House of Commons

International Trade Committee

Inward Foreign Direct Investment: Government Response to the Committee's Third Report

Fifth Special Report of Session 2021–22

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The International Trade Committee

The International Trade Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Trade and its associated public bodies.

Current membership

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Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

Committee reports are published on the Committee's website at www.parliament.uk/tradecom and in print by Order of the House.

Committee staff

The current staff of the Committee are Eligio Cerval-Peña (Clerk), Matthew Chappell (Committee Operations Manager), Professor Tony Heron (POST Parliamentary Academic Fellow), James Hockaday (Committee Specialist), Adam McGee (Media Officer), Roxanne Michael (Committee Researcher), Saminah Turk (Committee Operations Officer), David Turner (Committee Specialist), Emily Unell (Second Clerk).

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You can follow the Committee on Twitter using @CommonsIntTrade

Fifth Special Report

The International Trade Committee published its Third Report of Session 2021–22, Inward Foreign Direct Investment (HC 124), on 23 September 2021. The Government response was received on 22 November 2021 and is appended below.

Appendix: Government Response

ITC Recommendation 1:

Our predecessor Committee noted several deficiencies in the data on inward investment produced by the Department for International Trade and the Office for National Statistics. We are pleased that both have made progress in addressing these issues, but we note concerns about the slow rate of progress. We join the Office for Statistics Regulation in calling for greater transparency about progress, quick implementation of changes and broader engagement of users. (Paragraph 23)

Government Response:

The Department for International Trade (DIT) welcomes the Committee's focus on transparency and user engagement related to data on inward investment. We are continuously working to increase the transparency of the data we use both for internal and external purposes. In addition to our technical annexes published as part of our annual Official Statistics publication which detail how we produce our inward investment statistics, we have enclosed a methodology statement from our source of external inward investment data. This sets out how the data is sourced and validated, and it will be referenced in our next publication in greater detail.

DIT are continually looking at ways to expand and enhance the annual inward investment statistics. DIT published economic impact estimations for the first time in June 2021 as well as further breakdowns of country data. DIT are also continuing to review disclosure rules with the aim of publishing more granular information in 2022, for example finer detail on geographical breakdowns. The department will work closely with the ONS to explore ways of enhancing reach/accessibility of the publication to a wider audience.

ITC Recommendation 2:

With keen international competition for inward investment, it is vitally important for the UK to have effective arrangements for investment promotion. The creation of the Office for Investment is a significant and innovative addition to the UK investment- promotion landscape. Alongside this development, the role of the Minister for Investment appears to be evolving and growing. These developments are welcome, but the Government should be mindful that the roles of the Office for Investment and the Minister for Investment function as integral parts of a coherent overall investment strategy. There also needs to be further clarity on how the Office for Investment relates to 10 Downing Street, the Department for International Trade and other departments. In addition, we ask the Government to keep us updated on the staffing, developing role and performance of the Office for Investment—and to develop criteria for measuring its success. (Paragraph 75)

Government Response:

DIT's Investment Strategy aims to radically improve our long-term offer to investors and increase investment to all parts of the UK, whilst strengthening the position of investment at the heart of the Government's economic priorities, supporting innovation and job creation.

The Office for Investment (OfI) is a key tenet of this strategy, as the 'tip of the spear' with respect to DIT's wider approach to investment promotion. Its remit is to support the landing of high value and high impact investment opportunities which align with the government's priorities, demonstrating how the OfI is one part of DIT's differentiated service offer to better support high-value investment.

The OfI has been operational since November 2020 and has already had many early successes such as the £10bn UK-UAE Sovereign Investment Partnership with Mubadala, UAE's second largest Sovereign Wealth Fund, which is the first of its kind in the UK creating jobs and economic opportunities across the UK (see Annex A).

The OfI is firmly rooted in DIT and uses the convening authority of No.10 to work across Government to break down barriers for landing top-tier investment. The largest inward investment opportunities are often complex, face the most significant challenges, and require several touchpoints across Government. The OfI responds to this by presenting a single front door to investors and leverages the strength and expertise of Whitehall to land investment into all corners of the UK.

As the OfI has not been in operation for a full financial year, performance metrics are not publicly available. Consideration will be given to including these in DIT's annual accounts.

To reflect the Government's commitment to Levelling Up the whole of the UK, the OfI will expand to have a presence in each of the new trade and investment offices in Darlington, Cardiff, Belfast and Edinburgh.

