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HEADLINE: Study: Scrutiny threatens foreign deals

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By Christopher S. Rugaber, AP Business Writer January 24, 2007

WASHINGTON ––Federal reviews of proposed foreign acquisitions of U.S. companies, which have become more common, more time–consuming and more intensive, threaten to slow outside investment in the United States, a new study concludes.

"The pendulum has swung too far and unless it shifts back toward the center, much–needed investment could be chilled and U.S. jobs and economic growth will be lost," says a study due out Thursday from the ***National Foundation for American Policy***, a free–market think tank.

The scrutiny of foreign investment in so–called "critical infrastructure," which includes ports, power plants and telecommunications networks, intensified in the wake of the September 11 terrorist attacks, the study said.

Last year, the Bush administration cracked down on foreign investment after Congress reacted strongly to a proposed purchased of operating rights at five U.S. ports by a Dubai–based company.

The purchase by Dubai Ports World was initially approved by the Committee on Foreign Investment in the United States (CFIUS). An interagency group, CFIUS reviews can reject foreign acquisitions of U.S. companies over national security concerns. Its membership includes 12 federal agencies, including the Departments of Treasury, Justice, Defense, Homeland Security and Commerce.

Congressional opposition also helped thwart a 2005 effort by Chinese oil company CNOOC to purchase California–based Unocal.

Donald L. Evans, chief executive of the Financial Services Forum, said that companies want to know whether CFIUS is keeping to its mandate of "national security–related issues" or expanding to a "more protectionist kind of mentality."

The forum, one of several groups lobbying Congress for more clarity in the foreign investment review process, represents large banks and financial services companies, such as Citigroup Inc., Wachovia Corp. and American Express Co.

CFIUS reviews can be initiated by the companies involved in the deal or by CFIUS member agencies. CFIUS reviewed 113 transactions in 2006, up from 53 in 2004 and 65 in 2005, the study found. Seven of the reviews were extended beyond the standard 30–days into a 45–day investigation, up from 2 extensions in 2005.

In some cases, the reviews lasted longer, the report said. The purchase of Lucent Technologies Inc. by French telecom equipment maker Alcatel, for example, wasn't approved until seven–and–a–half months after the deal was announced.

CFIUS' additional conditions can reduce the value of a deal because of the expense and time involved, the report said. The Department of Homeland Security pushed for security–related changes to 15 transactions in 2006, more than in the previous three years combined, the study found. Such changes can require foreign buyers to sell parts of a U.S. company that does government contracting work or to appoint U.S. citizens to oversee the work.

The CFIUS process should be clarified, the report said, through legislation or by executive order.

Brookly McLaughlin, a Treasury Department spokeswoman, said she could not comment on the report because she had not seen it. But the Bush administration "firmly believes it's important to maintain an economic environment that is welcoming to international investment," she added.

That still seems to be the case. Gary C. Hufbauer, a senior fellow at the Peterson Institute for International Economics, said 2006 "was a good year for foreign investment in the U.S."

According to the Commerce Department, foreign direct investment –– or the purchase of companies, factories or other physical assets –– reached $134.9 billion in the first three quarters of 2006, above the $99.4 billion for all of 2005.

The study says that U.S. subsidiaries of foreign–owned companies employ more than 5 million Americans, the report says.

Some economists dispute the notion that foreign investment creates jobs. Robert E. Scott, senior international economist at the liberal–leaning Economic Policy Institute, said that foreign companies frequently buy U.S. firms to take advantage of brand and marketing power, while closing production facilities and laying off workers here.

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