EU’s new China posture takes shape with fresh tool

by Koen Verhelst, Antonia Zimmermann · 8 HOURS AGO · 9 MINUTES READ

Press play to listen to this article

0:00 / 11:22

Voiced by Amazon Polly

MORNING
TRADE

By KOEN VERHELST and ANTONIA ZIMMERMANN

with CAMILLE GIJS, STUART LAU, KATHRYN CARLSON and PIETER HAECK

SNEAK PEEK

— We are entering a new phase in the EU’s economic power-play, in which elections plus China’s economic habits are leading to escalation.

— How are German companies preparing to monitor their domestic supply chains, and what will be the impact of freshly-adopted bloc-wide checks? Antonia reports from Hannover.

— The U.K. swears Gibraltar is not a hotbed for Russia sanctions evasion after the EU Parliament voices its suspicions.

Good morning, and welcome to Morning Trade. Buckle up, dear readers, because we’ve got some nerdy and deep-dive content for you today.

You can reach out via cgijs@politico.eu, azimmermann@politico.eu and kverhelst@politico.eu | Follow us here @CamGijs, @_Zimmerfrau and @Koen_Verhelst.

DRIVING THE DAY

BRUSSELS UPS ANTE WITH BEIJING IN NEW PROBE. Your favorite trade newsletter called it: The Commission on Wednesday launched an investigation into China’s procurement of medical devices, for the first time using a new tool called the International Procurement Instrument (IPI).

Just getting started? Brussels has been adding to its trade toolbox for years. While there’s nothing new in the EU’s targeting imports and unfair subsidies with traditional trade defense instruments, the first few months of 2024 have seen the bloc firing guns of a different caliber.

“This is part of a trend in which the EU shows no fear of using the arsenal of defensive trade policy measures it has built over the last years, and applying these measures to tackle Chinese anticompetitive practices,” said Oscar Guinea, a senior economist from the ECIPE think tank.

The succession of probes launched by the EU executive — against electric vehicles, wind farms and train manufacturers — marks a sharp shift in trade relations between the sides.

Will Beijing listen this time? "Regrettably, our repeated discussions with China on this trade irritant have been fruitless," said Trade Commissioner Valdis Dombrovskis, adding that the IPI "is a powerful new mechanism."

Same, but different: European elections, as well as the approaching end of Commission President Ursula von der Leyen's first mandate, have affected how Brussels has wielded the tools.

"On one hand, there is a lot more freedom to do things that before may have clashed," said Francesca Ghiretti, a senior geoeconomics analyst at the Adarga Research Institute.

"On the other hand, there's also a will to show that what this administration, the presidency of Ursula von der Leyen, has done in the past year can be used for the European Union's advantages," she told Morning Trade.

Soft approach: If China doesn't take the hint and keeps its market as closed as it is now, the Commission can slap Chinese companies competing in tenders with a 50 percent penalty. (Tender outcomes are often decided on a ranking system.) If price is the only deciding factor in a given tender, the penalty can rise to 100 percent.

Hardball: The second option is to exclude companies from "the third country" completely.

Roadshow: The Commission will need to be "proportionate" with these measures, but needn't limit them to the medical devices industry. Legally speaking, adding restrictions on tenders in other sectors is a possibility.

Timing of the essence: Given that the Commission now has nine months to "consult" with China before deciding to take either of these measures, the outcome might well coincide with Beijing's call on a cognac dumping probe against France (formally against the entire EU, but *soyons sincères*).

EU RAIDS TECH FIRM FOUNDED BY SON OF FORMER CHINESE PRESIDENT: Just as Brussels launched the probe, the Dutch and Polish branches of Nuctech, a firm specializing in security screeners that was once headed by Hu Haifeng, son of former Chinese President Hu Jintao, was raided by Commission officers in the EU's first such operation under the new foreign subsidies rules.

The company confirmed the raid on Wednesday, pledging to cooperate with the authorities and adding that its legal department "is reviewing the case and will be able to provide more details in due course."

Lawmakers hailed the move in light of prior concerns regarding Nuctech's equipment at the airport in Strasbourg, where MEPs regularly gather for meetings. "Finally, we have woken up," Dutch center-right MEP Tom Berendsen wrote on X.

Pieter Haeck has the story.

HANNOVER MESSE

ADAPTING TO SUPPLY CHAIN OVERSIGHT RULES: While the EU's business supply chain oversight rules cleared the final hurdle Wednesday, German companies have been working hard to adapt to national rules. At the Hannover Messe, the world's largest industrial trade fair, two businesses — trailer and truck manufacturer Schmitz Cargobull Group and the Veltins brewery — shared how they've adapted to German law, and how they view the EU-wide rules.

