American Chamber of Commerce
in the Netherlands

# 2017 Investors' Agenda of Priority Points & Study Investment Climate

AmCham
THE NETHERLANDS

# Introduction

Each year, the American Chamber of Commerce in the Netherlands (AmCham) publishes the Investors' Agenda of Priority Points (Priority Points). AmCham's Priority Points address the main challenges to the Dutch investment climate and form the basis for AmCham's dialogue with the Dutch government, employer organizations, legislators and other important stakeholders.

## Priority Points 2017: an urgent need to maintain our competitive advantage

The transatlantic economic relationship is longstanding and strong and has brought growth on both sides of the Atlantic for many decades.
AmCham promotes the importance of international trade and supports measures to maintain transatlantic relations with mutual benefits for all. In a fast-changing world, transatlantic ties are more than ever essential to economic growth.
Foreign companies are of crucial importance to the Dutch economy. They are responsible for nearly 40% of the country's revenue and employ almost 19% of all employees in business in the country - amounting up to 867.000 jobs. US companies account for almost one third of that revenue and 25% of these jobs[1].
The Dutch investment climate has generally been considered as strong. Factors contributing to an attractive Dutch investment climate include – among others – a favorable tax regime, a generally skilled and bi-lingual workforce, a good infrastructure and a reliable government. These elements have made the Netherlands a preferred destination for foreign investment. AmCham's recent study[2] on the Dutch investment climate, however, shows that the Netherlands is losing its competitive advantage and needs to be vigilant. Other EU countries are catching up at a strong pace by – for instance – implementing dramatically lower tax rates and their efforts to attract foreign investments by favorable special programs. AmCham appreciates the efforts by the Dutch government to maintain and improve the Dutch investment climate. There is no doubt that new investments in the Netherlands will bring new jobs, whilst a standstill in the development of the Dutch investment climate as compared to other countries, may potentially cause a loss of jobs due to re-location to more competitive countries.

For the 2017 Priority Points, AmCham strives to:
**SECURE** and **ADVANCE** the great elements of the Dutch investment climate;
**DEVELOP** and **IMPROVE** outdated elements of the Dutch investment climate in order to keep up with new (technological) developments and the fierce competition of other countries;
**ATTRACT** new (US) investors, talent and business;
**SUPPORT** innovation, R&D and entrepreneurship.

### **Human Capital:** invest in development of the workforce and top talent; ease employment protection; attract international talent

The availability of employees with the right skill sets together with the cost and mobility of labor, remain topics of attention that affect the Dutch investment climate. It is important to secure, attract and retain talent and to invest in a skilled, agile and flexible Dutch workforce. Innovation and increasing digitalization require that the workforce can adapt to new developments and that top talents have a chance to flourish. First-rate education should be considered a

[1] Source: Centraal Bureau voor de Statistiek
[2] AmCham Study, March 2017, executed in close conjunction with Bain & Company

top priority. Furthermore, employment protection prevents (internal) mobility and the advancement of top talents. AmCham recommends to stimulate labor mobility so that top talents within companies and universities get the chance to realize their full potential. Simultaneously, easing employment protection and simplifying procedures can reduce the cost of labor for companies and increase overall mobility in the Dutch labor market. Increasing and maintaining a high level of labor mobility allows for a more efficient allocation of resources and has proven to be a forceful driver of innovations. If the right profiles are not sufficiently available on the Dutch market, it should be easy for companies to attract foreign talent.

## **Tax**: competitive profit tax rate indispensable for Dutch investment climate

As Europe seeks to escape from the Great Crisis, the competition for international direct investments is more fierce than ever. For investments bring new employment, innovation, and foster continued economic growth. Tax is a conclusive factor in foreign investment decisions by business. As the harmonization of tax rules in the European Union and potential far-reaching changes in the US eliminate the Dutch edge, we strongly recommend the Dutch government to consider reducing the profit tax rate. AmCham believes it is critical that the Dutch government is ready and alert in order to safeguard the continued economic development of the Netherlands.

