How will Europe compete for investment amid ongoing turbulence?

EY Attractiveness Survey

Europe

May 2022

The better the question. The better the answer.
The better the world works.

Building a better working world

Contents

Foreword

Complexity is compounding. Just as the worst of the COVID-19 pandemic appeared to be over, and economies began to recover, war returned to European soil. The consequences for businesses with people and operations in Ukraine and Russia are monumental. But all businesses with a presence in Europe have felt the ripple effect, whether that be escalating costs of energy and commodities, sanctions of clients and partners, or more pronounced undercurrents of social tension in many countries.

Longer-term trends are also at play. Businesses continue to adopt new technology at breakneck speed. Consumers, employees, investors and regulators put increasing pressure on business to address climate change and other societal challenges. And hybrid work is becoming the norm. It's no exaggeration to say that businesses face a more complex and rapidly evolving set of challenges than ever before.

Against this backdrop, EY teams launched the research for the 21st Europe Attractiveness Survey. We were keen to explore whether foreign investment in Europe was showing any signs of recovery following a 13% decrease in 2020. The short answer is that it recovered to a modest extent, although the picture is mixed across countries and sectors. More importantly, we wanted to know if the growing complexity and turbulence had changed how business make decisions about where facilities are located. And if it has, is Europe still competitive?

> It's no exaggeration to say that businesses face a more complex and rapidly evolving set of challenges than ever before.

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As a starting point, the report explores how digital and sustainability-related factors increasingly influence location decisions, and how they stack up against traditional drivers such as skills, infrastructure and tax. It also examines the unique challenges faced by small and medium-sized enterprises (SMEs). Multimillion-euro foreign investment projects that create thousands of jobs may grab the headlines, but smaller organizations are the real engine of investment, not to mention GDP growth and job creation. The survey finds that the foreign investment plans of SMEs are taking longer to recover than those of multinationals. Targeted intervention and stimulus may be required to entice smaller businesses to get back on the investment trail.

Just like businesses, European policymakers have competing priorities. In times of crisis, there is an obvious need to focus on the "now" rather than the "next." But it is also imperative to fortify Europe's long-term attractiveness to foreign investors. Why? Because Foreign Direct Investment (FDI) is not an afterthought. The value of FDI inward stock in the EU was €11.4 trillion in 2020, equating to 69% of the EU's GDP.[1] And it created jobs, rejuvenated communities, boosted innovation and stimulated economic growth everywhere.

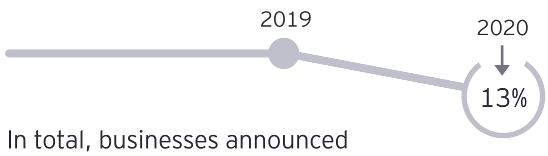
We hope that the findings in this report initiate a conversation about foreign investment and Europe's future. As part of EY commitment to building a better working world, EY professionals are dedicated to helping businesses, sectors and countries recover, transform and thrive. We firmly believe that foreign investment has a key role to play in this endeavor.

[1] https://statista.com/statistics/934244/foreign-direct-investment-inward-stock-in-the-european-union/

Executive summary

1 Europe's attractiveness set to grow despite short-term dent in confidence

- Foreign investment in Europe recovered in 2021 following a year in which COVID-19 caused investment levels to drop by 13%.



In total, businesses announced

5,877 projects | ↑ **5%** annual increase

That said, investment levels are still 12% below the record high levels in 2017.

The recovery is slower than after the global financial crisis, when investment levels returned to pre-crisis levels after only one year.

- In total, businesses announced 5,877 projects, a 5% annual increase. That said, the number of FDI projects is still 12% below the record-high levels of investment in 2017. The recovery is slower than after the global financial crisis, when investment levels returned to pre-crisis levels after only one year.
- Despite the hesitation to invest in 2022, 36% of investors surveyed after 14 March believe Europe's attractiveness will improve during the next three years. Just 19% believe it will decrease.
- According to surveyed businesses, the war in Ukraine, soaring inflation and potentially burdensome regulation are the key factors that may slow foreign investment in Europe in the long term.

2 France shines, industrial projects rebound

- A post-COVID-19 rebound caused investment in France to rocket 24% to 1,222 projects in 2021. Investment in the UK remained steady, increasing 2% to 993 projects. In stark contrast, the number of projects in Germany tumbled 10% to 841.
- However, the UK attracted more job creating investments than France did in 2021. Based on projects where the number of jobs created is disclosed, the average foreign investment created

68 jobs in the UK

45 jobs in Germany

38 jobs in France

- Countries in Southern Europe performed well, especially Italy (+83%), Portugal (+30%) and Turkey (+27%). In contrast, countries in Western Europe that traditionally rely on services investments struggled. These include the Netherlands (−22%) and Ireland (−8%).
- Industrial foreign investment, which includes manufacturing, logistics and R&D projects, rebounded 22% to 3,037 projects in 2021, following a particularly fallow year in 2020. This is in part due to supply chain reorganization, which looks set to continue: 53% of companies surveyed are considering nearshoring operations closer to customers, more than double the 23% that were considering this last year. In parallel, 43% are considering reshoring activity back to their domestic market, compared with 20% last year.
- In contrast, the transition to remote working caused services FDI to decline. For example, businesses announced 25% fewer sales and marketing offices in 2021. This is in part because businesses have paused office-based investments while they evaluate the impact of hybrid work on their real estate requirements. In some circumstances, hybrid working may allow businesses to meet their expansion ambitions through existing offices.

3 Europe's long-term attractiveness hinges on five priorities

According to our survey, businesses remain optimistic that Europe will retain its status as a highly attractive long-term destination for foreign investment. But policymakers cannot afford to sit back. Many factors could undermine the continent's long-term attractiveness, not least the war in Ukraine. The survey data reveals that of the factors that influence Europe's attractiveness, policymakers should pay special attention to the following five key areas:

Priority 1 Redouble digital investments

Businesses have made huge investments in technology since the onset of the COVID-19 pandemic to facilitate remote working, automatization and e-commerce. The increased digitalization of services and industry explains why the level of technology adoption by consumers, citizens and administrations is now the most important factor that determines where businesses invest. Last year, this only ranked joint fifth. It is likely that businesses view this as a proxy for countries with an abundant supply of workers with technology capabilities, which they will increasingly need to maintain and accelerate their investments in innovation.

Priority 2 Secure Europe's competitive edge in sustainability

This year, businesses rank the policy approach to climate change and sustainability as the second-most important factor that determines where they invest. Last year, this ranked second to last. The majority of businesses already see Europe as a "green leader." But at the same time, businesses consider environmental legislation a major risk to Europe's attractiveness. It seems that companies want policymakers to proceed with caution and strike a careful balance between promoting sustainability and not overburdening business. Policymakers also need to build a democratic consensus for Europe's sustainability drive, and ensure that businesses and individuals that might be adversely affected are supported in their sustainability journey.

Priority 3 Create the skills needed to transform European business

A common theme in the first two priorities is the need for new skills. By way of example, the International Energy Agency (IEA) estimates that 14 million new jobs will need to be created in the energy sector alone by 2030 in the transition toward net-zero emissions. This is a rallying call to European and national governments: they must work with businesses and academia to ensure that the right skills are being created. Timing is all important. Produce skills too late, and Europe's digital and green transition will be slowed. But produce skills before they are needed, and individuals may move out of Europe to where they are required.

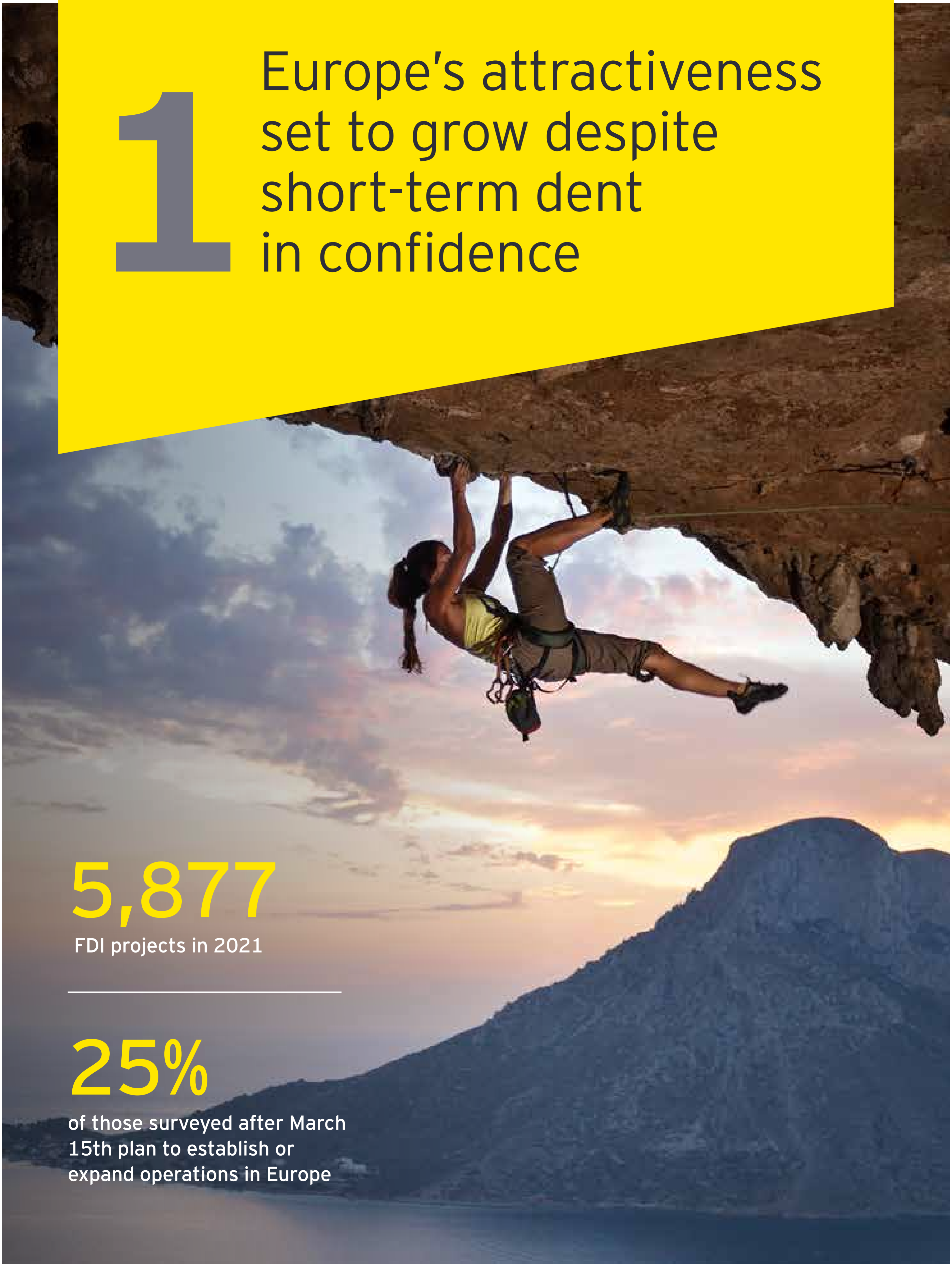
Priority 4 Promote tax flexibility and pragmatism

Businesses want the process of demonstrating tax compliance to be as simple as possible. And when complex issues arise, they want tax authorities to demonstrate a degree of pragmatism and flexibility. This is why the degree of digitalization of tax authority systems is the most important tax-related factor that determines where businesses invest. Digital communication channels also enable more frequent and direct interactions with tax authorities, which is all the more critical at a time when they need to adapt quickly. In addition, businesses increasingly pay attention to the scope and rate of potential environmental taxes and R&D tax credits, which national governments significantly rely on to attract research activities.

Priority 5 Refresh support for SMEs

Defined in our survey as those that generate less than €1.5 billion in annual revenue, SMEs were hit hardest by the COVID-19 pandemic and, as a result, have not rebooted their foreign investment plans at the same rate as larger businesses. Indeed, 83% of large businesses plan to establish or expand operations in Europe in the next 12 months, compared with just 44% of SMEs. There are also signs that the post-pandemic stimulus is not galvanizing smaller organizations: all large businesses say that the Recovery and Resilience Facility (RRF) is vital in influencing their investment plans, compared with only 54% of SMEs. Policymakers need to work with these businesses to understand their specific requirements and tailor their support accordingly. They also need to make sure that access to support does not require a huge volume of time and resources, which many of their management and staff simply do not have. This is vital: SMEs employ about 100 million people, account for more than half of Europe's GDP and play a key role in creating value in all sectors.

