliance increases administrative costs and reduces the productivity and effectiveness of foreign management, as regulatory updates are not communicated to investors in a timely manner, undermining their legitimate interests.

The situation is further complicated by the fact that insurance institutions can have conflicting interests with their investors, which can lead to discrepancies in how they interpret and fulfil their communication roles. This conflict can hinder effective compliance and management, exacerbating the challenges foreign insurance groups operating in China face.

29 Article 63 states that where two or more branches of a foreign bank are established in China, the head office of the foreign bank or its authorised regional headquarters shall designate one of the branches as the management bank, which shall be responsible in a coordinated manner for the management of the business in China as well as for the consolidated information of all the bank's branches in China. The foreign bank or the authorised regional headquarters shall designate the head of the management bank to be responsible for the management of the business in China and the compliance officer to oversee regulatory compliance in China. See: *Implementation Rules of the Regulations of the People's Republic of China on the Administration of Foreign-funded Banks*, China Banking and Insurance Regulatory Commission, 18th December 2019, viewed 22nd April 2025, <https://www.gov.cn/zhengce/2019-12/25/content_5725811.htm>

30 Article 115 states that a branch of a foreign bank applying to open a derivatives trading business shall be formally authorised by its head office (regional headquarters), its home country shall have a legal framework for the supervision of the derivatives trading business, and the supervisory body of its home country shall have the corresponding supervisory capacity. See: *Implementation Measures on Administrative Licensing Items for Foreign-funded Banks,* China Banking and Insurance Regulatory Commission, 26th December 2019, viewed 22nd April 2025, <https://www.gov.cn/gongbao/content/2020/content_5501063.htm>

Recommendations

- Allow RHQs to assist their Chinese insurance institutions on behalf of foreign insurance groups, including through shared services for training, consulting and management in areas like investment, branding, human resources, information technology, risk, compliance and capital to fulfil shareholder right and obligations.
- Allow RHQs of foreign insurance groups to be the main point of contact for regulatory inquiries and consultations regarding shareholding rules and to serve as a channel for the National Financial Regulatory Administration to obtain and share relevant shareholding management information as needed.

Abbreviations

C-ROSS	China Risk-orientated Solvency System
CAC	Cyberspace Administration of China
CNY	Chinese Yuan
FI	Financial Institution
GDPR	General Data Protection Regulation
NFRA	National Financial Regulatory Administration
RHQ	Regional Headquarters

Section Six 6

Appendix

Abbreviations

API	Active Pharmaceutical Ingredient
AR	Augmented Reality
ASTM	American Society For Testing and Materials
AUM	Assets Under Management
BASA	Bilateral Aviation Safety Agreement
BCS	Business Confidence Survey
BMI	Basic Medical Insurance
BRI	Belt and Road Initiative
BWTS	Ballast Water Treatment System
CAAC	Civil Aviation Administration of China
CAC	Cyberspace Administration of China
CAMET	China Association of Metros
CBAM	Carbon Border Adjustment Mechanism
CBDT	Cross-border Data Transfer
CCC	China Compulsory Certification
CCER	China Certified Emissions Reduction
C-code System	National Medical Consumables Classification
CCPIT	China Council for the Promotion of International Trade
CCPS	Classified Cybersecurity Protection System
CCS	China Classification Society
CCUS	Carbon Capture, Utilisation and Storage
CFETS	China Foreign Exchange Trade System
CHC	China Holding Company
CHI	Commercial Health Insurance
ChP	China Pharmacopoeia
CII	Critical Information Infrastructure
CMC	Chemistry, Manufacturing and Control
CMDE	Centre for Medical Device Evaluation
CNCA	China National Certification and Accreditation Administration
CNIPA	China National Intellectual Property Administration
CNY	Chinese Yuan
CO_2	Carbon Dioxide
COSCO	China Ocean Shipping Company
C-ROSS	China Risk-orientated Solvency System
CRS	Computer Reservation System
CSDDD	Corporate Sustainability Due Diligence Directive
CSRC	China Securities Regulatory Commission
CSRD	Corporate Sustainability Reporting Directive
CSRM	Cybersecurity Review Measures
CV	Commercial Vehicle
CVD	Coordinated Vulnerability Disclosure
DALIR	Drug Administration Law Implementation Regulations
DDR	Deposit Deviation Ratio

DIP	Diagnosis-intervention Packet
DNA	Deoxyribonucleic Acid
DP	Drug Product
DS	Drug Substance
DRG	Diagnosis-related Group
DRS	Deposit and Return System
DSL	Data Security Law
DTHC	Destination Terminal Handling Charges
EAF	Electric Arc Furnace
EASA	European Union Aviation Safety Agency
EBS	Electronic Braking System
EHS	Environment, Health and Safety
ELC	Equipment Leasing Company
ESC	Electronic Stability Control
ESG	Environmental, Social and Governance
ETF	Exchange-traded Fund
ETS	Emission Trading System
EU	European Union
EUR	Euro
EV	Electric Vehicle
FAQ	Frequently Asked Question
FCEV	Fuel Cell Electric Vehicle
FCR	Fair Competition Review
FI	Financial Institution
FIE	Foreign-invested Enterprise
Fintech	Financial Technology
FMC	Fund Management Company
FOP	Front-of-Package
FSMP	Foods/Food for Special Medical Purposes
FTP	Free Trade Port
FTZ	Free Trade Zone
GAC	General Administration of Customs
GB	Guobiao (China national standard)
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GDS	Global Distribution System
GEC	Green Electricity Certificate
GHG	Greenhouse Gas
GHz	Gigahertz
GI	Geographical Indication
GLP	Good Laboratory Practice
GM	Genetically Modified
GMM	Genetically Modified Microorganism
GMP	Good Manufacturing Practice
GPA	Government Procurement Agreement
GW	Gigawatt
HCP	Healthcare Professional
HNTE	High and New Technology Enterprise
IaaS	Infrastructure as a Service

