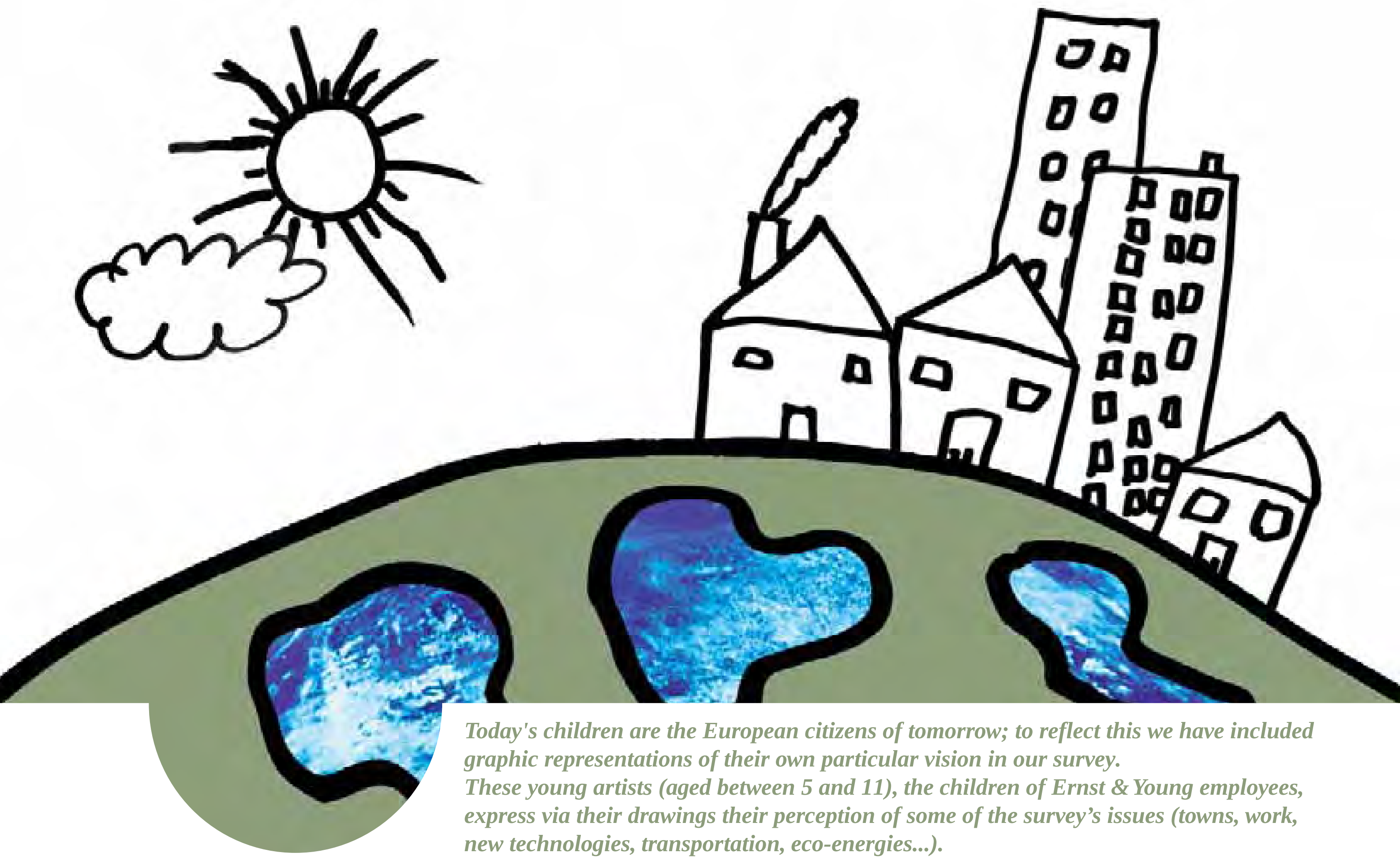
European Attractiveness Survey 2007

Ernst & Young
Quality In Everything We Do

Wanted:
A *renewable* Europe

Ernst & Young European Attractiveness Survey



Today's children are the European citizens of tomorrow; to reflect this we have included graphic representations of their own particular vision in our survey.
These young artists (aged between 5 and 11), the children of Ernst & Young employees, express via their drawings their perception of some of the survey's issues (towns, work, new technologies, transportation, eco-energies...).

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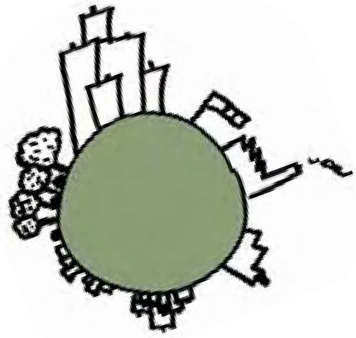


Editorial

Europe feels – and in some respects *is* – threatened by new, fast-growing and more creative economies. Where is Europe's place in the world? Europe is the world's largest economy, its biggest trading area and the number one destination for foreign direct investment, accounting for 45% of global flows in 2006. However, it also represents the leading concentration of scepticism and attempts at protectionism. This situation is due to the head-on confrontation of Europe, the historic source of globalisation, with its aggressive and dynamic competitors, in Asia, North America and all developing economies.

Having celebrated the 50th birthday of the Treaties of Rome, the grand vision of Europe has reached a time of renewal, a turning point for meeting new challenges and addressing new risks. The time is ripe for a regeneration of its competitiveness policy, its political agenda, its institutions. Such modifications imply not only a renewal of social scales between vastly different economic situations and a renewal of local strategies, but also a renewal of tax and legal systems, hard and soft infrastructure, equipment and talents.

Is Europe *really* renewable? What are the tools that will enable Europe to flourish in a globalising world? How do companies act and adapt to this enlarged world of business? Are there significant trends within the growing sectors and more challenged industries? What is the sustainability of Europe's social, economic and environmental models?

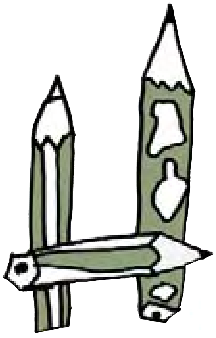
These issues form the core of the Ernst & Young Attractiveness Survey, based on a two-fold, original methodology that reflects (1) the "perceived" attractiveness of Europe and its competitors by a representative panel of 809 international decision makers and (2) Europe's real attractiveness for foreign direct investors, based on Ernst & Young's European Investment Monitor.

This year we have added more interviews, together with the opinions of a selected panel of global observers, from the business community, leading institutions and the Ernst & Young network. As the Ernst & Young Attractiveness Survey enters its fifth year, we would like to extend our gratitude to the thousands of decision makers around the world who, over the years, have taken the time to share their thoughts with us.

The success of this unique survey is directly attributable to their participation and commitment.

Patrick Gounelle
President of Ernst & Young
France & Southern Europe

Marc Lhermitte
Partner,
International Location
Advisory Services



Key Points

Perception of international decision makers:

the mature economic markets of Europe are losing their hold on investors, as the emerging economies of Asia gain ground

- **Western Europe's attractiveness for foreign investors** declined significantly in 2007, along with Central and Eastern Europe's rating. **Both European areas lost 13 points** between 2006 and 2007.

- **However, Europe maintains its lead** as the most attractive global investment region, placing five countries in the global Top 10. At the same time, **the European focus is shifting eastwards**, with France and Spain dropping out of the top 10.

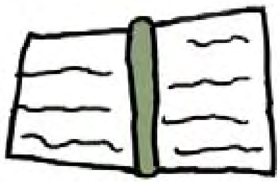
- **Asia showed a significant gain in investor confidence**, closing the gap with Europe. China now lies in second place among the list of preferred regions, with only seven points separating it from Western Europe's lead. India also gained significant ground (+8 points) and is placed fifth by global investors.

- At a country level, the rise of China has resulted in **a decline in popularity for the United States** with an 8 points fall, to give an attractiveness rating of 33% in 2007.

- Despite the gain in popularity of more dynamic FDI destinations, **business leaders express confidence in Europe's future**, with 56% believing its attractiveness will improve over the next three years.

- In order to improve Europe's attractiveness, investors cite, above all, the **need for reforms providing greater flexibility** (47%), simpler administrative procedures (44%) and more support for innovation (35%).

- Over half (56%) of respondents believe that the **adoption of new environmental regulations by European countries** would provide a means of increasing its attractiveness. They are divided as to whether the European Union gives sufficient support to environmental issues.



Reality of foreign direct investment (FDI) in Europe:
an intense level of activity, resulting in a 15% increase in FDI projects in 2006

- **In terms of number of projects**, Europe attracted **3,531** foreign investments in 2006, compared with 3,065 in 2005, representing a 15% increase. 71% of these were “Greenfield” projects, a further sign of investment intensity.

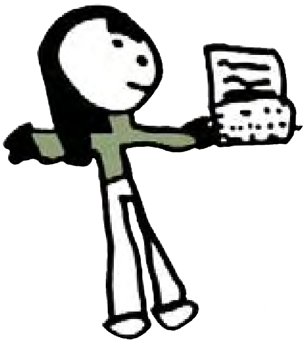
- **The top two destinations for FDI were the UK and France**, with 19% and 16% of total projects respectively. The UK’s lead became more pronounced in 2006. Investment in other European countries fell well behind these two market leaders.

- **The steady increase in foreign investments in the services sector** of recent years was confirmed in 2006: tertiary activities represented 60% of international investments in Europe, compared with 48% in 2004. At a sector level, software and business services generated the greatest number of projects (472 and 446 projects respectively, representing more than 25% of the total).

- **Investments by European players** continue to dominate investment flows, representing 50% of investments announced for 2006. Interest by the BRIC countries is increasing significantly: the number of European investments generated by these four countries increased from 112 in 2005, to 163 in 2006. This was accompanied by India’s entry into the ranking of the top 10 investor countries in 2006.

- **In terms of employment**, international investments resulted in the creation of 211,373 jobs over the year, an increase of 8.3% on 2005. An average of 101 jobs were created per project across Europe (based on projects for which employment information is available).

- **Investment projects in Central & Eastern Europe** were particularly labour intensive. While Central and Eastern Europe attracted only 26% of investment projects, they benefited from 51% of the new jobs created by foreign investors. This represented an average of 217 jobs per project, compared with 64 jobs per project in Western Europe. Poland was the largest creator of FDI jobs, with almost 15% of the total.



Methodology and Sources

The Ernst & Young European Attractiveness Survey is based on a two-fold, original methodology that reflects:

The "perceived" attractiveness of Europe and its competitors by foreign investors

The views and opinions of a representative panel of 809 international decision makers on Europe's attractiveness.

These executives – from all regions, industries and business models – were interviewed by telephone by the "Institut CSA" in February and March 2007 in the following languages: Dutch, English, French, German, Italian and Spanish.

The "real" attractiveness of Europe for foreign investors

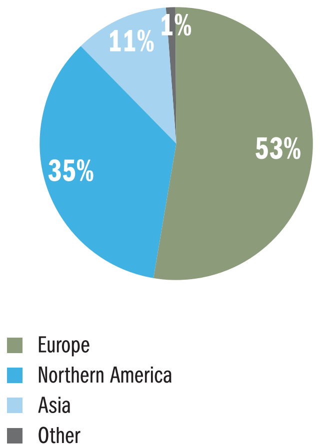
The reality of foreign direct investment (FDI) is evaluated on the basis of "Ernst & Young's European Investment Monitor" (EIM).

This unique database tracks foreign direct investment projects that resulted in new facilities and/or the creation of new jobs.

By excluding portfolio investments, mergers and acquisitions, it shows the reality of investment in manufacturing or services operations by foreign companies across the continent.

An international sample of decision makers from all origins with a clear view and experience of Europe

Nationality of the companies surveyed



The survey sample was established to provide the most accurate profile of foreign investors in Europe, as a whole and in each European country, with regard to the EIM data since 2000.

In order to take into account the distance of the respondents from their respective locations, each nationality quota was divided into two equal groups of businesses:

- the first half corresponding to the subsidiaries of international groups, was surveyed at their European investment location,
- the second half corresponding to the parent companies of international groups, was surveyed in their country of origin.

The sample is composed of:

- 53% European businesses,
- 35% North American businesses,
- 12% Asian businesses and other.

Of the non European companies interviewed, 45% have established operations in Europe. As a result an overall 704 of the 809 companies (87%) interviewed have a presence in Europe.

All business models and sectors

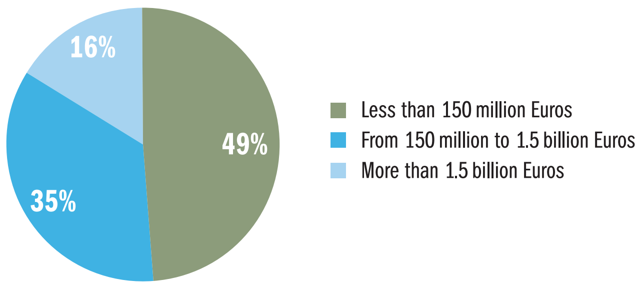
To further guarantee a representative sample with regard to the diversity of the type of company and their international strategies, the survey ensured that it obtained the opinion of:

- SMEs (small and medium enterprises), as well as those of multinationals,
- Industrial companies as well as service providers.

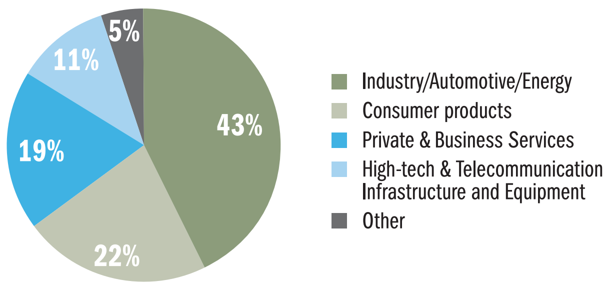
Divided into five main sectors, the businesses surveyed are representative of the key European and global economic sectors:

- Industry/Automotive/Energy,
- B-to-B and B-to-C services,
- Telecoms and Hi-tech,
- Consumer goods,
- Real estate and construction.