## **Industry**: support entrepreneurship and innovation; limit EU regulation costs; avoid national gold-plating

AmCham supports measures that improve and secure the competitiveness of the Dutch industry and underlines the importance of the Port of Rotterdam as a major hub for international business. The Dutch government should ensure that its industry is not put in a position where it becomes uncompetitive internationally. Furthermore, the Dutch government must proactively influence and support (the implementation of) a competitive regulatory framework in order to avoid high industry costs. Innovation and sustainable growth of the industry should be supported. Entrepreneurship must be supported and may result in successful Dutch start-ups or attract the establishment of start-ups and headquarters from abroad.

## **Economic Footprint**: societal value of R&D investments in healthcare and other industries

The added value of foreign companies in the Netherlands extends well beyond their own employment and direct economic contributions. It also includes employment arising from its supply chain, R&D investments, the value of innovation to society, and the contribution to wellbeing in general. AmCham underlines that industries like the pharmaceutical industry have a large economic footprint in the Netherlands and contribute to both economy and society as a whole. Science-based and high-tech R&D has positive impact far beyond the own business. AmCham therefore recommends to do whatever is possible to maintain and grow a good R&D climate.

## **Data Privacy:** closely monitor developments

The judgement of the EU Court of Justice to declare the Safe Harbor data transfer agreement that has governed EU data flows to the US for years invalid, as well as a new EU-US Privacy Shield to replace it, continue to require special attention as they impact (technology) businesses and investments in, and between, the EU and the US. AmCham continues to closely monitor developments around the new EU General Data Protection Regulation (Regulation), which will replace the aging 1995 Data Protection Directive and which will impact a large group of AmCham members. European Officials finally reached agreement on the language for the Regulation mid December 2015. The Regulation was approved in 2016 and the regulation will come into force in May 2018, giving organizations sufficient time to prepare for the changes required by the Regulation. The Regulation differs from the Directive in a number of significant ways and includes possible fines up to 4% of the annual global turnover.

# The Investment Climate in the Netherlands

## Key Points

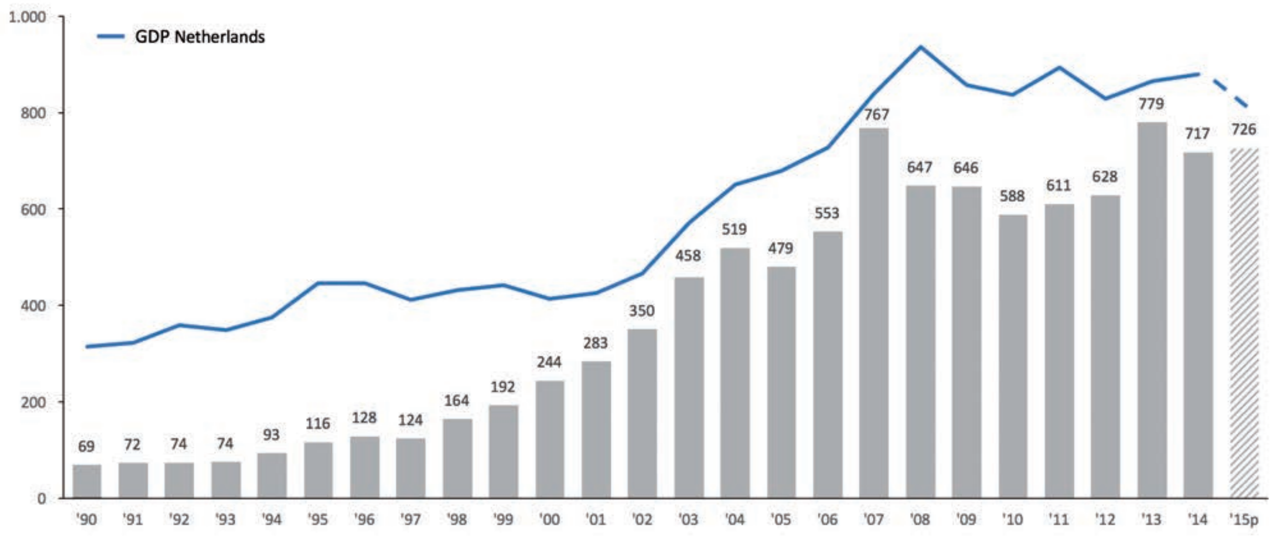
- Foreign Direct Investment (FDI) is an important driver of the Dutch economy. Historically, the Netherlands has been a leading destination for FDI. However, during the financial crisis growth stagnated, and share has been lost to other European countries. The last few years indicate a slow recovery of the Dutch share in EU FDI, encouraging further improvements in the drivers of competitive advantage to keep the momentum
- The overall impact of FDI is significant, with nearly 40% of Dutch business revenue driven by foreign-owned companies. This revenue has been growing ~3% p.a. the last 6 years, while Dutch companies encountered a decline of -1% in that same period. Employment rates show similar growth; ~2% for foreign-owned companies and -2% for domestic businesses
- The Netherlands has a strong historical FDI platform, but is losing some of its competitive advantage. The Netherlands should aim to improve key drivers to stay competitive. From an economic and political perspective, the Netherlands should focus on labor regulations, keeping the tax-regime attractive and maintaining stability in policies; from industry specific perspectives (manufacturing and service sector), the Netherlands should ensure it maintains its strong infrastructure and increases its efforts in innovation/education.

