Centre for European Reform: 'An EU Policy for Sovereign Investments'

15th January 2009

[1,285 words / c. 12 minutes]

1. Good afternoon and thank you very much to the Centre for European Reform for inviting me to be here today for the launch of their paper on Sovereign Investments.

2. I'm grateful for the well-reasoned contribution that the Centre has made to the increasingly heated debate that surrounds this topic, and for giving me the opportunity to say a few words of my own on the subject.

3. Of course, the UK is well known internationally for its policy of economic openness. For centuries we have welcomed people, trade and investment from all around the world.

4. And as societies and economies everywhere have become evermore inter-connected, London has

established itself as a gateway to the world. As a result, London has become a major financial centre with strong links to other financial hubs and emerging economies,

5. London is a natural place for foreign companies and states to invest and do business, as testified by the huge presence of foreign financial institutions here. There are more foreign banks here than in any other city in the world.

6. British Governments of all political hues have consistently supported policies that welcome foreign investment. And Britain has embraced globalisation – recognising, of course, that it creates significant challenges - but convinced that it can bring real benefits for us all.

7. Last year, the UK attracted over $1.3 trillion in Foreign Direct Investment. That makes us the largest recipient of FDI in Europe, and second only to the US globally.

8. And the UK is the third largest target country for Sovereign Wealth Fund investments, behind only the US and China.

9. We have long-standing links with many of the more established Sovereign Wealth Funds, and have witnessed strong growth in activity by the newer funds, which have invested heavily in our financial, retail, and real estate sectors.

10. The Kuwait Investment Authority opened its London office back in 1953, and since then we have seen offices set up here to run funds from Abu Dhabi, Brunei and Singapore. Others operate through representatives in London, like the Norwegian fund that is run via the Norges Bank.

11. The UK has also encouraged partnerships with Sovereign Wealth Funds to achieve wider objectives. The partnership between the Carbon Trust and Qatar, for example, will be of mutual benefit to both Qatar and the UK. It will match British expertise in renewable technology, with investment from Qatar and the private sector in Britain. It is an excellent

example of the partnerships we need between oil producing and oil consuming countries to develop new energy sources and technologies, diversifying our economies and reducing our carbon emissions.

12. But we live in some of the most uncertain economic times for many decades- perhaps for a century. And history shows that recessions often create a corresponding rise in economically protectionist sentiment.

13. As the recession spreads and deepens, and when investment, incomes and jobs are under threat, we are likely to see countries taking increasingly protectionist measures in a bid to safeguard their economies.

14. We have seen before, the damage that a wholesale retreat into protectionism can have. If countries raise barriers and retreat behind their own economic borders, investors will be put off at exactly the time when fresh capital is increasingly hard to come by. So it is now more important than ever that countries maintain open markets.

15. We know that, in these difficult times, Sovereign Wealth Funds have their part to play. We have witnessed in recent months the stabilising effect they can have on financial markets through their capital injections into ailing banks in the US and UK.

16. The UK government shares the views expressed in the Centre for European Reform's paper that is being launched today, that if the West became more closed to Sovereign Wealth Fund investment, then we will effectively be pushing away investment towards economies with more welcoming climates for investments.

17. We recognise that there have been increased concerns from some quarters of the world about the rise of Sovereign Wealth Funds and the shift in their investment patterns towards equities. The main worry seems to be that Sovereign Wealth Funds might make investments for political rather than commercial reasons.

18. Of course, all economies need instruments to tackle distortions to competition and all nations need to protect their national security interests. Here in the UK we seek to ensure competitive markets and to protect legitimate security interests though non-discriminatory and proportionate regulatory regimes.

19. We do not believe that we need to introduce specific national measures targeted at Sovereign Wealth Funds in the UK, because our existing domestic legislation provides the appropriate safeguards.

20. We support and fully adhere to EU treaty rules on the freedom of establishment and free movement of capital which are the foundations of our investment framework.

21. We believe that the regulatory regimes already in place in the UK offer the right level of protection from any perceived threat from any kind of investor - for the efficiency and security of the UK economy.

22. The UK is concerned with the growing unease in some countries about the rise of SWFs. We feared it could potentially lead to rising protectionist sentiments and an undermining of the commitment to open markets, which has delivered so much economic growth to the world.

23. We absolutely agree with the CER's paper that the EU and its member states should support the multilateral efforts of the International Monetary Fund and the Organisation for Economic Co-operation and Development.

24. We strongly support the initiatives by the IMF and OECD to develop confidence-building measures, which help to build trust between countries with Sovereign Wealth Funds and countries where they are seeking to invest.

25. Clearly transparency is a major factor in reassuring recipients. Transparency can also help reassure the citizens of the investing countries that their money is being invested well. The successful

experience of the Norwegian Fund shows that a high level of transparency need not prevent high returns.

26. We have warmly welcomed the so-called Generally Agreed Principles and Practices (or "GAPP") and welcome the fact that countries with the largest Sovereign Welath Funds such as Abu Dhabi, China, Kuwait, Qatar, and Singapore have been actively involved in the International Working Group that developed the principles and have signed up to them.

27. We consider that the principles are entirely consistent with the UK's objective of promoting open investment, whilst also providing reassurance and addressing protectionist concerns. We are calling on all those that operate Sovereign Wealth Funds to comply with the GAPP agreement and commit to greater transparency and good governance.

28. We also welcome the OECD guidelines on recipient country policies towards Sovereign Wealth Funds. These comprehensive guidelines provide a good framework for promoting mutual trust and

confidence for sovereign investments. They will help allay protectionist tendencies in recipient countries and create open, transparent and predictable inward investment regimes that will help both home and host countries reap the full benefits of sovereign investments.

29. The UK will continue to resist calls to limit or restrict sovereign investment and against the adoption of protectionist measures by countries. We have benefited from our long-held policy of open trade and investment and we remain committed to this.

30. Sovereign wealth funds have been around for many years- their recent proliferation does not represent a new threat to the global financial system or to national security.

31. Our inward investment framework has already evolved to protect the public interest from threats to national security and to preserve competition. But, we all have an interest in maintaining an effective

dialogue with our international partners to build understanding and confidence.

32. Thank you. [ENDS]