Size of companies surveyed (by turnover)



Company business sectors surveyed



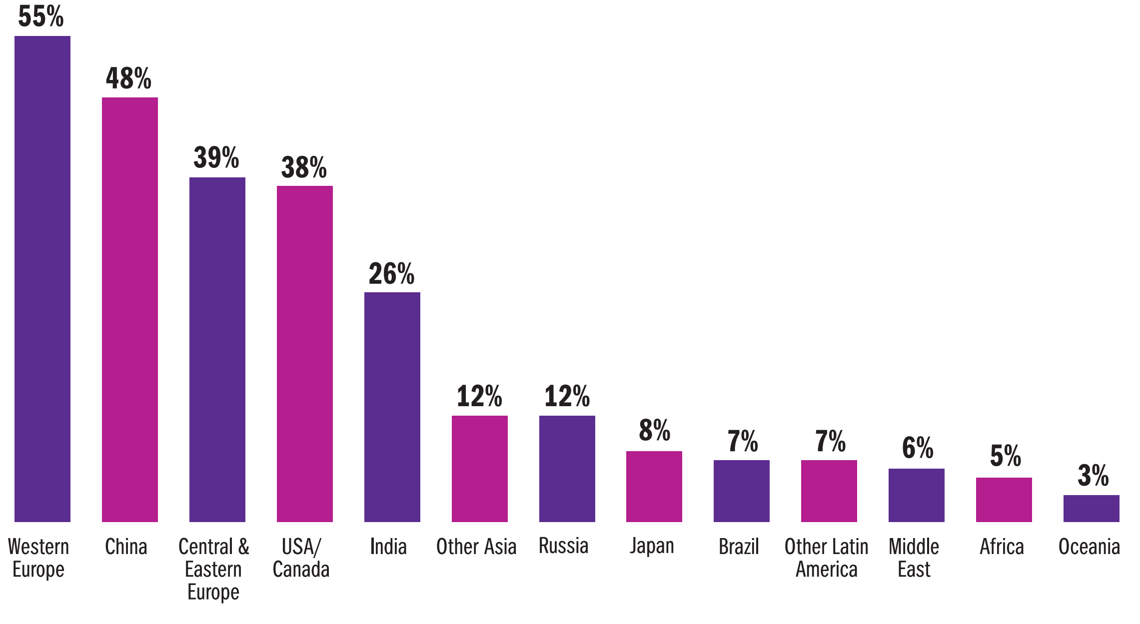
Europe's Perceived Attractiveness

Global competition
Local Drivers

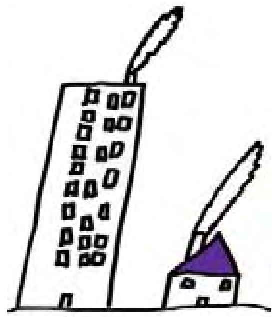
1.1 Europe loses 13 points in its attractiveness rating, but retains a global leadership

Having successfully fended off advances by other global regions in recent years, Europe's clear lead as the location of choice is narrowing. While over half (55%) of decision-makers cite Western Europe as one of their three most preferred business locations, this represents a full thirteen-point fall from the 2006 score. Similarly, Central and Eastern Europe loses 13 percentage points in 2007, placing it third on the global scoreboard.

Ranking of the most attractive global areas 2007
(total superior to 100% - 3 possible choices)



Ranking 2006:
1) Western Europe (68%)
2) Central & Eastern Europe (52%)
3) USA/Canada (48%)
4) China (41%)



Why and how companies invest in new locations

This first section provides a view of the most attractive global regions and their respective attractiveness profiles, as seen by our global panel of business executives. It ranks key economic zones against the factors considered by companies when making location decisions.
Analysis of the criteria used by international corporate executives in selecting locations for investment projects confirms that their decisions are dominated by four sets of factors:

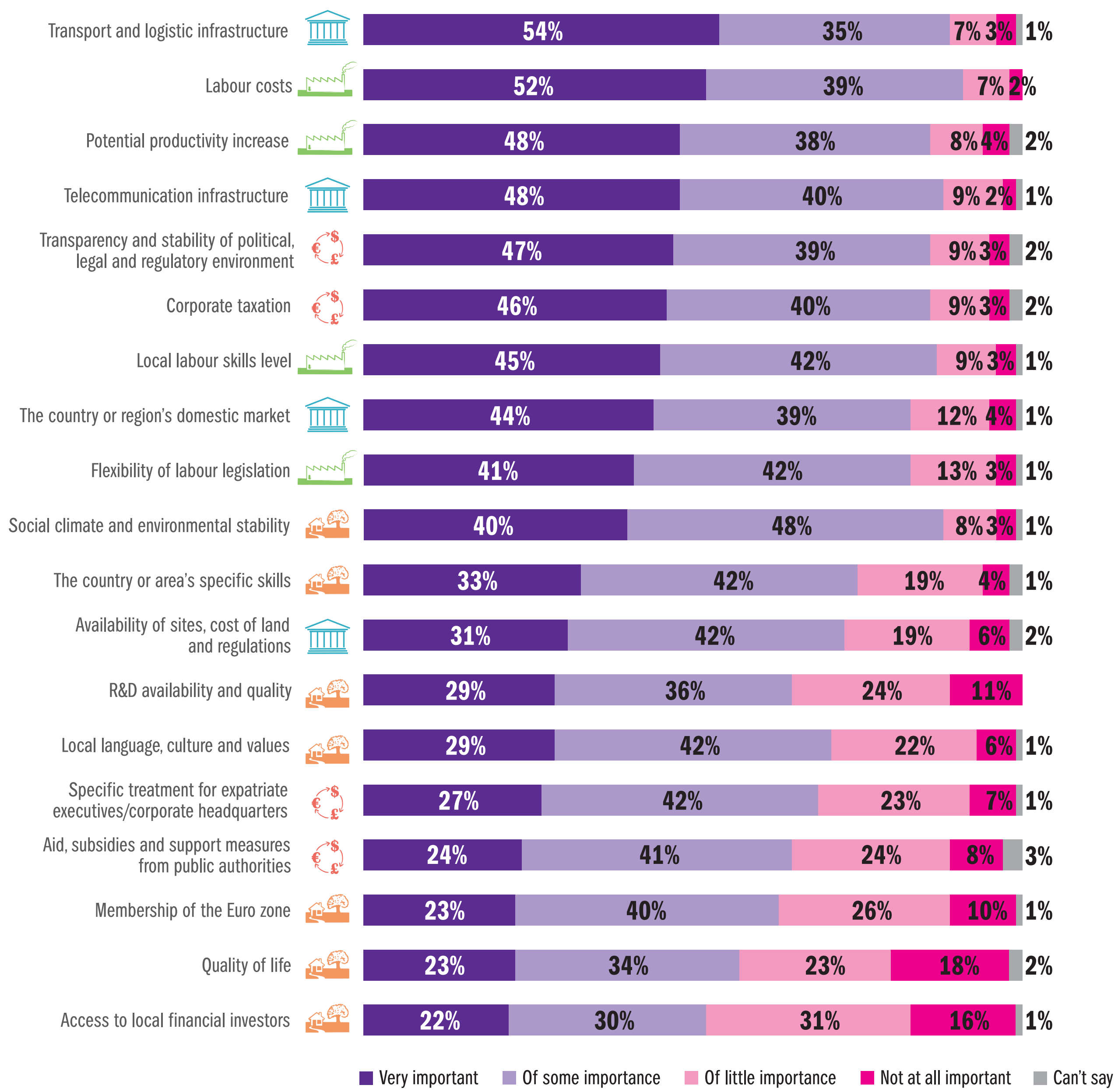
Market and access factors: One of the most significant reasons for a change in location strategy is a change in the market – in its scale, geography, nature or diversity – as well as competitor activity, and quality and price issues related to market access. Location factors therefore encompass criteria relating to project activities, such as the quality of the infrastructure, proximity to markets and the quality of the telecommunication networks.

Labour and productivity factors: In addition to market factors, a company's need or desire to find new resources or arbitrate between various labour profiles influences business location decisions. Factors evaluated are labour skills, labour availability and, of course, labour costs when factored with productivity.

Fiscal and legal factors: These factors concern the tax planning of an investment, but also its flexibility – directly or indirectly – and its profitability. Of particular importance are the tax burdens and incentives, legal and regulatory factors, and also public incentives.

Environmental and regional factors: These criteria concern the operating environment of the company in a given country or region and the extent to which they offer the company the necessary means to develop. In particular, they concern the availability of capital and financial markets, specific expertise in a given region, the wealth of innovation and research and the quality of life.

Ranking of the selection criteria for an investment location (2006 data)

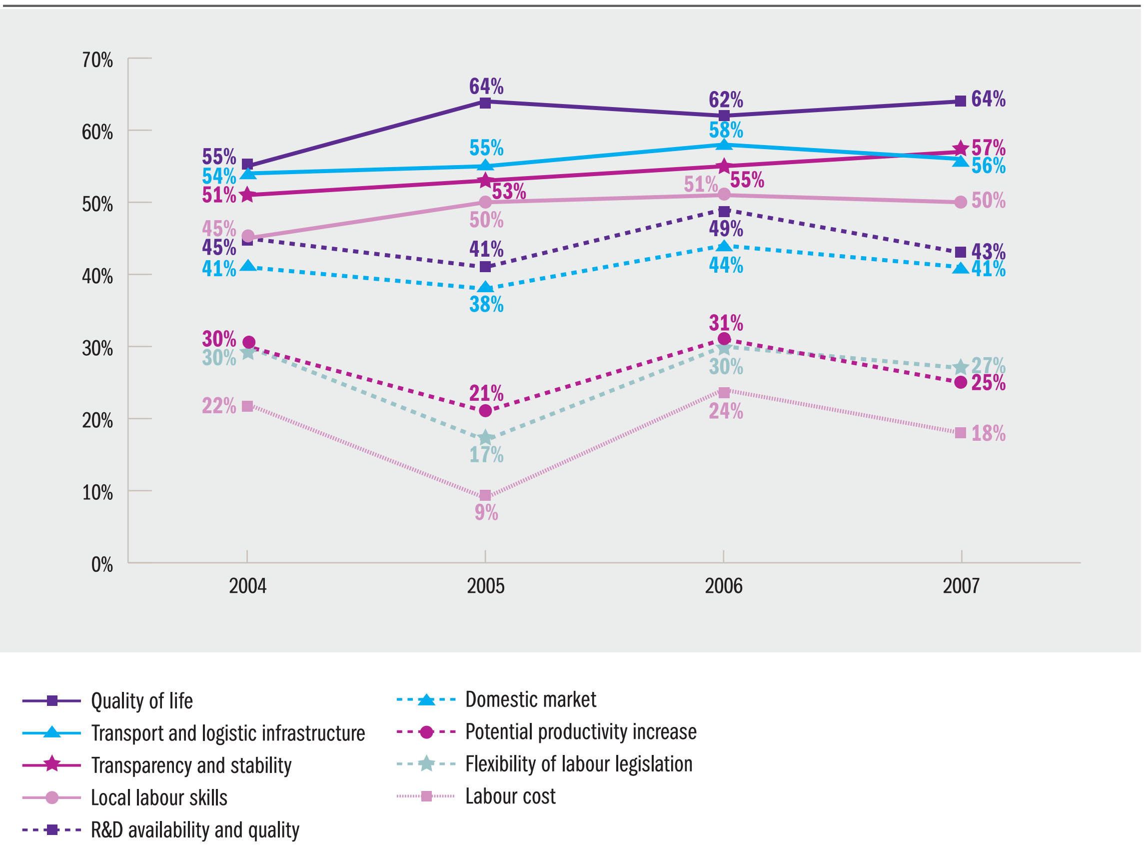


1.2 Business leaders' view of Western Europe: predictable, reasonably wealthy and stable, if not dynamic

Western Europe maintains a solid following among potential investors: the region is the first choice location for all attractiveness factors, with the exception of labour costs.

The zone is most strongly valued for its infrastructure, quality of life, labour skills, language and transparency of its legal environment. **Over half of decision makers identify Western Europe as their first choice location for these "quality-driven" criteria**. Investors appear more unanimous in their evaluation of quality and risk issues than in their stringent demands relating to costs and productivity pressures. They seem to have understood the permanent change Europe has undergone, from a historic base of heavy manufacturing and labour intensive industries, to a region of high skills and concentration of value-added activities.

Western Europe: Evolution of the zone's rating by location selection criteria 2004-2007
(% of respondants citing zone as most attractive location)



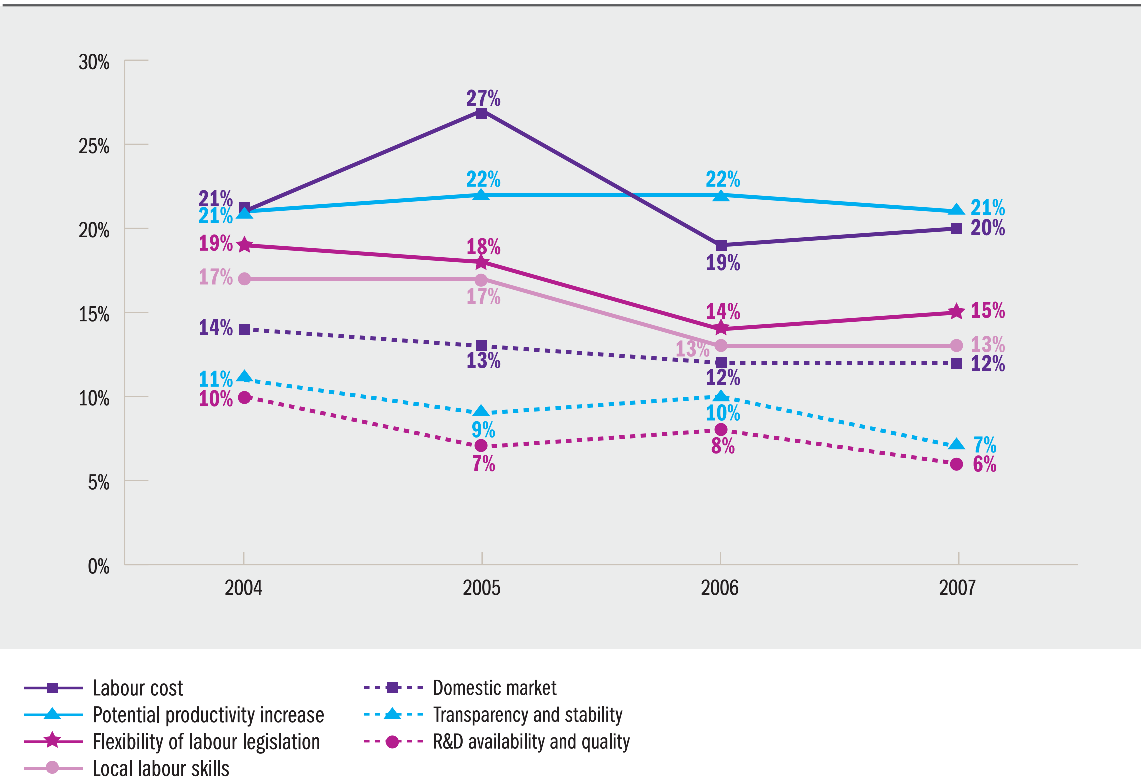
1.3 Central and Eastern Europe finds new competition

The traditional strongholds been forced to accept a reduced level of business interest as China rises through the ranks.

After maintaining a consistent second place in our previous surveys, **Central and Eastern Europe has ceded its second position to China** in the ranks of regional attractiveness.

Central and Eastern European locations are unable to rely solely on their position at the heart of change in Europe, nor draw the full benefit from a favourable labour environment. The region still appears to be having difficulty in convincing investors of its merits as an "all-round" business location. It fails to score first for any of the location factors for which it was surveyed: it comes second on potential productivity increases, corporate taxation level and financial incentives. The region shows little sign of consolidating its image. The increased level of interest identified by our survey in 2005 as a result of favourable labour costs has not been maintained. **While 27% of respondents ranked Central and Eastern Europe top for this strategic location factor in 2005, it has fallen to 20% in 2007**.

Central & Eastern Europe (including Russia): Evolution of the zone's rating by location selection criteria 2004-2007
(% of respondants citing zone as most attractive location)



However, Europe's economic focus is continuing its Eastern transition. While the UK and Germany retain a firm foothold on the global attractiveness map, other old, established economies have witnessed a reduced level of investor interest as eyes turn to the east – to the new Europe and beyond.

As a result France and Spain no longer enter into the Top 10 preferred countries, with two Western European countries (Germany and the UK) and two Central and Eastern European countries (Poland and the Czech Republic) featuring in the ranking.

This eastward shift, however, does not extend as far as Russia, which is ranked amongst the top three investment locations by only 12% of respondents, in marked contrast to the 39% of voters citing Central and Eastern Europe.