1 Europe's attractiveness set to grow despite short-term dent in confidence



5,877

FDI projects in 2021

25%

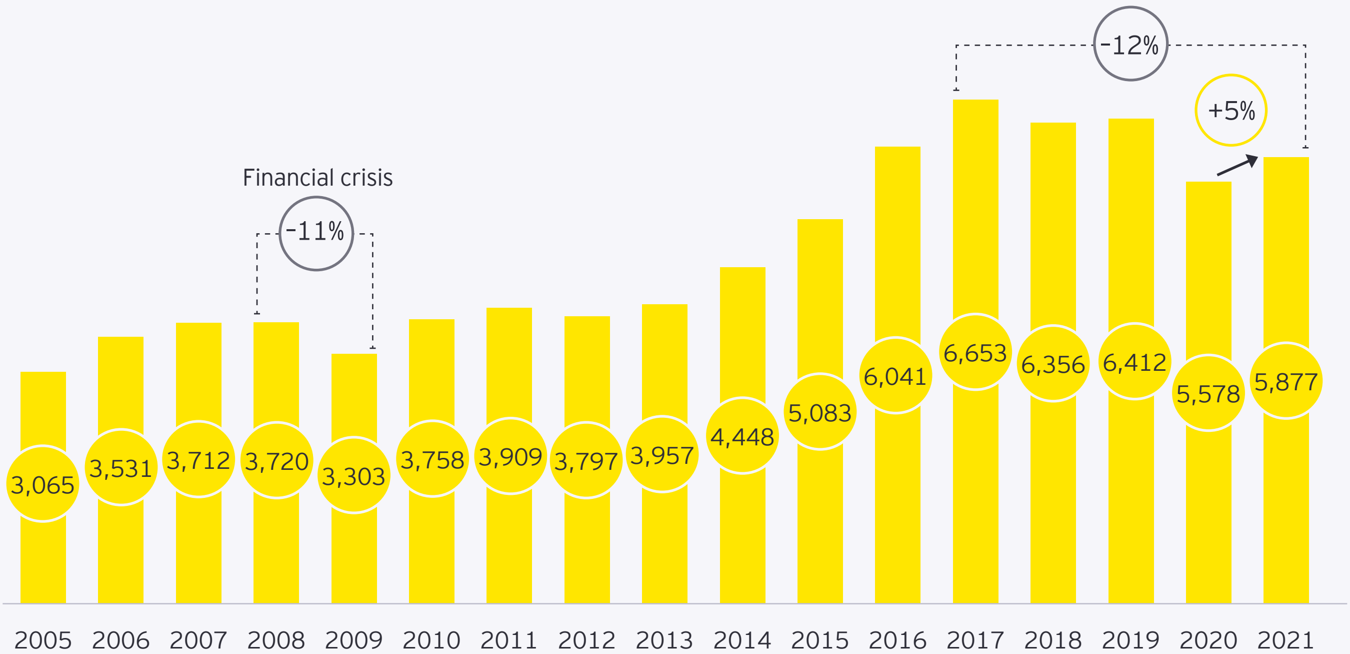
of those surveyed after March 15th plan to establish or expand operations in Europe

A mixed recovery

In 2021, businesses around the world announced 5,877 FDI projects in Europe, a 5% annual increase. The uptick follows a particularly weak year for investment in 2020, when the economic effect of COVID-19 saw the number of projects fall 13% on 2019. The subdued recovery still leaves investment in 2021 8% below 2019, the last full year before the pandemic hit Europe, and 12% below 2017, a record year for FDI in Europe.

The gradual pace of recovery is in stark contrast to the immediate rebound in FDI after the global financial crisis. Following a sharp 11% decline in 2009, investment levels bounced back strongly in 2010 to record highs. The data for 2021 suggests that the shock of COVID-19 may take longer to recover from than first expected. And this is before the conflict in Ukraine is factored in, which will put an additional strain on investment in the year ahead.

Figure 1: Number of foreign investment projects announced in Europe (2005–21)



Source: *EY European Investment Monitor 2022*.

Manufacturing and logistics recovery offsets downswing in office-based FDI

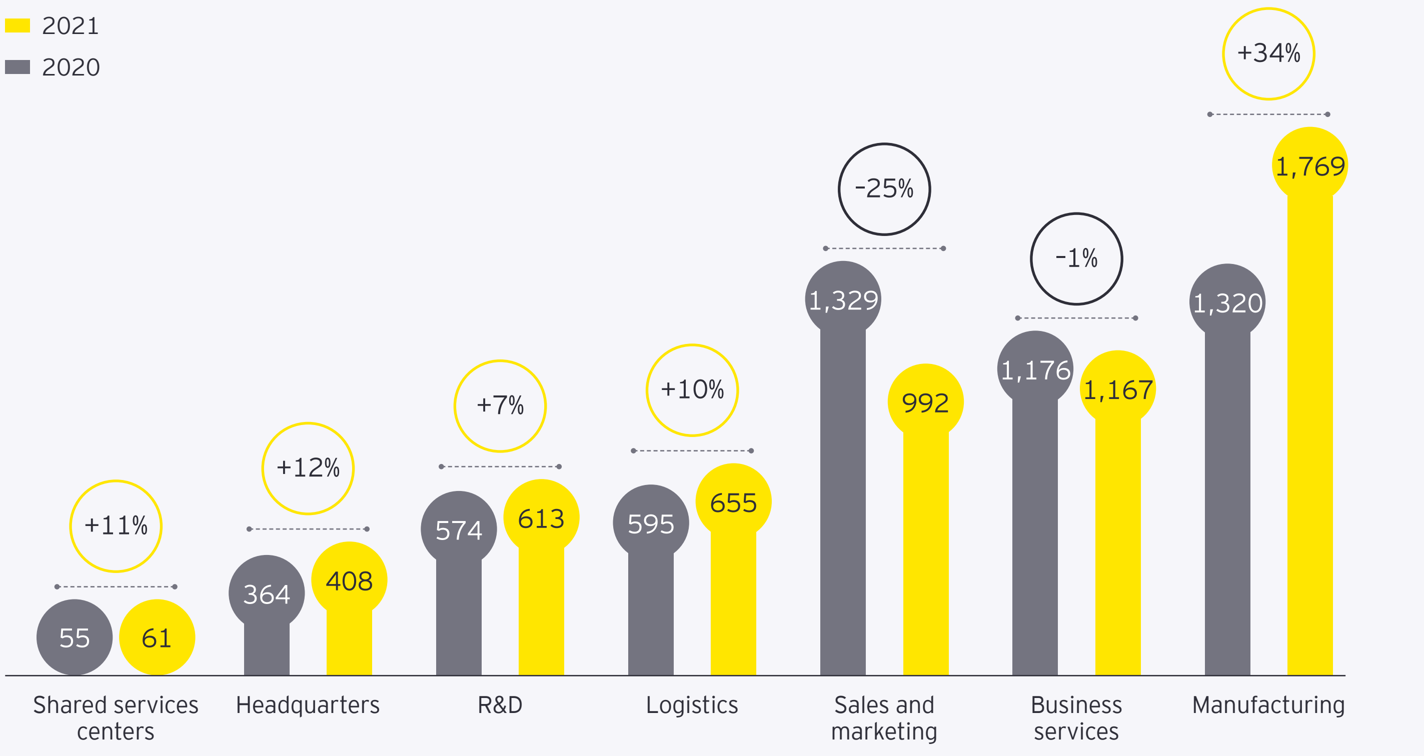
Countries welcome all forms of foreign investment, but industrial projects (manufacturing, logistics and R&D) are most sought after due to their ability to create jobs and stimulate growth. Encouragingly, the number of announced projects in all three of these areas increased significantly in 2021 to the extent that they are now above pre-COVID-19 investment levels.

The increase was in part caused by the rebound effect: investors making up for lost time after not logistically being able to execute projects during the pandemic. It could also represent a degree of supply chain reorchestration. Burnt by lockdown-induced supply chain bottlenecks, some businesses were perhaps starting to bring industrial supply chains closer to home.

The large increase in manufacturing FDI activity compared with 2019 was not led by Europe's traditional sectors but by businesses in smaller, high-growth sectors. These include construction, where manufacturing projects increased 76%; metals and mining (+40%); pharmaceuticals (+39%); and furniture, wood, ceramics and glass (+400%, albeit from a very small base).

On the other hand, COVID-19 also forced employees around the world into remote working. After a year of broadly positive experiences, many businesses began adopting hybrid working practices, where employees work on a more flexible basis, as the new norm. This led to lower FDI because businesses can already mostly fulfill their office-based activities from existing locations. This materially impacted investment in sales and marketing offices, which had been the largest category of foreign investment in 2020, accounting for 24% of all projects. The number of announced sales and marketing projects fell 25% in 2021, relegating it to the second-largest FDI activity category, behind manufacturing.

Figure 2: Major foreign investment categories in Europe in 2020 and 2021



Source: *EY European Investment Monitor 2022.*

External
Viewpoint

Mickael Locoh
VP Southern Europe & Africa, Steelcase

Hybrid work changes the equation for office layout and location

Hybrid work is here to stay, and this raises many challenges for businesses' existing offices. One of the most important is how to get the right company culture while maintaining productivity. Of course, the purpose of the office is still to provide a place to focus, collaborate and socialize, but also increasingly to demonstrate the culture of the organization.

The COVID-19 pandemic has also raised employees' expectations about having a better work-life balance, which influences where offices are located. It raises questions around transport infrastructure, which is not only about trains and roads but also cycling and pedestrian access. Should offices continue to be located in city centers or on the outskirts where there is more space? It's a question everyone is thinking about, and the answer depends on the nature of the business.

Another factor that businesses must now consider is the availability, reliability and cost of high-speed broadband. There are some significant variations across Europe, and you don't want a large proportion of your employees to constantly have connectivity issues.

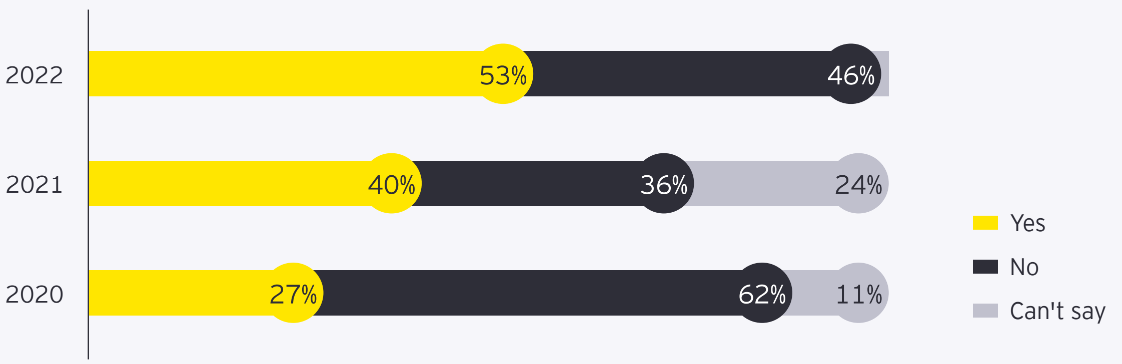
Businesses also need to work out the optimal office layout. The rows of benches will likely become a thing of the past. To an extent, they will be replaced with spaces supporting hybrid work: for example, facilitating meetings where some people are in the office and others work virtually.

Real estate is one of businesses' largest costs, and decisions they make are for the long term. They are therefore rethinking investments in new offices while they figure out how to react to these challenges.

Europe remains an attractive long-term destination despite knock in short-term confidence

Foreign investment levels in Europe started to recover in 2021, but the survey data indicates that this may be short-lived, given the war in Ukraine. Some 53% of businesses plan to establish or expand operations in Europe in the next 12 months, a significant increase on 40% in 2021 and 27% in 2020.

Figure 3: Does your company have plans to establish or expand operations in Europe over the next year?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

However, this survey data was collected before and after the war in Ukraine commenced, and significantly fewer businesses surveyed when the full extent of the war was apparent plan to invest in Europe than those surveyed beforehand.

More specifically, 79% of those surveyed before 1 March 2022 plan to establish or expand operations in Europe, compared with 67% surveyed between 1 March and 14 March, and just 25% of those surveyed after 15 March. If the appetite of those surveyed with full knowledge of the war truly represents business sentiment, appetite to invest during the next 12 months is actually at a three-year low. This is unsurprising given the direct impact of the war in Ukraine and potential longer-term economic, social and business consequences.

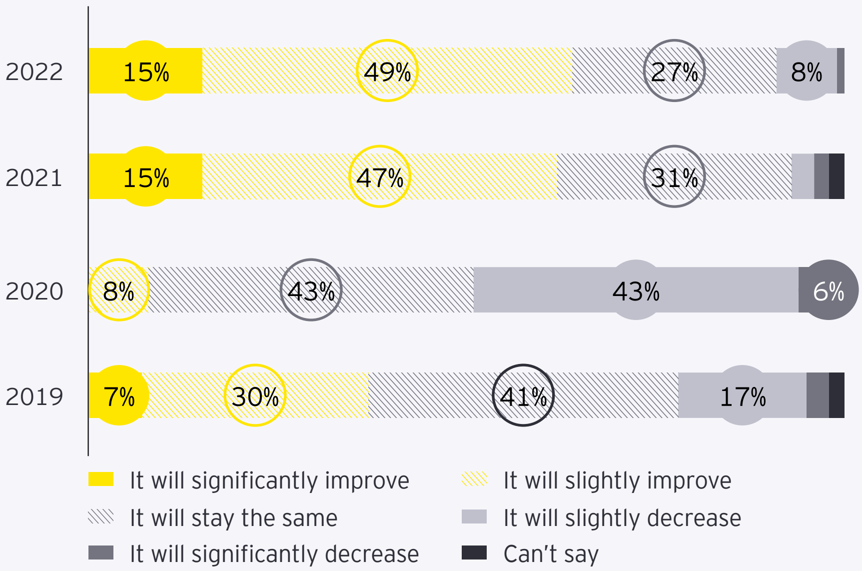
Figure 4: Does your company have plans to establish or expand operations in Europe over the next year?

	Yes	No	Can't say
Before 1 March 2022	79%	16%	5%
Between 1 March and 14 March 2022	67%	32%	1%
After 15 March 2022	25%	75%	

Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Although businesses have scaled down on their investment plans, they are still positive on the long-term prospects for investment in Europe. Sixty-four percent believe Europe's attractiveness will improve in the next three years, while only 9% believe it will decrease.

Figure 5: How do you expect Europe's attractiveness to evolve over the next three years?