## Observations

### Foreign Direct Investments

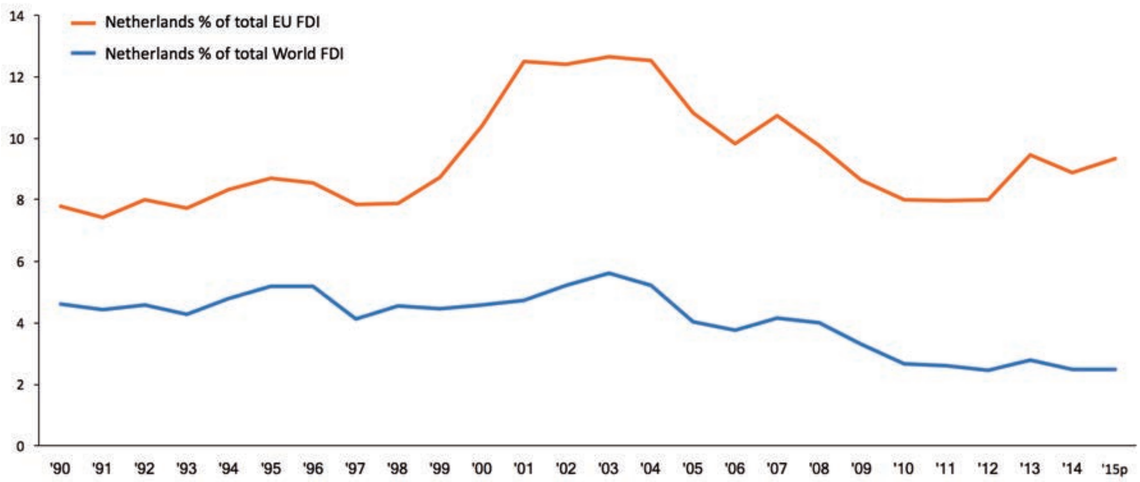
Foreign Direct Investment (FDI) is an important driver of the Dutch economy, as it strongly correlates with revenue and labor growth, tax generation and innovation. Continuing the trend seen in reports from the last two years, the Investment Climate in the Netherlands, the global inward FDI stock in the Netherlands grows at a slow 2% p.a. since '08, compared to 15% p.a. in '90-'07 (**Figure 1**). The inward FDI stock correlates positively with GDP, which also experienced a steep growth until '07 and then flattened out. The share of total global FDI into the Netherlands has experienced a gradual decline since 2003. The Dutch share of FDI into the EU has also suffered from decline, however, in the last few years there has been a turnaround and it is slowly showing growth again (**Figure 2**). This indicates that the Netherlands is starting to gain back some of its share of EU FDI that has been lost. To continue this momentum, and regain pre-crisis levels of FDI, continuous and stronger focus on the drivers of competitive advantage for the Netherlands will be needed.

