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EUROPEAN COUNCIL, BRUSSELS

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COMMUNITY INVESTMENT POLICY

Brief by Foreign and Commonwealth Office

POINTS TO MAKE

1. Agree creation of climate to promote investment is essential part of strategy to regenerate European industry, restore competitiveness and create productive jobs.
2. National Fiscal and economic policy plays key role in investment promotion: budgetary discipline releases resources for investment; control of inflation and creation of stable economy encourages investors.
3. Understand Commission's proposals for European industry strategy (including means of promoting productive investment) to be discussed in Industry Council on 4 May.
4. National action to promote investment should of course take account of agreed Community strategy. But coordination of national and Community action on investment is for the long term.

Defensive

5. (If UK investment policy is raised) Liberal approach to inward investment an essential component of our commitment to free

market economic policy.

6. Suitable inward investment from Japan and other countries can help to improve industrial performance and economic activity, particularly when high level of local sourcing is achieved.

7. (If raised) Do not believe restrictions against Japanese investment would be appropriate. Opposed to discriminatory practices contrary to open trading systems.

ESSENTIAL FACTS

8. Commission's "Community strategy to develop Europe's industry" includes proposals to revive productive investment. We can support some in principle: (e.g. need for innovation to develop high technology, and development of internal market). But we have reservations about other proposals (e.g. creation of a European public procurement agency, or development of a European research and development strategy). And we are strongly opposed to some of the Commission's proposals (e.g. extension of Community competence to both inward and outward investments, attempts by Commission to influence national criteria for inward investment, built-in bias against any non-EC companies in inward investment).

Belgian "European Investment Space" Proposal

9. Belgians have floated idea of a "European investment space" consisting inter alia of harmonisation of conditions for assistance to investment (including inward investment) and an end to the purely national orientation of public investment and public incentives for private investment. The proposal causes stable exchange rates and similarity of real exchange rates throughout the Community. While accepting that financing of public investment should come primarily from national resources, it envisages a growing role for Community funds. Should the Belgians resurrect the idea, a non-committal response would be appropriate. In his letter to the Prime Minister, Mr Martens as President

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refers to need to create a suitable climate for investment and the need for national and Community action on this to go hand in hand and be coordinated in order to be complementary. He refers to Commission's proposals on this and may raise the question either in Council or informally.

UK Inward Investment Policy

10. We welcome inward investment from all sources provided there is net overall benefit to UK economy. This "open door" policy has been attacked by other Member States (especially France in the context of the Sony plant and Italy) on grounds that Japanese factories will essentially be assembly operations designed to avoid trade barriers. But Japanese-owned manufacturing companies in UK have a successful record and have generally achieved a large percentage of local sourcing.

11. UK accounts for 50% of all Japanese manufacturing investment in EC. We are anxious to preserve our freedom to attract investment which brings suitable benefits to UK. We have no wish to encourage EC policy on inward investment which would hamper this freedom.

12. Despite having benefited from Japanese investment, France will not permit this on any scale without Japanese concessions on investment in Japan. The French have managed to restrict imports of Japanese to 3% of the market. They will be watching future Japanese investment in the UK closely (e.g. the proposed Nissan plant) and will probably continue to criticise us on this score to counter the concern we and other Member States have expressed about French measures to "reconquer the internal market".

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