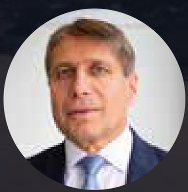


Total « It will improve » based on timing of respondent's participation

Before 1 March 2022	88%
Between 1 March and 14 March 2022	78%
After 15 March 2022	36%

Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

> “
> With a skilled labor force, a history of scientific discovery and the world’s largest single consumer market, Europe remains an attractive location for investors. But with countries across the globe taking steps to improve their attractiveness, we cannot afford to stand still. We need to do more to avoid putting extra burden on companies and ensure regulation supports entrepreneurship and innovation, that public services and infrastructure are delivered efficiently with competitive tax levels, and that we continue to be open to developing new trade and investment agreements with international partners.



Markus J. Beyrer
Director General, BusinessEurope

Why are investors optimistic about Europe’s attractiveness, given the war in Ukraine and future geopolitical uncertainty? Perhaps counterintuitively, the geopolitical situation may even increase FDI in Europe if supply chains are disrupted to the point that businesses begin to either reshore or nearshore operations back to Europe. Investment will also recover quickly because COVID-19 restrictions have impeded investment for the past two years. There is therefore pent-up demand to execute projects that will artificially boost FDI in Europe this year. Looking further to the future, a large reconstruction effort will be required in Ukraine when the war is over, and foreign investment will likely play a role.

36%

of executives surveyed after 15 March believe Europe's attractiveness will improve in the next three years, while 19% believe it will deteriorate.

Headwinds remain

Despite the optimism, executives are conscious of multiple short- and long-term risks to Europe's attractiveness. The most obvious of these is the war in Ukraine. The unlikely best-case scenario for resolving the conflict would be a negotiated stand-down, which would relieve supply chain pressures and some of the harshest sanctions. The worst-case scenario sees an escalation involving NATO. This would result in economies and businesses across Europe experiencing wartime economic distress and a corresponding sharp fall in FDI activity.

Although the situation is very fluid, the most likely outcome is a scenario in which the majority of international sanctions and supply chain disruption persist. Continued geopolitical uncertainty and other second-order impacts such as commodity price inflation and heightened risks of cyber-attacks on large businesses and critical infrastructure would also continue to weigh on business.

Europe will be most impacted by the conflict, given its geographic proximity. With higher prices and tightening financial conditions, consumers and businesses will face pressure. GDP growth is not expected to exceed 2.8% in the Eurozone, and will be slightly higher, at 3.7%,[2] in the UK.

The impact of the war in Ukraine will vary across the EU. Germany and Italy will be directly impacted due to their dependence on Russian energy. The Baltic states and Cyprus will be hit due to their higher volume of trade with Russia. Meanwhile Poland, Slovakia and Hungary have already experienced large inflows of refugees, which has created social challenges. In contrast, southern Europe and Ireland will remain relatively unaffected.

The war in Ukraine had not started at the time the survey was launched, so it was not included as an answer option when participants were asked to select their top risks to Europe's attractiveness. That said, other risks rose up the agenda due to the war. For example, surveyed businesses rank high volatility in currencies, commodities and other capital markets as the joint-second top risk to Europe's attractiveness during the next three years. Last year, it only ranked fifth.

In particular, soaring inflation may put the brakes on foreign investment in Europe. Inflation in the Eurozone hit 7.4% in March 2020, compared with 1.3% a year earlier. If central banks raise interest rates to tame inflationary pressure, businesses may find it more difficult to finance foreign investments, which could decrease overall project numbers.

Businesses rank the legislative framework for digital services and markets as the second-greatest risk to Europe's attractiveness, up from fourth place last year. Foreign investors have questions about the Digital Markets Act — designed to stimulate competition within Europe's digital sector — and the Digital Services Act — a range of regulations that protect technology users from misinformation, cyber threats and market dominance — and their impact on the digital industry across Europe.

[2] IMF, ***World Economic Outlook***, April 2022.

Figure 6: What are the three main risks affecting Europe's attractiveness over the next three years?

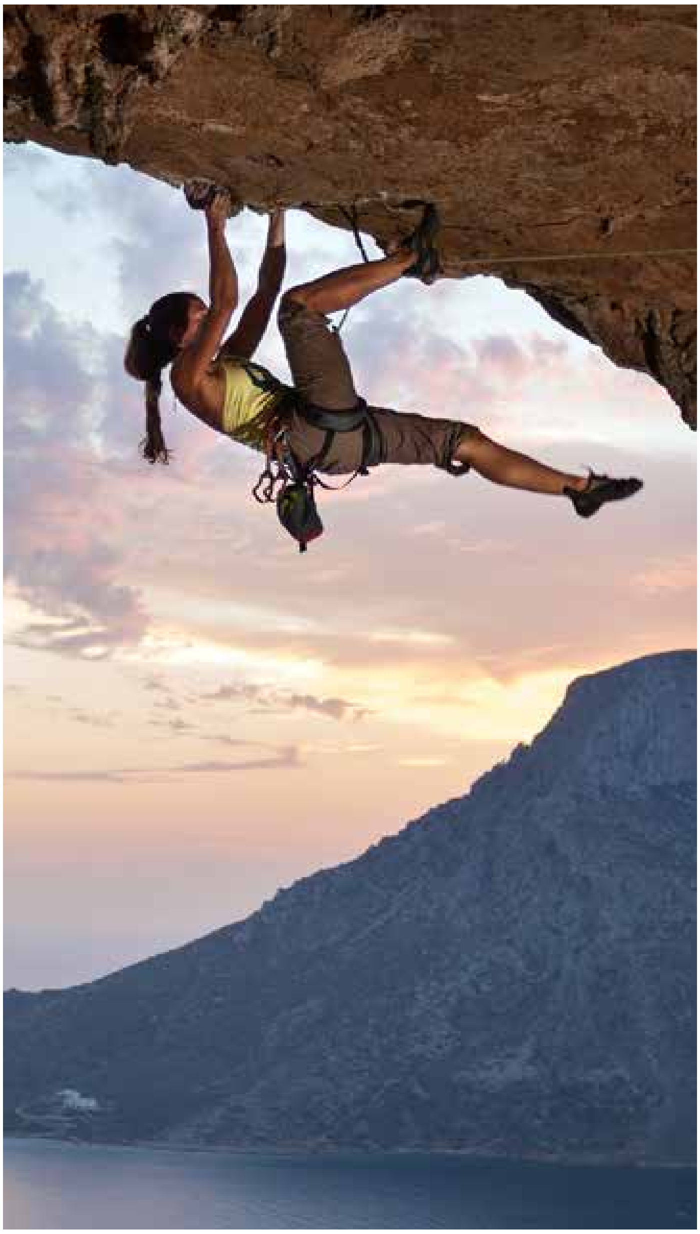
Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Shifts in European environmental legislation and policies ranks as the fourth-greatest risk to Europe's attractiveness. This is likely a result of fears that climate change policies will push up energy prices, which have already increased significantly in some European countries since the beginning of 2022.

Then, of course, there is the risk that a new vaccine-resistant COVID-19 variant could materialize. If this resulted in the scale of lockdowns in 2020 and corresponding decline in economic activity, FDI could be materially impacted.

These headwinds mean that Europe cannot be complacent. Although the signs are that the recovery in FDI will gather pace, this could be derailed by multiple factors.

> "We've moved from an era of continued globalization — which included integration, removal of barriers to international investment, common standards and political stability — to one of regionalization. That is not to say that globalization is ending, but the pendulum is swinging back, and regions such as Europe are increasingly focusing on their own strategic autonomy. This is leading to more local investment in certain strategic sectors in Europe, such as semiconductors, health or energy.
>
> **Famke Krumbmüller**
> EY EMEIA Leader, Geostrategic Business Group



2 France shines, industrial projects rebound

1,222

foreign investment projects were recorded in France, a **24%** annual increase

53%

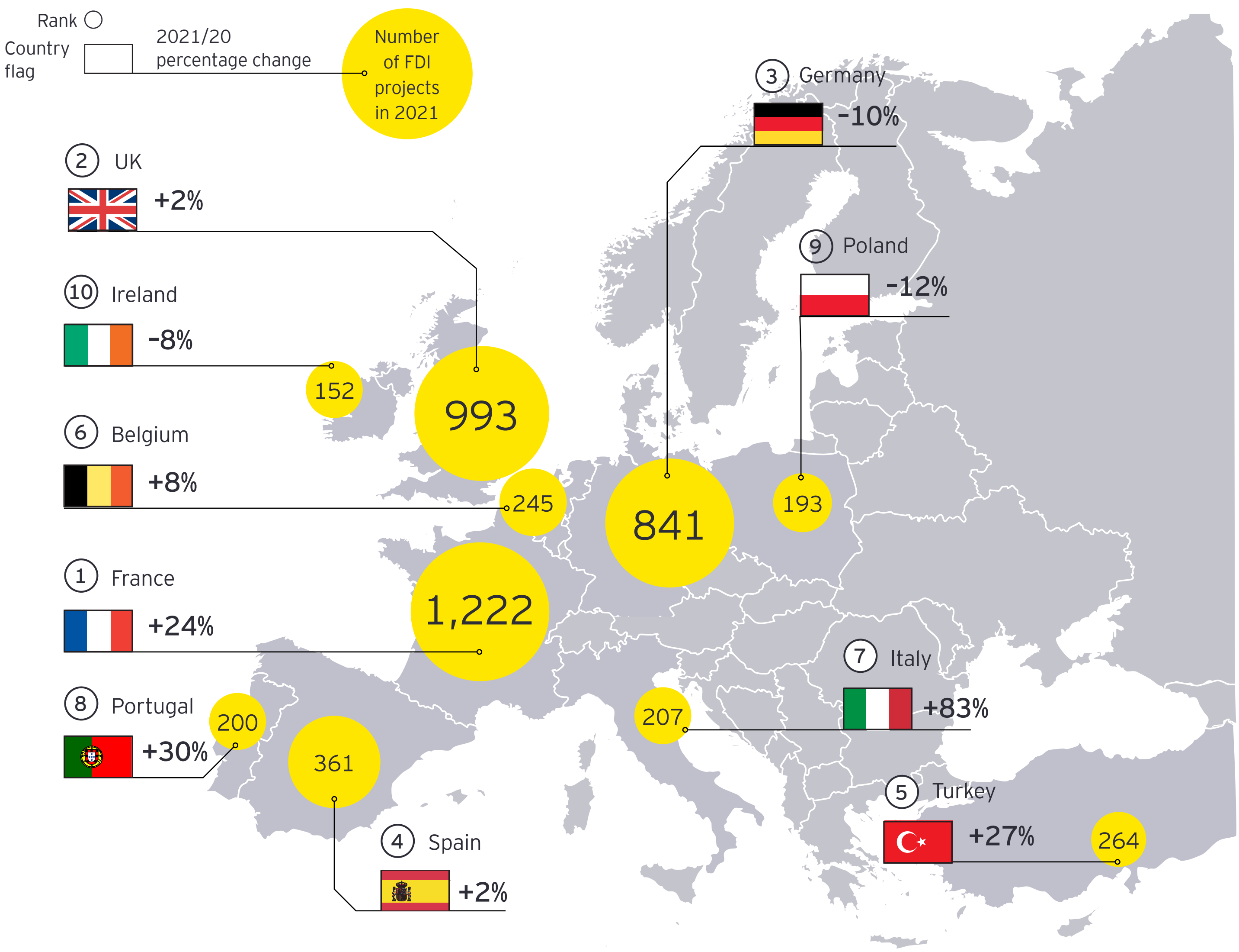
of businesses are considering reshoring to Europe

Different fortunes for Europe's largest FDI markets

In 2020, France, Germany and the UK were virtually tied in first place as the largest recipients of foreign investment within Europe. That all changed in 2021. The number of announced projects in France rocketed 24% to 1,222 projects.

In stark contrast, the number of projects in Germany tumbled 10% to 841. Investment in the UK remained steady, increasing 2%. As a result, there is now a clear gold, silver and bronze placing in the country FDI rankings.

Figure 7: Top 10 FDI countries in 2021 — project numbers and 2020-21 trend



Source: EY European Investment Monitor 2022.

Figure 8: Top 15 countries in terms of FDI projects in Europe in 2020 and 2021

Rank	Country	2020	2021	Change 2020/21	Share of FDI (2021)
1	France	985	1,222	24% ↑	21%
2	UK	975	993	2% ↑	17%
3	Germany	930	841	-10% ↓	14%
4	Spain	354	361	2% ↑	6%
5	Turkey	208	264	27% ↑	4%
6	Belgium	227	245	8% ↑	4%
7	Italy	113	207	83% ↑	4%
8	Portugal	154	200	30% ↑	3%
9	Poland	219	193	-12% ↓	3%
10	Ireland	165	152	-8% ↓	3%
11	Netherlands	193	151	-22% ↓	3%
12	Finland	92	124	35% ↑	2%
13	Austria	76	103	36% ↑	2%
14	Russia	141	101	-28% ↓	2%
15	Hungary	48	76	58% ↑	1%

Source: EY European Investment Monitor 2022.

France was Europe's standout performer in 2021: 1,222 foreign investment projects were recorded in France, a 24% annual increase. France benefited from a very significant post-COVID-19 rebound because the impact of the health crisis was more acute in 2020 than the European average. Its surge in investment was driven by manufacturing projects, particularly in the automotive, aeronautics and consumer industries: Businesses announced 482 manufacturing projects in 2021, a 41% annual increase.

The groundwork for France's rapid recovery was laid many years ago. A series of business-friendly reforms have improved the country's long-term attractiveness, from which it is now reaping the benefits and making up for lost ground following a particularly fallow investment period between 2005 and 2015.

In the UK, the dual effect of Brexit and COVID-19 continues: businesses announced 993 foreign investment projects in the UK in 2020, a 2% annual increase. Despite the uptick, investment was still 10% below pre-pandemic levels.

