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Prime Minister

The table at flag A is interesting.

MCS 11/2

Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

10 February 1983

Nick Huxtable Esq
Private Secretary to the
Lord President of the Council
Privy Council Office
Whitehall
London SW1

Keep Landy for Questions

Dear Nick

INWARD INVESTMENT

Following my letter of 18 January about the briefing service offered by the Invest in Britain Bureau, you told me that Mr Biffen would like to have some more detailed briefing on the UK's success in attracting investment from overseas.

2 As it happens, the IBB is in the course of finalising a short report covering its own activities and inward investment generally in the period since it was set up in 1977. It is hoped to have that printed within the next few weeks, and I will make sure that copies come to you and all of those who received my earlier letter. In the meantime, IBB has extracted the attached tables with their accompanying commentary, which illustrate in various ways the flow of direct investment into Britain and the level of activity by foreign owned companies.

3 I am copying this letter to the Private Secretaries to members of the Cabinet.

Yours sincerely

David Saunders

DAVID SAUNDERS
Private Secretary

D/SS/165A

THE SCALE OF INWARD INVESTMENT ACTIVITY IN THE UK

(Extract from forthcoming report by IBB)

Inward investment* plays a vital part in the UK economy. In 1979, the latest year for which figures on manufacturing industry are available from the Census of Production, the number of foreign-owned establishments in UK manufacturing industries (ie establishments more than 50% of whose ownership lies outside the UK) represented only 2.5% of the UK total but these accounted for 14.1% of employment, 20.3% of net output and 21.5% of net capital expenditure. The bulk of inward investment in the UK comes from the developed countries of Western Europe and North America, with a major share coming from the USA (see table 2).

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* Inward direct investment can be defined as the finance provided by an overseas company to its affiliates in the UK - in the form of share and loan capital, retained profits and short-term credits and loans: it can include but does not necessarily correspond with actual sums invested in fixed assets.

TABLE 1

Foreign Enterprises in UK Manufacturing Industries:

Overseas controlled as proportion (%) of all establishments

	1971	1973	1975	1977	1979
Number of establishment	1.9	1.8	2.0	2.5	2.5
Employment	10.3	10.8	12.4	13.9	14.1
Wages & salaries	10.9	12.5	14.1	15.8	16.0
Net output	13.3	14.6	15.9	19.0	20.3
Net capital expenditure	17.1	15.8	16.4	18.7	21.5

Source: Business Monitor, Report on the Census of Production.

TABLE 2

Net flow of inward direct investment* in UK (excluding oil industry): £m

Country of investor		1976	1977	1978	1979	1980
Europe:	EC+	176	267	310	267	153
	EFTA	82	170	122	252	226
	Other Western Europe	-3	2	2	5	6
N America:						
	USA	550	636	807	992	1,678
	Canada	-47	59	37	122	81
Other developed countries:						
	Australia	23	13	-6	67	74
	Japan	-16	99	-20	45	38
	New Zealand	3	-	4	5	-4
	South Africa	-13	43	29	-59	96
Rest of the World:		44	37	6	122	227
	WORLD	799	1,326	1,292	1,818	2,576

+EC excludes Greece
*net investment includes unremitted profits
Figures for 1981 by country not yet available
Source: Business Monitor, MA4, 1980

Why is Britain chosen by so many companies? The reasons vary depending on the company, its products and its country of origin. Those from North America for example attach importance to the common language and to similar business practice and law. For most, the UK market and the access provided to a total European market of about 350m is important. Britain also has special trading relationships with many parts of the world including the Commonwealth, Far East and Middle East.

The long history of industrialisation gives the UK the infrastructure necessary for sustained profitable growth. Support industries, the banking and commercial facilities of the City of London and its communications system for example, are all important assets. So is a trained and adaptable workforce. The Government's commitment to a thriving profitable industrial base, its support for modern high technology industries and the availability of financial assistance combined with a favourable tax regime can also be important to the investor. Advance factories, suitable greenfield locations, university links and special training courses, the environment, housing, education, health-care can all be important factors.

As Table 2 shows, European companies contribute a significant proportion of the annual flow of direct invetment into the UK from overseas, though a smaller proportion is in manufacturing industry compared with investment from the United States. To a great extent, this reflects the fact that the potential for manufacturing investment from Europe, and the scale of individual investments, are more related to, and consequently restricted by, the opportunities for developing an already established market presence and the size of the UK market, than they are to the attractions of the UK as a European export base, though occasionally the latter can be an important factor.