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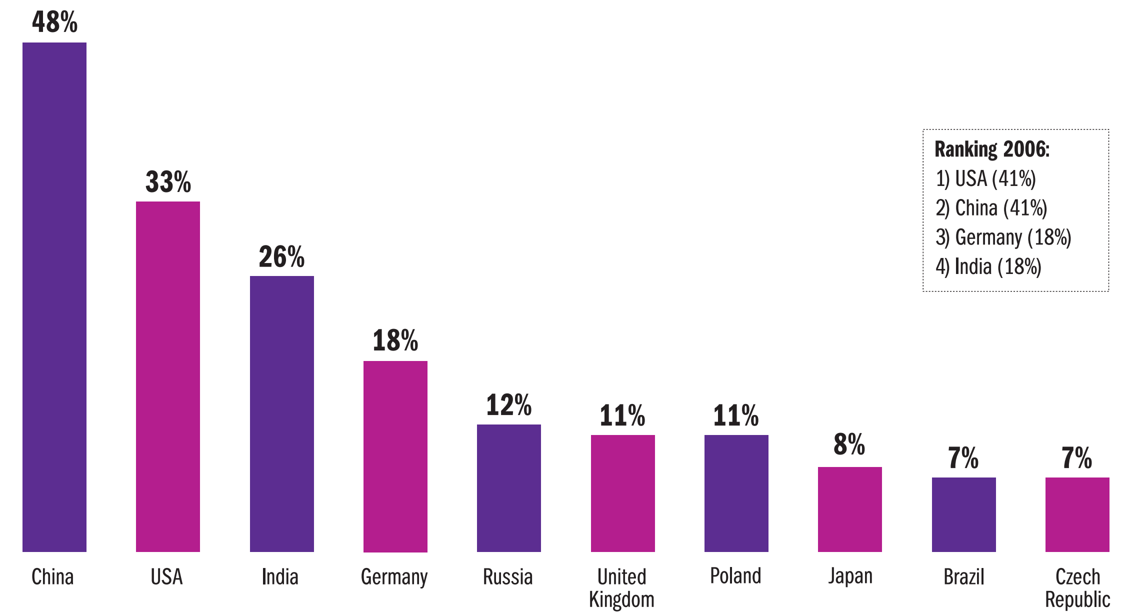
Quality versus cost

US companies have expressed great interest in understanding the capabilities of Central and Eastern European countries to support light manufacturing and global business services operations. Investors perceive that strong language skills and familiarity with US culture can drive location decisions toward EU countries; however, there are concerns over the sustainability of wage arbitrage benefits and the flexibility of labour regulations within EU countries. To maintain the growth of investments from US companies, EU countries must continue to aggressively develop programmes and incentives focused on workforce quality rather than competing with other global locations on a cost basis.

The Top 10 most attractive countries in 2007
(total superior to 100% - 3 possible choices)



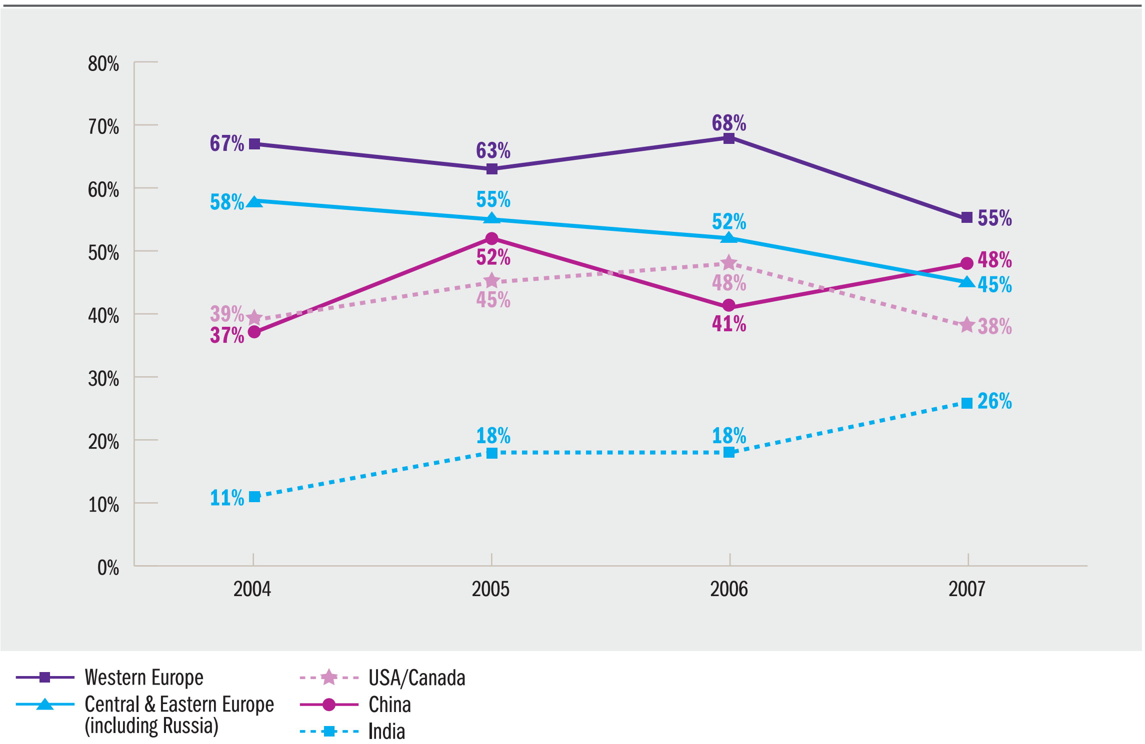
1.4 China and India reshuffle the cards

Our 2007 survey shows a reshuffling of the cards amongst the most attractive regions. The attractiveness of the traditional top ranked regions of Europe and North America is giving way to a rise in popularity of India and China. The differences between the key global business regions are blurring in terms of their perceived attractiveness. The global business world has become increasingly multi-polar.

Of the top 5 areas, 29 points now separate the score of the fifth placed India, from Western Europe – the lowest spread yet recorded. At the same time, China's advance on Western Europe has considerably increased since 2006.
China and India's marked rise in popularity is even more evident at a country level, where their mounting popularity places them first and third respectively on the podium of global countries. In 2007 our survey shows that almost half (48%) of all respondents now cite **China** as one of their top three preferred business locations (up from 41% in 2006). However, China, while topping the rankings for its favourable labour costs, is still challenged by investors for the quality of its workforce – only 4% of interviewed investors cited it as the most attractive region for labour skills.

In addition, only 4% of respondents mentioned China as the most attractive region for R&D availability and quality, as opposed to 43% for Europe and 27% for North America.
India's popularity is increasing fast. While 11% of respondents cited the country amongst their top three preferences in 2004, this figure has risen to 26% in 2007.
Whilst China, and to a lesser extent India, have now earned a secure place on the world map as potential investment locations, their favourable business image has yet to filter through to the other Asian business regions. The difference in the image rating of China, rated overall second, compared with Japan (ranked eighth, with 8% of votes) is remarkable.

Evolution of interest in the most attractive areas
(total superior to 100% - 3 possible choices)



Aside from India and China, the remaining so-called BRIC countries of Brazil and Russia feature much less prominently in terms of investor interest. Despite the abundant energy supplies of Russia, internal political uncertainties seem to deter investors. Similarly for Brazil, the considerable efforts by the government to secure macro economic stability have so far failed to convince decision makers. A total of only 7% of executives surveyed cited Brazil among their top three preferred locations, while 12% identified Russia.

1.5 Preferences: Western Europe has a strong global following; interest in Central and Eastern Europe is more local

Interesting variations are apparent by region, industry and business model: in general, the principal interest in each of the main global regions comes from companies whose nationality falls within that region. American companies defy this trend, showing a considerable level of open-mindness with regard to other investment locations.

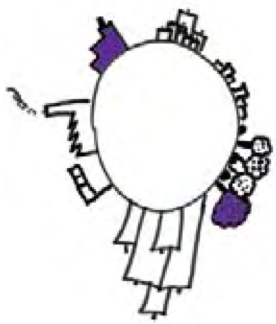
- **With the exception of Western European companies**, the strongest attention to the region is paid by US companies, with 55% citing it among their top three locations. Despite recent corporate acquisitions, notably in the ICT, consumer goods & steel industries, increased European interest from Asian companies, has yet to be reflected in voter preferences. **Only 40% of Asian companies cited Western Europe** among their choices, compared with an average response rate of 55%.
- **Central and Eastern Europe has more of a local following**. While 39% of all voters identified Europe's new entrants amongst their top three preferred locations, the zone was cited by less than a third (30%) of North American companies and only 23% of Asian companies.
- **Interest in Asia**, by companies of non Asian nationality, is focused on **China**. American companies view the country more favourably (51% citations) than their Western European counterparts (45%). However, it is worth noting that overall, China's rating shows relatively limited variation amongst Asian and non-Asian companies, resulting in a combined attractiveness score of 48%.
- **At a sector level**, Central & Eastern European interest is concentrated among consumer industries (45% vs. an average 39%). **At present, the region fails to seduce a significant number of hi-tech industries** however, with only 27% of hi-tech/ telecom companies voting for the region. Such companies, together with those in Business Services indicate a preference for the USA and Canada (47% compared with an average 38% of respondents).
- Relatively higher operating costs in Western Europe no doubt play a part in the **more limited preference of manufacturing industries** for the zone (49% of votes compared with an average 55%).
- In terms of company size, no regional voting pattern is apparent – small and large companies showing similar location preferences. Within Europe, a slight difference is seen by company size, **smaller companies preferring the reassurance of their home markets (33%)**, while larger companies take a more global view of business location (22% favouring the region).

1.6 Europe loses its overall hold on strategic business functions due to a challenged leadership

Companies recognise that there is no single best location globally for an investment. Rather, each country and each region have certain competitive advantages that make them more attractive to certain types of investments. The Ernst & Young Attractiveness Survey compares global regions and leading destination countries in terms of the main location factors for new investments.

Investors have become more prepared to consider alternative locations, even though Europe remains the overall location of choice for most functions, with the exception of manufacturing operations.

Europe: Evolution of rating by activity 2004-2007
(% of respondants citing zone as most attractive location)



Call-centre retreat

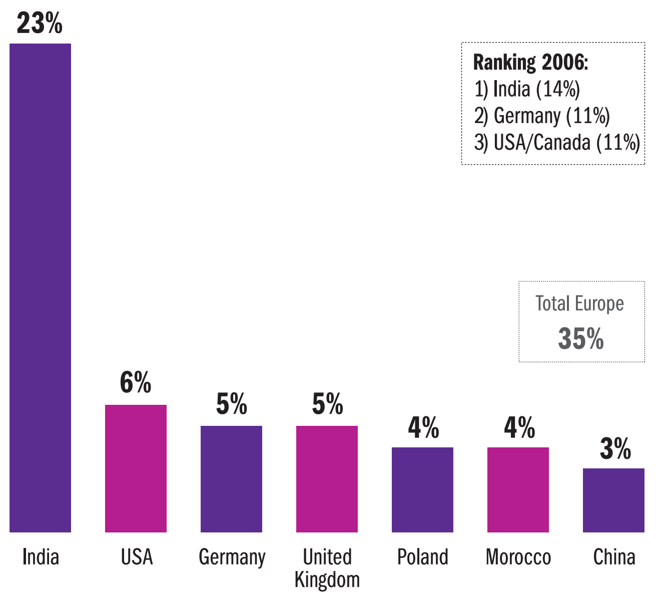
Particularly notable is the sharp decline in Europe's attractiveness score for call-centre functions. At the same time, the region maintains a firm following for other support functions, such as back office operations.

The pull of India as a global call-centre location remains undisputable, despite a cooling off in investor interest in the region in 2006. Although there have been considerable annual variations, the region has gained thirteen points since the start of our analysis in 2004. Technology advances in recent years have allowed India to bypass its previous economic disadvantages, such as a lack of infrastructure, and capitalise on its strengths of a well-educated, computer literate and English speaking workforce.

Europe is likely to continue to lose ground to India as a location for R&D and administrative/back office functions in the future.

Ranking of top countries for call-centres

(% of respondants citing zone as most attractive location)



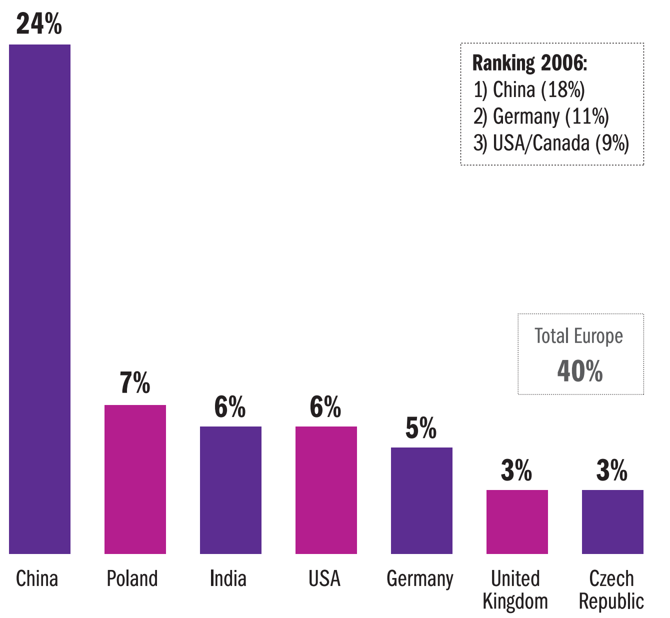
Factory production increasingly multi-polar

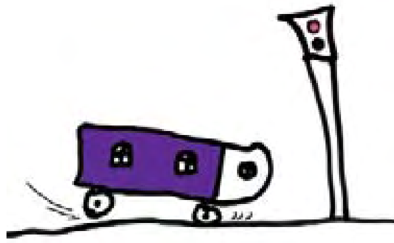
Following a number of years of wide variations in investor location preferences for factory/production units, decision makers now seem to have reached a consensus that the three regions of Western Europe, Central and Eastern Europe and China all have their merits as factory locations, but for different reasons. **China gained significant ground in 2007 with 24% of votes**, but the need to maintain control of operations, and proximity to distribution channels and research and development operations continues to guarantee a strong (18%) presence for Western Europe.

Central and Eastern Europe remains popular and earns a second place ranking. The region benefits from its relative proximity to the target market, while at the same time playing to its strength as a low cost location.

Ranking of top countries for production units

(% of respondants citing zone as most attractive location)





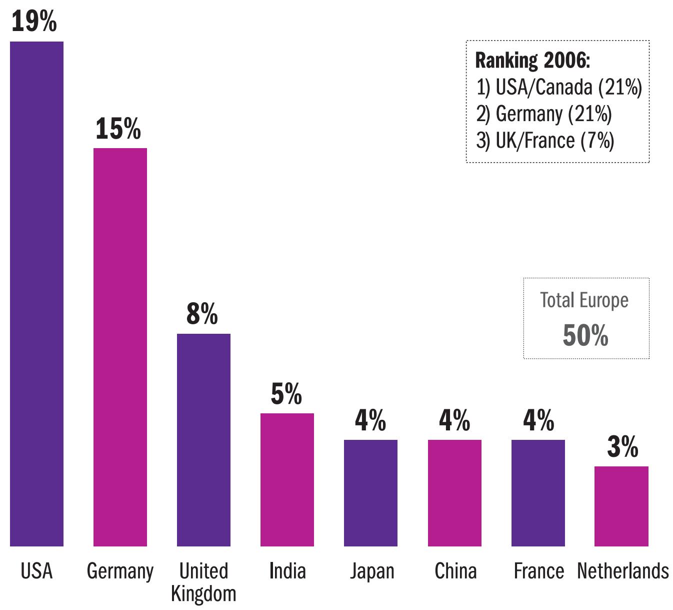
Europe faces increased competition for R&D

Our previous surveys have shown a majority of potential investors favouring Europe as a location for their R&D activities. **In 2007, interest in Europe** as an R&D location sees a 6 point fall, with 50% of respondents citing it as their preferred location.