On one hand, the country is impacted by concerns about trade restrictions and labor shortages, which are in part caused by Brexit. This has particularly affected investment in manufacturing, which, at 145 projects in 2021, is well below the peak of 217 in 2017. In addition, the international nature of the UK economy means it has been disproportionately hit by limitations on international travel, particularly with regard to the US. US investment into Europe was 21% below pre-pandemic levels in 2021, in part because international travel between the two regions was prohibited for long periods of time.

However, on the other hand, the UK still holds the number one position in the technology and financial services sectors: financial services companies announced 63 projects in the UK in 2021, more than in any other country. One of the reasons for the UK's success is because businesses rank London as the most attractive city in Europe.

Although France outperformed the UK and every other country in terms of the number of announced projects, these projects are typically smaller than elsewhere. Based on projects where the number of jobs created is disclosed, the average foreign investment created 68 jobs in the UK, 45 in Germany and just 38 in France. In fact, the UK attracted more investments that created more than 100 jobs than France in 2021.

"

The US has traditionally been a major source of foreign investment into the UK, and particularly in London. Travel between the two countries was disrupted for long periods of 2021, which could explain why the number of announced projects hasn't recovered as quickly as in other countries such as France. Structural issues may also be at play — we have seen a strong recovery in manufacturing FDI, given the trade frictions created by Brexit, and this could explain why the UK has lagged other countries.

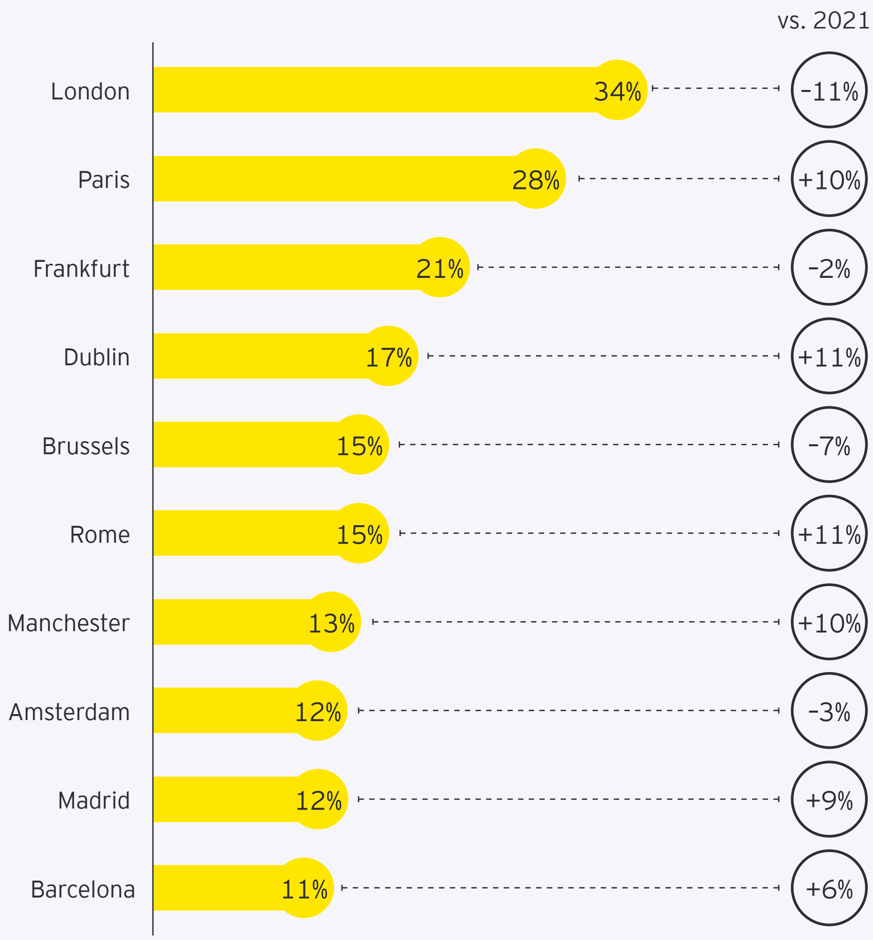
Peter Arnold
EY UK Chief Economist

> From Brexit to the pandemic, and now the impact of the war in Ukraine, Europe’s financial sector continues to demonstrate global strength as it operates in a challenging environment. While financial services remain a significant contributor to GDP across the region, business practices have changed post-pandemic, and inward investment figures reflect this, with fewer projects in service industries. Within Europe, while there has been jostling between financial markets, six years on from the UK’s EU referendum, there is little evidence to suggest Brexit has undermined the UK's status as the financial capital of Europe. While there was a small dip in total financial services inward investment in the latest data, the UK continues to generate a strong pipeline of projects and far outstrips its closest competitors: France and Germany.
>
> **Omar Ali**
> EY EMEIA Financial Services Managing Partner

Despite robust industry, Germany sees a decline in FDI: Germany secured 841 foreign investment projects in 2021, a 10% annual decline. This followed a year in which FDI decreased by 4%, a much less severe decline than the double-digit percentage drops seen in nearly all other major European countries in 2020. Manufacturing investment increased 4% but is still 34% below pre-COVID-19 levels. In any case, there are few opportunities for manufacturing FDI to increase, given the difficulty in penetrating local supply chains. Germany is, of course, still Europe’s manufacturing engine, for both old and new industries. This was underlined by the opening of the Tesla Gigafactory just outside of Berlin in March 2022. Looking to the future, investors will no doubt pay close attention to the supply and price of energy, given Germany’s reliance on gas from Russia.

Looking at Europe’s major metropolises, London retains the top spot, but its lead has narrowed: 34% of executives rank it as a top-three city for investment this year, compared with 43% in 2021. In contrast, Paris made strong progress: 28% say it is a top-three city for foreign investors in 2022 compared with 18% in 2021. Dublin also rose in attractiveness: 17% highlight the city this year compared with just 6% in 2020.

Figure 9: Which cities do you believe will be most attractive for foreign investors over the next three years?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Contrasting situations across Europe

Southern European countries such as Italy (+83%), Portugal (+30%) and Turkey (+27%) experienced a sharp increase in the number of FDI projects due to the reshoring and nearshoring of global supply chains. These countries are attractive for manufacturing reshoring and nearshoring because labor costs remain lower than the EU average. The fivefold increase in freight costs also makes certain European destinations much more competitive than before.

In the rest of Western Europe, countries that are traditionally attractive but more service-oriented, such as the Netherlands (–22%) and Ireland (–8%), lost ground because of the decline in service projects on the back of the surge in remote working.

In Eastern Europe, the stagnation in the number of projects suggests that this very dynamic FDI destination over the last decade is not benefiting as much from industrial and logistical reconfigurations as the rest of the continent.

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In the short term, the attractiveness of Central and Eastern Europe will decline because of some countries’ proximity to Ukraine and Russia. But in the longer term, countries in this region that are also in the EU and in NATO could benefit as businesses seek alternative locations to Russia and countries that do not meet these criteria. The region is cost-competitive compared with Western Europe and benefits from the presence of skilled labor, IP protection and — in some cases — EU membership.

Marek Rozkrut
PhD, Partner, EU & CESA Chief Economist,
EY EMEIA Economists Unit Head

Hybrid work takes its toll on service sectors

Enforced remote working during the COVID-19 pandemic has radically altered employees' expectations about their working arrangements. A recent EY survey shows that 9 out of 10 employees want flexibility in terms of both where and when they work. More than half (54%) may even consider resigning if they are not offered the flexibility they want.

As a result, businesses have less of a need for office space, which has in turn led to a sizeable decrease in certain categories of investment.

> Foreign investment by software and IT services businesses increased by a modest
>
> **4%**
>
> to 1,090 projects in 2021

For example, the business and professional services sector announced 557 foreign investment projects in Europe in 2021, a 19% and 28% decrease from 2020 and 2019 respectively. Despite the significant decrease, the business and professional services sector is still the second-most important for foreign investment in Europe. Investment in this sector is concentrated in Germany, France and the UK. Each country experienced a double-digit percentage decline in the number of announced projects in this sector in 2021.

Foreign investment by software and IT services businesses increased by a modest 4% to 1,090 projects in 2021. This sector remains, by some distance, the largest investment sector in Europe. Despite the annual increase, investment by US IT businesses is on a downward trajectory. US businesses announced 316 projects in 2021, a 2% decrease on 2020 and a more noticeable 27% decrease on 2019. This is an important development to watch, given that US businesses are a major source of total investment in this sector (31% last year). Businesses believe that this sector will continue to dominate FDI, ranking it as the leading sector that will drive Europe's growth in the coming years.

Industrial supply chains remain robust

Countries welcome all forms of foreign investment, but industrial projects (manufacturing, logistics and R&D) are most sought after due to their ability to create jobs and stimulate growth. Encouragingly, the number of announced projects in all three of these areas increased significantly in 2021 to the extent that they are now above pre-COVID-19 investment levels.

Figure 10: Number of foreign investment projects by sector in Europe in 2020 and 2021

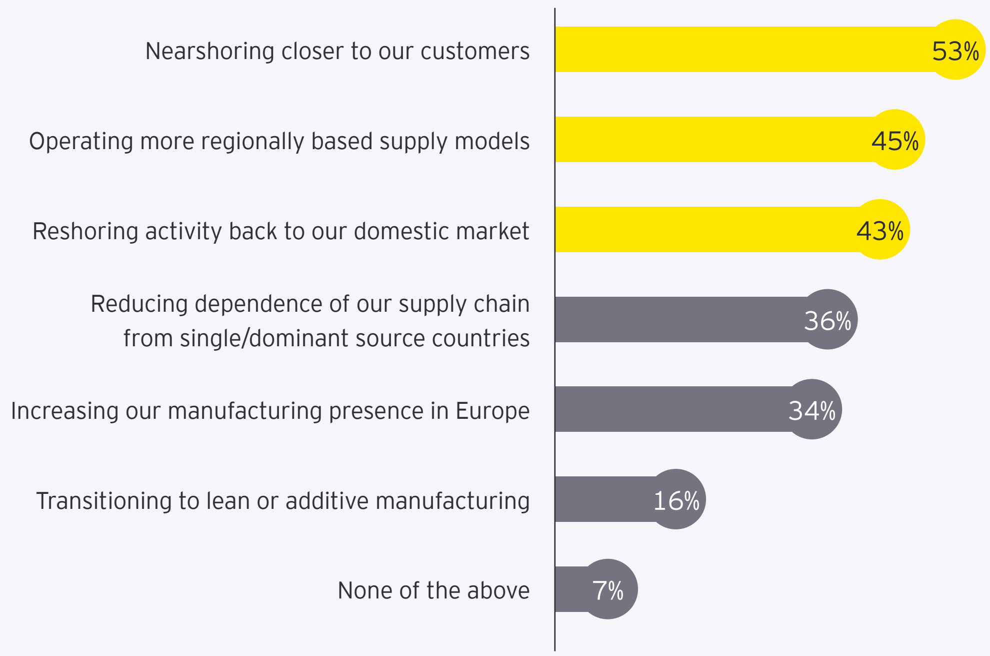
Sectors	2020	2021	Change	Share of FDI
Software and IT services	1,046	1,090	↑ 4%	19%
Business services and professional services	691	557	↓ -19%	9%
Transportation manufacturers and suppliers	305	503	↑ 65%	9%
Transportation and logistics	217	425	↑ 96%	7%
Machinery and equipment	425	384	↓ -10%	7%
Agri-food	322	329	↑ 2%	6%
Finance	285	277	↓ -3%	5%
Chemicals, plastics and rubber	268	264	↓ -1%	4%
Electronics	259	261	↑ 1%	4%
Pharmaceuticals	265	255	↓ -4%	4%
Utility supply	145	203	↑ 40%	3%
Consumer products	155	167	↑ 8%	3%
Medical devices	116	134	↑ 16%	2%
Metals and minerals	103	133	↑ 29%	2%
Textile, clothing and leather	83	105	↑ 27%	2%
Other	893	790	↓ -12%	13%
Total	**5,578**	**5,877**	**5%**	**100%**

Source: *EY European Investment Monitor 2022*.

In 2020, foreign investment fell in every major sector apart from life sciences. Transport manufacturing was most significantly affected, with FDI decreasing 35%. The picture is very different this year. Many sectors bounced back, including transportation and utilities.

Following a 35% decrease in 2020, foreign investment in the automotive, public transport equipment and aeronautics sectors rocketed 65% to eclipse pre-pandemic levels last year. Some 110 projects in this sector were announced in France, followed by Germany (67) and the UK (63). Investment has increased as individuals ramp up travel after not being able to do so during the COVID-19 pandemic. The rebound was largely caused by the renewed confidence of German transport manufacturers, which announced 49% more projects in 2021 compared with 2020. German transport companies accounted for 13% of investment in this sector last year.

Figure 11: How are you changing your supply chain setup?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Supply chain reorchestration: nearshoring comes to fruition

As a direct result of the war in Ukraine, businesses are seriously considering upending their supply chains. Fifty-three percent are considering nearshoring closer to customers, a significant increase on 23% last year. In parallel, 43% are considering reshoring activity back to their domestic market, compared with 20% last year.

The relocation of industrial activity back to Europe would certainly be a boon to Europe. But is it realistic? After all, as COVID-19 struck, a staggering 83% were considering reshoring or nearshoring. This sentiment rapidly dissipated, perhaps as businesses realized the hefty cost implications of shifting supply chains back to Europe.