**Figure 1** Global inward FDI position and Dutch GDP ($B)




*(Data source: OECD)*

## 2 Dutch inward FDI stock as % of total World/EU FDI stock



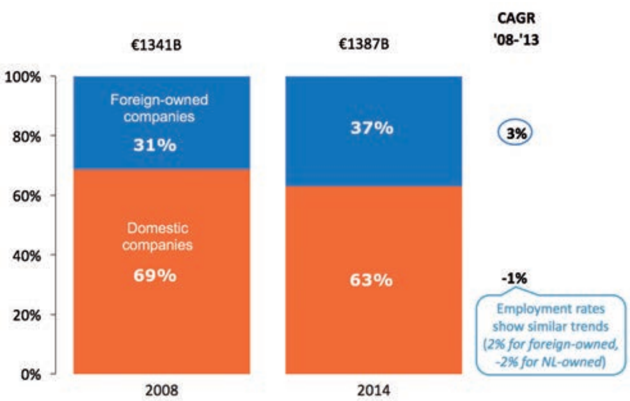

*(Data source: OECD/UNCTAD)*

## Revenue and Employment

Nearly 40% of Dutch business revenue is driven by foreign-owned companies (**Figure 3**). This foreign revenue has grown ~3% p.a. the last 6 years, while Dutch owned companies encountered a decline of -1% in the same period. As a result, business revenue share from foreign companies went from 31% in 2008 to 37% 2014. Furthermore, employment rates show similar growth with foreign owned companies growing employees by ~2% p.a. to nearly 900k jobs in 2014 (vs a decline of -2% for domestic businesses). As indicated in last year's report, the jobs from foreign companies tend to be more resilient and are, on average, higher paid than jobs at their domestic counterparts.

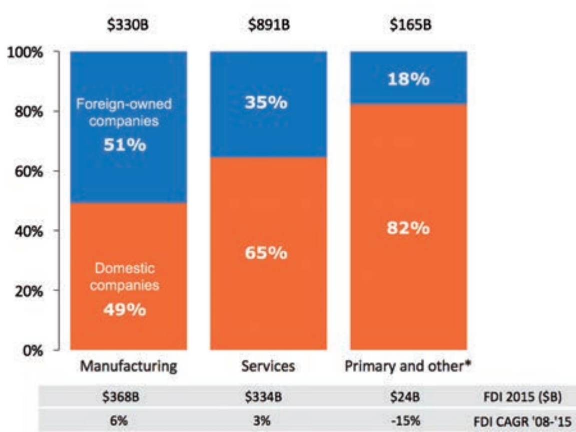
From a sector perspective, foreign owned businesses in the Manufacturing and Service industries are major contributors to FDI and business revenue. The Manufacturing industry has shown strong FDI growth with ~6% p.a. in '08-'15, and over 50% of Manufacturing revenue is currently driven by foreign-owned companies (**Figure 4**). Despite the Services sector generating almost three times more business revenue overall, it has received less FDI and has shown slower FDI growth than the Manufacturing industry in the same period of time. This difference is mainly driven by the strong decline in FDI of -5% p.a. in financial and insurance activities (while financial and insurance activities in e.g. the UK encountered a growth of ~7% p.a. in '08-'14).

