The EU needs an effective foreign investment screening mechanism to avoid discreet political interference from other countries, writes Laima Andrikienė.

In response to my question about the need for a foreign direct investment (FDI) screening mechanism at EU level, trade Commissioner Cecilia Malmström answered, “It is a toxic issue in the Council.”

Rasmussen Global experts, in their study on FDI screening, write, “Only 12 of 28 EU member states - Austria, Denmark, Germany, Finland, France, Latvia, Lithuania, Italy, Portugal, Spain and the United
Kingdom - have FDI screening mechanisms. These national mechanisms are very different; some of
them are very formal. Non-EU countries such as China, Australia and Canada strengthened their
screening mechanisms in 2015.

The case of China stands out, as it completely banned FDI in strategic sectors. The US also has its
own screening mechanism, CFIUS, in force since 1975 and reform is underway to strengthen its
scope.

The EU is the world leader in terms of FDI volumes - in 2015, this investment amounted to €5.7
trillion, which is more than in the US (€5.1 trillion) and China (€1.1 trillion).

However, as Commission President Jean-Claude Juncker said in his 2017 State of the Union address,
Europeans are not naive traders. We favour free trade over barriers and restrictions. We believe in the
benefits of FDI.

Yet at the same time, we seek to ensure the security of our citizens and the sustainability of
our economic development. We strive to be dynamic and competitive in today’s globalised world and
we realise that we are laying the foundation for our future success.

The EU must draw lessons from previous and current experiences with Russia’s Gazprom
encroachments. Chinese investment in the EU reached €35bn in 2016, a 1500 per cent increase
compared to 2010.

Meanwhile, EU investment in China dropped by 25 per cent and is continuing to decline. The main
reasons are legislative barriers and a lack of reciprocity.

Since 2013, China has been actively implementing its ‘One belt, one road’ strategy in Germany (with
a focus on high technologies and the defence industry), France, Italy, and Scandinavia.

China has also taken advantage of the difficult economic situation in southern European countries for
several years, operating successfully in Greece, Spain and Portugal. Cyprus and Malta have long since
become Russia’s platform in the EU.

The ‘16+1 format’ was specially designed for and applied to China’s operations in eastern and central
Europe. In addition, now that the TTIP talks have been suspended, our traditional transatlantic ties are
seriously at threat.

The EU undoubtedly needs an FDI screening mechanism at EU level. We must at least achieve -
before it is too late (remember this issue is already being called toxic in the Council) - an effectively-
functioning FDI screening mechanism in all EU countries.

Under current circumstances, the exchange of information between EU member states and the
European Commission is of crucial importance in ensuring reliable information on who is behind
acquisitions or mergers, how boards of directors are composed, how various funds are set up and
more.

In particular, FDI screening requirements should be implemented in strategically sensitive sectors
such as energy, defence, communications and transport - in other words, those sectors on which the
security of our citizens largely depends. Investors that are under direct or indirect control of foreign
states or their militaries must be given special attention.

The draft FDI screening regulation, which is currently under discussion in all EU institutions, has
different perceptions. Some say the draft proposal is too little and too late, while others argue that it
is well-balanced and its adoption and implementation cannot be further delayed.

I believe it is a good start. However, it will not be sufficient to counterbalance the decentralised and discreetly coordinated efforts of foreign powers. The draft regulation is less ambitious than what is already in place in other G7 countries and it is not an actual investment screening mechanism per se. It will likely have limited impact.

We need a stronger screening mechanism and a stronger Union responsibility. We cannot afford another empty bureaucratic burden.

**About the author**

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