Today, there is greater reason to believe that supply chain reorganization will take place. For a start, businesses will be forced to seek alternatives to sourcing components and materials from Russia. And although many factories still operate in the west of Ukraine, output has been disrupted to the extent that businesses may be forced to seek alternatives if the war persists and spreads.

Second, energy prices have risen such that transporting materials and components from Asia has started to erode the region's cost competitiveness. Linked to this is the issue of sustainability. Regulatory and consumer pressure to decarbonize supply chains makes local sourcing more compelling. Finally, the war in Ukraine has exposed deeper geopolitical tension between Europe and other countries. None of these issues by themselves would necessarily be a sound reason to relocate supply chains but, collectively, they create a compelling business case.

Relocation aside, these issues will undoubtedly drive businesses into other actions that reduce supply chain risk. For example, 36% intend to reduce their dependence on single countries.

"

Automotive businesses are urgently finding alternative material and components suppliers to those that were linked with or located in Russia. At the same time, many have concluded that they need to regionalize component supply chains back to Europe in the long term, which may mean not achieving the lowest possible cost. The pandemic, the war in Ukraine and increasing sustainability pressures have led them to reach this conclusion, and they will likely start this once they've resolved their more immediate sourcing problems.

Ulrika Eklöf
EY EMEIA Advanced Manufacturing & Mobility Leader

External
Viewpoint

Florin Marian Spătaru
Minister of Economy, Government of Romania

Maintaining Romania's attractiveness on multiple fronts

Apart from the humanitarian crisis, the situation generates both risks and opportunities for foreign investments. In particular, there is the risk that the war will expand to affect countries that border Ukraine, but we think the risk to Romania is minimal given our NATO membership. On the other hand, some businesses may relocate, especially their production facilities, to adjacent countries, including Romania.

For many years, Europe has preferred to purchase components and materials from elsewhere at a cheaper price rather than producing and manufacturing itself. Right now, the COVID-19 pandemic and military crises have created new opportunities to reconstruct production chains, and Romania is well positioned for this, given the qualification levels of the population, labor costs, and the interest of younger generations in engineering and technical skills. Romania has also a low level of energy dependency and plans to increase investment in gas storage, as well as nuclear and hydro generation.

Romania benefits from being able to access various sources of finance from the EU, including the Recovery and Resilience Facility and the Just Transition Fund. These support the transition to a sustainable and inclusive economy, and improve the attractiveness of Romania and all of Europe for foreign investment.

To ensure we meet the specific needs of foreign investors, the Ministry of Economy is directly supporting the activity of investing in Romania through an inter-ministerial work group, which is the entry gate for foreign investors. This group supports the implementation of investment projects and will improve how Romania is promoted to businesses. It will also facilitate connection and coordination with local public authorities to better meet the various needs of foreign investors.

3 Europe's long-term attractiveness hinges on five priorities

98%

of large businesses say environmental sustainability is critical or somewhat important to their investment strategy

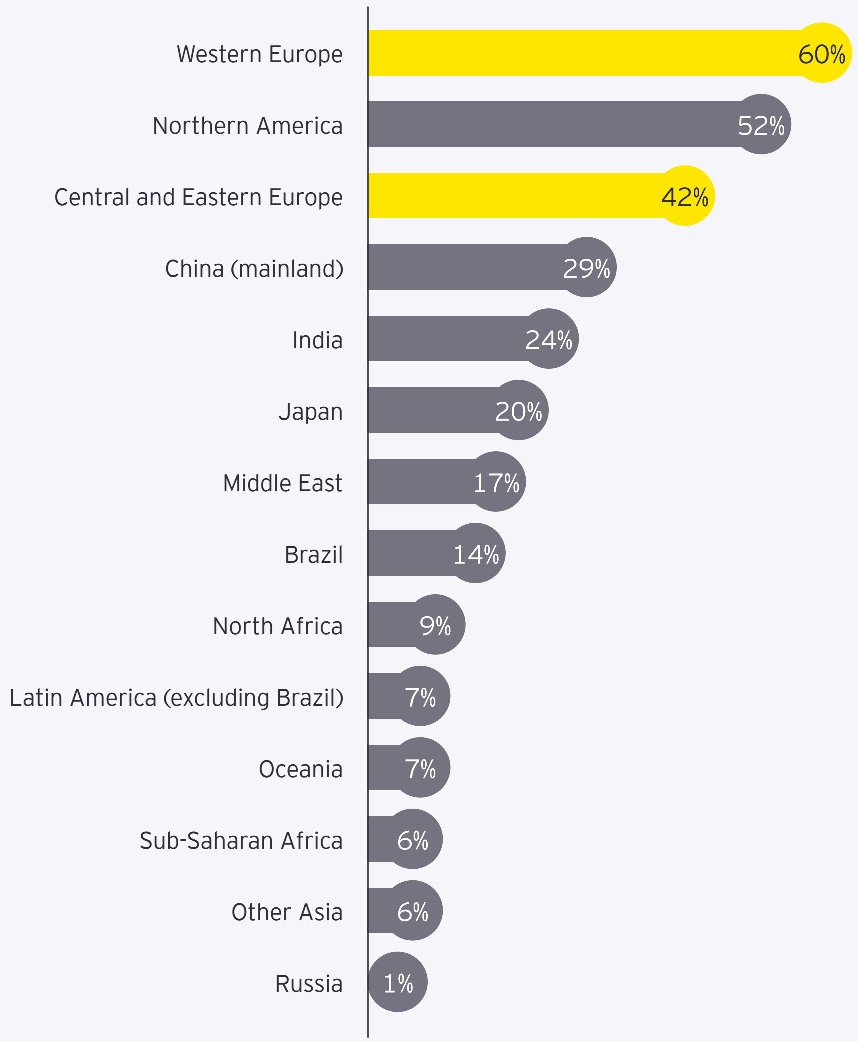
---

56%

of investors believe Europe is more attractive than other regions when it comes to technology-related factors

According to the survey data, Europe will remain a very attractive destination for foreign investment in the long term. But policymakers cannot afford to sit back. Headwinds could reduce Europe's attractiveness, as already evidenced by the impact of the war in Ukraine on businesses' confidence. And the other major regions across the globe competing with Europe for foreign investment are also upping their game.

Figure 12: Which of the following regions do you believe are the three most attractive to establish operations?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

To lock in Europe's attractiveness, policymakers and business together should focus on **five key areas:**

01 Redouble digital investments

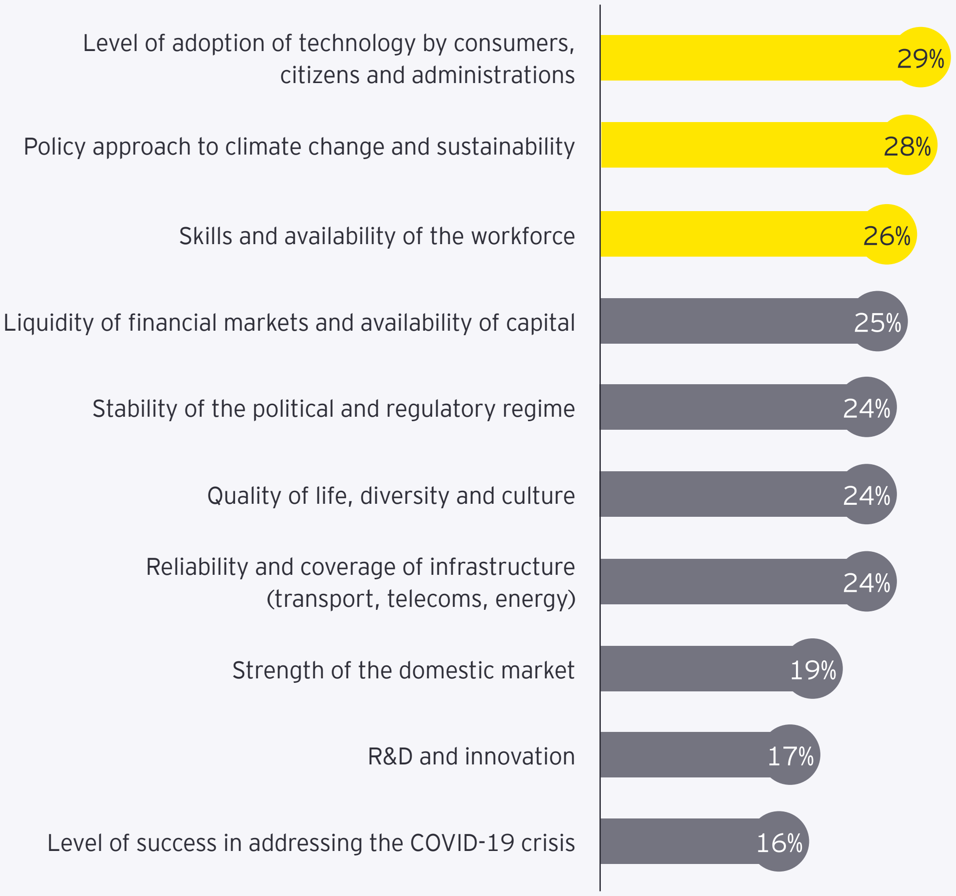
02 Secure Europe's competitive edge in sustainability.

03 Create the skills needed to transform European businesses.

04 Promote tax flexibility and pragmatism.

05 Refresh support for SMEs.

Figure 13: Out of the following factors, which three are most important when choosing a country to invest in?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Advanced technology lures businesses

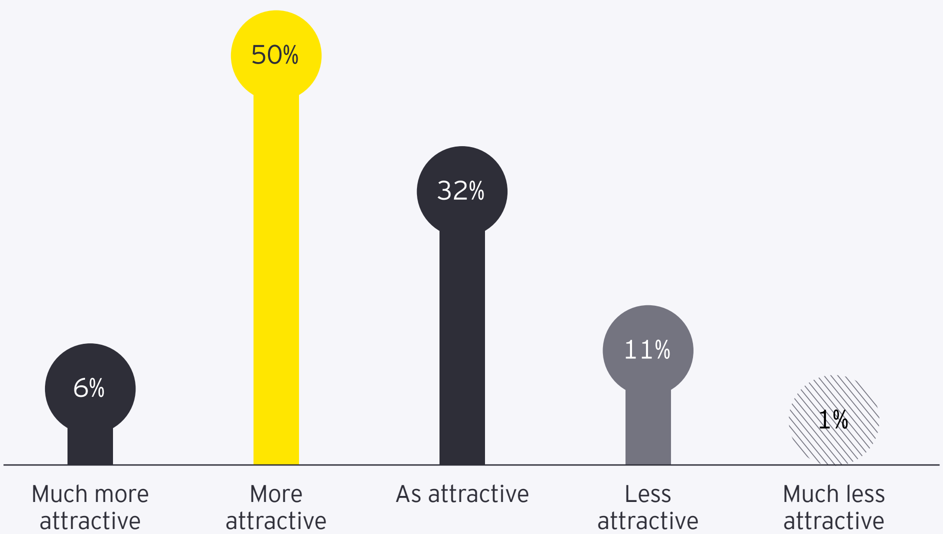
The level of technology adoption by consumers, citizens and administrations is the most important factor that determines where businesses invest. Last year, this only ranked joint fifth. The increase in importance reflects the huge investments many businesses have made in technology since the onset of COVID-19 to facilitate remote working and digital customer propositions.

Businesses need employees with technology skills to sustain their increasingly digitalized operations. And this is likely why the level of technology adoption is considered so important: businesses view this as a proxy for countries with an abundant supply of workers with technology capabilities. Furthermore, when asked which technology-related factors are most important when choosing a country to invest in, the availability of a workforce with technology skills ranks first. Skills aside, businesses also consider this so important because it eases the process of interacting with tax authorities, regulators and other government agencies.

Intellectual property (IP) rights protection is the second-most important technology-related factor that influences location decisions. This is understandable: Businesses will not invest in R&D if they perceive that their creations will not be protected. Acknowledging the importance of IP protection, the European Commission launched an action plan in 2020 designed to unleash the EU's innovative potential. It focuses on improving IP rights protection, increasing the uptake and use of IP by SMEs, facilitating the licensing and sharing of IP, ensuring better enforcement of IP infringements and promoting fair play at a global level.