## 3 Revenue in the Netherlands (€B)




*(Data source: CBS)*

## 4 Revenue in the Netherlands 2014 (€B)




*(Data source: CBS)*

## Relative Attractiveness

To continue strong FDI growth and regain the share that other EU countries have captured, the Netherlands needs to stay competitive and attractive for foreign investors. It is therefore important to understand the underlying factors that drive the attractiveness of a country. In the Netherlands, this is determined by both economic and political factors, and industry-specific drivers.

The three key economic and political drivers for the Netherlands are strict labor regulations (negative driver), Dutch tax-regime, and policy/government stability (both positive drivers). Dutch labor market efficiency is not ranked among the best of the EU (**Figure 6a**), and the strict labor regulations are seen as the most problematic factor for doing business (**Figure 7**). The regulations (Work and Security Act) introduced mid-2015 to ease the regulations, have not yet had the desired positive effect. Improvements in this area are, therefore, important in order to increase Dutch competitive advantage.

The Dutch tax-regime has always been one of the main attractors of the Netherlands, however, this position has eroded as other countries adopt a more aggressive business tax regime. The competitive 25% corporate tax, as introduced in 2007, is no longer amongst the lowest tax-rates in the EU; the predicted EU average for 2020 is expected to drop below 20% (**Figure 5**), raising the question if the current tax-rate will stay as competitive as it used to be. In these turbulent political times, with Brexit and broader EU political and economic challenges, foreign investors value policy and governmental stability. The new government must, therefore, clearly signal its desire to maintain the Netherlands as one of the leading destinations of FDI.

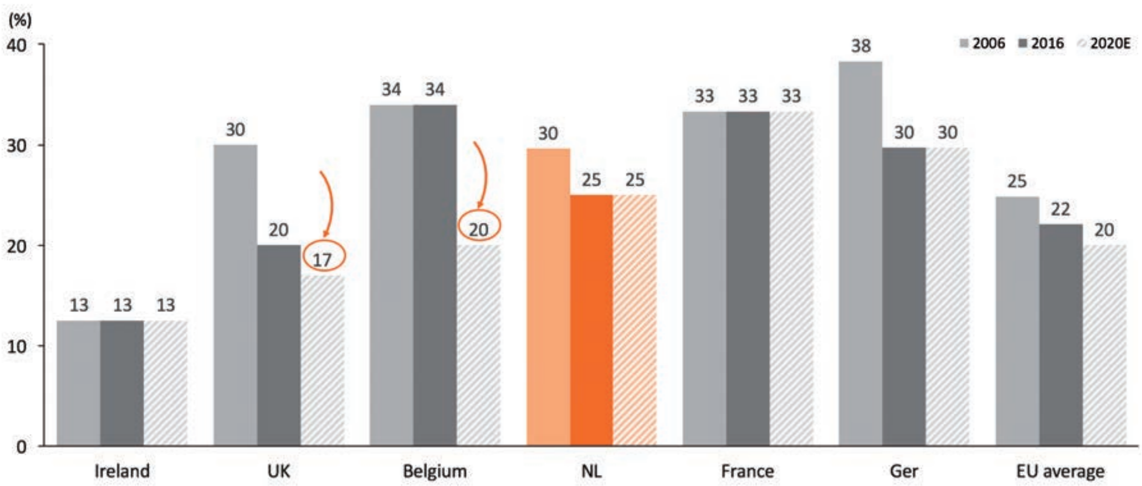
From an industry-specific perspective (Manufacturing and Services in particular), two drivers are important: Infrastructure/Location and Innovation/High-skilled Labor.

Both the physical and digital Infrastructure in the Netherlands is considered one of the best globally (**Figure 6b**), and the Netherlands should continue to invest to maintain this strong position. The Port of Rotterdam, for example, supports the key manufacturing hub in the Netherlands, but has encountered increased competition from other European ports (e.g. Port of Antwerp).

The large Dutch datacenters also provide a real international hub for online industries. The service sector, however, will probably encounter future growth problems, largely driven by the expected shortage of available office space, which is likely to effect the attractiveness for FDI.

