12 The European Union, Southern Multinationals and the Question of the ‘Strategic Industries’

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12.1 Introduction

Much of the controversy around foreign direct investment (FDI) in European policy-making circles in the recent period has crystallized around the notion of incoming FDI (IFDI) as a potential threat to ‘strategic industries’. Definitions of what constitutes a ‘strategic industry’ vary by country (Schulz, 2008) and even by government ministry, since those responsible for finance or competition will not necessarily share the same vision as those working in defence, employment, innovation, environment, transport or energy. In the recent period, debates and usage of ‘strategic industry’ to question and even block IFDI have come to the forefront in the European Union (EU). Probably the most controversial case of a Southern Multinational in the EU is Russia’s state-owned Gazprom. Many policy-makers suspect that Gazprom has geopolitical, rather than commercial, interests in EU gas markets (Clifton, Díaz-Fuentes and Revuelta, 2010; Clifton and Díaz-Fuentes, 2010b). There have, however, been less high-profile instances where potential investors from the South have been unsuccessful in entering the EU, such as Mexican billionaire Carlos Slim’s frustrated attempt to enter the Italian telecommunications market. Identifying and quantifying EU protectionism vis-à-vis Southern Multinationals in methodological terms is a challenge, however. Firstly, this is because details of why mergers & acquisitions (M&A) are blocked are usually quite opaque. Secondly, there is significant evidence of ‘economic nationalism’ as regards IFDI into certain ‘strategic industries’ from many countries, including other EU member states. Then Italian Prime Minister Romano Prodi spoke of an ‘Italian solution’ for Telecom Italia when foreign takeover by an American consortium was on the cards, while France’s former Prime Minister Dominique de Villepin celebrated ‘patriotisme économique’ (Le Monde, 2005) when faced with the prospect of the takeover of food company Danone by US multinational PepsiCo (Fuller, 2005). In Spain the ‘Endesa saga’ ended with the European Commission (EC) criticizing the government for avoiding a legitimate
takeover by E.ON. So protectionism in the EU is not only applicable to IFDI from the emerging markets.

How, then, to evaluate recent EU policies affecting IFDI? This chapter analyses responses to IFDI from emerging markets in the ‘strategic industries’ from within the EU in a fast-changing environment. Diverse sectors are analysed though most attention is paid to two sectors that have been widely considered to be strategic by most countries around the world for several decades: energy and telecommunications. In order to understand the dynamics of the EU’s international investment climate, particularly from the perspective of emerging markets, three main levels of analysis are required. First, the changing international context needs analysis, in particular the extent to which IFDI from emerging markets has challenged the status quo of the traditional investment climate, as well as the unfolding financial crisis and economic recession. Second, the European authorities, principally the EC, require analysis as the main institution responsible for forging the European Single Market and ensuring the ‘four freedoms’, meaning movement of goods, services, capital, and people. Third, individual member state behaviour needs examination, since it lies with national governments to establish FDI policy, and satisfy domestic political economy and welfare demands. This chapter is organized into four sections. In the second section, the EU IFDI regime for energy and telecommunications is set in international context. Thirdly, the evolution of recent European-level policy reform that directly or indirectly impinges on IFDI in these sectors is analysed, and the role of the Commission as ‘neutralizer’ of potential or real restrictive attitudes towards IFDI at the national level is considered. Conclusions follow in section four.

12.2 The changing EU FDI regime in international context

The EU boasts one of the world’s most liberal FDI regimes (OECD, 2007). EU member states are hosts to multinationals in most sectors from virtually all corners of the globe, and many of the new FDI players from emerging markets opt for the EU as host. In the context of increased FDI flows from 2004, peaking at an historic US$ 1.8 billion in 2007, the EU – like most other countries – was rightly criticized for increasing the implementation of restrictive policies and practices with an aim to limit IFDI as and when governments thought barriers necessary or desirable (UNCTAD, 2008). The EU has also been criticized by various business executives from emerging markets for raising protectionist barriers to their firms, including Gazprom (Traynor, 2007) and Mittal (as chronicled by Bouquet and Ousey, 2008). The financial crisis and economic recession triggered by the collapse of the sub-prime market in the United States since 2007 changes the international context for FDI policy significantly. UNCTAD (2009) estimates that IFDI and cross-border mergers and acquisitions (M&A) to the EU would decline