Of individual EC countries, Germany (FRG) is an important source of investment to Britain both in terms of value and the number of companies involved, as illustrated by Table 3 (below) and by the survey entitled "German Subsidiary Companies in the United

Kingdom", by the German Chamber of Industry and Commerce in the UK. According to that survey there are now 682 subsidiaries of West German firms in Britain: of these 206 have production facilities, the rest being engaged in sales, banking, insurance, transport etc.

By contrast Japanese investment in UK and Europe generally, though it attracts a good deal of attention, is still relatively small, reflecting the fact that Japanese investors have tended to look first to Asia and then to the USA before studying opportunities in Europe.

TABLE 3

Stock of West German Outward Direct Investment

DM million at book values at end year

	1976(a)	1977	1978	1979	1980
UK	1,362	1,483 (549)	2,023 (675)	2,550 (878)	3,289 (1,054)
Other EC	15,456	16,714 (6,571)	18,593 (7,199)	21,499 (7,927)	25,298 (8,885)
Other Europe	6,078	7,144 (2,642)	10,045 (5,048)	11,508 (5,871)	12,601 (6,353)
North America	8,400	9,718 (5,340)	12,148 (8,596)	16,420 (9,654)	20,154 (11,812)
Other developed Countries	1,862	1,864 (1,218)	2,204 (1,326)	2,598 (1,612)	3,315 (1,993)
Rest of World	15,219	15,197 (8,416)	15,072 (7,634)	14,962 (7,772)	18,677 (9,543)
Total	48,377 (23,533)	52,120 (24,736)	60,085 (30,478)	69,537 (33,714)	83,334 (39,640)

(a) Manufacturing figures not available by country for 1976
Manufacturing figures are shown in brackets.
Source: Monthly Report of Deutsche Bundesbank

TABLE 4

Cumulative Japanese investment abroad to March 1978 by area

Asia	28.7%
North America	25.2%
Central and South America	16.4%
Middle East	10.5%
Europe	9.7%

Source: A study of Japanese direct investment by Technova Inc

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US investment in Britain covers all sectors but is concentrated in manufacturing (84% of total stock of US direct investment was in the UK, excluding oil, banking and insurance at the end of 1978) with well over 1500 manufacturing units established here. In relation to other EC countries the UK is the largest single recipient of US manufacturing investment and has been for many years. (Table 5), US direct investment to all countries, particularly in Europe in 1981 was low, mainly due to depressed economic conditions, and to the USA's high interest rates. Even so, the UK's share of US non-oil direct investment in the EC was at least around 33%, after allowing for large loans by subsidiary companies here to their parents in the USA.

As well as attracting investments by firms in the three main markets described above, Britain is host to the subsidiaries of companies in many other countries. The gross output of Canadian investment in the UK, for example, exceeds £2 billion and is only surpassed by that of the US and Netherlands. The annual capital spending of Canadian firms established in the UK currently exceeds £70 million and the IBB, with the DS Posts in Canada, has increased its activity in that market.

Although other countries have a lower priority in terms of inward investment effort, projects continue to come forward, notably from Commonwealth countries. Indeed 3 Australian-owned companies figure

TABLE 5

US foreign direct investment stock in manufacturing industry in EC countries

	1973	1975	1977	1978	1979	1980
Total EC ($million)	18,501	11,907	27,747	32,150	35,739	41,476
	Per cent of EC Total:					
United Kingdom	35.7	33.2	31.9	31.1	32.0	33.9
Belgium/Luxembourg	8.1	8.8	9.4	8.8	9.4	8.6
Denmark	0.4	0.5	0.5	0.5	0.5	0.5
France	15.9	16.8	14.9	14.6	14.3	14.3
FRG	24.0	23.4	25.3	25.7	24.0	23.3
Irish Republic	1.7	2.5	3.4	4.0	3.6	3.9
Italy	7.6	7.5	7.1	7.5	7.9	8.0
Netherlands	6.5	7.4	7.4	7.8	8.3	7.5

Source: US Department of Commerce, Survey of Current Business

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The UK is the largest single recipient of US manufacturing investment.