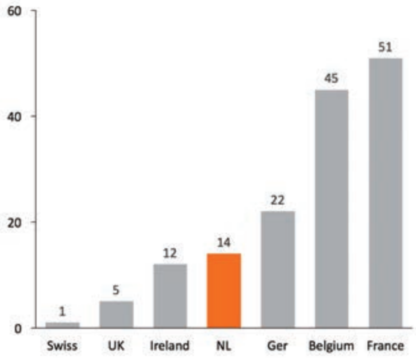
Lastly, although innovation of the Netherlands is ranked high (**Figure 6c**), it turns out that the Dutch innovation capacity is seen as one of the biggest problems of doing business (**Figure 7**). This innovation problem is mainly driven by a shortage in high-skilled labor. Changes in the Dutch education system are encouraged, to increase student motivation and to train and retain more top performers. Furthermore, attractive conditions for foreign labor should remain as well, as skilled international labor will continue to be important to fill the current innovation capacity gap.

5 Corporate tax rate (%)

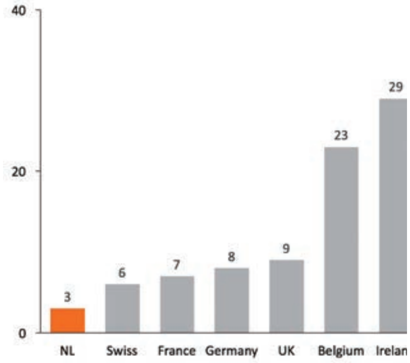



*(Data source: KPMG/EY)*

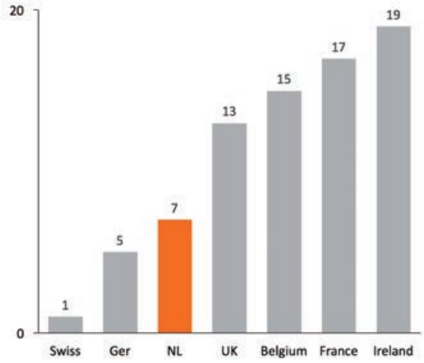
**6a** Efficiency of Labor Market
(1 = best performing country)




