

## INTERNATIONAL

## Eurozone

## Juncker push to vet foreign investments

President aims to ease fears about China moving into sensitive industrial sectors

JIM BRUNDEN — BRUSSELS

Brussels will push for more thorough vetting of Chinese and other foreign investments as it seeks a more muscular trade policy to respond to criticism that the bloc does not do enough to protect its own companies.

Jean-Claude Juncker, European Commission president, will set out the plans in his state of the union speech to the European Parliament tomorrow. The moves are being watched in Beijing, which is concerned about the mounting political pushback against Chinese investments in sensitive industrial sectors.

But Mr Juncker, who defines himself as "in favour of international trade

agreements [but] not a naive free-trader" is convinced that a more robust approach is needed to win back flagging support among European citizens for trade deals. He is to present the moves in tandem with a call for the EU to show it is "open for business" by advancing trade talks with other big economies.

People briefed on the plans for the screening system said that they would focus on improving co-ordination between national authorities when they assess whether takeovers in sensitive industries such as the energy and high-tech sectors raise security concerns.

The planned "European enabling framework" would give countries the right to seek an opinion from the commission if they felt a takeover raised cross-border or pan-EU concerns. While the option would be non-binding, governments would be expected to comply or state their reasons for not doing so.

The commission could also weigh in over foreign takeovers of companies in sensitive EU-funded projects, such as the Galileo satellite navigation system. French President Emmanuel Macron has been in the forefront of those calling for tougher vetting of Chinese acquisitions, after a boom in the country's foreign-direct investment in Europe, and takeovers such as that of German robotics manufacturer Kuka.

Berlin and Rome have also called for an EU initiative in this area, pointing out that the US, China and Japan already have systems in place. The French finance ministry said the commission's plans were a "first important step that would be useful for legal certainty".

China has so far been guarded in public about the EU policy push, with its commerce ministry saying in July that: "It's a country's lawful right to assess investment in sensitive area. But

"You could say the commission is being pushed to react, not to have a more protectionist approach generally, but to have one to China"

security reviews cannot become a tool for protectionism."

Screening is also a controversial topic within Europe, where a number of governments, including the Netherlands, Nordic countries and Greece are wary that it could become a barrier to valuable investment in their economies.

Mr Juncker will seek to balance his message by stressing Brussels' determination to strike bilateral trade deals. The EU will shortly ask national governments if it can open trade talks with Australia and New Zealand, and is seeking a deal with the Mercosur bloc this year. It is also hoping to finalise outstanding points in EU-Japan talks.

Alicia Garcia-Herrero, at the Bruegel think-tank, said: "You could say the commission is being pushed to react, not to have a more protectionist approach generally, but to have one to China."

Additional reporting Lucy Hornby in Beijing

## GLOBAL INSIGHT

## EUROPE

Alan Beattie



## France risks being led in wrong direction by Nordic labour model

One expression pops up repeatedly in discussion of Emmanuel Macron's plans to change the French labour market: the "Nordic model".

The president apparently wants to replace the traditional system of employment regulations that are designed to give employees job security. Instead, France will move towards Danish-style "flexicurity" where it is easier to hire and fire, but the state helps and supports workers to move from employer to employer.

It sounds good in principle. But labour market experts warn that the kind of co-operative relationships between unions and management in the Nordic model are largely absent from France and cannot just be wished into being.

In countries such as Denmark, a co-ordinated union movement negotiates wages by sector and then works at company level to improve productivity and maintain job quality. Unions play a role in providing training and job search for those laid off.

As Stefano Scarpetta, director of employment and labour at the Organisation for Economic Co-operation and Development, says: "Danish unions regard themselves as responsible for the unemployed as well as existing workers, and for skills as well as jobs."

The French system is in sharp contrast. Although France's economy has high productivity, it generates too few jobs and has high unemployment. A classic example of a "two-tier" labour market, it has a core of well-protected employees and a periphery of lower-paid insecure workers, many self-employed.

By making it easier to dismiss workers and hence create more incentive to hire new ones, Mr Macron wants to reduce that segmentation and create more, higher-quality jobs. Parts of the labour movement stand in his way. The second-biggest trade union association, the *Confédération Générale du Travail*, plans protests today to oppose the proposal it calls a "declaration of war".

