

2. Foreign direct investment in the UK

2.1 Foreign investment rules

There is no specific law governing or restricting foreign investment. Foreigners or foreign-controlled companies are treated in law exactly as UK-owned businesses, and they may engage in most forms of economic activity in the UK. However, a few industries are government-owned or controlled by government agencies. These include some areas of transport and energy.

Foreign and British investors alike must comply with monopoly and merger rules, and specific government approval may be required for the takeover by a foreign investor of any large or economically significant UK enterprise.

Banking and insurance concerns must obtain Financial Services Authority (FSA) and government authorisation before commencing operations in the UK.

Required national participation

No sectors of the economy are restricted to UK nationals or require majority equity holdings or other specified holdings by UK nationals. In sectors such as defence, however, there are restrictions on both UK and foreign companies.

In theory, managers should be UK nationals, but in practice, foreign companies can obtain work permits for foreign managers by demonstrating that their skill level or experience cannot be found among UK nationals.

Real estate acquisition

With very few exceptions, there are no limitations on foreign ownership of real estate. Real estate may be acquired or occupied in a number of ways, including the acquisition of a freehold interest in the land, a long lease, a short lease, or a license. Individuals, trustees, and companies can all acquire interests in real estate.

A number of restrictions are placed on how the owner of an interest in real estate uses or develops the land or building, including the following:

- The legal title under which the real estate is held may impose restrictions. An example would be a legally binding covenant in a lease limiting the use to which the land may be put.

- UK legislation, notably the various acts on town and country planning, requires planning permission in a number of cases. Planning permission is needed for development, which not only includes the construction of buildings but also for making material changes to the use of buildings or land. There are some exceptions to this general rule. For example, alterations that do not materially affect the external appearance of a building do not require planning permission. Application for planning permission must be made to the local planning authority by the owner of the land or by a person who genuinely intends to acquire an interest in the land. If permission is refused, or the applicant finds the conditions of approval to be unsatisfactory, the applicant may appeal to the Department of the Environment.
- Building regulations under public health legislation impose requirements on the way alterations to existing buildings are made and new buildings are constructed.

Restricted locations

A business may be located anywhere in the country, provided that any necessary building permits and planning consents are obtained.

Exchange controls

No exchange control restrictions affect inward or outward investment (direct or portfolio), the repatriation of income or capital, the holding of currency accounts, or the settlement of current trading transactions.

2.2 FDI target sectors in the UK

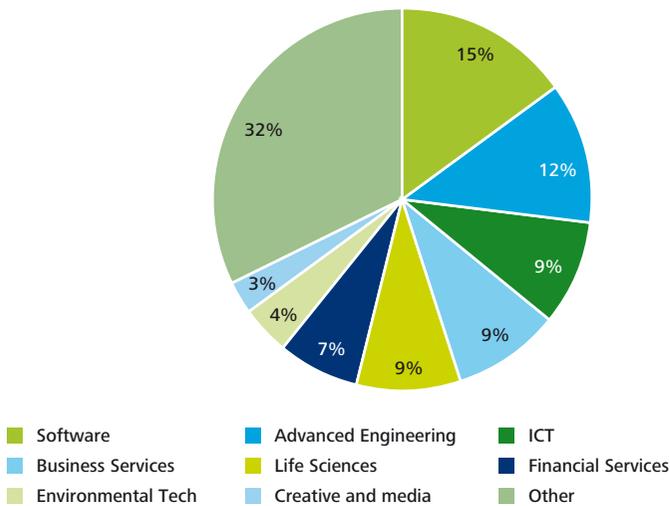
While there are almost no restrictions on foreign investors in the UK, and there are an enormous amount of investment options open to you, here we have identified particular sectors which both government and private sector have come to regard as investment priorities. These are important sectors for the UK, where British firms are often at the forefront of global business. Those sectors are: information communications technology (ICT), automotive, life sciences (Bio Medical), renewable energy, and the creative industries.

Figure 2. Origin of FDI into the UK

Country	FDI projects	New jobs created
USA	478	15,608
France	88	3,339
Canada	68	1,079
Japan	102	3,147
Germany	104	3,370
Australia	92	1,746
India	75	3,846
China	59	898
Ireland	79	2,662
Netherlands	45	852
Sweden	56	1,517
Rest of EU	98	1,562
Rest of World	196	4,431
Total	1,573	45,051

Source: UK Trade and Investment, 2008

Figure 3. FDI into the UK: Projects by sector 2007/08



Source: UK Trade & Investment, 2008

Information Communications Technology

Information communications technology (ICT) supports a range of key sectors, including pharmaceuticals, aerospace and broadcasting. The UK is a global hub for innovation, with acknowledged strengths in research & development. In emerging sectors, such as organic and plastic electronics, displays and photonics, the UK's research strengths are building tomorrow's global businesses.

Telecommunications

Following the Government's pioneering liberalisation during the 1980s, the UK telecommunications today is a \$65 billion industry. Over 250,000 employees in 7,800 companies offer skills and capabilities that span the supply chain. UK telecommunications businesses are acknowledged innovators and are often the partners of choice for global firms.