ITC Recommendation 3:

Other recent developments related to investment promotion include publication of the Plan for Growth (superseding the Industrial Strategy), the calling of the Global Investment Summit, the formation of the Investment Council, the establishment of Trade and Investment Hubs, and the announcement of the new national flagship. The Government needs to show how all these initiatives fit effectively into its overall investment strategy, rather than just being ad hoc. Regarding the Trade and Investment, we ask the Government to explain why it is creating a Hub for each of the devolved nations yet only one in the English regions (in the North of England, at Darlington). It should also say more about the scale on which specialist investment staff—including those from the Office for Investment—will be present in the Hubs and the specific roles that they will play there. (Paragraph 76)

Government Response:

DIT's investment strategy establishes a clear role for investment in the Government's economic strategies, including the Plan for Growth and the Integrated Review. The strategy complements other delivery vehicles, including our global trade policy, to drive economic and productive growth across the UK.

We consistently engage with investors on matters of policy, strategy and investment opportunities, to ensure the UK is at the forefront of attracting new and sustainable investment. The newly formed Investment Council provides a platform for investors to bring their insights and perspectives to Ministers on the Government's investment approach and objectives, whilst the Global Investment Summit held in October was a key platform to showcase the UK's leading global position, commitment to Net Zero, and the investment opportunities that this provides across the whole of the United Kingdom.

Our tailored investment promotion and the establishment of new trade and investment offices play vital roles in reducing information barriers to Foreign Direct Investment (FDI) and generating investment into key regions across the UK, supporting the Government's ambition to level-up the country.

We have strong and established networks across the UK, including dedicated trade offices in every English region as well as our new hubs in Edinburgh, Cardiff and Belfast. Our new Darlington hub forms part of the Government's Economic Campus to enable us to work in close collaboration with other key economic facing departments, making the most of valuable policy synergies to level-up and ensure investment is driven across all parts of the UK. All of these new hubs will include staff from the expanding OfI and will work to join up investment aspirations, opportunities and promotion so an effective and clear offer can be presented to investors.

The new offices expand on our existing network and service provision across the UK. In England, this includes dedicated regions teams and local expertise to engage with Local Enterprise Partnerships (LEPs), Metro Mayors and local authorities, including existing investment offices in the Northern Powerhouse and Midlands Engine and dedicated investment capability in the South West.

DIT will continue to keep its regional support model under review throughout the delivery of the Investment Strategy.

ITC Recommendation 4:

Involvement in inward investment successes, measured in project numbers, is a crude performance metric for investment promotion. We, therefore, welcome the progress that the Department for International Trade has made in developing a "Gross Value Added" measure of the economic impact of inward investment, which opens the possibility of a more sophisticated performance metric and better targeting. We ask the Department to keep us updated on progress in this regard. (Paragraph 77)

Government Response:

DIT notes this recommendation and will keep the Committee updated on progress.

ITC Recommendation 5:

Effective promotion of Foreign Direct Investment across all parts of the UK requires reliable data showing sub-national patterns and trends. We, therefore, welcome the efforts of the Department for International Trade and the Office for National Statistics in developing such statistics. We ask them to keep us informed of progress. (Paragraph 105)

Government Response:

DIT notes this recommendation and will keep the Committee updated on progress.

ITC Recommendation 6:

The Government has made much of "levelling up" across the UK—and indicated that inward investment has an important role in achieving it. However, it is uncertain how this translates into concrete interventions. We recommend that the Government set out in its forthcoming White Paper how it expects investment promotion to support and align with wider levelling-up goals. This should include reference to policy on infrastructure, skills, higher education, integrating with Global Value Chains and further devolution of powers in the English regions. (Paragraph 106)

Government Response:

DIT notes this recommendation. The Government is committed to ensuring that global trade and investment delivers economic benefits to every nation and region of

the UK. The Government will set out the role of investment promotion in the Levelling Up White Paper, which will be published in due course.

DIT's tailored investment support includes the High Potential Opportunities Programme which identifies and strategically promotes regional opportunities that may have previously been 'under the radar' for investors. DIT has dedicated regional teams and local expertise to engage with Devolved Nations, LEPs, Metro Mayors and local authorities, including dedicated trade and investment offices in the Northern Powerhouse and Midlands Engine and dedicated investment capability in the Southwest. This will be further enhanced by the establishment of four major new trade and investment offices in Edinburgh, Cardiff, Belfast and Darlington.