TABLE 6

Proportions of US outward non-oil direct investment

	US investment in Europe as per cent of US world total	US investment in EC (excluding Greece) as per cent of US investment in Europe	US investment in UK as per cent of US investment in EC
1973	50.7	77.4	29.7
1974	40.7	73.9	26.3
1975	34.7	67.9	24.2
1976	43.2	76.4	14.0
1977	45.0	85.0	39.2
1978	49.2	80.1	33.4
1979	54.8	77.7	44.3
1980	63.4	81.6	58.5
1981 (provisional)	34.9	over half	at least one-third

(After allowing for the effect of loans from UK subsidiaries to their parent.)

Source: US Department of Commerce

Projects and jobs

Table 7 (below) shows the numbers of investment decisions - first time investments, expansions, joint ventures and acquisitions - by foreign owned companies, known to the IBB, for the years 1979-82, together with the associated employment expected to arise, in the long term, from those decisions.

Among the most prominent of the decisions taken over the past year or so are many in the important high technology industries:-

MITEL, coming from Canada to Wales, with an envisaged 3000 jobs and a £44m. investment;

NEC, financially the largest single Japanese investment in Europe, at Livingstone - estimated 650 new jobs;

Wang, who have announced a £38 m. investment in Scotland

Hewlett Packard, with a $100 m, investment and eventually 3,000 jobs at Bristol.

Hitachi Maxell, setting up a plant at Telford which will eventually make 12 million/year video tape cassettes;

Sanyo and Mitsubishi Electric, both of whom have just announced extensions into production of video tape recorders, in Lowestoft and Scotland respectively.

TABLE 7

Investment Decisions[1] and associated employment 1979 to 1982 by foreign-owned companies in manufacturing industries

Country of Origin	1979[2] (P)[3]	1979[2] (J)[4]	1980 (P)	1980 (J)	1981 (P)	1981 (J)	1982[5] (P)	1982[5] (J)	Total (P)	Total (J)
Belgium	2	185	-	-	3	110	3	23	8	318
Canada	6	423	7	2006	6	1056	-	-	19	3485
Denmark	5	349	4	319	2	73	5	278	16	1019
Finland	3	222	2	35	1	28	-	-	6	285
France	7	391	6	1044	3	425	-	-	16	1860
FRG	25	854	27	1099	20	778	10½	254	82½	2985
Japan	6	585	8	1264	4	1235	2	155	20	3239
Netherlands	18	1044	9½	741	5½	130	9½	963	42½	2878
Norway	1	111	3	51	4	234	4	40	12	436
Sweden	10	552	9½	867	11	150	6	126	36½	1695
Switzerland	8	326	6	1122	7½	589	4	245	25½	2282
U.S.A.	78	8546	63	9183	59	11333	80	8029	280	37091
Rest of the World	14	722	10	931	8	541	10	335	42	2529
Total	183	14310	155	18662	134	16682	134	10448	606	60102

NOTES

1. Known to IBB.
2. IBB's formal records begin in 1979 but these figures may include some decisions from previous years which cannot at this stage be separated.
3. (P) = Projects, i.e. investment decisions (including first time investment, expansion, takeover and joint venture).
4. (J) = Jobs, i.e. estimate of long term employment associated with the project; not every decision is accompanied by an employment estimate.
5. Figures for 1982 as at 31 January, 1983. Some decisions taken by foreign owned companies during 1982 may not yet be known to IBB.

Altogether, in 1982, the Invest in Britain Bureau handled well over 400 investment projects - cases where there was a reasonable presumption of an investment decision being taken, in most cases within the next 12 months.

Invest in Britain Bureau,
Department of Industry,
66-74 Victoria Street,
London SW 1E 6SJ
01-212 6251

January 1983

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Trade

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

JF2446
PS/Secretary of State for Industry

18 January 1983

Jill Rutter
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Dear Jill

INWARD INVESTMENT

Early in 1981 it was decided that, in view of the importance to this country of encouraging investment from overseas in manufacturing industries, Ministers travelling abroad should be briefed on the subject as a matter of course.