**6b** Infrastructure
(1 = best performing country)

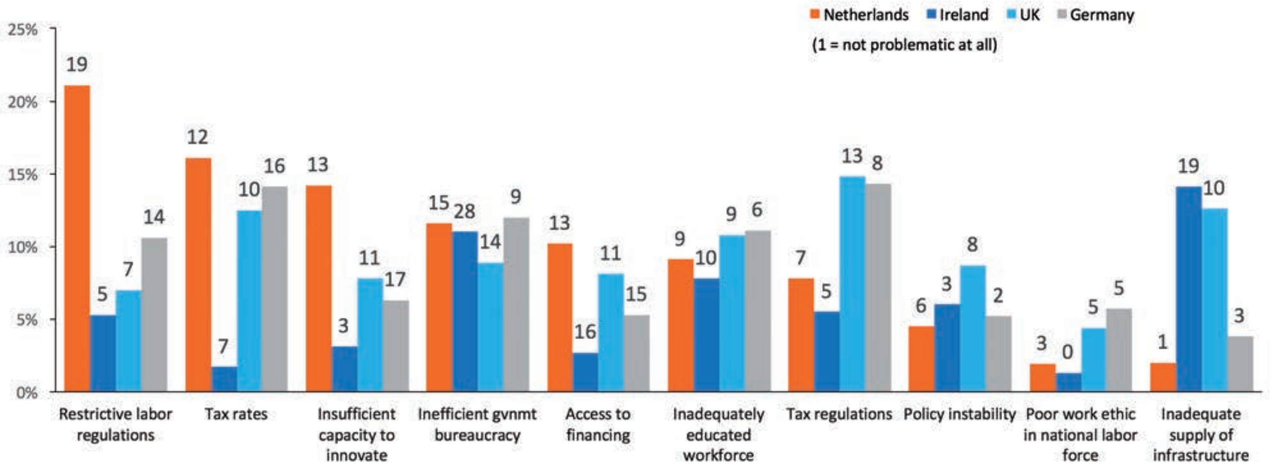



**6c** Innovation
(1 = best performing country)




*(Data source 7a,b,c: World Economic Forum)*

**7** The most problematic factors for doing business




*(Data source: World Economic Forum)*

## Appendix A: Foreign Direct Investment (FDI) definitions

**General definitions for FDI:**

- FDI reflects cross-border investments aimed at a lasting interest
- Ownership of 10% or more of voting power of the foreign company defines this lasting interest
- FDI statistics include equity (10% or more shares), reinvestment of earnings and inter-company debt
- FDI statistics are directional (inward or outward) and relate to FDI stock and FDI flow

**FDI stock:**

- FDI stock is the stock of investments at a given point in time
- FDI stock also reflects price changes of assets, and changes due to foreign exchange rates

Note: In this report FDI excludes Special Purpose Entities (holding companies)

**FDI flow:**

- FDI flows are cross-border financial transactions within a given time period

## Appendix B: Sources

| Topic | Source | Source details / method / definition |
|---|---|---|
| Global FDI stock into NL | OECD | Most recent FDI statistics for OECD and G20 countries: http://www.oecd.org/investment/statistics.htm<br>Click on “FDI positions”, “by partner country”<br>Note: There has been a change in definition (BMD) which affects the way FDI is calculated. For some countries this means the data between BMD3 and BMD4 are not comparable. Not comparable countries are (not exhaustive): Spain, France, Belgium. Comparable countries (not exhaustive): UK, Sweden, Netherlands, Italy, Germany |
| Global inward FDI stock as a % of GDP | OECD | Calculate per country: Global FDI (see above) divided by GDP (see below) |
| GDP | OECD | OECD database: http://stats.oecd.org/<br>Go to “National Accounts”, “Annual National Accounts”, “Main Aggregates“, “Gross domestic product (GPD)” |
| Inward FDI stock as % of total World FDI stock | OECD | Calculated for Netherlands: Inward FDI divided by total World FDI |
| Total FDI stock into EU | UNCTAD | UNCTAD database (http://unctadstat.unctad.org/) – ‘data center’<br>Click on “Foreign Direct Investment”, “flows and stock”, select EU28<br>Note: Since OECD does not have this EU28 data available the UNCTAD database has been used |
| Inward FDI stock as % of total EU FDI stock | OECD/ UNCTAD | Calculate per country: Inward FDI divided by total EU FDI |
| Revenue and number of jobs in the Netherlands by type of company | CBS | Enterprises registered with ABR (Algemeen Bedrijven Register), sections SBI B-N, excluding K (ie excluding enterprises active in agriculture, government, education, healthcare and financial services) |
| Corporate Tax Rates | KPMG/EY | Future corporate tax rates are based on estimates and press releases |
| Ranking on different factors | World Economic Forum | On different factors all countries are scored in the Global Competitiveness Report. The lowest score indicates the best performing country in that category. Total number of countries included in the report is 138. |
| Most problematic factors of doing business | World Economic Forum | From a list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their ratings<br>The list of factors consists of: Restrictive labor regulations, access to financing, inefficient government bureaucracy, tax rates, insufficient capacity to innovate, tax regulations, inadequately educated workforce, policy instability, poor work ethic in national labor force, inadequately supply of infrastructure, inflation, government instability / coups, foreign currency regulations, crime and theft, corruption, poor public health |

## About AmCham

The American Chamber of Commerce in the Netherlands (AmCham) is a non-profit, non-governmental, non-political, voluntary organization of companies and individuals who invest in and trade between the United States of America and the Netherlands. The Netherlands is one of the most important destinations for US direct investment in Europe and a major hub of American professionals living and working abroad. Since 1961, AmCham is the main voice of US business in the Netherlands and strives to improve the investment climate in the Netherlands.

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