Germany, although remaining in second place, sees a significant decline in its image as an R&D location (-6 points). France similarly falls from favour, losing its fourth spot to rank seventh in 2007.

India is cited by 5% of voters, with Japan and China obtaining 4% of responses – percentages which remain on a par with our previous survey.

Ranking of top countries for R&D centres
(% of respondants citing zone as most attractive location)

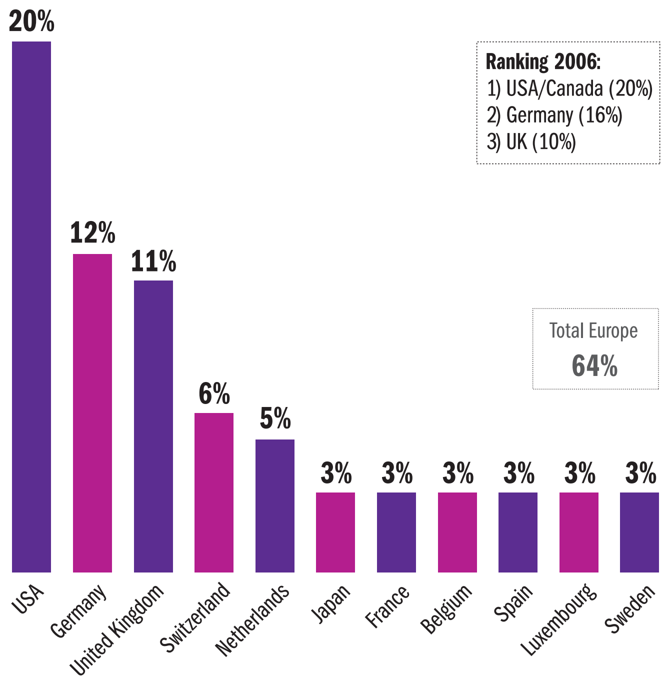


Overwhelming preference for Europe for headquarters' functions

Despite declines in its ratings for other business activities, our 2007 survey is marked by a reaffirmation of **Europe's clear lead as the preferred location for headquarters' activities, with 64% of voter preferences**. This rating places it head and shoulders above its nearest rival USA/Canada with 21% of votes. This strong preference for Europe is seen continent-wide, with the region taking all the top ten country slots, with the exception of the USA and Japan. New to the top ten ranking in 2007 are Spain, Luxemburg and Sweden, displacing notably China from the ranking.

This result raises questions on the real level and depth of globalisation: just how much power are European multinationals prepared to relinquish when they show a distinct reluctance to release their control on decision-making and relocate their headquarters' activities to emerging markets ?

Ranking of top countries for headquarters
(% of respondants citing zone as most attractive location)



The Reality of Foreign Investment in Europe

Eur-hope

Introduction: Monitoring inward investment in Europe

At a macro level, data is available on foreign direct investment (FDI) which includes equity capital, reinvested earnings and intra-company loans. While this information is broadly comparable (although many countries do not report all components of investment), most companies and development experts are interested in where inward investment projects have been undertaken, the type of investment concerned, who made the investment and in which sectors.

To map the investments carried out in Europe, Ernst and Young created the ***Ernst & Young European Investment Monitor (EIM) in 1997*** *to monitor investments and expansions of activity in the region. In 2004, methodological changes were implemented to this database to better reflect the diversity of European investments and the evolution of investment tracking methods in individual regions and countries.*

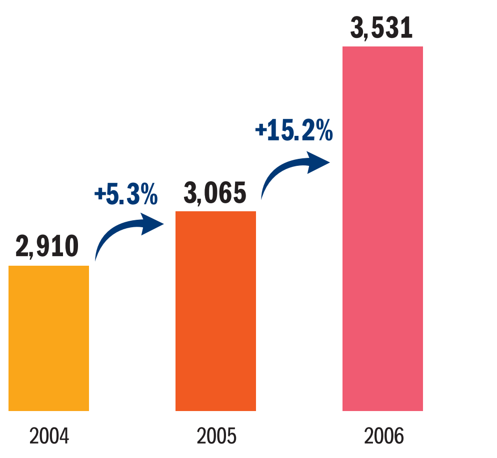
2.1 Project announcements: New record for Europe and maintained leadership for the United Kingdom

FDI activity at the turn of the century was constrained by business conditions. However, today's strong economic indicators and moves by multinational corporations and SMEs to take positions in a rapidly changing Europe have allowed FDI to resume a path of growth, both in terms of number of projects and volumes.

Inward investment activity in Europe reached a record high in 2006 with 3,531 project announcements, representing an annual increase of 15.2% (3,065 projects). 2006's increase was significantly above that of the previous year (5.3%). Contrary to common perception, European countries and regions alike are experiencing the most active time in their modern economic history in terms of FDI.

This is a sign of a very active, highly volatile period, with sectoral, functional and consequently geographical changes in investment patterns within Europe; while outside its borders, the region is faced with increased competition.

Total number of FDI projects in Europe



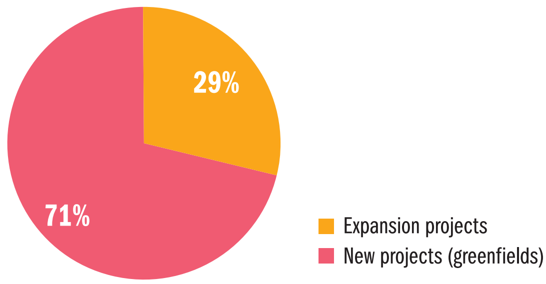
Investment regeneration: Investment in new sites (greenfield projects) continues to dominate the investment environment, demonstrating a remarkable broad base of investor interest.

Almost three-quarters (71%) of projects concerned new sites, while 29% represented an extension to an existing project. This distribution replicates exactly that of the previous year.

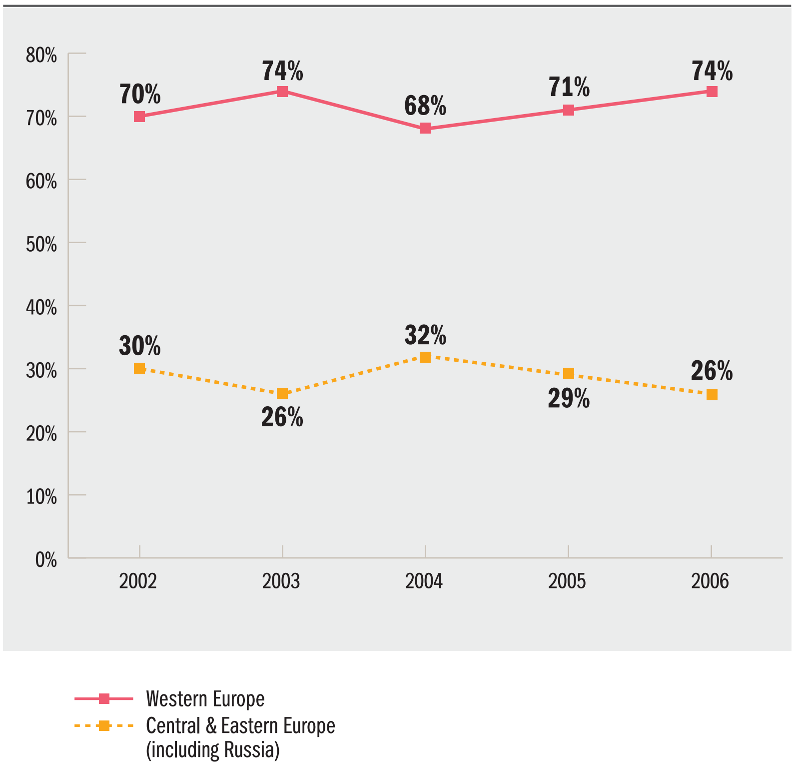
Investors are rapidly taking advantage of opportunities (arbitrating between location options for markets, labour and property) and investing in Europe – East and West – at a record pace: more than 3,500 investment decisions were made by foreign investors across Europe in 2006.

Inward investors remain most active in the Western half of the economic zone. The number of investment projects in Western Europe in 2006 (74% of the total) was almost three times that of Central and Eastern Europe (26% of the total). Indeed, the top five European investment destinations were all situated in Western Europe.

FDI by project type in 2006



Split of FDI between Western Europe and Central & Eastern Europe
(number of projects - 2002/2006)



Leader board: The UK and France remain the top two destinations for foreign direct investment, with the UK's lead becoming more pronounced.

Almost a fifth (19.4%) of the total number of foreign direct investment projects in Europe in 2006 was directed towards the UK, while France attracted 16% of projects.

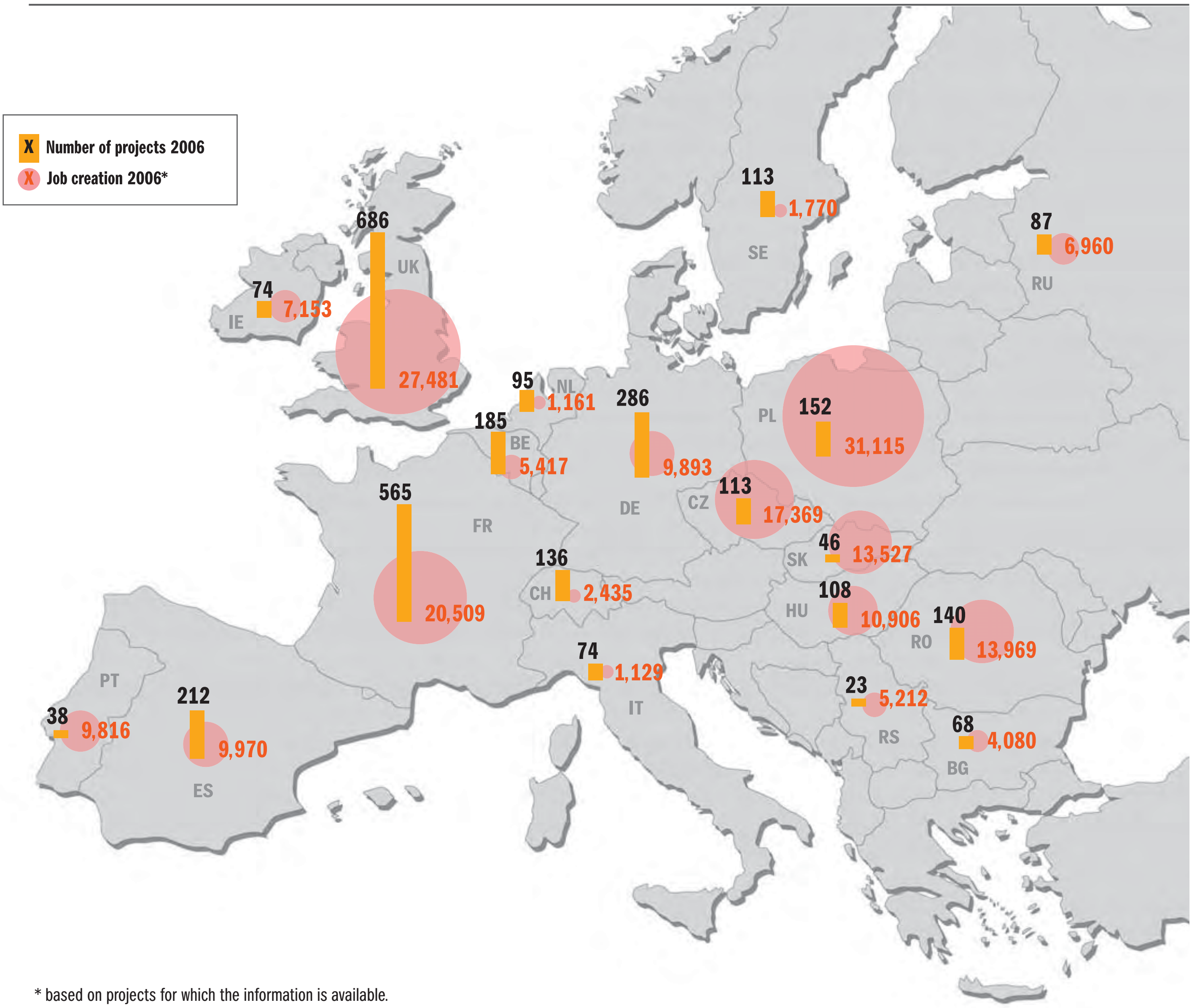
Investment in other European countries fell well behind these two market leaders, with the closest challenger, Germany, attracting 8% of projects.

- **Romania** experienced the highest growth in number of projects announced, from 86 in 2005 to 140 in 2006.
- **Switzerland** jumped to number 8, on the strength of its popularity as a destination for headquarters operations and, to a certain extent, life sciences investments.
- **Germany, Spain and Italy** experienced significant increases in the number of project announcements.
- The relative positioning of Central & Eastern European countries in the top 15 declined in 2006. **Poland, the Czech Republic, Hungary and Russia** fell in the rankings due to a declining industrial base. For similar reasons, Slovakia fell out of the top 15.

Top 15 European countries as investment destinations
(number of projects - 2005/2006)

Rank 2006	Countries	Number of FDI in 2006	Market share 2006 (%)	Number of FDI in 2005	Evolution of number of projects 2005/2006
1	United Kingdom	686	19.4%	559	+22.7%
2	France	565	16.0%	538	+5.0%
3	Germany	286	8.1%	182	+57.1%
4	Spain	212	6.0%	147	+44.2%
5	Belgium	185	5.2%	179	+3.4%
6	Poland	152	4.3%	180	-15.6%
7	Romania	140	4.0%	86	+62.8%
8	Switzerland	136	3.9%	93	+46.2%
9	Czech Republic	113	3.2%	116	-2.6%
9	Sweden	113	3.2%	95	+18.9%
11	Hungary	108	3.1%	115	-6.1%
12	Netherlands	95	2.7%	82	+15.9%
13	Russia	87	2.5%	111	-21.6%
14	Ireland	74	2.1%	67	+10.4%
14	Italy	74	2.1%	49	+51.0%
	Other	505	14.0%	466	+8.0%
	Total	3,531	100%	3,065	+15.2%

Foreign investment in key European countries 2006
(number of projects and total job creation)



* based on projects for which the information is available.

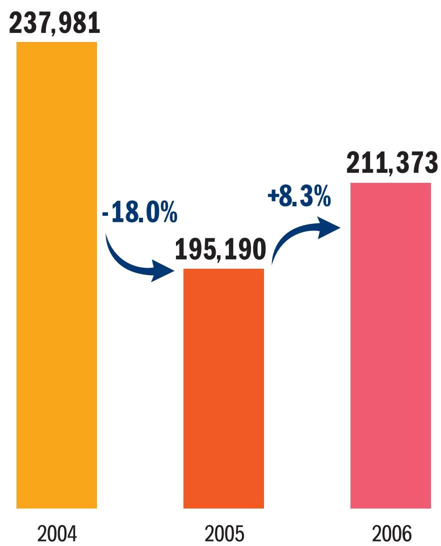
2.2 Job creation: Poland maintains its lead as the number one destination for employment flows via FDI

General activity: FDI activity resulted in the creation of a record 211,373 jobs in Europe in 2006, an increase of 8.3% on the previous year. This reversed the trend of 2005, which witnessed a sharp (-18%) fall in the number of FDI created jobs, and confirms 2006 as a remarkable year.