2 The Invest in Britain Bureau in this Department is charged with the task of providing briefing, in response either to direct requests, or to the regular schedule of proposed Ministerial visits. Clearly, briefing on inward investment is not always appropriate and, as the schedule reveals so little about the visits, Private Offices have to be approached separately for every likely visit. Sometimes the schedule arrives too late for action to be taken, and opportunities for briefing are missed.

3 I would therefore like to remind you of the service offered by the Invest in Britain Bureau. It will provide general briefing (see attached example) and, where Ministers are planning to visit countries of priority in terms of attracting direct ... inward investment (see attached list) the IBB will supply - on request - fuller written briefing, and will be ready to offer additional oral briefing if desired. It would be helpful if you would bear this in mind.

4 I am copying this letter and enclosures to the Private Secretaries to Members of the Cabinet.

Yours sincerely

David Saunders

DAVID SAUNDERS
Private Secretary

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INWARD INVESTMENT

BACKGROUND BRIEF

Ministers - not only in the economic Departments - meet overseas businessmen at home and abroad. When they do so they are asked

- to bear in mind the welcome which the Government gives to inward investment in manufacturing and service industries

- to take opportunities which are offered to correct misleading impressions which overseas businessmen may have about Britain and the opportunities it offers to the inward investor.

A summary of some of the points which might be made in conversation are given below. Further background on what Britain has to offer the overseas investor is provided in the attached booklet "Invest in Britain".

GOVERNMENT POLICY TOWARDS INWARD INVESTMENT

The Government welcomes inward investment which helps to develop and modernise the country's industrial and commercial base and provide job opportunities. The Government's policies are designed to improve the climate for efficient businesses to succeed in Britain. United Kingdom law and practice treats overseas-owned companies in exactly the same way as British owned companies and they are eligible for the same incentives and benefits.

MARKETS

Britain is a member of the European Community:- thus a base in the UK offers the advantage of free trade within the community market of nearly 300 million, access to EFTA and the benefits of Britain's world and Commonwealth trading links.

INDUSTRIAL INFRASTRUCTURE

Britain has:

- a highly developed industrial infrastructure

- modern communications

- a skilled and adaptable labour force

- the prospect of self-sufficiency in energy at least through the 1980s

- sophisticated financial and commercial services

- excellent educational facilities and close and constructive relations between industry and institutions of higher education.

INCENTIVES TO INVESTMENT

To encourage new investment and the creation of new jobs in areas of Britain where unemployment is greatest, for example because of the contraction of older industries, the Government makes available grants on a virtually automatic and tax free basis to encourage new industrial development. Further discretionary assistance may be available to particularly worthwhile projects in these areas and elsewhere. In some areas new factories are available for rent on advantageous terms.

TAXATION

Despite the prevailing contrary impression, the general level of taxation in Britain is in line with the European average. Tax reliefs available to encourage companies to invest and expand mean that the effective rate of UK taxes on company income, if Advance Corporation Tax (ACT) is excluded, is about 16 per cent on the basis of historic cost profits. New or expanding companies may find that they pay little or no corporation tax for several years.

LABOUR RELATIONS

The average number of working days lost through strikes in the UK compares favourably with Italy and Ireland but is not as good as that of other EC partners. Taking a wider OECD comparison, the UK's strike record is about middle ranking. The average annual number of days lost per 1000 employees in the UK in the period 1976-80 was 566, or just over half a day per employee per annum. Most manufacturing was virtually strike free throughout 1981, and many, especially those in newer industries, have achieved good labour relations and high productivity. The bulk of the stoppages tend to occur in the more traditional and perhaps declining areas of industry where productivity is lower and inefficient working practices may be backed up by the threat of strikes.

NORTHERN IRELAND

Industry has been virtually unaffected by the troubles. The Province has a well-developed industrial base, a highly skilled workforce and offers the highest financial incentives of any region in the UK.

FURTHER INFORMATION

Can be obtained from the Invest in Britain Bureau in the Department of Industry or any British Embassy, High Commission or Consulate-General.

PRIORITY COUNTRIES FOR INWARD INVESTMENT

High Potential

Federal Republic of Germany

Japan

Switzerland

United States of America

Medium Potential

Belgium

Canada

Denmark

Finland

France

Hong Kong

Netherlands

Norway

Sweden

Low Potential

Australia

Austria

Israel

Italy

Korea

Luxembourg

New Zealand

Republic of Ireland

Singapore

Spain