Union membership in France is the lowest in western Europe (less than 10 per cent of workers, compared with 57 per cent in Denmark). Yet more than 90 per cent of employees are covered by collectively negotiated sectoral agreements. As in Denmark, unions exercise power at a company level for medium and large-sized firms. Unions in Denmark, they tend to focus on the interests of those in work, demanding higher wages and preventing lay-offs even at the cost of lower overall employment.

Not in the history of industrial relations conducive to a collaborative culture. France has a long tradition of labour militancy and use of industrial action to achieve wider political goals. Although militancy has declined, strikes took up 149 working days per 1,000 workers between 2009 and 2015, against an EU average of 38.

The union movement has been divided by political rivalry. The CGT was for a long time affiliated to the French Communist party. Two more moderate main groupings, the *Confédération Française Démocratique du Travail* and *Force Ouvrière*, have declined to join today's protests.

For many labour market economists, French unions are simultaneously too strong and too weak to support a Nordic-style system. They bargain aggressively on behalf of a small minority and can block lay-offs at company level. But they are too fragmented, and have too few members, to co-operate and take responsibility for management. Without the collaboration of employees and without state action to restrain and assist dismissed workers, Mr Macron's plans risk nudging France not towards Scandinavia but a liberalised UK model.

Britain has a high employment rate, thanks to state subsidies for workers to take jobs, but a weak skill base and a tendency for employees to find themselves stuck in low-paid positions. If France heads the wrong way, Mr Macron's expansive ambitions will go unfulfilled.

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Interview: Barbara Hendricks

## German carmakers off the pace, says minister

Industry accused of being too cosy with politicians and too slow to use new technologies

TOBIAS BUCK — BERLIN

Germany's environment minister has criticised the excessive "proximity" between politicians and carmakers and urged the industry to do more to compensate customers and catch up with international rivals after the recent diesel scandal.

Barbara Hendricks said carmakers from Japan, China and the US had moved more swiftly to embrace new technologies such as electric cars and fuel cells.

"The German car industry has been doing research on both but never took a decision to go decisively for one or the other," she said. "At the end of the day that means that Germany has not set the pace for the global car market. And that is a pity."

Her remarks — ahead of this week's Frankfurt Motor Show — are part of a broader political backlash against a sector that was hailed until recently as a proud symbol of German industrial might but is now embroiled in multiple scandals. The reputation of Volkswagen, in particular, has been battered by the admission that it cheated in emissions tests for its diesel cars.

The broader scandal surrounding excessive emissions of harmful nitrogen oxide has also drawn in carmakers such as BMW and Daimler, which together with Volkswagen, Porsche and Audi are also under investigation for allegedly breaking carbon rules.

Ms Hendricks warned that the measures agreed by the car industry in response to the crisis — software fixes for 5.5m cars and incentives for car owners to upgrade to newer models — were not enough. "The car industry refuses to upgrade the car's hardware. I am aware that you cannot do this with every affected model," she said. "But wherever possible, carmakers are obliged to offer hardware upgrades."

Car executives argue that such upgrades, which would typically involve retro-fitting special tanks, would be



Barbara Hendricks said Germany was on track to lower its carbon emissions by only 55-58 per cent by 2020, less than the 40 per cent it is officially committed to

costly and complex and would divert resources from the development of cleaner models. But Ms Hendricks said: "It is true that the car industry has to invest in the future so they can keep up with the world market but the car industry also has to win back the trust of customers. And don't forget that VW had to pay €22bn in fines in the US and they still made profits of almost €7bn in the first six months of the year."

The minister acknowledged that there had been failings on the side of government as well. "There was too much proximity between the car industry and parts of Germany's political scene. That was never true of the environment ministry, no matter which party was in charge. But the chancellor, the economy ministry and the transport ministry have traditionally been very close to the car industry."

That proximity, she added, had not helped the industry but had instead stifled innovation.

Ms Hendricks, a veteran Social Democrat who has held the environment portfolio in the government of Angela Merkel since 2013, has emerged as one of the most vocal critics of the car industry in recent months. With less than two weeks until the German general election her stance has become increasingly mainstream as politicians from across the spectrum try to tap into popular anger with Germany's powerful carmakers.