Available employment data indicate that **Western Europe** in general was characterised by investment in a **large number of projects that were less labour intensive**; a factor undoubtedly linked with the higher staff costs in the region. The number of jobs created increased in most of the 15 European FDI destinations.

An average of only 64 jobs was created per project in Western Europe. By contrast, while the number of jobs created in Central and Eastern Europe was almost identical (108,795 jobs), the region welcomed a significantly fewer number of projects and capitalised on the reduced labour costs to create a significantly higher number of jobs per project (an average of 217 jobs per project).

Total job creation by FDI in Europe*
(number of jobs created - 2004/2006)



* based on projects for which the information is available.

Job creation split between Western Europe and Central & Eastern Europe - 2006

	Job creation by project (average 2006)*	Total job creation by region (2006)	Market share (% 2006)
Western Europe	64	102,578	49%
Central & Eastern Europe	217	108,795	51%
Total	**101**	**211,373**	**100%**

* based on projects for which the information is available.

Top 15 European countries for FDI by job creation - 2006

Rank 2006	Countries	Total job creation in 2006*	Market share of job creation 2006 (%)	Job creation by project (average 2006)*
1	Poland	31,115	14.7%	324
2	United Kingdom	27,481	13.0%	60
3	France	20,509	9.7%	53
4	Czech Republic	17,369	8.2%	214
5	Romania	13,969	6.6%	191
6	Slovakia	13,527	6.4%	436
7	Hungary	10,906	5.2%	151
8	Spain	9,970	4.7%	87
9	Germany	9,893	4.7%	70
10	Portugal	9,816	4.6%	491
11	Ireland	7,153	3.4%	138
12	Russia	6,960	3.3%	211
13	Belgium	5,417	2.6%	48
14	Serbia	5,212	2.5%	372
15	Bulgaria	4,080	1.9%	128
	Other	17,996	8.5%	
	Total	**211,373**	**100%**	
	European average			**101**

Country profiles: Poland remained the largest job creator, with the implementation of 31,115 new posts due to foreign investment, spread across a relatively restricted number of projects.

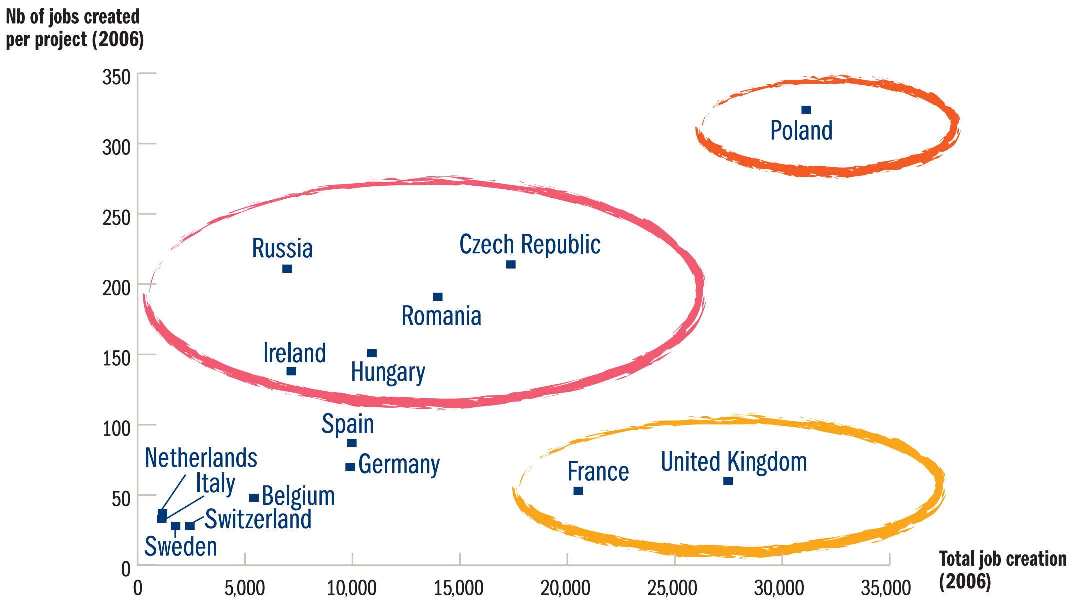
At a national level, **the UK and France remained second and third respectively in terms of job creation**, although the number of jobs created declined slightly (27,481 jobs created in the UK and 20,509 in France).

Spain and Ireland experienced a significant increase in job creation (+35% and +17% respectively). Spain rose to be placed ahead of Germany, while Ireland out paced Russia.

Whereas **Slovakia** left the top 15 destination countries in 2006 for FDI projects, the country retained its ranking in 6th place in terms of job creation due to a significant increase of the number of jobs created (+24.7%, with 13,527 jobs created in 2006).

Conversely, **Romania** and **Hungary** experienced a slight decrease in the number of jobs created, with the creation of 13,969 and 10,906 jobs respectively.

Country positioning in 2006*
(jobs created per project/total job creation)



* based on projects for which the information is available.

2.3 Industries: The European FDI economy is increasingly reliant on service-related sectors

The software industry continued to dominate FDI projects in 2006, following a trend identified since 1998. A record 472 software related investment projects were identified, representing 13.4% of total projects by number.

Europe's growth in business services (advisory, design, recruitment and maintenance, etc.) also incited a significant number of overseas investors to develop projects; with the sector accounting for 12.6% of FDI projects in 2006.

Despite a marked trend of a migration of automotive related jobs towards emerging destinations, Europe managed to attract a full 226 automotive related projects in 2006 (6.4% of the total). However, with increasing automation and cost pressures, there was a sharp fall in the associated number of posts created.

In 2005 the sector was the largest creator of FDI jobs; in 2006 almost 9,000 fewer automotive jobs were developed, resulting in a total of 31,884 posts. Nonetheless, sector related jobs represented 15.1% of the FDI total.

Top 15 sectors for FDI by projects - 2006

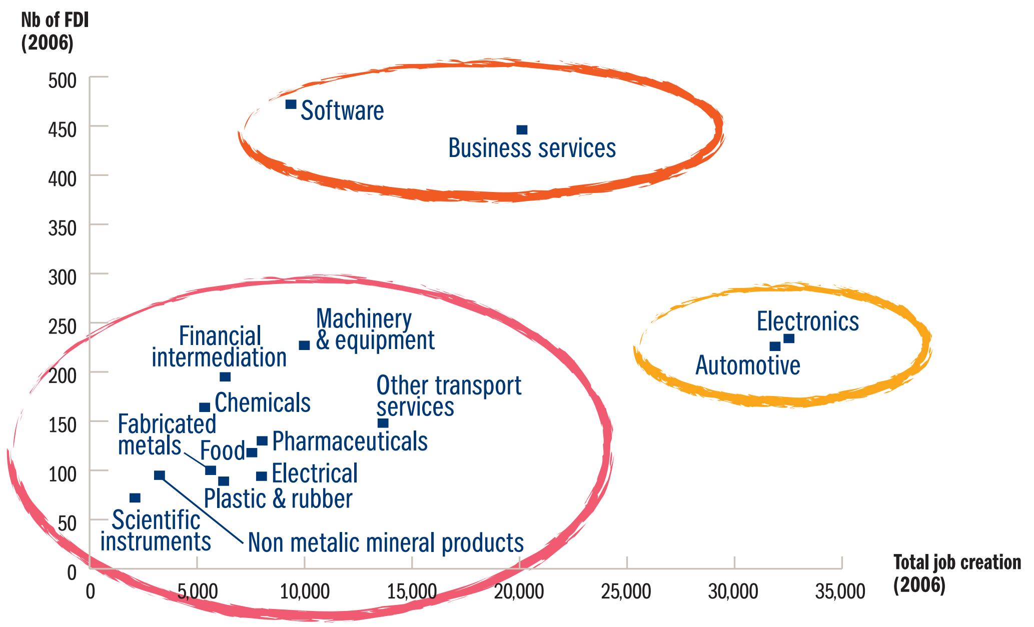
Rank	Sector name	Number of FDI in 2006	Market share of FDI projects 2006 (%)	Total job creation in 2006*	Market share of FDI job creation 2006 (%)*
1	Software	472	13.4%	9,366	4.4%
2	Business Services	446	12.6%	20,112	9.5%
3	Electronics	234	6.6%	32,529	15.4%
4	Machinery & Equipment	227	6.4%	9,989	4.7%
5	Automotive	226	6.4%	31,884	15.1%
6	Financial Intermediation	195	5.5%	6,307	3.0%
7	Chemicals	164	4.6%	5,353	2.5%
8	Other Transport Services	148	4.2%	13,649	6.5%
9	Pharmaceuticals	130	3.7%	8,026	3.8%
10	Food	118	3.3%	7,547	3.6%
11	Fabricated Metals	100	2.8%	5,630	2.7%
12	Non-metallic mineral products	95	2.7%	3,253	1.5%
13	Electrical	94	2.7%	7,997	3.8%
14	Plastic & Rubber	89	2.5%	6,235	2.9%
15	Scientific Instrument	72	2.0%	2,111	1.0%
	Other	721	20.4%	41,385	19.6%
	Total	3,531	100%	211,373	100%

* based on projects for which the information is available.

- The Top 10 sectors represented more than two-thirds of total FDI and job creation.
- The number of software and business services projects increased by 30.4% and 39.4% respectively.
- In total, High-Tech and knowledge-intensive industries represented a significant share of total FDI throughout Europe: 46.5% of all FDI in 2006 and 38.6% of total job creation.
- The electronics sector ranked 3rd, generating 234 foreign investment projects in 2006 (compared with 226 in 2005) and became the top job creator (32,529 jobs created), ahead of the automotive sector.

Sector positioning in 2006*

(number of projects/total job creation)



* based on projects for which the information is available.

Top investors in Europe - 2006

Main investors	Number of FDI in 2006
IBM	8
Microsoft	6
DHL	5
GlaxoSmithKline	5
Procter & Gamble	5
Airbus	4
Catlin	4
Cemex	4
Dell	4
HSBC	4
ITC Infotech	4
Kronospan	4
Mazda Motor	4
MicroStrategy	4
One Planet Corp	4
SAP	4
Stora Enso	4
TNT	4

Whereas in 2005 the two top companies investing in Europe were German, in 2006 American companies took the lead. IBM and Microsoft were placed first and second respectively, with DHL and GlaxoSmithKline in joint third place. In 1997, this list was led by Ford, Daewoo and Siemens.

Investment profiles of Top 15 European countries by FDI destinations

Netherlands:

63% of investments directed to tertiary functions. American investors lead (47% of total). Sector investment profile in line with European average (software & business services lead).

Ireland:

Sector investment profile in line with European average (software, financial services & business services lead).
19% of investments directed to R&D centres. Top investors are UK & US (79% of country total).

United Kingdom:

Main destination for HQ investments (43% of European HQ FDI). Key destination for software & business services (35% and 29% of Europe's FDI respectively). Strong presence of N. American (30% of European total) & BRIC (44% of total) investors.
High level of job creation from FDI (N° 2 in Europe).

Belgium:

Chemicals sector investment leads (21 projects), ahead of business services (19 projects).
France N°. 2 investor (25 projects) behind US (45 projects).

Spain:

N° 2 for R&D investment in Europe, on a par with France (11%). Software (29), business services (21) and automotive (19) projects dominate. Automotive sector represented 28% of job creation.

France:

Business Services top sector investment.
Highest number of industrial FDI projects in Europe. US investors dominate.
3rd for job creation.

Switzerland:

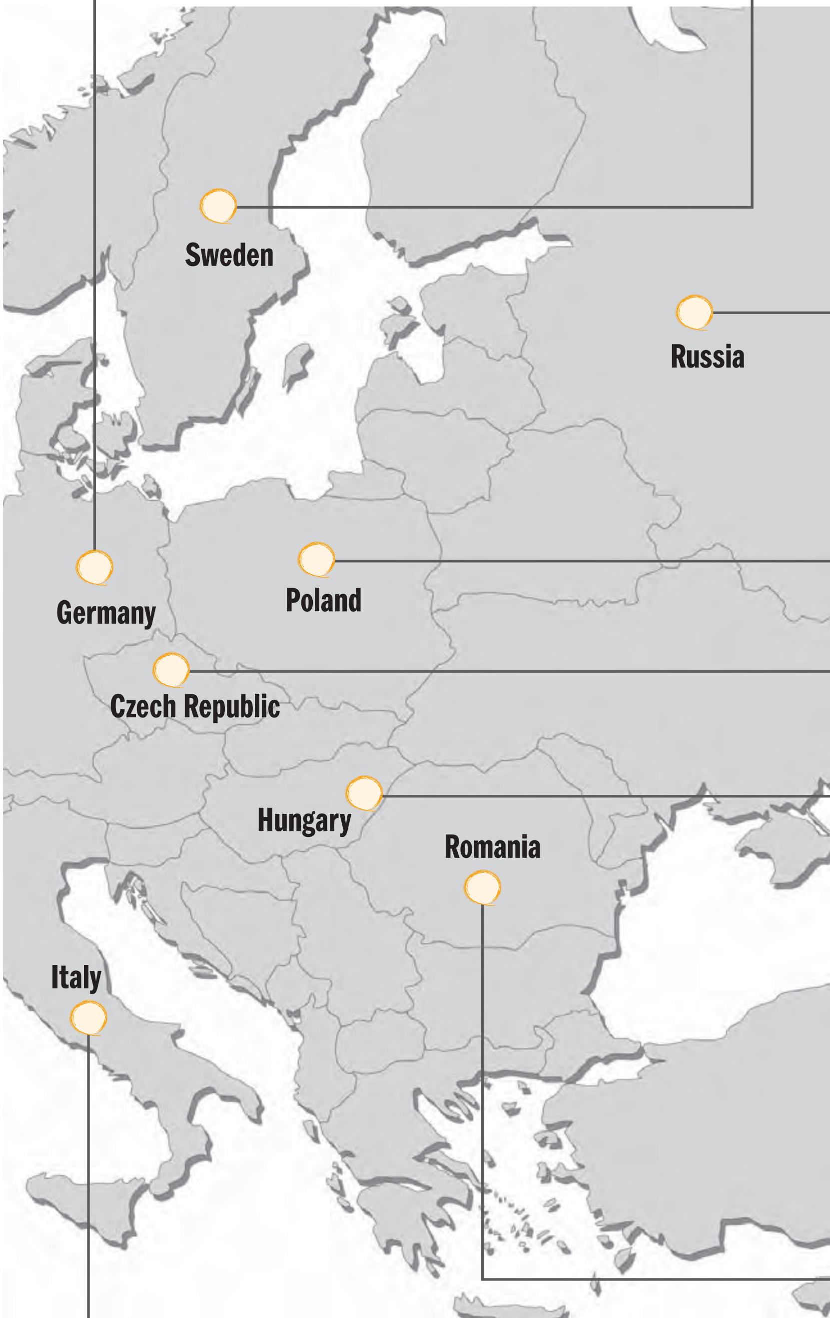
N° 3 destination for HQ investment.
2nd European destination for insurance and pension related investments (7 projects – on a par with UK).
German investors represent 31% of Swiss FDI in 2006.

Germany:

Domination of business services (41 projects) and electronics (32) ahead of software (19). US investors dominate. Large number of projects (3rd in Europe), not reflected in job creation (9th).