Recap: Both the EU rules and German law require companies to police their value chains for human rights and environmental violations. The EU rules, which narrowly survived severe pushback from national capitals, including German liberals, will apply to companies employing upward of 1,000 people with annual sales of €450 million.

Bitter taste in Parliament: The lead politician on the European file, Dutch social democrat Lara Wolters, said Wednesday she was *een gelukkig mens* (a happy human) just hours after seeing the bill pass in the Parliament.

"Even though some parts of the process weren't easy and left a bitter taste, it's this result that matters," she told reporters in Strasbourg after the vote.

German law: When the German law first took effect in 2023 it applied to companies with at least 3,000 employees. Since the beginning of this year, however, companies with at least 1,000 employees have had to comply. Berlin will now have to adapt its legislation to the new bloc-wide rules.

David and Goliath: Schmitz Cargobull Group employs some 6,800 employees worldwide and has an annual turnover of €2.6 billion, meaning it falls under the scope of both the German law and future EU-wide obligations. The Veltins brewery, meanwhile, is far smaller, with 721 employees and a turnover of €441 million, meaning it doesn't fall under either law — at least in theory.

Trickle-down effect, part 1: "We are all affected by the [German law] in some way," Andreas Diemel, Veltins' head of procurement services, said at Hannover Messe Wednesday. He pointed out that retailers whom the company supplies with drinks usually have over 1,000 employees, meaning they need to know how their suppliers police their own value chains.

Pro-active Veltins: The family-owned brewer has taken many steps, including adopting its own code of conduct and creating one for its suppliers. It also regularly monitors its suppliers using software, has provided training to employees, and has designated a human rights officer.

Assessing risk: Schmitz Cargobull is directly affected by the law. André Lückert — responsible for supply chain monitoring obligations at the company — said it had begun by assessing the countries where it has operations, and ended up designating a Turkish factory as a "risk plant" where it needs to pay particular attention to working conditions.

In action: Schmitz Cargobull assembled a team responsible for supply chain due diligence; it also conducted a risk analysis of its suppliers and trained its employees, as well as those of its suppliers, with separate instruction provided to suppliers in countries with a higher risk of human rights violations. Schmitz Cargobull is currently taking "preventive measures" with direct suppliers and drafting an annual due diligence report, as required by German law.

Be transparent: Lückert emphasized that firms have to be as transparent as possible about the steps they are taking as well as about their complaint procedure — to avoid being sued by NGOs. "It is very important to be clean on the outside," he said.

EU law comes next: The two players see the upcoming EU rules differently. While Veltins' Diemel welcomed the bloc-wide rules in principle, he called them "badly done" and said the risk assessment requirements are "not feasible." Lückert was more positive, arguing he expects that the EU-wide regulation will simplify things.

TRICKLE-DOWN EFFECT, PART 2: Volker Treier, deputy managing director of the Association of German Chambers of Industry and Commerce (DIHK), told Antonia at the fair earlier this week that "reporting obligations stand in the way" of restoring the international competitiveness of European companies. He flagged supply chain oversight rules, as well as the carbon border adjustment mechanism and rules on sustainable finance.

"The smaller the companies are, the greater the impact of such reporting obligations as a fixed cost component, which then prevents business activity," he warned.

Not what I was told: Back in Strasbourg, rapporteur Wolters said she'd "heard these arguments — and yet throughout this process, it's never been clear to me who spoke for SMEs. Because the SMEs that I spoke to said: 'We need this law. We are vulnerable without the clarity.'" She added that concern for SMEs tended to be used for "political posturing."

Wait for it: The future EU rules will apply only to companies with massive turnover — €450 million and up — while Wolters' original proposal set it at €150 million. "We will start with the very largest companies," she said, adding that the threshold might come down in future iterations.

The law will kick in from 2028 because EU countries need to implement it domestically. A review in the intervening years might allow lawmakers to add a progressive scale for smaller companies.

ENERGY

ECT-XIT CLEARS ANOTHER HURDLE: MEPs agreed on Wednesday that the EU should leave an international energy treaty that has split member countries for months over its impact on climate change, bringing the bloc one step closer to quitting the three-decade-old Energy Charter Treaty. MEPs approved a bloc-wide exit by a margin of 560 votes to 43 with 27 abstentions.

More here.

SANCTIONS

MEPS' GIBRALTAR CHALLENGE ANGERS DOWNING ST: The U.K. government is not happy after the EU's latest Brexit swipe — this time over sanctions. MEPs voted yesterday to block Gibraltar's removal from the EU's dirty money watchlist, arguing there is "important and recent evidence" suggesting the British overseas territory could be facilitating the evasion of sanctions against Russia.

Read Kathryn's story here.

U.K. hits back: A spokesperson for the U.K. government said it was "completely inaccurate and unsubstantiated to suggest Gibraltar is undermining sanctions efforts against Russia."