DIT's increased regional support has contributed to a shift in new jobs and FDI projects towards the North of England and the Midlands. FDI projects in the Northern Powerhouse and Midlands Engine have risen year on year from 28% of the England total in 2016/2017, to 35.8% in 2020/21.

DIT recognises the important link between investment and the availability of skills in the labour market, local infrastructure in all parts of the UK and participation in global supply chains and how these impact the UK's attractiveness as an FDI destination of choice. DIT supports international investors to navigate the local skills and infrastructure landscape across the UK, helping investors to invest in all of the UK's regions.

ITC Recommendation 7:

The Skills Accelerator is a welcome innovation in enhancing local skills bases. To maximise the benefits of this, skills policy needs to be coherently joined up with investment promotion at sub-national level. Similarly, higher education can play a crucial role in attracting inward investment and the Government should seek the sector's full engagement in sub-national investment promotion. (Paragraph 107)

Government Response:

We accept this recommendation from the Committee. The UK is a world leader in education and DIT recognises the important role that both higher education and skills play in attracting inward investment to the UK.

The UK has a long history in innovation, due to both its world leading research and development offer, and its numerous centres of excellence that compete as some of the best universities in the world. This higher education offer alone continues to attract significant inward investment across multiple sectors.

DIT takes a UK wide approach to promoting our skills policy offer and provides direct support to international investors to access talent across the country. We work closely with other government departments to ensure we have an attractive skills offer which meets investors' needs. We also work collaboratively with Local Enterprise Partnerships and the Devolved Administrations to ensure both sub- national and devolved skills opportunities are promoted.

To further develop skills policy alongside investment promotion, WorldSkillsUK and EY recently established the Skills Taskforce for Global Britain, with the remit of considering how the UK's skills offer and system can contribute to securing increased foreign investment across the UK. The taskforce is due to issue a report with recommendations in Spring 2022. DIT continue to engage with WorldSkillsUK on this and will meet with them to discuss the taskforce's interim findings in the near future.

DIT continues to strengthen the UK's offer for skills and higher education through the implementation of the International Education Strategy (IES). Co-published between DIT and the Department for Education, the IES' ambition is to increase UK education exports to £35 billion per year by 2030.

ITC Recommendation 8:

The Prime Minister has indicated the possibility of more devolution in the English regions, but the form this will take is unclear. We recommend the Government consider as part of this how to create a coherent sub-national geography that works for investment promotion, effectively tying together areas with common identities and features. This should include reviewing the role of Local Enterprise Partnerships and considering how they can most effectively be funded in relation to investment promotion. Consideration should be given to the lessons that the experience of the devolved nations might hold for the English regions as regards investment promotion. The Government should also bear in mind that the UK's investment promotion "architecture" needs to be straightforward, transparent and easy for investors to navigate. (Paragraph 108)

Government Response:

The Government agrees with the Committee on the importance of considering the structure and role of English regions in relation to investment promotion. The local provision of trade and investment services needs to complement the national framework. DIT is working with the Department for Levelling Up, Housing and Communities on the Trade and Investment elements of the LEP review.

DIT has established mechanisms to work across the English regions and LEPs to ensure there is clear messaging and promotion to investors, with complementary offers from local/regional partners and key strengths clearly articulated. This helps investors to navigate the environment.

This includes dedicated regional teams and local expertise to engage with LEPs, Metro Mayors and local authorities, including dedicated investment offices in the Northern Powerhouse and Midlands Engine and dedicated investment capability in the South West.

Our Investment Atlas, launched at the Global Investment Summit, is a new tool designed to allow prospective investors to navigate the UK's investment environment, exploring areas of competitive advantage across our sectors, nations and regions, and to learn more about the opportunities that sit beneath them. The Atlas brings together and showcases strategically important and commercially attractive investment opportunities from across the whole of the UK, giving investors ready access to a range of expertise and support services.

DIT will continue to keep its regional support model under review through the delivery of the investment strategy.