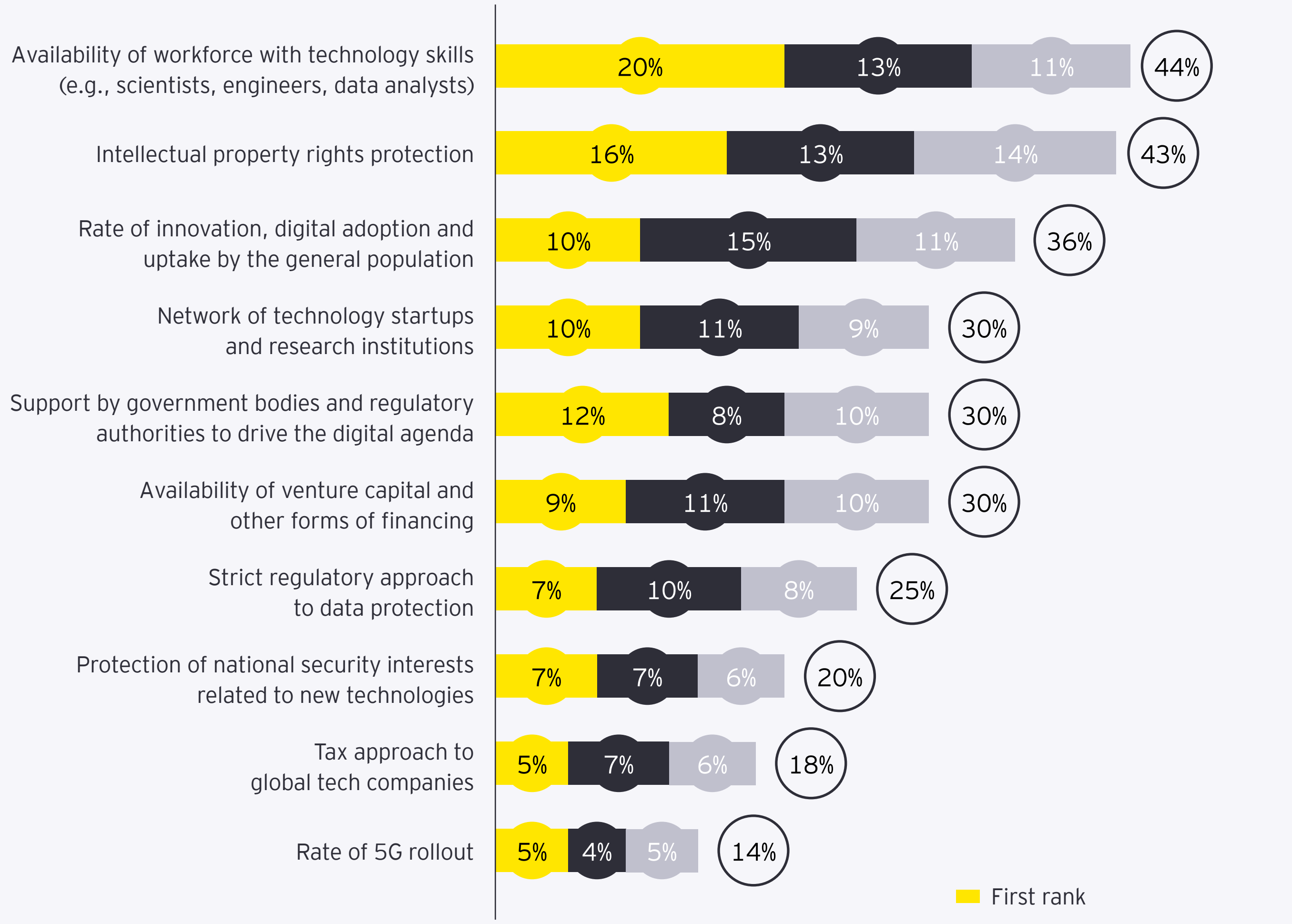
Encouragingly, 56% of investors believe Europe is more attractive than other regions when it comes to technology-related factors. Just 12% say it is less attractive.

Figure 14: In terms of technology-related factors, how does Europe compare with other regions for your investments?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

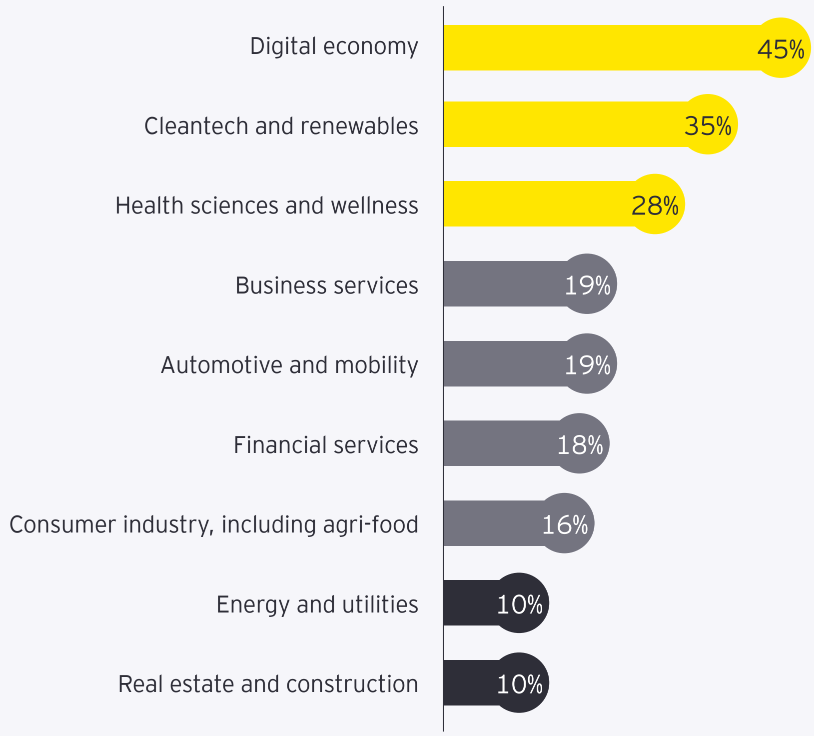
Figure 15: Of the following technology-related factors, which three are most important when choosing a country to invest in?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Businesses across all sectors place greater emphasis on technology factors when making location decisions. In addition, the technology sector itself is expected to increasingly drive Europe's growth. When asked which sectors will drive Europe's growth in the coming years, the digital sector was selected most frequently, followed by cleantech and renewable energies, then health care. Of course, the development of these two sectors is also based on advanced technology.

Figure 16: In your opinion, which two business sectors will drive Europe's growth in the coming years?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

> "Portugal has become more attractive for technology-based development and the country now hosts the R&D operations of several high-tech companies' and a number of unicorns. In fact, Portugal has one of the largest number of unicorns per capita. Many factors contributed to this, including the maturity and quality of the research environment in several scientific fields, the quality of higher education in technological and digital areas, and a growing number of highly qualified personnel, including those with PhDs. Companies also benefit from Portuguese R&D tax incentives, which have increased 91% since 2015.

Joana Mendonça
President of the National Innovation Agency (Portugal)

External
Viewpoint

Reda Guiha
Regional President, Rare Disease International Developed Markets, Pfizer

Innovation, investment and partnership: reimaging health care provision in Europe

COVID-19 exposed the importance of health care systems in Europe and redefined what it means to respond to an urgent patient need. There are around 7,000 known rare diseases that collectively affect 30 million people in Europe. Four in five rare diseases have a genetic origin – for example, Duchenne muscular dystrophy (DMD) – so it's inevitably children and their families who are most affected. And yet there are no approved treatment options for 95% of known rare diseases.

Like COVID-19, there is very limited data on many rare diseases, so we must learn as we go and always be guided by the science. The pandemic has been a period of unprecedented innovation, investment and partnership that brought vaccines to patients within a year. And all without compromising quality, safety and efficacy.

Our industry's response has set a new standard and reminded us that life science innovation does not happen in a vacuum. Agility and collaboration between regulators and businesses is critical to success.

We believe some of the learnings in bringing innovation to patients in need during COVID-19 should be applied to the development of rare disease compounds, including gene therapy medicines. For example, the possibility of 'rolling reviews' by which data is submitted in waves while development is still ongoing, and the willingness to share information, including collection and analysis of real-world data.

As we look to the future of rare disease, it begs the question of whether we will choose to act with the same sense of urgency and collaboration. For many people living with a rare disease, there are limited or no treatment options, and they often don't have time to wait.

Sustainability policies are now a key location driver

Sustainability increasingly influences location decisions. When asked which factors are most important in choosing a country to invest in, the policy approach to climate change and sustainability ranked second, behind only the level of adoption of technology by consumers, citizens and administrations. Twelve months ago, businesses ranked sustainability policies as the second-least important factor that determines where they invest.

Further highlighting its importance, 31% say environmental sustainability is now critical to their investment strategy and a further 60% say it is somewhat important. In addition, 98% of large businesses (those generating more than €1.5 billion in revenue) say environmental sustainability is critical or somewhat important to their investment strategy.

"Europe has taken the leadership in decarbonizing aviation with a clear political intention and an ambitious funding program to support technology development. This aligns perfectly with our sustainability strategy and ambitions. We have a strategic interest to continue to invest in Europe in partnership with our European customers and the local industry. For example, we've recently invested in a business in the Netherlands that develops advanced aero structures for lighter aircraft systems. At the beginning of 2022, we announced the launch of several larger R&D projects in France contributing to the development of the next generation of decarbonized aircraft.

Bernd Ewers
Vice President, France and Southern Europe, Collins Aerospace

External
Viewpoint

Corinne Vigreux
Co-founder and CMO, TomTom, Founder Codam College

Boost Europe's attractiveness by putting computer science on the curriculum

The biggest issue for tech companies today is access to talent. So, when we think about where we establish offices, the presence and cost of talent are head and shoulders above every other criteria. This is why we have a large office in Poland, for example, that is situated close to the technical university. This is particularly important because the war for talent is intensifying; there has recently been a leveling off of salaries between Central and Western European countries.

Labor laws are also important. Developments in technology and the wider economy happen rapidly, and companies need to be able to adjust to rapidly changing circumstances. The average tenure of employees is shorter than it was only a couple of years ago. However, labor laws in some countries prohibit companies from adjusting the size and composition of the workforce in line with requirements.

How can the talent that technology companies need be created? Universities, governments and enterprises have a collective responsibility to make sure young people are given the best chance to perform in this complex world. To achieve this, I'm a strong advocate of finding ways to bring digital skills into the curriculum earlier.

Central Europe has placed a high importance on science in the curriculum and, as a result, we are able to recruit great engineers from countries such as Ukraine, Estonia, Serbia and Poland. Countries in Asia and the US have also modernized their curriculums, but it feels that the "old Europe" is still a little stuck in its ways.

The role of the office has changed

Hybrid working makes it easier to recruit from anywhere, but we still need to bring people together from time to time, so we still need a physical presence. Offices of the future will perform a different function. We don't have many traditional offices anymore. Instead, we have scrum rooms and much more open space, designed in a way that people can come together, ideate and talk to each other.

Physical spaces are also important for company culture. It is vital for new employees to really get to know the company and what our values mean in practice, and it's more difficult to get our culture through when people work from home.

Regulation must not impede Europe's digital competitiveness

European governments need to develop a deeper understanding of what is going on in the tech world. They need to create the conditions for entrepreneurs to flourish so they can renew our economies and create good-quality and well-paid jobs. Governments need to promote entrepreneurship and risk-taking while adopting a pragmatic approach to regulation. Regulation is complex, but we want to be on the level playing field with the US and China. At the moment, certain areas are overregulated in Europe, which makes our economies less dynamic and, ultimately, less competitive.

> "The lessons learned from the pandemic and the current geopolitical context obviously lead us to revisit our investment plans. One factor that has gained considerable importance is net zero. Sustainability has become strategically important to our business and has grown to a priority when making investments.

Luc Graux
Director Operations Development, SKF Group

Why have sustainability policies risen up the agenda?

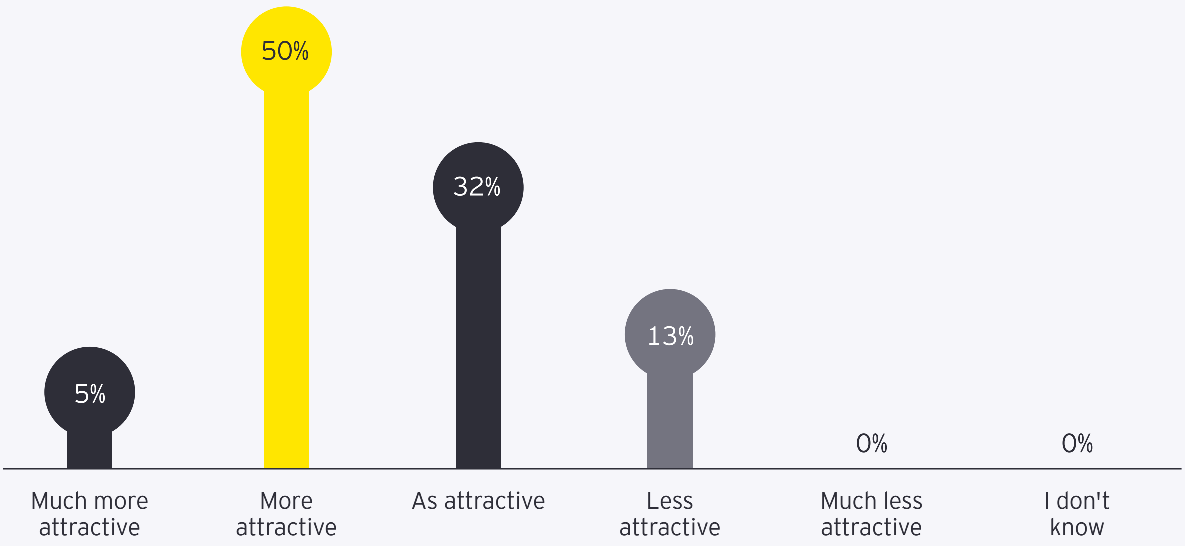
Firstly, most businesses now realize that COVID-19 has raised the expectations of consumers, investors, regulators and their own staff to tackle climate change and other societal issues. They therefore see it as a key competitive differentiator. This influences location decisions because businesses wish to be situated in countries where funding for sustainability initiatives is available and where the regulatory landscape supports sustainability practices.

Sustainability has also risen because more government funding is now available for sustainability initiatives under EU and national stimulus plans. For example, 37% of stimulus funding provided as part of the RRF must be devoted to measures that support the green transition.

How to maintain Europe's green advantage

Encouragingly for Europe, 83% of businesses cite it as a green leader. In addition, 55% believe Europe is more attractive than other regions in terms of sustainability-related factors, while only 13% see it as less attractive.

Figure 17: In terms of sustainability-related factors, how does Europe compare with other regions for your investments?



Do you see Europe as a global green leader?

Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Businesses clearly value environmental sustainability policies, but they also see some potential downside: the evolution of European environmental legislation and policies is considered the fourth-greatest risk to Europe's attractiveness over the next three years.