Sweden:

Software & Business Services represent top sectors for FDI projects (16% and 13% respectively). US investors N° 1 (15%), followed by Germany & Norway (each with 12% of total).



Russia:

Automotive projects lead (12 projects), financial intermediation rates second (9 projects). Industrial projects represent 62% of total, with automotive projects representing 47% of FDI jobs. US investors N° 1.

Poland:

N° 1 for jobs created via FDI (31,115 jobs). Industrial projects represent 65% of total, of which automotive sector projects dominate (19 projects). Business services and electronics No. 2 (13 projects each).

Czech Republic:

3rd European destination for automotive related investment (20 projects). Germany & US represent top investors.

Hungary:

Germans show greatest investment interest (28% of total). Automotive projects lead (17 projects). Electronics & automotive sectors key job creators (each with 16% of total).

Romania:

2nd country for FDI in the automotive sector (22 projects). Industrial activities represent 59% of FDI projects. Germany N°. 1 investor in Romania (21%).

Italy:

Majority of interest comes from Europe (61% of projects). Limited manufacturing related projects - top 3 sectors: software (14%), business services (16%) and financial intermediation (12%). Business services account for 49% of job creation.

2.4 Activities: Industrial functions are fundamental to job creation

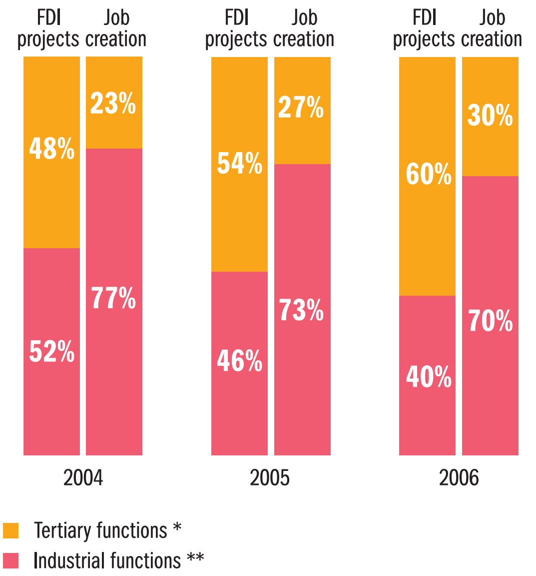
Europe, particularly Western zones, has now confirmed its place in the global market as a prime location for service sector related jobs; the region nonetheless remains attractive to traditional, manufacturing related industries.

Manufacturing functions retained a highly respectable 40% of the total number of projects in 2006.

In terms of the average number of jobs created, one single industrial project created the same number of jobs as three tertiary projects: an average of 157 posts were created per project for industrial functions, compared with 55 for tertiary functions in 2006. In terms of the overall number of jobs created, FDI directed towards industrial functions resulted in over twice the number of jobs realised by tertiary functions.

However, drilling down, certain tertiary functions are also seen to have created a significant number of jobs. FDI investment in both shared services and contact centres resulted in an average of over 200 jobs per project. Conversely, sales and marketing projects, R&D and headquarters implantations resulted in the creation of relatively few new posts, bringing down the tertiary function average.

Distribution of FDI and job creation by activity type
(number of projects and total job creation - 2004/2006)



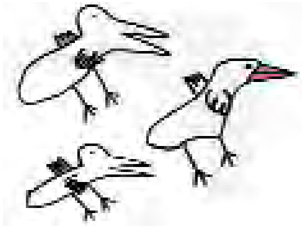
* Tertiary functions: contact centres, sales & marketing, shared services centres, research and development, headquarters
** Industrial functions: manufacturing, logistics

FDI job creation 2006: distribution by activity

Activity	Number of jobs created 2006*	Market share 2006 (%)*	Job creation by project (average 2006)*
Manufacturing	122,727	58.1%	167
Logistics	19,705	9.3%	143
Other industrial functions	5,831	2.8%	80
Sub total industrial functions	**148,263**	**70.1%**	**157**
Contact Centre	23,383	11.1%	207
Sales & Marketing	10,590	5.0%	17
Shared Services Centre	10,514	5.0%	229
Research & Development	10,181	4.8%	61
Headquarters	7,857	3.7%	43
Other tertiary functions	585	0.3%	45
Sub total tertiary functions	**63,110**	**29.9%**	**55**
Total	**211,373**	**100%**	**101**

* based on projects for which the information is available.

- **Manufacturing represented almost 60% of employment by inward investment in 2006**, contradicting the perception that Europe is now a “fab-less” area .
- Still industrial in many respects, Europe is also relying on its strengths in the knowledge economy, realising technology-intensive investments and establishing new services operations: **a full 20% of 2006 inward investment was in headquarters, call-centres, accounting and IT back offices or R&D operations**, creating approximately 52,500 new jobs.



2.5 Origin: European investment is fuelled by European companies

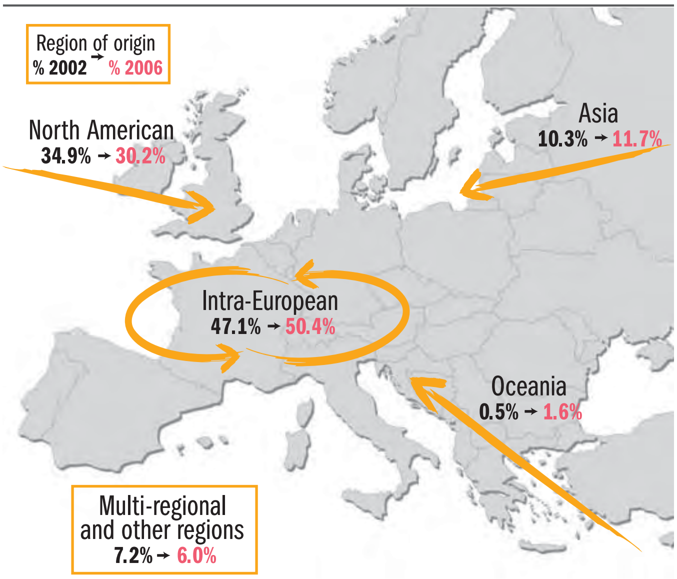
Cross border investment by companies of European origin continued to be the main driving force behind foreign investment patterns in Europe in 2006. Whilst American interest remained strong, its hold on the region has declined since the beginning of the decade as the region becomes of interest to a broader audience.

The combined North American zone had a 35% share of European FDI in 2002, which had fallen to 30% by the end of 2006. American investors created a total of 990 FDI projects in 2006, compared with 813 the previous year.

Germany dominated among European investors, securing a clear second position with a 13% share of all projects announced in 2006. German companies' level of investment in the region was on a par with 2005.

Investment originating from the BRIC countries is increasing significantly. The number of investments generated by these four countries increased from 112 in 2005 to 163 in 2006, representing a growth rate of +50%. India entered the ranking of the top 10 investors in 2006, rating on a par with Canada, each recording 78 projects.
For India this represented an increase of +66% on 2005, in terms of number of projects.

Evolution of the origin of European FDI
(number of projects - 2002/2006)



British investors, while remaining in third place, showed a significant increase in their level of investment, with the number of projects rising from 177 in 2005, to 239 in 2006.

Investments originating from Japan increased by 18.1%, with a total 189 projects.

Top 10 origin countries for European FDI
(number of projects - 2005/2006)

Rank	Origin country	Number of FDI 2006	Market share 2006 (%)	Number of FDI 2005	Market share 2005 (%)	Evolution of number of projects 2005/2006
1	USA	990	28.0%	813	26.5%	+21.8%
2	Germany	449	12.7%	420	13.7%	+6.9%
3	United Kingdom	239	6.8%	178	5.8%	+34.3%
4	Japan	189	5.4%	160	5.2%	+18.1%
5	France	169	4.8%	159	5.2%	+6.3%
6	Switzerland	113	3.2%	85	2.8%	+32.9%
7	Netherlands	102	2.9%	104	3.4%	-1.9%
8	Sweden	87	2.5%	89	2.9%	-2.2%
9	Canada	78	2.2%	70	2.3%	+11.4%
9	India	78	2.2%	49	1.6%	+59.2%

In terms of the distribution of investment within the zone, **North American investors focused mainly on Western Europe**, while German companies were more geographically diverse in their location choices (investments were split between approximately two-thirds in Western Europe and a third in Central and Eastern Europe).

Amongst investors based outside the region, the most notable location decisions were made by the Japanese. They demonstrated a more balanced repartition in their location decisions, with a surprising 27.5% of projects in Central and Eastern Europe and the remainder in Western European countries.

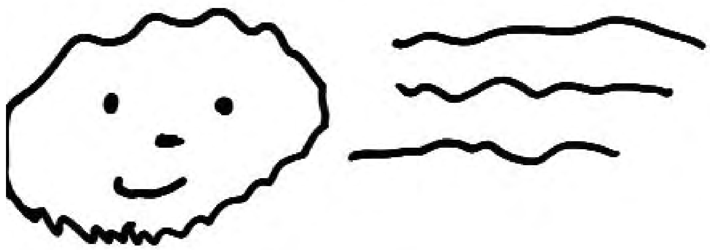
European FDI by country of origin 2006 - Split between Western Europe and Central & Eastern Europe

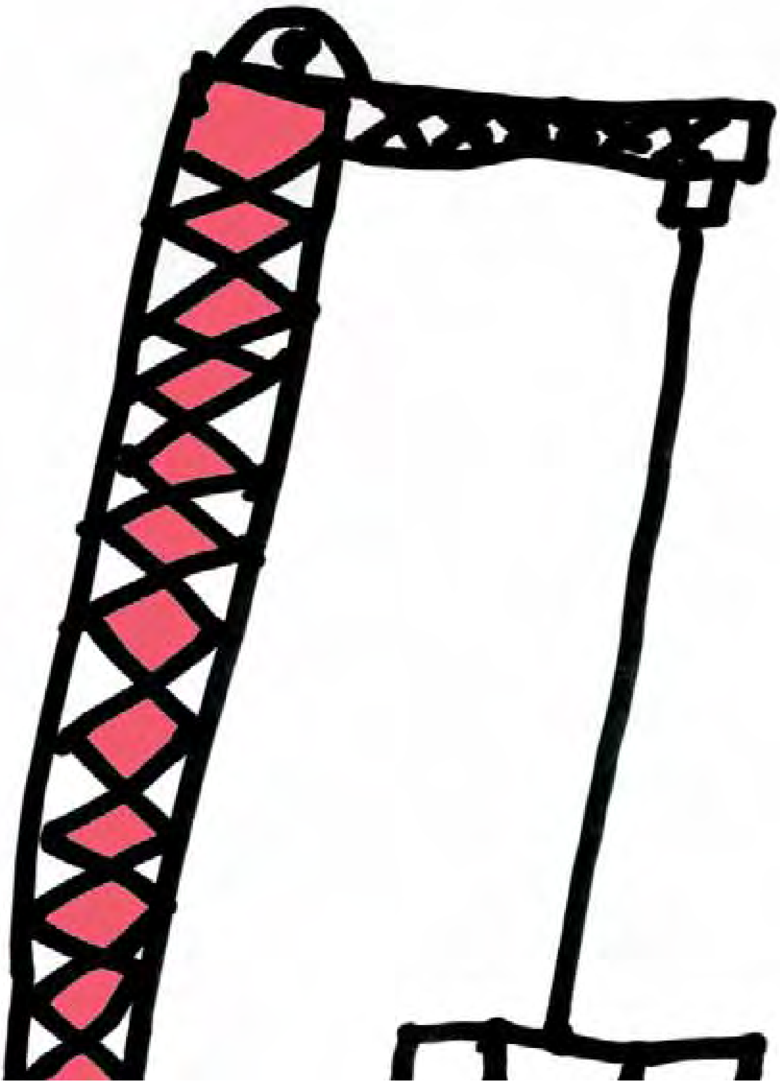
Rank 2006	Origin country	Number of FDI Western Europe	Market share Western Europe	Number of FDI Central & Eastern Europe	Market share Central & Eastern Europe
1	USA	824	83.2%	166	16.8%
2	Germany	284	63.3%	165	36.7%
3	United Kingdom	196	82.0%	43	18.0%
4	Japan	137	72.5%	52	27.5%
5	France	122	72.2%	47	27.8%
6	Switzerland	80	70.8%	33	29.2%
7	Netherlands	87	85.3%	15	14.7%
8	Sweden	61	70.1%	26	29.9%
9	Canada	73	93.6%	5	6.4%
9	India	71	91.0%	7	9.0%

Utkarsh Palnitkar
Partner
Ernst & Young
India

Why Europe could be seen as an offshore location... of India

From an Indian perspective, Europe seems extremely attractive for several reasons. Its many assets include the rich and dense EU market, its logistics infrastructure and unsurpassed connectivity in the world. In addition, high quality consumer expectations create an entry barrier for low cost producers like China. I would also point out that India's cultural affinity with Europe is relatively higher than that with the US.
On the downside, healthcare infrastructure is heavily overburdened in Europe, making it extremely expensive. Labour costs are high, necessitating investment in automation technologies to reduce recurring costs. **Europe may be concerned that the very high proportion of investment and trade within the EU** block make it a little inward looking... expectations are extremely high. Many Indian companies have made major acquisitions in Europe in the recent past and these acquisitions are likely to spur this trend over the next 3-4 years.





Europe in the future

Wanted: Reform

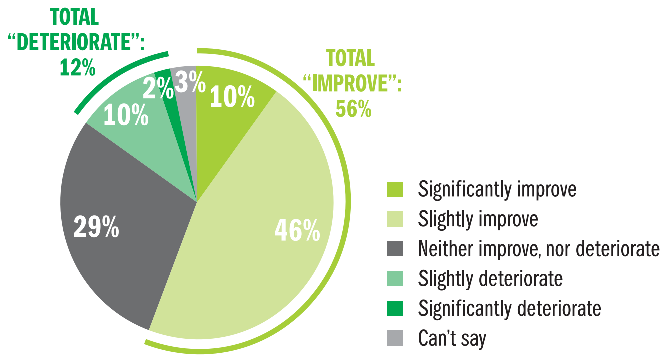
3.1 Investors monitor Europe at a crucial time of change

Globalisation is on the march, deeply affecting Europe, however our survey shows that business leaders maintain their confidence in the region.

Whether indicating a sign of excessive bullishness or rational expectations, investors' confidence nonetheless remains high.

56% of our global panel expect the region's attractiveness to improve over the next three years. This figure is on a par with the 2006 rating. At the same time, fewer executives expect Europe's business environment to decline (12%).

