EU plans measures to block foreign takeovers of firms

Draft plan refers to need to reduce Chinese infiltration

BRUSSELS: The European Union plans measures to block "politically-motivated" foreign investment, after Germany, France and Italy asked it to act against takeovers in sectors that could harm Europe's strategic interests. The proposal could give the EU - which can already block takeovers on antitrust grounds - power to scrutinize "investments in the EU of strategic importance both from an economic and security perspective".

That would include defense, transport infrastructure and critical and cutting-edge technologies and could be extended to deals that put at risk a vaguely defined "economic prosperity", according to the proposal from the European Commission's industry department seen by Reuters. The paper makes several references to China, citing, as one hypothetical example of an undesirable deal, a company receiving funds from the Chinese government to enable it to buy a European company to make a "strategic penetration of the EU market".

Germany has been making protectionist noises after a spate of Chinese takeovers of its technology companies. Home appliance maker Midea's acquisition of robot-maker Kuka was just one of the Chinese deals last year with a total worth of more than $10 billion, about 40 times as much as in 2015, according to Thomson Reuters data. Some EU countries have their own rules to protect strategic firms, but this would be the first at the EU level and would go beyond the usual scope of such measures which are usually related to national security.

Under the proposal, the EU could block takeovers by a company whose motivation is "just for the purpose of disposing its overcapacity" - which could include sectors such as steel where Europe accuses China of dumping under-priced goods. The blocking mechanism could also apply to takeovers of EU companies by an EU-based subsidiary of a foreign firm, or even in cases of "infiltration of the management with individuals from non-EU countries" who could access data and technology, the paper said.

The plan would need the approval of all Commission departments, including trade officials, who are usually less favorable to protectionist measures. EU states and the European Parliament would then have to adopt the proposals. To avoid an excessive concentration of power in Brussels at a time of rising euroscepticism, the proposal suggests EU states would maintain the right to allow or deny a takeover even after EU vetting.

Under a bolder option of the plan, a new EU agency would be set up to examine foreign investments, although this could attract EU bashing if an investment is rejected to the detriment of EU companies' growth prospects, the paper said. — Reuters

Carmakers eye more UK suppliers to handle Brexit

GENEVA: As Britain prepares to leave the European Union, some carmakers are considering softening the blow of any tariffs by sourcing more parts locally and producing more models they can sell domestically rather than export. Eighty percent of UK-assembled vehicles are exported and they could face tariffs of up to 10 percent if Britain has to fall back on World Trade Organization rules, with some components subject to multiple varying tariffs each time they cross a border.

"If we do find there are tariffs on sending cars out, or there are tariffs on bringing components in, then that would be a motivator to repatriate some component production to the UK," McLaren Automotive Chief Executive Mike Flewitt told Reuters at the Geneva motor show.

The country's largely foreign-owned car industry is due to hit a record high production of around 2 million units by the turn of the decade, making it one of Europe's largest, and some firms have warned tariffs could push production abroad. The sector is a major employer which British Prime Minister Theresa May has pledged to champion in the Brexit negotiations with the EU she plans to trigger this month; executives are concerned uncertainty could persist beyond the two-year process.

A local sourcing push would help mitigate some of the risks of leaving the EU's single market and be a bonanza for smaller UK parts makers but a headache for international suppliers, whose manufacturing footprints are reliant on free trade.

Only 41 percent of the parts in British-built cars are made within the country on average, less than the typical 50 to 55 percent local content requirement which Britain would have to agree to in some bilateral trade deals. The proportion of parts sourced locally varies among automakers, making it easier for some to meet the "Made in Britain" threshold than others.

McLaren expects to reach a 58 percent "localization rate" by the end of the decade from around 50 percent now, under a plan that pre-dates the June Brexit vote. Jaguar Land Rover (JLR), Britain's biggest carmaker, also sources around half its content locally.

The level falls to less than 40 percent at German luxury carmaker BMW's Mini plant in southern England, while Opel/Vauxhall Astras built in the UK contain only 25 percent British parts.

French carmaker PSA Group, which this week announced a deal to buy Opel and Vauxhall from General Motors , said trade barriers in the event Britain loses access to the single market would push it to increase the percentage of local components. "If it's a hard Brexit then of course the supplier base needs to be developed, and I think this is something that the UK government completely understands," Chief Executive Carlos Tavares told reporters in Geneva.