With significant inflationary pressures, businesses could be concerned that environmental legislation and policies will further increase business costs. It seems that businesses want policymakers to therefore strike the right balance between incentivizing action on climate change while ensuring they are not burdened with excessive costs or administration. An alternative explanation for why businesses consider the evolution of European environmental legislation and policies a risk is because they do not go far enough.

So what should Europe do? What actions should policymakers take to ensure that targets to cut emissions by 55% by 2030 from 1990 levels and to reach climate neutrality by 2050 are met?

> The energy supply chain in Europe will be redesigned for more affordable, secure and sustainable energy. This will undoubtedly create investment opportunities. At the moment, most of this is driven nationally, but the REPowerEU initiative, which is the plan to make Europe independent from Russian fossil fuels before 2030, could be the first step of a more joined-up approach.
>
> **Alessandro Cenderello**
> Managing Partner for EU Institutions

EY teams has created six government priorities[3] for accelerating the green transition that seek to find balance between environmental, economic and social outcomes:

1. Provide detailed action plans with clear accountability and realizations.
2. Be bolder in incentivizing the market and mandating change.
3. Boost innovation through increased funding.
4. Improve the design and delivery of green and digital initiatives.
5. Act as a role model for other parts of the economy.
6. Promote a whole-of-society, people-centered approach.

[3] EY, **Six ways that governments can drive the green transition**, 2021.

External
Viewpoint

David Martin
Executive Director Europe Africa, Air Products

Hydrogen has a vital role to play in meeting Europe's green ambitions

The EU remains an attractive investment destination because of its size and digital infrastructure, its political and economic stability, and diversity of talent. While Europe continues to face dramatic events – most recently, the COVID-19 pandemic and the war in Ukraine – these crises have united the region, which can help it face the challenges of the green transition.

The Fit for 55 package, complemented by REPowerEU, remains a compass for businesses and citizens. The will, efforts and solutions needed to reach this goal are considerable and require significant collaboration between society, business and governments to decarbonize not only our industry but also our transport and energy systems.

Hydrogen is needed to meet Europe's decarbonization goals: REPowerEU calls for an additional five million tons of hydrogen production per year in the EU and and additional 10 million tons to be imported per year. This is in addition to what is planned in Fit for 55 by 2030. This would contribute to the right energy mix, including both local hydrogen production and imports whenever necessary.

Even though global hydrogen pioneers are working hard to meet demand, some governments might be tempted to support national players. But it is time to look beyond national or local interests and help create a new hydrogen economy. An early and thriving global hydrogen supply chain will help give consumers the confidence they need to move forward.

The challenges ahead are significant, and the EU must accelerate if it is to transform itself to become the world's leading carbon neutral region.

Skills wanted everywhere, for everyone

All companies must update their skills profile as requirements shift. That's why businesses rank the presence of a skilled workforce as a major factor that determines location decisions.

Indeed, when asked which sustainability-related factors are most important when choosing a country to invest in, the presence of a workforce with skills and competencies needed to facilitate sustainably projects ranked joint first alongside the presence of regulation that supports sustainable business practices.

The IEA estimates that

14 million

new jobs will need to be created in the energy sector alone by 2030 in the transition toward net-zero emissions.

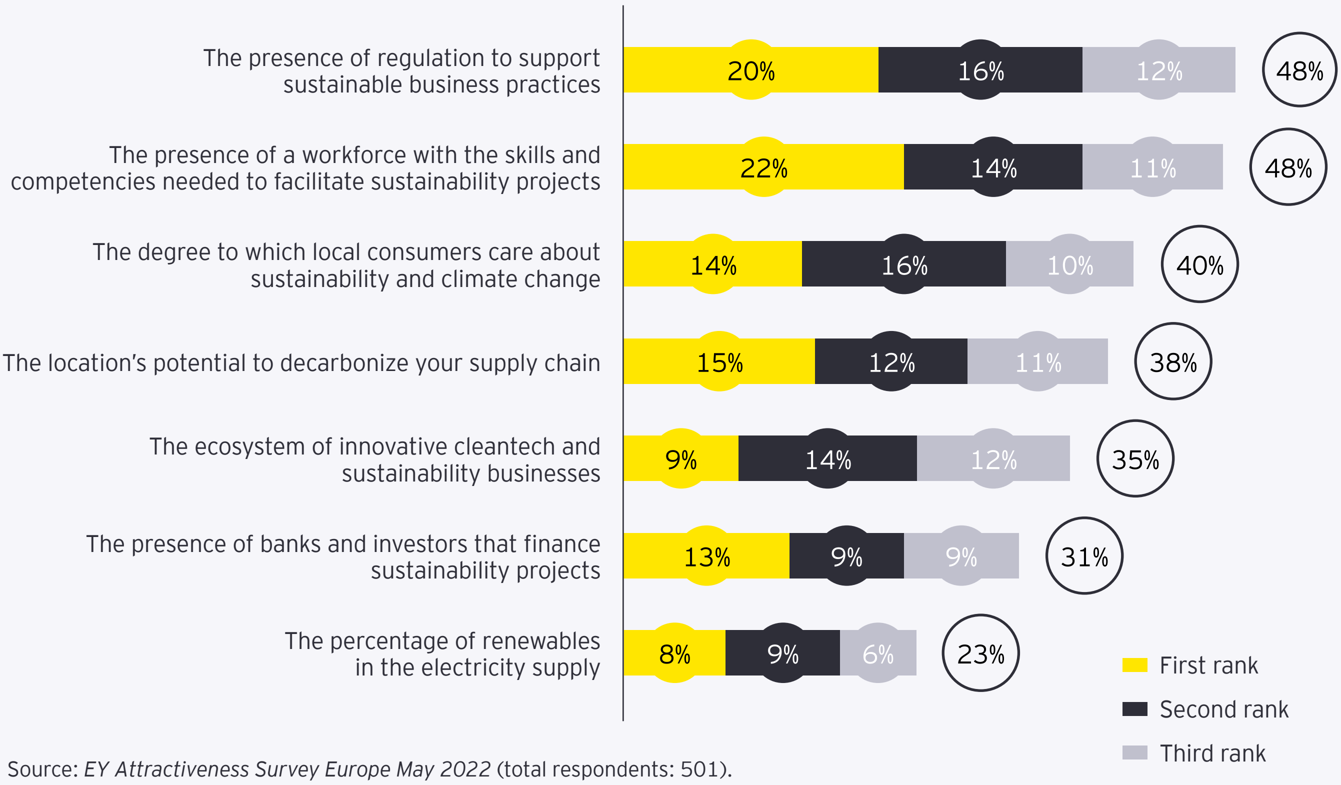
This is unsurprising. The IEA estimates that 14 million new jobs will need to be created in the energy sector alone by 2030 in the transition toward net-zero emissions.[4] An additional 16 million workers would be needed in the efficiency, automotive and construction sectors.

Governments must therefore work closely with industry to provide the skills needed to support green initiatives and match this with investment. In the US, for example, the Department of Employment plans to invest US$30 million in training workers to build high-performance buildings that utilize renewables, efficient lighting and energy management practices.

> "Businesses, governments and academia need to work together to map out the skills that will be needed for the green transition. This includes white collar skills and high-end engineering, but also manufacturing skills. Timing is critical: If the workforce is trained too early, then they may relocate to other regions. If they train too late, then they risk facing a skills shortage.
>
> **Alexis Gazzo**
> Climate Change and Sustainability Services Leader

[4] IEA, **The importance of focusing on jobs and fairness in clean energy transitions**, 2021.

Figure 18: Of the following sustainability-related factors, which three are the most important when choosing a country to invest in?



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

Tax agility trumps tax rates

Businesses want the tax compliance process to be as simple as possible, and for tax authorities to be pragmatic and flexible when complex issues arise. This is why the degree of digitalization of tax authority systems is the most important tax-related factor that determines where businesses locate their operations. This is considered even more important than the absolute rate of corporate tax. Digitalization is so important because it helps businesses demonstrate tax compliance as simply and effectively as possible, primarily because e-portals enable tax returns to be submitted online. Businesses want the tax authorities to be pragmatic and answer questions based on their specific circumstances. This is reflected by the fact that the degree of pragmatism and flexibility is the fourth-most important tax factor that determines location decisions. Digital channels enable tax authorities to demonstrate this approach through more frequent and direct communication, which is all the more critical at a time when they need to adapt quickly.

“

Behavioral taxes to achieve ESG-ambitions are a key element of the green transition. They put a price on the impact of unsustainable behavior. To limit a negative competitive impact for EU businesses subject to these rules, the EU is planning to introduce supplementary border adjustment mechanisms to ensure a level playing field with non-EU companies doing business in the EU. So the impact of these rules will not be limited to the EU.

Marlies de Ruiter

EY Global International Tax and Transaction Services Policy Leader

“

The degree of digitalization of tax authority systems is a proxy for a simple and fluent compliance relationship with the tax administration. A lot of tax administrations have reacted, and businesses now have a lot more video conference calls with tax authorities than they did before COVID-19. In the future, I expect the degree of pragmatism and flexibility to rise in importance.

Jean-Pierre Lieb

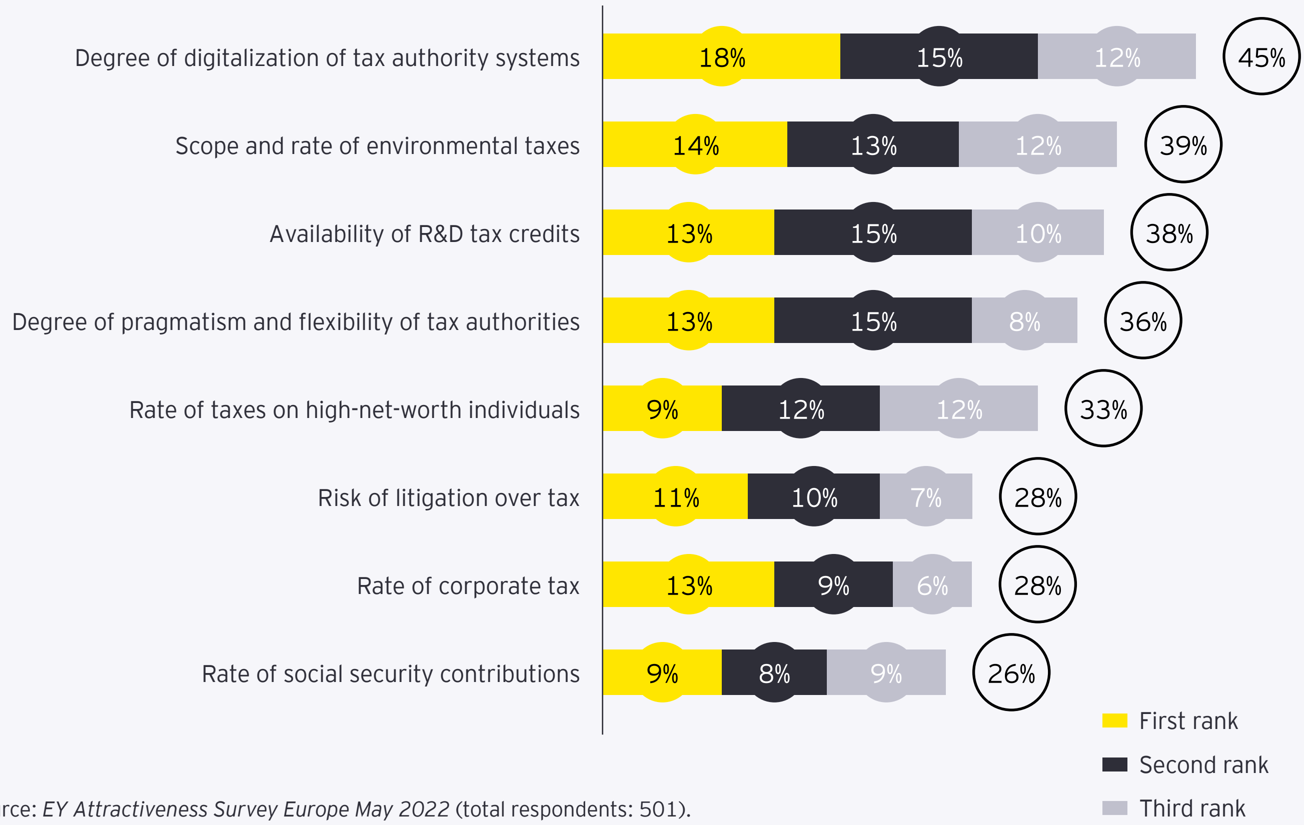
EY EMEIA Tax Policy and Controversy Leader

Businesses rank the scope and rate of environmental taxes as the second-most important tax-related factor that determines location decisions. This likely reflects concerns that governments will introduce new taxes or raise existing taxes to fund the transition to the green economy. The European Commission will likely establish a common framework for environmental taxes, limiting the ability for any individual country to be overly aggressive or use environmental taxes for competitive purposes. This means that environmental taxes will not end up being a key factor that influences the attractiveness of one European country versus another. Of course, they may still impact the overall competitiveness of Europe compared with North America and Asia.

The availability of R&D tax credits ranks third. This is likely because it is one of the few remaining areas of tax competition in Europe, and a lever that governments can pull to attract investment and boost their country's competitiveness.

Businesses rank the rate of corporate tax as one of the least important factors that determine where they invest. This is because the EU and other multilateral organizations such as The Organisation for Economic Co-operation and Development (OECD) continues to drive tax harmonization.

Figure 19: Of the following tax-related factors, which three are the most important when choosing a country to invest in?