The "future" perception of Europe's attractiveness

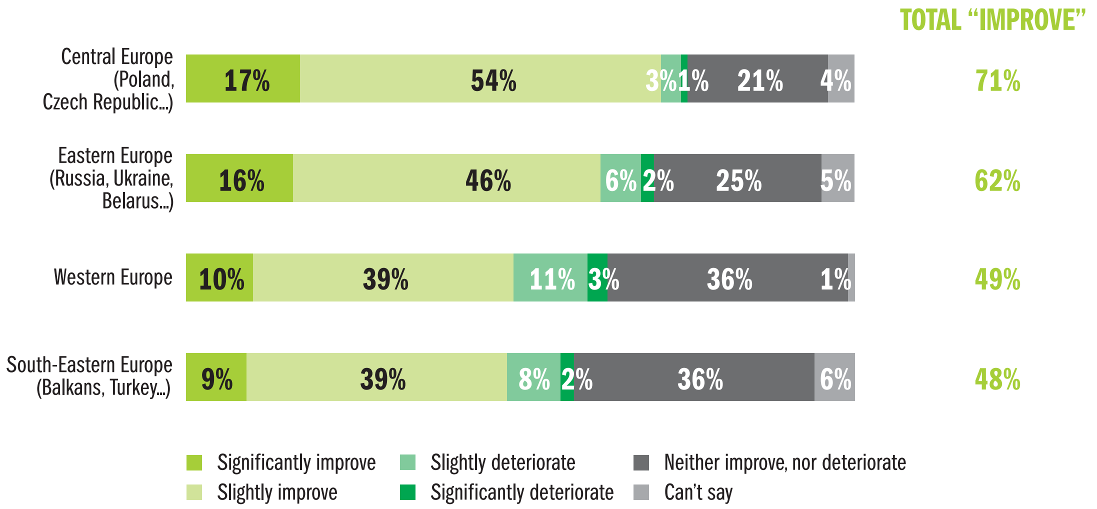


Results 2006:
Total "Improve": 56%
Total "Deteriorate": 18%
Neither improve nor deteriorate: 22%

Eastern prospects

Most of the improvement in perceptions is related to **the prospects for Central and Eastern Europe, with almost three-quarters (71%)** of our global panel believing its attractiveness will improve. This percentage is in line with that recorded in our previous survey. By contrast, investors' perceptions of the future of Western Europe have declined since last year, with less than half (49%) of executives believing its attractiveness will increase, compared with 54% in 2006. This shows that investors expect that, soon, "East will meet West", that future growth and certainly future investments will take place in the new Europe. One of the intriguing results is the position of non-EU countries, such as Russia or the Ukraine, this part of Europe being placed second on the "future attractiveness" scale.

Executive's perception of Europe's attractiveness over the next three years



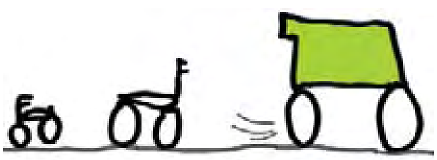
3.2 Half of respondents plan to develop their activities in the enlarged Europe

Investors confirm that they will continue to entertain projects in Europe in the near future, while also developing complex, longer-term investment projects in Asia and other emerging locations.

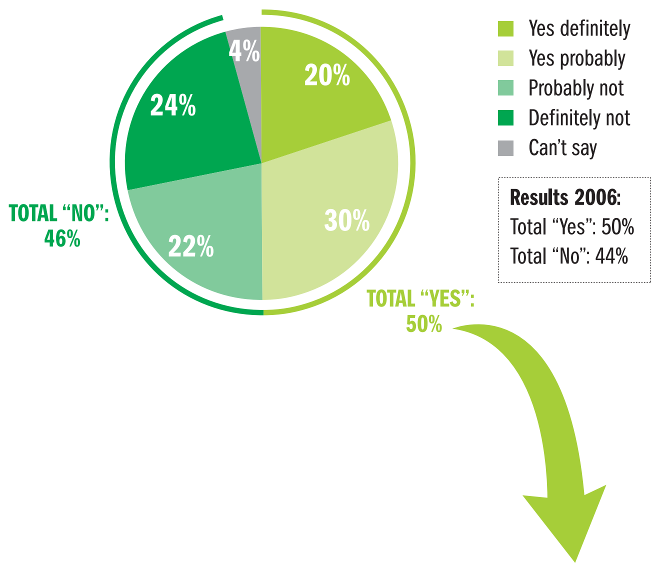
Once again our survey demonstrates the central **role of Germany** at the expense of the previously favoured Central and Eastern European economies.

Companies in search of a European base for their operations cited Germany spontaneously in 20% of cases. **Central and Eastern European** countries also gain ground however, with notably the Czech Republic rising in popularity to take the third place slot (13% of votes). Poland remains in second place, with 18% of votes.

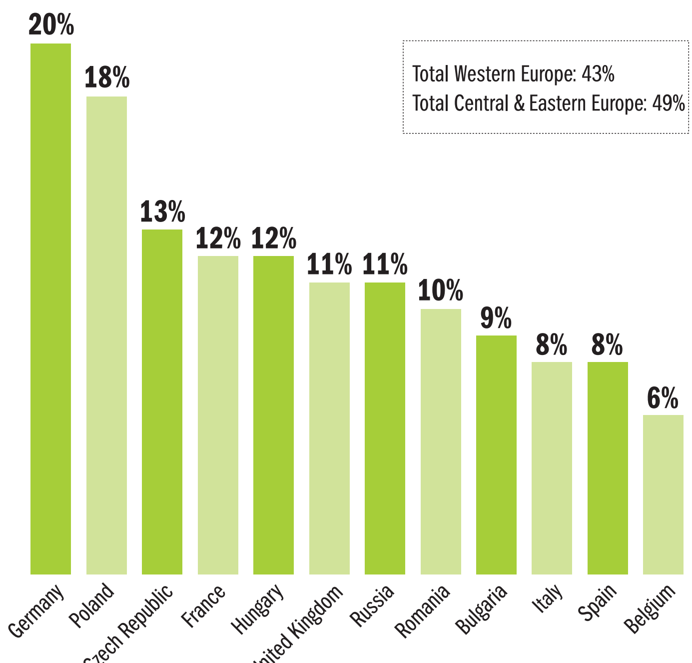
At a regional level, the significant advance of the Czech Republic places **Central and Eastern Europe above Western Europe as a future potential investment location.** The region earns 49% of votes, compared with 43% for its Western European counterpart.



Intentions to create investment or development projects in Europe



The European location sites considered for new investment or expansion projects
(% of citations for each country - several responses possible)

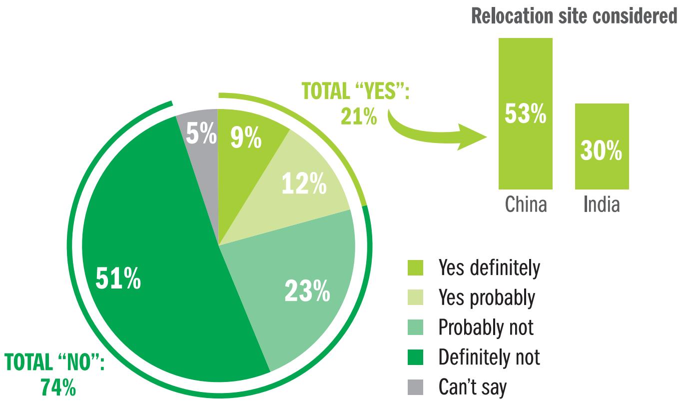


3.3 One company in five intends to relocate all or part of its European activities outside the region

Of destinations currently under consideration for relocation outside of Europe, the key competition comes almost exclusively from Asia. China attracts the interest of 50% of respondents currently undergoing a relocation search, while India is considered by 30% of voters.

As competitive cost pressures intensify, companies will continue to offshore services and manufacturing to lower-cost and higher-growth countries and expect their governments and main operators to improve business conditions for foreign investors.

Intentions to relocate outside Europe



3.4 Labour flexibility, simplified regulations and stronger support for R&D are the most urgently required reforms

Europe's labour framework is cited as the key issue of European reform in order to increase the region's attractiveness. Business decision makers consider that Europe is being put at a disadvantage by the lack of flexibility in its labour markets and demand action by the European Commission. Additional key areas of reform cited to encourage business investment in the region include a modernisation and simplification of the regulatory environment on a national and European level and steps to encourage innovation and investment in research and development.

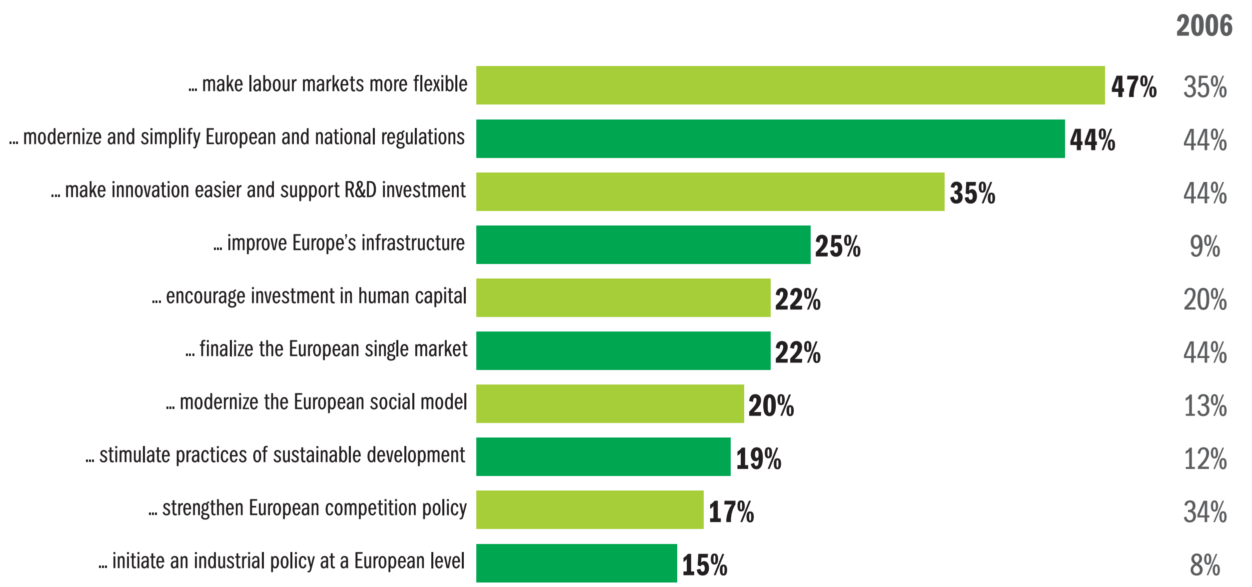
The lack of progress made in reform is becoming a subject of increasing frustration. While **37% of respondents in 2006 considered reform of European policies was required** to increase the region's attractiveness, by 2007 this figure has risen to almost half of those surveyed (47%).

David Walburn
Director, Local Economy Policy Unit
London South Bank University
London, UK

Global Talent, Local Solutions

In a complex global economy, there is a challenge for public policy in reaching a view about how Europe's governments at the national, regional and local level can make an effective contribution to enhancing attractiveness for investment. This goes well beyond ensuring that the commercial conditions are favourable. **Attracting people with the talent to contribute to investment success is vital**. Whilst market forces are clearly the great driver in all of this, policy programmes which go with the grain of the market are likely to be the most useful. More work is needed to define what the programmes to achieve maximum impact might look like.

The most important topics for the development of the European Union's attractiveness
(total superior to 100% - 3 possible choices)



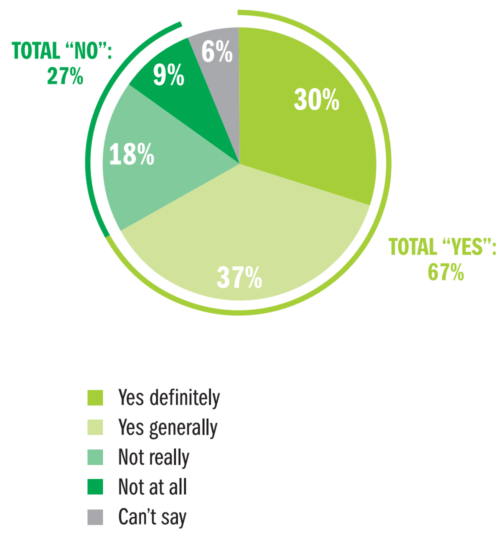
3.5 Wanted: eco-reforms

Environmental issues key in location decision making: Over two-thirds (67%) of respondents take the environmental performance record of their target area into account in their choice of location, with 30% considering environmental issues play a strong part in their decision making process. Only 9% of those surveyed stated that environmental issues played no part whatsoever in their implantation preferences.

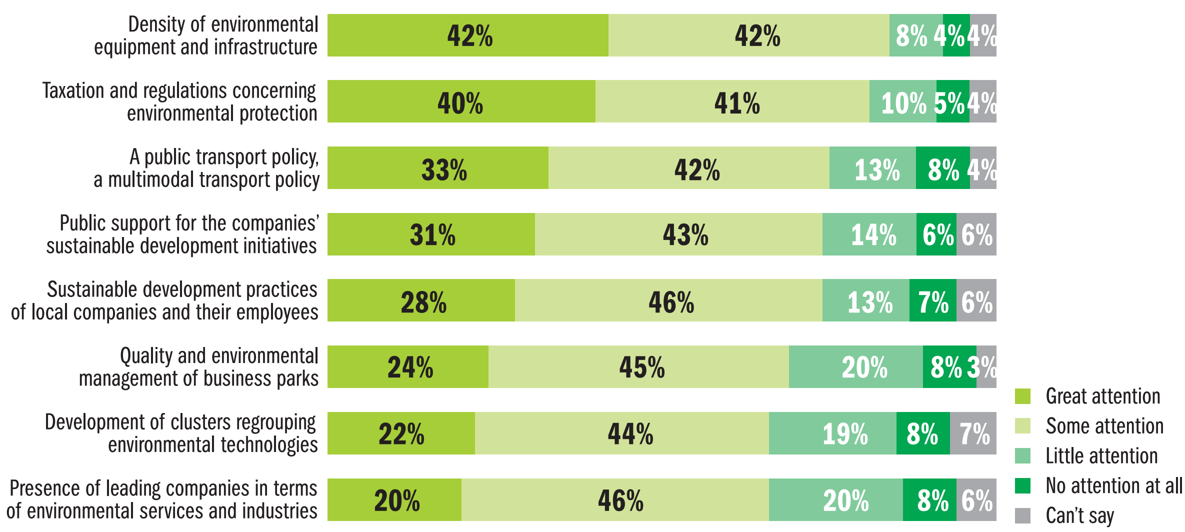
In terms of the relative importance of different environmental issues, **potential investors pay the strongest attention to the level of environmental infrastructure (84%)**, while the level of environmentally-related taxation and regulations are also given serious consideration (81%).

Asian companies appear particularly concerned by environmental issues in their location decisions. An above average (+10 points) number of respondents claim to pay “great attention” to a large number of environmentally related criteria (density of environmental equipment, sustainable development practices of local companies, presence of leading environmental services companies) when selecting a potential business location.

Consideration of a region's performance in sustainable development when making location decisions



Attention paid to different aspects of eco-performance concerning investment location

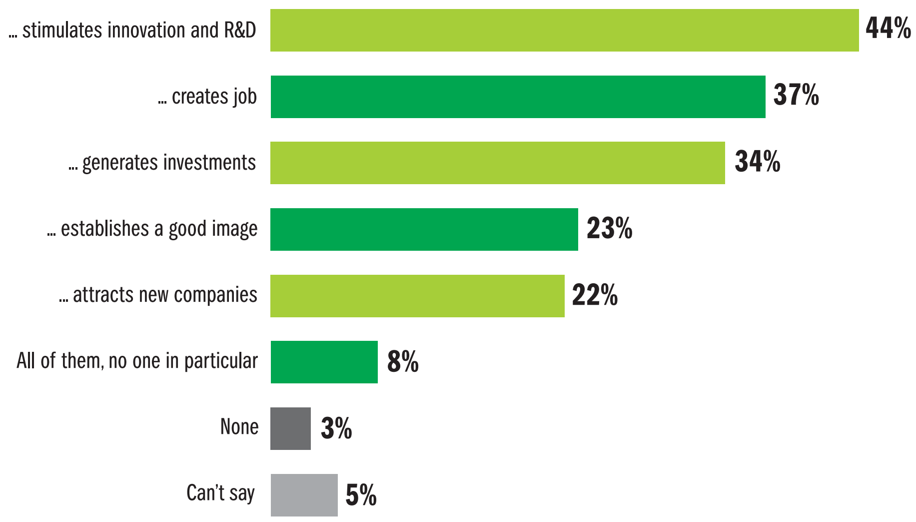


Investors expect that environmental policies may stimulate innovation

Aside from their obvious impact on the environment, decision makers estimate that the principal benefit to a country of eco-responsible industrial strategies is their **stimulation of innovation and R&D (44%)**. Job creation ranks second, although only 37% of respondents consider it to be the key benefactor.