Electronics

The UK is home to Europe's largest base of legendary design houses, while at component level, UK firms benefit from a continuing trend of convergence. Leading electronics companies, such as ARM Holdings (whose chips are found in most portable devices including Apple's iPhone and 90 per cent of the world's mobile phones) and CSR (whose chip designs are used for more than 50 per cent of Bluetooth devices), are global standard bearers in this growing sector.

Software and IT services

The UK is a software development powerhouse. It is Europe's leading investment market for software and IT services. The sector accounted for 24 per cent of all inward investment in 2007/08.³ It is home to leading global players and to over 100,000 specialist software houses, employing one million highly staff and generating around 10 per cent of UK GDP.⁴ There are more software start-ups in the UK than anywhere else in Europe. The software market is bolstered by public sector engagement and the UK Government is investing heavily in pursuit of its transformational agenda. Several multi-billion pound IT integration projects are either underway or in the pipeline.

Life Sciences

The UK has one of the world's strongest and fastest-growing life sciences markets. Together, its biotechnology, healthcare and pharmaceutical industries generate more than £23 billion a year in revenue, and employ more than 400,000 people. For life sciences companies keen to gain a foothold on the global stage, the UK offers an outstanding track record in drug discovery, a strong academic base and increasing government support for research & development through investment and tax credits. Five of the world's top 20 medicines were developed in the UK, a record that is second only to the US and is better than the rest of Europe combined.

The UK pharmaceutical industry employs around 70,000 people, a third of whom are directly involved in research & development. All the world's top ten pharmaceutical companies have operations in the UK; and many of these have significant research & development and manufacturing capabilities.

³ UK Trade & Investment 2008

⁴ UK Trade & Investment 2008

Moreover, the investment is increasing. In 2006, GlaxoSmithKline injected a further £25 million into its manufacturing plant in Montrose, Scotland, while AstraZeneca is spending £60 million on expanding its oncology research centre in Cheshire.

Energy

The UK's expertise in traditional energy sectors is vital to helping other countries find and exploit their oil and gas reserves. Production of North Sea oil and gas in the UK itself has far outperformed previous expectations, thanks to investment into the world class research & development performed on existing wells and new explorations, financing from the City of London and the support of stable and pragmatic government regulation.

In the coming few decades, UK expertise will be instrumental in bringing more hydrocarbons to the surface in energy hotspots such as India, China, Kazakhstan, Russia, the Americas, the Middle East, Africa and offshore in places such as the Barents Sea.

Renewable Energy

Under the UK Government's Renewables Obligation Commitment (ROC), licensed electricity suppliers are required to buy a proportion of their electricity from accredited renewable sources.

This has encouraged major developments in the most economic forms of renewable energy; particularly offshore wind farms, landfill gas and co-firing of biomass in power stations.

Wind power is leading the way. In 2006, more than £500 million-worth of wind turbines were commissioned in the UK. Scottish Power is building a £300 million wind farm near Glasgow, which will be the largest in Europe. Efforts to capture waves and tides as a source of energy are not far behind. The European Marine Energy Centre on Orkney, North East Scotland, is testing prototypes and their potential impact on the marine environment. Pelamis, developed by Ocean Power Delivery of Edinburgh, was the first of these to generate electricity from wave power. It is being installed in the world's first commercial wave farm, off Portugal's north coast.

Creative industries

The UK is a hotbed of talent, with a flexible, highly skilled workforce and a strong academic base. The creative industries account for 7.3 per cent of gross value-added (GVA) in the UK economy and 4.5 per cent of all UK exports. There are over 120,000 creative businesses in the country, employing 1.9 million people – a figure which is rising three times faster than the rate of the economy overall.⁵

Games

In the online games sector, the UK is Europe's biggest, most established market, as well as its leading developer. It is the third-largest market in the world for video games. There are at least 150 games development studios around the UK, including centres of excellence in Scotland, London, the South East and Yorkshire. These produce content for PCs, consoles, handheld devices, mobile platforms and the internet. They operate in a technically demanding environment. The games they produce demand ever-larger budgets.

The industry is highly professionalised and geared to the increasing logistical demands. Leading international publishers like EA, Microsoft Games Studio and NCsoft have European headquarters and development centres here. There are four accredited university courses helping to ensure that the demand for skills in this industry are met.

Screen-based industries

The UK television industry contributed around £12 billion to the economy in 2004. As well as the BBC, the UK is home to around 1,500 independent production companies. It has a thriving independent production sector, which generated over £1.8 billion during 2006, 9.8 per cent up on the previous year.

The market performs strongly internationally, with 19.8 per cent of all TV revenue coming from exports in 2006. UK TV brands have become international brands and are generating opportunities in other media.

Music

The UK is renowned for its leading-edge musicians. It is the fourth largest music publishing market in the world, with approximately 9.8 per cent share of international revenue. The UK is also second only to the US as a source of repertoire. The industry is worth around £5 billion a year and has an export value of approximately £1.3 billion.

Design

Great design helps businesses compete on value rather than price – and it helps them set the pace in crowded markets. Leading manufacturing companies in China and India are tapping into UK design skills. Major multinational companies are attracted by the UK's talent base and its reputation for innovation.

The UK's design industry is recognised as world-class. UK designers are responsible for the iPhone and the interior of the launch Airbus A380. Over 185,000 people work in UK design. There are around 4,000 consultancies, about a third of them in London. Glasgow also has a strong design presence.