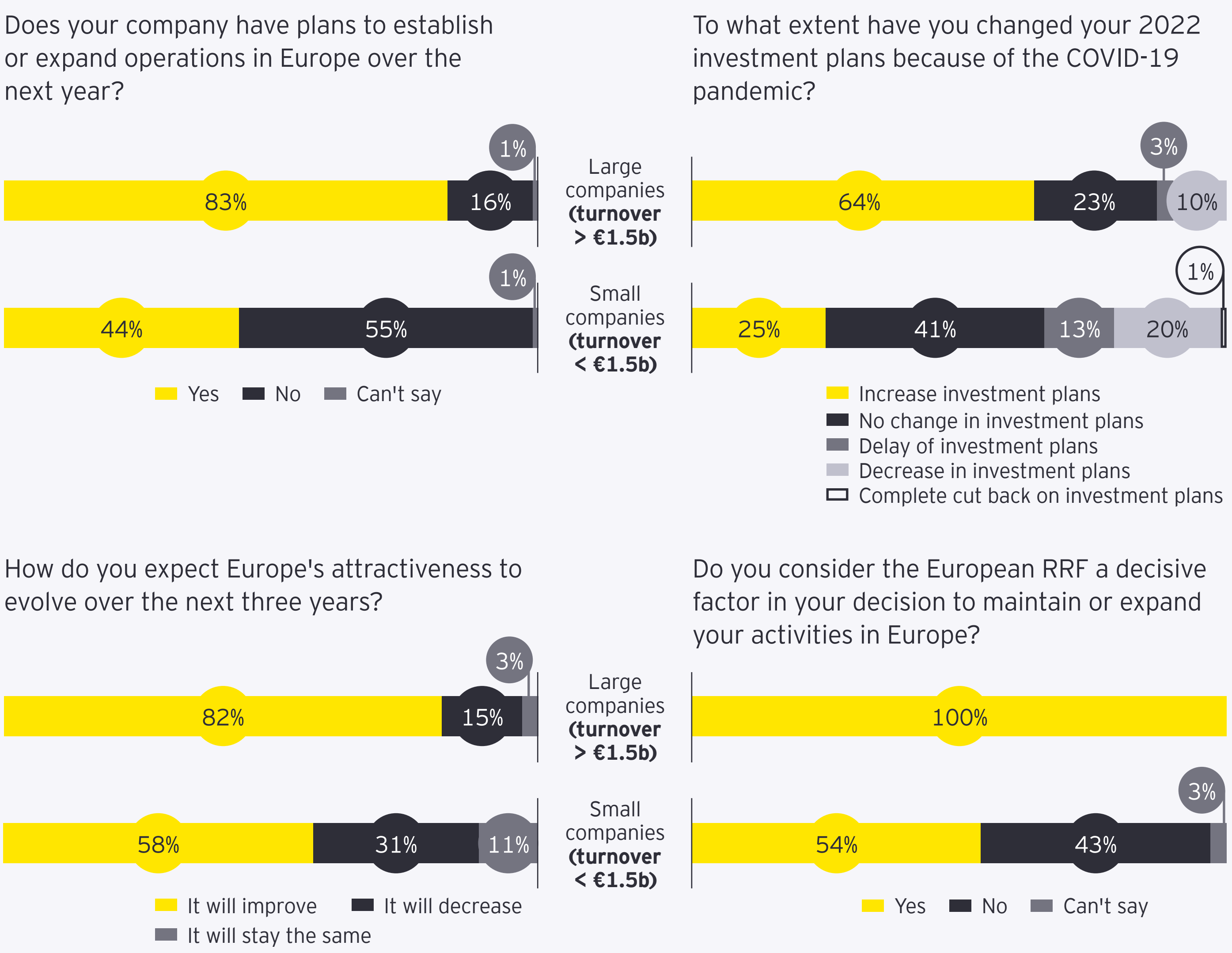


Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

European stimulus must work for all, starting with small businesses

The survey uncovers that the perceptions and outlook of executives of SMEs <€1.5 billion in revenue are less positive than managers of multinationals.

Figure 20: Perceptions of executives per company size



Source: *EY Attractiveness Survey Europe May 2022* (total respondents: 501).

For example, just 44% of small businesses plan to invest in Europe in the next year, compared with 83% of large businesses.

Small companies may also need a different form of government support: all large companies report that the RRF has been a deciding factor in their decision to maintain or expand their operations in Europe, compared with only 54% of small companies.

What are the reasons? Do FDI policies only target very large projects? Is the complexity of recovery plans or reforms underway in the EU and Member States too much for their limited staff? Do clients ask too much and too quickly of their suppliers and subcontractors who have considerably fewer resources?

Whatever the causes, the consequences are worrying given that these businesses employ about 100 million people, account for more than half of Europe's GDP and play a key role in creating value in all sectors. These businesses may need tailored support if Europe is to remain a magnet for new companies and business development.

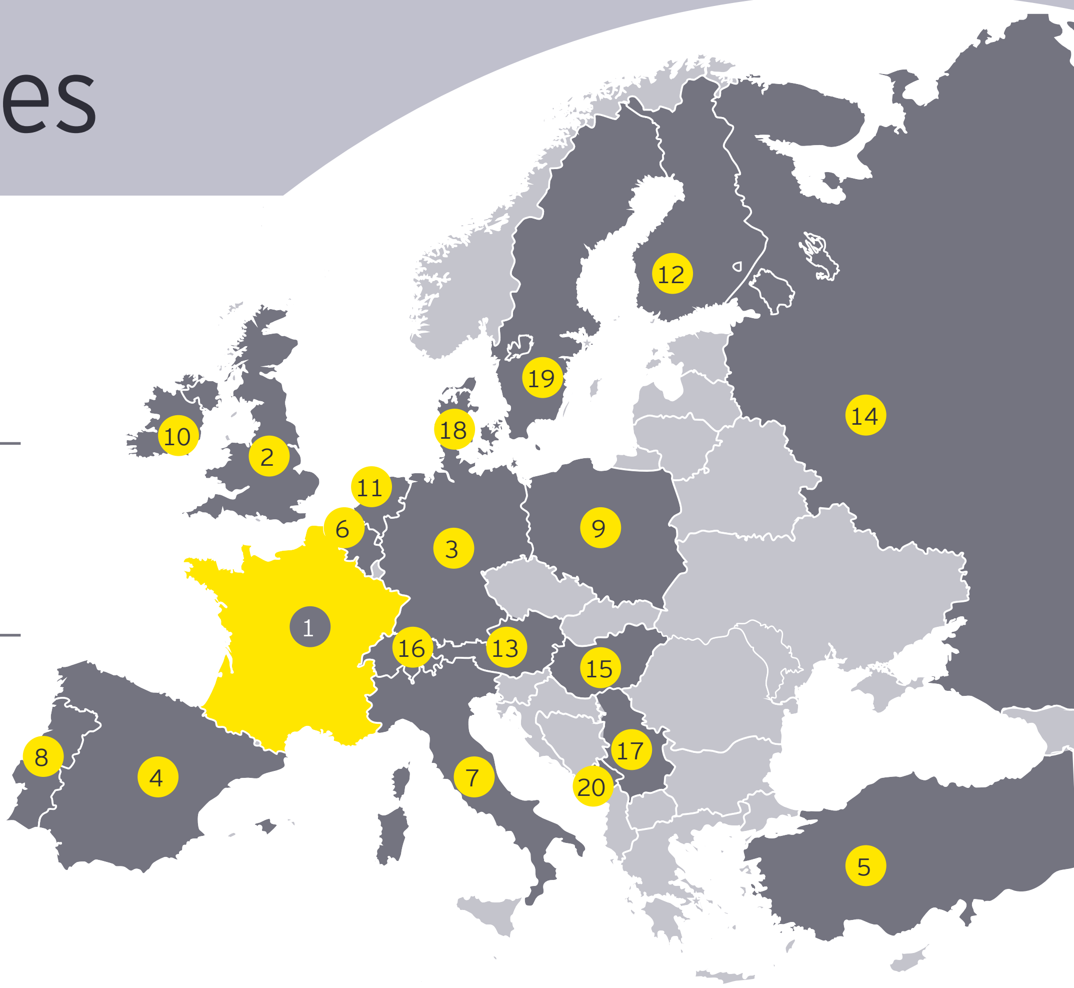
Although the RRF will undoubtedly indirectly benefit smaller organizations, the survey data indicates that they need additional support. This is especially so because 34% of small businesses' 2022 investment plans are still delayed or decreased in size due to the COVID-19 pandemic. This is only the case for 13% of large businesses. Policymakers must work closely with SMEs to understand their challenges and requirements, and design support packages appropriately. Useful support might include enhanced protection for late payments, improving access to financing and reducing regulatory burdens.

“

Smaller businesses have the greatest need for COVID-19 stimulus and support, but it has been challenging for them to access it. In many countries, there were numerous criteria that had to be met in order to access support, which takes time and resources in order to submit a viable claim. Large businesses have the internal and external resources to understand which support is available and then secure it, but that's simply not the case for smaller organizations.

Suwin Lee
Partner, International Tax and Transaction Services, EY EMEIA Private Leader

Appendices



Top 20 FDI countries 2021

Rank	Country	FDI Projects	Change 2020/21	Trend 2016/21	Top three sectors	Top three activities	Top three investing countries
1	France	1,222	↑ 24%		‣ Software and IT services ‣ Transportation manufacturers ‣ Business services	‣ Manufacturing ‣ Business services ‣ R&D	‣ US ‣ Germany ‣ Belgium
2	UK	993	↑ 2%		‣ Software and IT services ‣ Business services ‣ Finance and transportation manufacturers	‣ Business services ‣ Sales and marketing ‣ Manufacturing	‣ US ‣ India ‣ France
3	Germany	841	↓ -10%		‣ Software and IT services ‣ Business services ‣ Transportation manufacturers	‣ Sales and marketing ‣ Business services ‣ Logistics	‣ US ‣ China ‣ UK
4	Spain	361	↑ 2%		‣ Software and IT services ‣ Transportation and logistics ‣ Finance	‣ Sales and marketing ‣ Logistics ‣ Business services	‣ US ‣ France ‣ Germany
5	Turkey	264	↑ 24%		‣ Transportation manufacturers ‣ Machinery and equipment ‣ Agri-food	‣ Manufacturing ‣ Business services ‣ Logistics	‣ Germany ‣ US ‣ Italy
6	Belgium	245	↑ 8%		‣ Transportation and logistics ‣ Business services ‣ Software and IT services	‣ Logistics ‣ Manufacturing ‣ Sales and marketing	‣ US ‣ UK ‣ France
7	Italy	207	↑ 83%		‣ Software and IT services ‣ Transportation and logistics ‣ Business services	‣ Sales and marketing ‣ Logistics ‣ Manufacturing	‣ US ‣ Germany ‣ France

Rank	Country	FDI Projects	Change 2020/21	Trend 2016/21	Top three sectors	Top three activities	Top three investing countries
8	Portugal	200	↑ 30%		• Software and IT services • Transportation manufacturers • Transportation and logistics	• Manufacturing • R&D • Business services	• US • Germany • France
9	Poland	193	↓ -12%		• Business services • Transportation manufacturers • Transportation and logistics	• Manufacturing • Business services • Logistics	• Germany • US • The Netherlands
10	Ireland	152	↓ -8%		• Software and IT services • Business services • Finance	• Business services • Manufacturing • Headquarters	• US • UK • Germany
11	Netherlands	151	↓ -22%		• Software and IT services • Transportation and logistics • Agri-food	• Manufacturing • Sales and marketing • R&D	• US • UK • Japan
12	Finland	124	↑ 35%		• Software and IT services • Health and social work • Machinery and equipment	• Sales and marketing • Manufacturing • Business services	• Sweden • UK • US
13	Austria	103	↑ 36%		• Software and IT services • Transportation and logistics • Transportation manufacturers	• Sales and marketing • Manufacturing • Logistics	• Germany • US • Switzerland
14	Russia	101	↓ -28%		• Agri-food • Furniture, wood, glass • Transportation manufacturers	• Manufacturing • Sales and marketing • Logistics	• Germany • Austria • US
15	Hungary	76	↑ 58%		• Transportation manufacturers • Software and IT services • Electronics	• Manufacturing • R&D • Shared services centre	• Germany • US • Austria
16	Switzerland	75	↓ -18%		• Software and IT services • Pharmaceuticals • Finance	• Business services • R&D • Sales and marketing	• US • Germany • UK
17	Serbia	73	↑ 4%		• Transportation manufacturers • Software and IT services • Agri-food	• Manufacturing • Logistics • R&D	• Germany • Switzerland • Italy
18	Denmark	54	↑ 23%		• Pharmaceuticals • Software and IT services • Business services	• Sales and marketing • Manufacturing • Headquarters	• US • Germany • The Netherlands
19	Sweden	48	↓ -36%		• Software and IT services • Transportation and logistics • Chemicals, plastics and rubber	• Sales and marketing • Manufacturing • Logistics	• US • UK • Germany
20	Bosnia and Hergovina	41	↑ 64%		• Machinery and equipment • Textile, clothing and leather • Business services	• Manufacturing • Business services • Logistics	• Germany • Croatia • Slovenia

Methodology

The evaluation of the reality of FDI in Europe is based on the EY European Investment Monitor (EIM), an EY proprietary database.

This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

To confirm the accuracy of the data collected, the research teams aim to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- M&A and joint ventures (unless these results in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- Extraction activities (ores, minerals, and fuels)*
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Nonprofit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances. For example, details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

However, our figures also include investments in physical assets, such as plant and equipment. This data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The perceived attractiveness of Europe and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by Euromoney in February and March 2022 via online surveys, based on a representative panel of 501 international decision-makers.

Addtional sources

- EY – Work reimagined employee survey 2021
- EY – FDI Center of Excellence
- European Commission, OCO, OECD, IEA

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