The diesel scandal is one of several areas where Germany's environmental record is under scrutiny.

Ms Hendricks said the country was on track to lower its carbon emissions by only 55-58 per cent by 2020, less than the 40 per cent that Berlin is officially committed to. The benchmark comparison is with the year 1990, which means Germany gets credit for the closure of heavily-polluting industrial plants in the formerly communist East Germany. "We can still meet our climate goals

but we need to take additional measures," Ms Hendricks said.

Many activists believe that those additional measures should include shutting down coal-fired plants, which rank as some of the biggest polluters, but which are also linked to mining jobs in some of Germany's poorest regions.

The minister pleaded for patience, saying: "We will end coal-fired power plants at some point after 2040. But I am against saying we have to do this by 2030. This is a process in society where we have to convince people that they and their regions will not be left behind."

On the recent US decision to pull out of the Paris climate accord, Ms Hendricks struck a sanguine note. She noted that the US move had "bound the rest of the world closer together", citing the recent strong endorsement from countries such as India and China for binding climate reduction targets. "I am very optimistic," she said.

## Dual quality

## Brussels extends olive branch to eastern members over food rift

HEEREN KHAN — BRUSSELS

Brussels hopes to heal rifts with eastern member states by tackling one of their biggest concerns that inferior versions of products are being sold in former Communist bloc countries.

In his annual state of the union speech tomorrow, Jean-Claude Juncker, European Commission president, will offer support to the likes of Slovakia, the Czech Republic and Hungary, which have long complained that their consumers are sold poorer quality consumer products, from chocolate spread to washing powder, under the same brands and packaging used in western markets.

Grievances over "dual food quality" came to a head in March when Robert Fico, Slovakia's prime minister, accused Brussels of not taking the complaints seriously enough. Mr Fico has called the issue an "international scandal".

Consumer quality is a sensitive issue for a number of the EU's newer member states, where there are memories of scandals involving western companies dumping sub-standard goods in their markets after the fall of communism.

The dual quality row has fed resentment among eastern members that they are treated as Europe's second-class citizens. Some of the countries are already unhappy with Brussels' demand that all EU countries accept migrant quotas, and with France's move to crack down on "posted" workers, which Paris feels helps employees of eastern European countries undercut wages elsewhere.

As part of Mr Juncker's proposals for the next 12 months, Brussels will pledge about €1m to help national food safety authorities test products and will work on harmonising methods to detect poorer quality goods across borders by the end of the year.

Despite the prominence it is afforded in a number of countries, evidence of the widespread sale of inferior goods in different EU markets is scarce. The commission's measures are aimed at standardising testing and providing expertise to domestic regulatory bodies to pressure multinationals.

Producers argue that ingredients can differ from member state to member state to suit local tastes. The practice is allowed under EU single market rules as long as ingredients are clearly labelled.

Large companies also note that food ingredients or components in household goods vary to keep prices stable in lower-income countries.

A study for the Czech government in March in the agriculture ministry found that 15 major brand foodstuffs, from M & M chocolates to fish fingers, contained different ratios of ingredients in ex-Communist countries compared to neighbouring Austria or Germany.

In one example canned luncheon meat from the Tulp Food Company and sold in similar packaging was found to be made of pork meat in Germany but

"mechanically separated poultry meat" in the Czech Republic. Tulp says the products are completely different despite similarities in the packaging, with recipes suited to local tastes.

"The cans are the same design and the same colour, but if you look at the table of contents, everything is stated clearly there," said Michael Ravn, for Tulp.

He said the company was considering changing its packaging to differentiate between German and Czech versions. "It is not dual content but an entirely different product," he added.

In another example Persil washing powder had different ratios of active ingredient in Austria and Germany, compared to the Czech Republic, Hungary and Slovakia. Nutella hazelnut spread, from Italy's Ferrero, was found to be less "soft" and not as dark in colour in Hungary as in Germany. Ferrero said the product had the same high quality as Nutella sold in western Europe.

Brussels will use existing EU consumer protection rules to ensure that customers are not being misled. The dual quality measures are likely to be disallowed at a consumer summit organised by Slovakia in Bratislava next month.



The former Communist bloc claim it is sold inferior versions of goods

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