ITC Recommendation 9:

Sovereign Wealth Funds, and other Sovereign Investors, are likely to play an increasingly important role in UK inward investment as sources of "patient capital" in areas such as infrastructure, technology and life sciences. We welcome the Government exploring ways to encourage this potential source of major investment. We note that not all Sovereign Wealth Funds use the Government's investment promotion services, and we recommend the development of an appropriate strategy for better engaging with this type of investor. (Paragraph 128)

Government Response:

DIT considers sovereign investors as an important source of long-term patient capital for the UK and a priority investor group, which leads on delivering economic growth to the UK by attracting and retaining inward investment from international investors.

The UK Government seeks to partner with sovereign investors seeking high-value investment opportunities in the UK which align with key government priorities, such as net zero, levelling up, infrastructure, and research and innovation. Attracting and enabling sovereign investors to operate effectively in the UK is vital to job creation and the UK's growth as a world leader in life sciences, clean growth, technology and innovation.

Noting that each SWF has different investment objectives, DIT will continue to develop trade and investment partnerships with sovereign investors to expand the exchange of knowledge, skills and ideas which drive prosperity and economic growth for both nations.

We note the Committee's recommendation of the development of a strategy for better engaging with Sovereign Wealth Funds. Broadening our reach with Sovereign Wealth Funds is a priority and the case study in Annex A illustrates DIT's success so far.

ITC Recommendation 10:

The National Security and Investment Act 2021 is a welcome measure, updating legislation that was no longer fit-for-purpose, given the challenges that investment screening now poses. We support the Government's intention to screen on an actor-agnostic basis. (Paragraph 162)

Government Response:

The Government welcomes the Committee's support for the National Security and Investment (NSI) Act 2021. These reforms will help keep the country safe from those who wish us harm while ensuring the UK remains firmly open to foreign investment. The legislation allows us to scrutinise and, if necessary, intervene in a broader range of acquisitions than is currently possible under the Enterprise Act 2002, including purchases of assets such as land and intellectual property. This is an important upgrade of our national security powers and will bring us into line with our key allies and other security partners.

We also welcome the Committee's endorsement of the NSI Act's actor-agnostic approach which ensures that we will assess each transaction on a case-by-case basis.

ITC Recommendation 11:

We recommend the Government use its discretionary call-in powers sparingly and in a carefully targeted way, to deal with issues such as non-controlling investments of concern. We recommend it set out the criteria it will use to minimise the risk of its powers under the screening regime being deployed in a politicised way. (Paragraph 163)

Government Response:

The Government is clear that most acquisitions pose no national security risks. The Secretary of State for Business, Energy and Industrial Strategy (BEIS) will only be able to exercise the call-in power where the legal test–explicit in its reference to national security–is met. The legislation does not permit intervention on a broader public interest basis, nor can it be used for political reasons.

The NSI Act sets out the 'trigger events' that can be called in, which are based on acquisitions of control over qualifying entities and assets. This includes the acquisition of over 25% of shares or votes in an entity and the acquisition of material influence over the policy of an entity. The Government recognises that national security risks can arise from the acquisition of less than a majority stake in a business and the NSI Act provides the Government with the flexibility needed to address such risks.

The Government has set out in secondary legislation the definitions of the 17 areas of the economy, including parts of the critical national infrastructure and advanced technology sectors, in which certain acquisitions are subject to mandatory notification. This means that they must be notified and approved by the Government before they can take place. While the Secretary of State can call in acquisitions outside the 17 areas, they provide the strongest indication of where the call-in power is expected to be used.

Under the NSI Act, the Secretary of State for BEIS is required to publish and lay in Parliament a statement setting out how he expects to use the power to call in acquisitions. The final statement was published and laid before both Houses at the start of November.

ITC Recommendation 12:

We recommend the Government set out overtly how it intends, in operating the new screening regime, to communicate clearly and transparently to investors the principles underlying the regime, along with its processes and timeframes. (Paragraph 164)

Government Response:

The Government is committed to providing investors with as much clarity and certainty around the requirements of this Act as possible. Under section 3 of the NSI Act, the Secretary of State must publish a statement setting out how he expects to use the call-in power. A draft of that statement was published at Bill introduction for the benefit of Parliamentary scrutiny of the proposed reforms. The Government reflected carefully on the feedback received from MPs and peers and published an updated version for public consultation in July of this year with the final statement published and laid before both Houses at the start of November.

