



Launch of Bruegel's latest policy brief:

“Safe and Sound: An EU Approach to Sovereign Investment”

By Lars-Hendrik Röller and Nicolas Véron

BRUSSELS, 7 November 2008 – Bruegel today publishes a new Policy Brief on how the EU should react to the changing patterns of inward foreign investment, including a recent rise in investment coming from countries with diverse, often non-democratic political regimes. They advocate building an EU-level policy framework for the review of the security consequences of foreign acquisitions, the implementation of which would remain in the hands of individual member states.

Beyond the highly visible emergence of Sovereign Wealth Funds, the authors track a structural increase in the ability of non-European sovereign investors to invest internationally. They highlight that a growing proportion of inward investment into Europe is likely to come from countries whose political regimes are different from, and often more illiberal than, those of EU member states and other long-standing investment partners. This holds the potential for not only political tensions, but also, in a limited proportion of acquisition cases, for genuine security risk. Conversely, this risk should not be overestimated to the extent of curtailing the openness of the EU to foreign investment and erecting barriers within the EU internal market. The ongoing crisis can be expected both to increase Europe's need for inward investment, and the political and security concerns such investment could raise.

Initiatives from sovereign investors to address the concerns of recipient countries, such as the 'Santiago Principles' unveiled by a group of 26 investing countries last month, are welcome but unlikely to eliminate all risk scenarios. To manage these, **the authors recommend an open, comprehensive and sustainable framework for the review of foreign investment throughout the EU. This would also ensure that national security concerns are not abused for protectionist purposes.**

They explain how this could be best achieved with new EU legislation (internal market directive), leaving individual security assessments and negotiations over individual acquisition cases in the hands of member states with appropriate processes for multilateral coordination and exchanges of best practices. The adoption of such a framework, for which the authors propose an outline, would allow Europeans to credibly address risks to national and European security while maintaining and strengthening the openness of the EU's investment environment.

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Bruegel is a European think tank devoted to international economics, which started operations in Brussels in 2005 with the support of European governments and international companies. Bruegel aims to contribute to the quality of economic policymaking in Europe through open, fact-based and policy-relevant research, analysis and discussion.