Surprisingly, only 23% of those surveyed claim that the primary benefit of such policies is to create a good corporate image – one could expect that the reality in the market is slightly different.

Benefits of "eco-responsible" industrial strategies for a country or territory
(total superior to 100% - 2 possible choices)



EU rated favourably for environmental issues

In general respondents rate favourably the performance of the EU on environmental issues. **The density of environmental equipment and infrastructure** is particularly appreciated (67%), along with the **presence of leading companies** in environmental services (64%). However, only half of those surveyed give the EU a favourable rating for its taxation and regulatory policies concerning environmental protection.

More detailed analysis of the issue indicates that Western European companies do not rate the EU as highly as their Asian counterparts for its adoption of sustainable development measures. The highest rating given by Western European companies to the EU is for its public transport policy (67% favourable rating) and its environmental equipment and infrastructure (66%). Asian companies by contrast rate the EU particularly highly, giving the region a high score for the density of its environmental equipment and infrastructure, together with the sustainable development practices of local companies (75% and 74% of votes respectively).

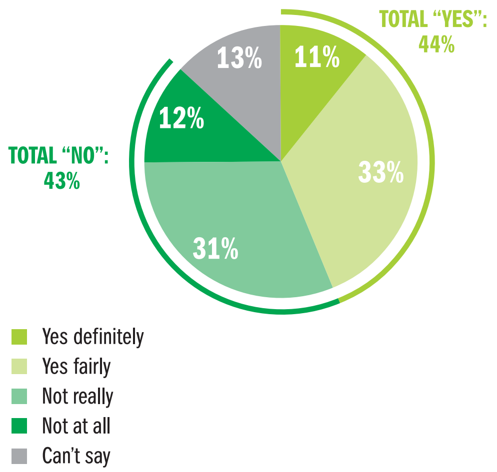
Business leaders are divided as to the level and quality of support provided by the European Union to R&D

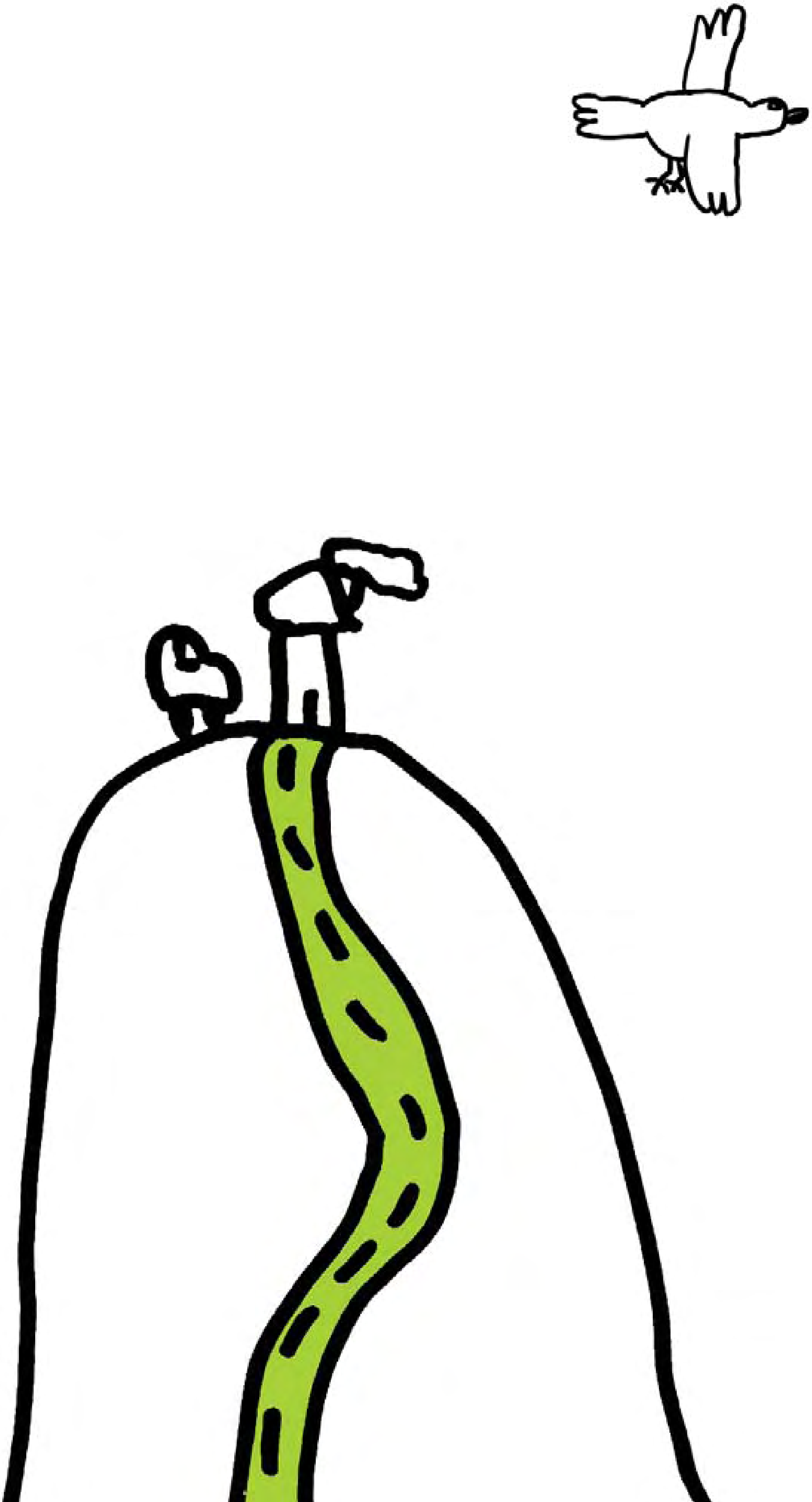
Business leaders are divided in equal numbers between those who consider that the European Union provides sufficient support for environmental excellence and those who would like to see a greater level of action. It is possible that respondents interpreted the question differently; those who were satisfied, thinking more of European environmental legislation, while the remainder focused more on political support for environmental innovation. Concerning environmental legislation, there is clear agreement that the most advanced and successful environmental policies have been those initiated by Europe: the EU Emissions Trading Scheme for greenhouse gases, widespread manufacturers' responsibility for product disposal at the end of its useful life, the REACH regulation on dangerous chemicals. Businesses operating in Europe are aware of the constraints on competition that sometimes arise as a result of the enforcement of these regulations.

However, many business operators would like to see the EU provide more support for environmental excellence. The economic measures proposed by the EU to support innovation and R&D remain insufficient. Europe currently possesses no harmonised environmental fiscal policy. The only tool dedicated to the development of a European environmental policy is the LIFE programme, but its financial resources appear derisory given the scale of the project (€317m for 2005-2006). To combat the effect of greenhouse gases for example, apart from emission quotas, industry will probably need to be given aid to structure and coordinate research and development programmes permitting the rapid development of technological solutions such as capturing and sequestering carbon for use by power stations.

It is likely that respondents envisage this type of balanced environmental policy, involving clear direction and encompassing at the same time environmental constraints and support for innovation.

Opinion of adequacy of European Union support for environmental excellence in companies and R&D centres





Challenges

Towards a renewable Europe

4.1 Renewable location strategies

Economic development, corporate strategies, financial markets and industry trends affect how companies perceive the attractiveness and competitive advantages of an inward investment destination. Here are some of the key issues raised throughout our interviews and analysis:

- **Collaborative strategies** are increasingly valued. What will be the impact of the more flexible structures, multi-cultural approaches, collaborative partnerships and new forms of out and co-sourcing of production and service delivery?
- **The race for talent is crucial.** Will the race for skills, talent and creativity, in locations where competition for specific competencies is fiercer by the week, weaken some countries or metropolitan areas? Will companies develop protectionist strategies and, in turn, slow down a region's ability to grow through new inward investment?
- **The seven new global powers by 2050 will comprise the so-called BRIC economies (Brazil, Russia, India and China), together with Indonesia, Mexico and Turkey.** They will overtake the economies of the G7 countries in terms of GDP, but will they be able to develop their infrastructure at a sufficient rate to keep up with the pace of global investment? Will they be able to profit fully from the benefits of value-added inward investment and will they undertake changes in transparency, fairness and openness?
- **Risk management** is now at the heart of a company's location decisions, prompted by the prevailing climate of uncertainty. The current priority is for transparency, stability and clarity in the countries chosen for investment projects. This is on a political and labour-related basis, as well as at an economic level.
- **Large cash incentives** have decreased considerably in importance... and availability in most developed countries. Have they been replaced by support for intangibles, such as training, technology transfers and clustering?
- **Effective integration of capital markets** remains hampered by legal, political and regulatory barriers, as well as a common financial reporting language. What measures will emerging markets need to undertake to promote stability for companies and investors? Will the regulatory reform in Europe, the US, and elsewhere charting a new landscape for corporate governance and global accounting standards really help create the right climate for investment?
- **Companies involved in the knowledge economy look for the potential of encouraging local entrepreneurship.** Will they take into consideration the ability of a territory to provide the infrastructure, environment and funding to support this ambition?
- **And finally, how will companies perceive sustainable and eco-responsible policies?** Our 2007 survey takes a closer look at the sensitivity of decision-makers to these policies and their evaluation of Europe's performance.

4.2 Renewing Europe's attractiveness

The rising powers of Asia and the economic transitions within Europe define new frontiers and raise new challenges. Throughout the Ernst & Young Attractiveness Survey, decision-makers raise five issues concerning Europe's attractiveness and its future orientation: flexibility, connectivity, talents and image.

Renewing flexibility

Europe's future attractiveness is undeniably linked to the flexibility of its business environment and capacity to challenge its competitors.

Investors expect reforms – first and foremost – on labour flexibility and the simplification of the legal environment (47% and 44% respectively).

Conversely, international executives do not express any specific expectation regarding financial support from public authorities, except for research and innovation which is cited third (35% of votes).

This is not a one-way demand where businesses would demand more rights and fewer regulations, but a recognition that businesses will be partners with governments and communities in developing solutions for Europe's future. The reform will take place in a collaborative manner whereby businesses will offer more – productivity, qualified jobs, support for enlargement efforts, and performance in innovation and research – while benefiting from more flexibility to adapt to the new face of globalisation.

Renewing connectivity

Investors perceive the European market as a unique opportunity, but demand, above all, an improvement in the region's level of homogeneity and accessibility.

This is reflected in the importance that investors place on the quality of infrastructure in their location strategy (54% view transportation infrastructure as fundamental in their location decisions, while the rating for telecommunications is 48%).

There is therefore a need to focus on creating efficient communication networks throughout Europe in order to maximize the benefit from the convergence between East and West.
Such infrastructure improvements could include high-speed networks connecting all key European cities, trans-European motorways, inter-modal logistics platforms and increased investment in data transportation. At the same time, Europe needs to accelerate the interconnection of its scientists, entrepreneurs and public decision-makers.

Pr. Edward Krubasik
President of Orgalime
and Former Executive Vice-President
of Siemens, Germany

When competition drives innovation

Competition will help Europe meet the challenges of the knowledge economy, because competition stimulates innovation. Within highly regulated markets, such as energy, fixed telecom or transportation, companies are slower in applying new technologies, developing new products and getting them to the market, than within highly competitive sectors such as the automotive, IT, mobile telecommunications and machinery markets. In addition, Europe has to generate a state of the economy, which clearly shows investors that they are missing something by not investing in Europe. What companies fear the most is to miss out on big opportunities in hot economies. For instance, in some of our leading sectors – medical systems, environmental services or transportation – we can create the conditions to concentrate investor's attention on the unique market potential of Europe: encouraging new technologies in the "infrastructure" segment and the realisation of trans-European networks; improving the orchestration and the use of public and private capital; introducing more competition which stimulates innovation in highly regulated industries.

Renewing talents

In today's and tomorrow's global markets, future opportunities will be increasingly based on skills and education. In order to fulfil its ambition to become the most competitive knowledge economy in the world, the European Union must maintain its competitive educational advantages. It must convince investors of its capacity to innovate and ensure its durability through an efficient and adequate training system. Europe as a whole may capitalise on its leadership in R&D (43% of favourable opinions) and labour force quality (50% of favourable opinions) and extend it throughout the rest of the territory. In the words of business leaders, Europe needs to provide its citizens with the core skill sets of the knowledge society and the idea that everyone can use technology to make a difference in their work, at home and in their communities.

Renewing image

Europe's strength lies largely in its diversity; its considerable variations guaranteeing its attractiveness to business decision-makers, despite the considerable attention paid to emerging zones. Europe must work at maintaining this uniqueness which enables it to remain attractive to investors in search of a wide range of opportunities. In particular, its vast single market offers numerous advantages and opportunities to rival the world's major monoliths.

Cultivating its image will enable Europe to demonstrate at a global level the dynamism resulting from its diversity through the development of numerous bilateral and multi-national projects that draw on the complementarity of each of its members. In addition, by encouraging initiatives promoting the unique virtues of individual member countries, the European Union will further promote its own attractiveness.

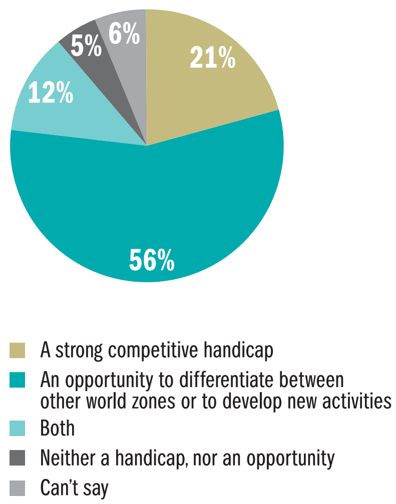
4.3 "Eco-attractiveness": a proposition for Europe

Our 2007 survey takes a closer look at the sensitivity of decision-makers to sustainable development and their evaluation of Europe's performance. As the debate grows over the social responsibility of business and institutions, and the regulatory constraints imposed on industry, we have to explore the real and positive inputs of these major issues.

Clean tech best practices may help Europe's differentiation

Respondents overwhelmingly state that Europe may find a decisive competitive advantage in implementing new environmental rules : **56% of business leaders surveyed assess that tighter regulations may provide an opportunity for Europe to differentiate** itself from other investment destinations and even help the development of its activities.

Opinion on impact of adopting new environmental regulations on European countries' attractiveness



The issue is thus raised of how a European model for environmental excellence or eco-attractiveness may help to ensure the continuing presence and development of investment in Europe, based on its current attractiveness status.

The European Attractiveness survey poses key questions, in terms of both supply and demand. What is the real potential for green technologies and services? What cities, regions and countries may expect to benefit from clean-tech investments and employment? Should business and research organisations create strategic partnerships and joint ventures to increase their critical size and visibility? How can best practices be shared? Does Europe present a credible and specific environmental strategy based on a common commitment between businesses, institutions and citizens? Is there a European environmental model – as there is a social or economic model? In summary, how can Europe create its eco-attractiveness?

Notes

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