The statement provides information to businesses, investors, law firms and others about the circumstances in which national security risks are considered most likely to arise from qualifying acquisitions. This will guide businesses as to whether to notify the Government of acquisitions outside the mandatory notification requirements of the NSI Act and will help to maintain certainty and predictability so as to keep investment flowing into the UK. We will update the statement at least every five years to ensure it reflects technological, geopolitical, and national security changes over time, informed by the operational experience of BEIS' Investment Security Unit in running the new system.

The statement, alongside our legislative requirement to publish an annual report providing details on the number of acquisitions notified, called in and remedied, underlines the Government's commitment to maximum transparency about the new system, within the confines of sensitive commercial and national security contexts. The Government will maintain its programme of proactive communication with investors, providing regularly updated guidance for businesses.

The NSI Act sets out the detailed processes and timelines which will apply to the consideration of acquisitions. We also published comprehensive guidance on the new system in July.

ITC Recommendation 13:

We recommend the Government set out precisely the respective roles of the Department for International Trade, the Office for Investment and other Government bodies in implementing the new regime. It should also consider whether the Export Control Joint Unit could be a possible model for developing the Investment Security Unit on an integrated, cross-departmental basis. (Paragraph 165)

Government Response

The Government is committed to ensuring we facilitate investment whilst maintaining the highest standards of national security. The NSI system will be supported by a "hub and spoke" model. While BEIS is the ultimate policy owner and will implement the NSI Act via the new Investment Security Unit (ISU), DIT alongside other Government departments, will support the process, playing a key role in international engagement and business communications on NSI. This includes work conducted by DIT's Investment Security Team to ensure that economic concerns are considered in the ISU's appraisal of relevant cases.

The Government notes the Committee's recommendation but does not consider it appropriate to adopt the Export Control Joint Unit (ECJU) model. The ISU has been carefully designed to support investment screening work. The ISU will, however, work closely with the ECJU and other teams across Whitehall on relevant cases.

The Office for Investment will continue to support the landing of high impact and high value investment opportunities which align with key Government priorities and meet security and scrutiny requirements as outlined in the NSI Act.

ITC Recommendation 14:

We recommend the Government monitor closely the functioning of the new regime, including the work of the Investment Security Unit. A review of the regime's first 12 months of operation should be undertaken, and the findings published. If necessary, processes under the regime, or the regime itself, should be modified—including by changing legislation, if this is required. (Paragraph 166)

Government Response:

The Government will keep the new system under review once commenced. As noted above, the NSI Act requires the Secretary of State for BEIS to publish an annual report that will include details on case numbers, the sectors within which they fall, and the time taken to accept or reject notifications. This will provide valuable information to Parliament about the operation of the system. In addition, we will publish market guidance notes within six months of the NSI Act's commencement.

On the question of changing the legislation if required, section 6 of the NSI Act provides the power to amend the scope of the mandatory notification element of the system.

This could include updating the areas of the economy covered by mandatory notification, changing the types of acquisition subject to these requirements or introducing exemptions based on the characteristics of the acquirer. The Government will monitor the volume and patterns of cases to inform decisions on any such changes.

Annex A–DIT and SWF Case Study

In March 2021, the UK and the United Arab Emirates (UAE) launched a Sovereign Investment Partnership (SIP) with an initial £800m to be invested in British life science companies over five years, boosting prospects for economic recovery after COVID-19. This is the first agreement of its kind for the UK and the Office for Investment and will deepen existing UK-UAE trade and investment ties. Total trade between our two countries was worth £18.6bn in 2019, and two-way investment of £13.4bn in 2019.

The partnership is with Mubadala Investment Company, a sovereign investor managing a global portfolio aimed at generating sustainable financial returns for its shareholder, the government of Abu Dhabi. It will promote and deepen long-term cooperation between the UK and the UAE with a focus on innovation-led industries of the future: life sciences, energy transition, infrastructure and technology.

In September 2021, the UAE committed a total £10 billion via the framework agreement overseen by the OfI and Mubadala. The SIP is central to the new Partnership for the Future bilateral framework that builds on historical ties to formalise and guide trade, investment, and innovation relations between the UAE and the UK. It will also establish new collaborations across shared priorities, including climate change, education, regional stability, and food security.

Multiple UAE and UK institutions will now invest under the UAE-UK SIP overseen by the OfI and Mubadala, with opportunities prioritised against investment criteria and the potential to support job creation in both countries, strengthen national research and development capabilities and originate new areas of investment collaboration and economic links.