Facing up to the China challenge in Europe

FIEC and EIC are concerned about unfair and unhealthy competition, based on unbalanced conditions and lowest price, endangering the EU economy

Following a statement in June, and the interview in *CE* last month with FIEC president Kjetil Tonning, FIEC would like to say more on the issue of the China challenge.

Considering that it touches on both European and international interests of contractors, FIEC and sister organisation EIC (European International Contractors) have combined forces, expertise and efforts for reasons of efficiency.

To avoid any misunderstanding, both would like to reiterate that they are firmly opposed to any form of protectionism, and are in favour of fair competition, world-wide, in mutually open markets.

Fair and healthy competition, based on contract conditions which allocate risks in a balanced way, contributes to progress and innovation.

On the other hand, unfair and unhealthy competition, based on unbalanced conditions and the lowest price only, endangers the EU economy and society.

Sixteen Central, Eastern European (CEEC) and Western Balkan Countries and China, as well as some observers, meet regularly, recently publishing the Budapest Guidelines (https://bit.ly/2w80k6M).

They contain a multitude of initiatives and commitments, with potential impact on society and all sectors of industry, promoting closer co-operation in areas such as industry, energy, science, technology, agriculture, forestry, environment protection, people-to-people contacts, health care, trade fairs and conferences.

CONNECTIVITY

"Connectivity" mentions the Mediterranean railway corridor extending the Belgrade-Budapest railway to ports in Montenegro and Albania, the "Co-ordinating Secretariat for Maritime Issues", plus more technical exchange and maritime personnel training.

"Financial Co-operation" mentions items such as China-CEEC Investment Co-operation Fund, China Silk Road Fund investing in CEEC, BRI special loans by China Development and Exim Banks, China-EU Co-Investment Fund, innovative investment and financing modes, etc.

All of this is focused on those EU Member States which benefit largely from EU development and cohesion funds, so that cohesion in the EU seems to be at risk. These initiatives have to be observed, in order to ensure that the EU and its Member States do not enter into dependencies which they cannot manage afterwards.

For the OBOR/BRI (One Belt One Road/Belt & Road Initiative), impressive advertisements are published, presenting it as a win-win initiative for the countries on the road and the whole world.

In a statement before the US Senate, the Center for Strategic & International Studies comes to the conclusion that "Chinese projects are less open to local and international participation. Out of all contractors participating in Chinese-funded projects within the Reconnecting Asia database, 89% are Chinese companies, 7.6% are local companies (companies headquartered in the same country where the project was taking place), and 3.4% are foreign companies (non-Chinese companies from a country other than the one where the project was taking place).

"In comparison, out of the contractors participating in projects funded by the multilateral development banks, 29% are Chinese, 40.8% are local, and 30.2% are foreign."

BRI seems to export Chinese construction capacities to other countries and continents. This is what Tonning called "a Trojan horse and not win-win".

One example is the Pelješac bridge in Croatia. This project was awarded to a consortium of four Chinese state-owned enterprises (SOE). Their offer was 36% lower than the next consortium, led by a European contractor. Appeals by two European consortia were rejected by Croatian authorities.

The surprising fact is that the Croatian authorities did not see any reason to check this lowest tender, to establish whether it was what the EU-directives call "abnormally low", or whether there was any aspect of competition distorted by state aid.

Article 69 of Directive 2014/024 is weak on this, saying only that the tender must appear abnormally low, without giving a percentage figure. If the price does not appear abnormally low – as it is higher than estimated, for example – would be sufficient to avoid a check.

RECIPROCITY

Other aspects which the Croatian authorities should have taken into consideration are the use of EU funds and reciprocity. Both are relevant, not only in the EU, but also in relation to third markets, as well as for project financing, export credits and tied aid/loans.

This procedure appears to be in conflict with so many principles of EU law and common sense that there should be enough reason for the EU Commission to conduct a thorough investigation into this project and see whether it can be continued on this basis.

European contractors have been suffering for many years from a distortion of competition with Chinese SOEs in Africa, Asia and other parts of the world not bound by OECD social, environmental and ethical standards.

This is also part of the conclusion of a European Parliament study on Export Finance Activities by the Chinese Government. It is therefore necessary for the WTO and the EU to develop trade-related defence instruments tackling distortion and unfair subsidies in the services sector which is currently not covered by WTO Agreements.

FIEC and EIC call upon European policy-makers to stop being naïve and take into consideration that China is taking advantage of the existing imbalance in international trade law.

This creates asymmetric obligations for European contractors and Chinese SOEs. The EIC has produced a memo on Correcting the Unlevel Playing-field Between European and Chinese International Contractors, which can be read at https://bit.ly/2BJQBZI. **ce**

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