

EU Sino Suzhou Round Table 2018



On October 16th, 2018 EU Sino's Round Table (Suzhou) about Environment, Health and Safety (EHS) regulations and their impacts on industries was divided into three parts.

First, there was a presentation by Prof. WANG Shi, Deputy Director of the EHS Center of Nanjing University, who later joined a panel discussion with four other businessmen. In the end, because Suzhou is where EU Sino is headquartered, we gathered the international community with an Inter-Chamber mixer. The event was co-organized with BenCham-Benelux Chamber of Commerce in China, CCI France Chine, China-Italy Chamber of Commerce, and was in partnership with AustCham, Danish Chamber of Commerce in China, and Finnish Business Council.

Mr. Wang gave a general explanation of the EHS regulatory framework in China with a special focus on the environmental aspects, as these regulations have become stricter after the revision of the "Chinese Environmental Laws and Regulations" in 2015. As for the rules' enforcement, the central government intends to hold environmental inspections every two years in each province. Statistics about the first wave of inspections already show that not only derelict businesses are fined but now, also, non-complying government officials are penalized. Prof. Wang went further into details on:



- **Water pollution** regulations in Jiangsu Province is one of the strictest in the world so it became more difficult for certain industries. However, even if they use some pollutants, selected high-tech industries may be allowed to increase their production because the government understands that they have to protect key industries that manufacture with high eco-efficiency.

- **Air pollution** has a direct impact on factories in highly polluted areas: regional governments has the authority to ask companies in specific industries to stop production when air quality exceeds a certain level. The Northern areas of China and industries such as automotive, furniture, chemical, construction as well as others that use paint or generate dust, are more impacted by these measures than others.

- **Hazardous wastes** are monitored more strictly. Professor Wang still sees this as a good thing for factories. Indeed, it gives more authority to treatment and disposing companies and gives guidance to companies that generate and receive the waste.



Finally, Prof. Wang highlighted the importance of government action plans. These are the tools the government uses to act before laws are enacted. These action plans are focused and have a quick impact. Wang Shi introduced the examples of the battle for pollution control as well as the 263 Action Plan, the latter being specific to Jiangsu Province. For instance, as a

consequence of the 263 Action Plan, most factories in the Jiangsu area with activities related to chemical industry will have to move to a special controlled zone with appropriate infrastructure.

Prof. Wang concluded that the development of China is increasingly oriented towards environmental protection and balanced economy. He illustrated this with the case of the shutdown of a major supplier of Schaeffler (large international company in automotive). While initially open to extend operations of the supplier for a few months in order to reduce negative impact on Schaeffler, government finally decided to stand by its initial decision to shut down the supplier.

In the second part of our event, EU Sino's General Manager, Etienne Charlier, introduced the panel discussion with:

- Mr. Beke Aernout, General Manager at AF Compressors
- Mr. Chen Tom, BD & Sales Manager Asia at Beaulieu International Group
- Mr. Colijn Michael, General Manager Asia at Bekaert's Heating Division
- Mr. Ferrari Fabrizio, General Manager at EDT Diecasting Technology Suzhou
- Mr. Wang Shi, also General Manager at Suzhou DOBE Environment Consulting



Each of them explained which part of their company is impacted by Environment, Health and Safety regulations, not only from the production and suppliers' side but also internally and customers-wise. During this part, the panelists first shared their experience on what kind of EHS-related crisis they had to face in the past, the reasons why it happened and how they solved the

problem. They explained that EHS new regulations not only impacted their production but also their customer base as well as supplier portfolio. Some consequences were quite negative such as factories shutdowns, complicated implementation of regulations, etc., but on the other hand, some were also very positive. Here are some key experiences that the panelists shared with us.

Companies have to take EHS criteria more importantly into account when selecting suppliers. For instance, AF Compressors sources casting from Chinese suppliers. But around October 2017, the northern region of China and the Yangtze River Delta experienced a ban on cast iron casting, and sourcing had to move to the south of China. Aernout either had to find new suppliers or to wait for their suppliers to reopen somewhere else.



Also, as Tom from Beaulieu mentioned, in the same way as your own factory faces the risk of being shut down, your suppliers' plant also faces the same risk. Hence, you have to select suppliers not only based on their quality but also on their compliance with EHS. Otherwise, you might be subject to shortages of raw materials and parts as well as increased prices' fluctuation.



As mentioned in our previous Round Tables, China is no longer the low-cost production center it used to be. Michael mentioned that Bekaert customers are increasingly asking for European quality standards rather than a low-price product. He illustrated this trend describing how one of their clients already gave an 8-year guarantee to their customers, and then turned back to Bekaert to offer the same.

For Michael, EHS not only raised awareness in the Chinese community but also raised some local companies' expectations regarding products features. Increasing your product range with a market in demand for higher-end products is beneficial for your business. When most businesses will wonder about return on investments, according to the panel we had, investing in green was a good decision and did not have a negative impact on global business nor cost effect as margins increased accordingly.

Panelists gave various examples illustrating how, nowadays, rules are rules and there is a quickly diminishing room for flexibility.

Aernout gave an interesting example. AF Compressors was using a building with extension. He found out that the building was actually not compliant with firefighting standards as inspectors kept on coming and asking to bring down the extension. Nevertheless, the landlord assured that the Kunshan government were his friends and there would be no consequences in keeping the extension. Aernout still decided to change location, which proved to be a good decision when, within weeks, the Suzhou municipal government stepped in and requested immediate tearing down of the said-extension. This is a sign of how pressure is being



applied on every stakeholder involved, whether a big foreign company or a small Chinese manufacturer. The right question to ask is when it is going to be your turn.

Those are the main external facts that the panelists experienced but they also spoke about impacts in their own company. Apart from limiting damages and unnecessary costs and losses for business, an important objective is to build a relationship of trust with the government agencies in charge. "Guanxi" is not seen any more as a tool to avoid regulations and get waivers, but as a healthy relationship based on trust where corporations and government help each other in case of difficulties.



Fabrizio from EDT Diecasting gave a few small tips that would help build this mutual trust such as explaining technical things to representatives of the agencies, having one single key contact employee as the interface (ideally a local Suzhounese who speaks the same dialect), or demonstrating a proactive approach by showing that you take initiatives to integrate your whole staff

into the EHS matters (EHS/HR manager, labor force, security guards, other consulting companies, etc.).

All panelists agreed on the importance of communicating with the government. For instance, Bekaert is in an industrial park with 16 foreign companies and manage to keep up with regulations thanks to the local government, as they gather all companies once per month to give them EHS updates.



After the Q&A session, where questions about noise regulations or differences between Chinese provinces were raised, we organized an inter-Chamber networking mixer.



EU Sino would like to thank again all the speakers for their support, the chambers for their cooperation and the great community of Suzhou for attending the event.