ICH	International Council for Harmonisation of Technical Requirements for Pharmaceuticals for Human Use
ICNCO	Intra-group Cross-border Net Capital Outflow
ICT	Information and Communication Technology
ICV	Intelligent and Connected Vehicle
IDC	Internet Data Centre
IDF	International Dairy Federation
IDR	Interim Duty Rate
IEC	International Electrotechnical Commission
iFSMP	Infant Foods for Special Medical Purposes
IIT	Individual Income Tax
IMO	International Maritime Organization
IMT	International Mobile Telecommunications
IoT	Internet of Things
IP	Intellectual Property
IP5	Intellectual Property 5
IPI	International Procurement Instrument
IPR	Intellectual Property Rights
IP-VPN	Internet Protocol Virtual Private Network
ISCC	International Sustainability and Carbon Certification
ISO	International Organization for Standardization
ISP	Internet Service Provider
IT	Information Technology
ITAI	Information Technology Application Innovation
JV	Joint Venture
km	Kilometre
KR	Key Recommendation
LLC	Limited Liability Company
LMR	Liquidity Matching Ratio
LNG	Liquefied Natural Gas
MAH	Marketing Authorisation Holder
MARA	Ministry of Agriculture and Rural Affairs
MED	Marine Equipment Directive
MEE	Ministry of Ecology and Environment
MEPC 83	The 83rd Session of the IMO's Marine Environment Protection Committee
MIIT	Ministry of Industry and Information Technology
MNC	Multinational Corporation
MOF	Ministry of Finance
MOFCOM	Ministry of Commerce
MOJ	Ministry of Justice
MOT	Ministry of Transport
MoU	Memorandum/Memoranda of Understanding
MPS	Ministry of Public Security
MRV	Monitoring, Reporting and Verification
MSA	Maritime Safety Administration
MSME	Micro, Small, and Medium-sized Enterprise
NAV	Net Asset Value
NBFI	Non-banking Financial Institution
NCD	Negotiable Certificate of Deposit
NDA	New Drug Application

NDRC	National Development and Reform Commission
NEA	National Energy Administration
NEV	New Energy Vehicle
NFRA	National Financial Regulatory Administration
NHC	National Health Commission
NHSA	National Healthcare Security Administration
NIA	National Immigration Administration
NIFDC	National Institutes for Food and Drug Control
NMPA	National Medical Products Administration
NPC	National People's Congress
NQI	National Quality Infrastructure
NRA	National Railway Administration
NRDL	National Reimbursement Drug List
NTI	Narrow Therapeutic Index
NVOCC	Non-vessel Operating Common Carrier
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
OMO	Open Market Operation
OSCCA	Office of Security Commercial Code Administration
PaaS	Platform as a Service
PAC	Pharmaceutical Affairs Committee
PBOC	People's Bank of China
PET	Polythene Terephthalate
PIPL	Personal Information Protection Law
PMA	Parts Manufacturer Approval
PPA	Power Purchase Agreement
PR Card	Permanent Resident Identification Card
PRC	People's Republic of China
PT	Proprietary Technology
PTA	Patent Term Adjustment
PTE	Patent Term Extension
PTR	Processing Trade Relief
PVC	Polyvinyl Chloride
QDII	Qualified Domestic Institutional Investor
QDLP	Qualified Domestic Limited Partner
R&D	Research and Development
RDP	Regulatory Data Protection
RHQ	Regional Headquarter
RMB	*renminbi*
rPET	Recycled Polyethene Terephthalate
RPS	Renewable Portfolio Standard
SaaS	Software as a Service
SAC	Standardization Administration of China
SAF	Sustainable Aviation Fuel
SAFE	State Administration of Foreign Exchange
SAMR	State Administration for Market Regulation
SBTi	Science Based Target Initiative
SCA	State Cryptography Administration
SCCs	Chinese Standard Contractual Clauses
SCFI	Shanghai Containerized Freight Index

SME	Small and Medium-sized Enterprise
SMEDI	SME Development Index
SOE	State-owned Enterprise
SPB	State Post Bureau
SPC	Supreme People's Court
SRTT	Standard Reference Test Tyre
SSE	Shanghai Shipping Exchange
STA	State Taxation Administration
TAC	Type Approval Certificate
TBT	Technical Barriers to Trade
TC	Technical Committee
TC260	National Technical Committee 260 on Cybersecurity
TIC	Testing, Inspection and Certification
TOU	Time-of-use
TWh	Terawatt-hour
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
US	United States
USD	United States Dollar
USTR	US Trade Representative
VAS	Value-added Service
VAT	Value-added tax
VATS	Value-added Telecoms Service
VBP	Volume-based Procurement
VR	Virtual Reality
VVB	Validation and Verification Body
WMC	Wealth Management Company
WTO	World Trade Organization
y-o-y	Year-on-Year

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