

# Germany blocks Chinese-owned firm's chip factory deal

November 9 2022, by Geir Moulson



A winged 'Elmos rhinoceros' stands in front of the chip factory Elmos Semiconductor SE offices in Dortmund, Germany, on Nov. 8, 2022. China's government on Wednesday, Nov. 9, appealed to Germany to maintain access to its markets after the company said Berlin may block the sale of a computer chip factory to a Chinese-owned buyer amid tensions over technology and security. Credit: Dieter Menne/dpa via AP, File

The German government on Wednesday blocked the sale of a chip factory to a Swedish subsidiary of a Chinese company, a decision that comes as Berlin grapples with its future approach to Beijing.

The move by the Cabinet follows a recent compromise over a Chinese shipping firm's investment in a German container terminal and a visit to Beijing last week by Chancellor Olaf Scholz.

The government's red light was anticipated after German company Elmos said this week that it had been informed the 85 million-euro (dollar) sale of its chip factory in Dortmund to Silex Microsystems AB of Sweden would likely be prohibited. Silex is owned by Sai Microelectronics of China, according to German media.

Although the deal announced in December wasn't very significant financially and the technology involved apparently wasn't new, it raised concerns over the wisdom of putting German IT production capacity in Chinese hands.

German Economy Minister Robert Habeck said the government also blocked a second planned investment by an investor from outside the European Union, but he wouldn't give details because it is still subject to the business confidentiality of the company involved.

In stopping both deals, Habeck said security in Germany must be protected and "there is a particular need to protect critical production areas."



In this photo released by Xinhua News Agency, Chinese President Xi Jinping meets with German Chancellor Olaf Scholz at the Great Hall of the People in Beijing on Friday, Nov. 4, 2022. In a much-scrutinized meeting Friday with visiting German Chancellor Olaf Scholz, Chinese President Xi Jinping called for peace talks between Russia and Ukraine and warned against the conflict going nuclear. Credit: Yao Dawei/Xinhua via AP

"What is important is the political message that we are an open market economy, that foreign investments—including from countries outside the (European) Union—are wanted and welcome here, but an open market economy is not a naive market economy," he told reporters.

Western governments are increasingly wary about China's technology ambitions and assertive foreign policy. The United States and other



governments have tightened controls on access to processor chips and other technology.

Elmos said it and Silex regretted the government's decision and that the transfer of new technology from Sweden and investments at the Dortmund site "would have strengthened semiconductor production in Germany."

The company said it would analyze the decision "with regard to whether there is a material violation of the parties' rights, and decide whether to take legal action."



From right, German Chancellor Olaf Scholz, German Economy and Climate Minister Robert Habeck and German Foreign Minister Annalena Baerbock pose for a group photo prior to the the weekly cabinet meeting at the Chancellery in

Berlin, Germany, Wednesday, Nov. 9, 2022. Credit: AP Photo/Michael Sohn

Scholz's nearly year-old government has signaled a departure from predecessor Angela Merkel's firmly trade-first approach to China. It plans to draw up a "comprehensive China strategy."

That is still pending. But Foreign Minister Annalena Baerbock and others have made clear that Germany wants to avoid repeating mistakes it made with Russia, which used to supply more than half of the country's natural gas and now supplies none.

However, a decision last month pointed to unresolved questions about the extent to which Chinese companies should be allowed to invest in Europe's biggest economy.

Officials argued over whether to allow China's COSCO to take a 35% stake in a container terminal at the Hamburg port.

Members of two junior parties in the governing coalition opposed that deal, while Scholz, a former Hamburg mayor, downplayed its significance. The Cabinet eventually cleared COSCO to take a stake below 25%. Above that level, an investor can block a company's decisions.



The company logo is seen at the entrance of the Elmos Semiconductor SE company in Dortmund, Germany, on Wednesday, Nov. 9, 2022. The German government on Wednesday blocked the sale of a chip factory to a Swedish subsidiary of a Chinese company, a decision that comes as Berlin grapples with its future approach to Beijing. Credit: Bernd Thissen/dpa via AP





The company logo is seen by the building of the Elmos Semiconductor SE company in Dortmund, Germany, on Wednesday, Nov. 9, 2022. The German government on Wednesday blocked the sale of a chip factory to a Swedish subsidiary of a Chinese company, a decision that comes as Berlin grapples with its future approach to Beijing. Credit: Bernd Thissen/dpa via AP

Scholz is encouraging companies to diversify but not discouraging business with China. He said before his trip that "we don't want decoupling from China" but that "we will reduce one-sided dependencies in the spirit of smart diversification."

A Chinese foreign ministry spokesman, Zhao Lijian, said earlier Wednesday that he didn't know about the chip factory sale but urged Scholz's government to treat Chinese companies equally.

Zhao called on Germany to "provide a fair, open and non-discriminatory market environment for normal operation of all companies" and avoid "using national security as a pretext for protectionism."

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