Not so easy

The jury is out on how feasible this might be. Ralf Speth, the CEO of JLR, doubts Britain produces enough mass-market vehicles to attract the major supplier investments it would need to cross the 50 percent localization threshold. It and other carmakers have been slowly boosting UK parts content for years. Britain's Society of Motor Manufacturers and Traders, however, believes UK-built cars could source up to 80 percent of parts domestically. The fall in the pound since the Brexit referendum has raised import costs, adding a further incentive.

Matt Boyle, the chief executive of electrified powertrain specialist Sevcon, based in England's northeast, said it had seen rising demand since the referendum and is able to respond quickly through the use of flexible third-party sites. "We've got off-the-shelf hybrid systems and electric systems today," he said. The industry is lobbying for British government support, which could be required to kick-start investment in parts production that would be new for Britain, such as alloy wheels.

Over 4 billion pounds ($4.9 billion) worth of components such as engine castings, steering systems and seat parts could be sourced in Britain, according to a joint industry-government report published in 2015, adding to roughly 10 billion pounds currently spent by car firms on UK suppliers.

Model mix

Carmakers are used to picking parts makers to supply their plants across borders, benefiting from unfettered trade among members of the European single market or the North American Free Trade Agreement - and between the EU and Mexico.

But Donald Trump's election in the United States and protectionist candidates in upcoming elections in the Netherlands and France mean the Brexit referendum is not the only risk to free trade.

That has prompted some executives to ponder how plants and supply chains could be refocused on domestic demand. "Our interest and our competitive advantage will be to have UK plants with a pound cost structure to supply a market where revenue is in pounds," PSA's Tavares said. — Reuters

LONDON: Pedestrians walk past retail outlets and shops on Oxford Street in central London yesterday. —AFP

UK industrial output drops at start of year

LONDON: Britain's industrial output recoiled in January as the nation prepared to exit the European Union, official data showed yesterday. Industrial output slid 0.4 percent compared with activity in December, with a particularly weak contribution from manufacturing, the Office for National Statistics (ONS) said in a statement. Although moderately better than expectations for a 0.5-percent decline, the latest industrial output data followed a 0.9-percent rise in December.

Manufacturing output, which excludes mining and quarrying, electricity, gas and water supply, slid 0.9 percent in January from December. Construction activity also shrank by 0.4 percent, which contrasted with a 1.8-percent expansion in the previous month. The ONS also said that Britain's deficit in goods and services, the gap between exports and imports, stood unchanged at £2.0 billion ($2.4 billion, 2.3 billion euros) in January.

"The latest economic data for the UK has come in on the soft side, with manufacturing production and industrial production both contracting in January," noted analyst David Cheetham at XTB brokerage. "The manufacturing number in particular could be seen as a cause for concern with a 0.9-percent month on month decline matching the worst reading since the Brexit vote" in June.

Conservative Prime Minister Theresa May will activate Article 50 of the EU's Lisbon Treaty in the next three weeks, sparking a two-year divorce process and tense talks over the terms of Britain's departure from the bloc. —AFP

Peru copper miners' strike, adding to Chile stoppage

LIMA: Workers at a US-owned copper mine in Peru launched a wage strike yesterday, heightening pressure on the market for the key commodity already hit by a similar stoppage in Chile.

Some 1,200 workers downed tools at the southern Cerro Verde mine, majority-owned by Arizona-based Freeport-McMoran, said union spokesman Rommel Arias. The miners are demanding special benefit payments to protect their incomes against a downturn in copper prices, and better working conditions. "We have ended discussions with the company and no agreement has been reached," Arias told AFP.

"The strike started at 7.30 am on Friday morning (1230 GMT)."

Mining sector consultant Jorge Manco calculates that production at Cerro Verde reached half a million tonnes last year, making it Peru's biggest copper mine. Strikes at copper mines have raised concerns on international markets for the metal, a key component in electrical wiring.

Some 2,500 workers at the world's biggest copper mine, the Escondida site in Chile, have been on strike for a month for higher pay. Analysts at British bank Barclays said Thursday that prices were stable despite the Chilean strike, since the world's biggest copper consumer, China, is well stocked.

Italian bank Unicredit meanwhile calculated that prices were falling slightly "with no end in sight" to the Escondida dispute. — AFP