

American Chamber of Commerce
in the Netherlands

2018 Investors' Agenda of Priority Points & Study Investment Climate



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 2018: fierce competition requires unwavering commitment

The transatlantic economic relationship is longstanding and strong and has brought growth on both sides of the Atlantic for many decades. Despite transatlantic political turbulence, the US and Europe remain each other's most important markets. No other commercial artery in the world is as integrated.¹ 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 still key to economic growth and it is essential to handle them with care.

Foreign companies are of crucial importance to the Dutch economy. They are responsible for nearly 38% of the country's revenue and employ almost 17% of all employees in business in the country - amounting up to 916.000 jobs. US companies account for over a third of that revenue and 24% of these jobs². Within Europe, the Netherlands is still a top destination for US investment³ but AmCham's study⁴ on the Dutch investment climate shows that competition within the EU is fierce. Several countries have implemented dramatically lower tax rates and increased their efforts to attract foreign investments by favorable special programs. To maintain its top position as a destination for foreign direct investment, AmCham promotes that the Netherlands stays alert and keeps investing in its strengths and improves areas in which the country risks to lag behind.

The strong digital and physical infrastructure, a generally well-educated workforce, a good economic environment and a reliable government are all considered strengths of the Dutch investment climate. At the same time, executives express their concern

about the Dutch tendency to gold-plate EU regulation in many areas – e.g. tax, energy, IP, financial sector – which disrupts the level playing field within Europe and places the Netherlands in a disadvantageous position. AmCham appreciates the efforts by the Dutch government to maintain and improve the Dutch investment climate but is also wary of the fierce European competition. 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 relocation to more competitive countries.

For the 2018 Priority Points, AmCham strives to: **FURTHER DEVELOP** the great elements of the Dutch investment climate;

IMPROVE outdated elements of the Dutch investment climate in order to keep up with new (technological) developments and stay a frontrunner;

ATTRACT new (US) investors, talent and business;

SUPPORT innovation and R&D.

Human Capital: invest in the availability and development of (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 are a major concern for companies. Both technological developments like artificial intelligence and robotics and changing demographics will impact the workforce in the near future. It is therefore important to invest in a skilled and agile 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 and continued education should be considered a top priority.

Concurrently, easing employment protection and simplifying procedures can increase overall mobility in the Dutch labor market while simultaneously decreasing the risks and costs related to offering permanent employment, which currently reduce opportunities for the younger generations. 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 is vital for the Dutch investment climate

Tax is a conclusive factor in foreign investment decisions by business. Benefits from foreign direct investments include additional employment, innovation and continued economic growth. But in a European Union that is rapidly harmonizing its fiscal framework, the Netherlands is no longer the default destination for US international investments. As the harmonization of tax rules in the European Union and US Tax reform under President Trump manifest themselves, the Dutch edge is lost. We strongly recommend the Dutch government to consider further reducing the profit tax to not more than 15%, financed from a broader base. It is critical that the Dutch government is ready and alert in order to safeguard the continued economic development of the Netherlands.

Industry: avoid national gold-plating; limit EU regulation costs; support responsible energy transition

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. AmCham therefore warns for the harmful effects of national gold-plating on the Dutch investment climate. The benefits of an EU level playing field are lost when national regulation increases the burden for companies. Furthermore, AmCham welcomes (the implementation of) a competitive regulatory framework in order to avoid high industry costs. To ensure a responsible energy transition for industry, constructive collaboration with

the government is essential. AmCham aims to play an active role in the energy transition debate.

Economic Footprint: 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, the impact of its products 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. It is important to understand that science-based and high-tech R&D have a positive impact on society far beyond the own business. AmCham therefore recommends to maintain and grow a competitive R&D climate.

Intellectual Property: protect investments in innovation and R&D

Creativity and innovation lie at the heart of many companies' business models. For many businesses, intellectual property protects more than just an idea or a concept – it protects genuine business assets that may be integral to the core services of the business and overall long-term viability. IPR intensive industries account for 27.9 % of NL GDP and generate 23.3 % of NL jobs⁵. They contribute to competitiveness and job creation. We therefore call for a commitment to a better enforcement of intellectual property rights - in all sectors - to ensure that the Netherlands stays a safe and attractive place for innovative companies to invest in.

¹ The Transatlantic Economy 2017, Daniel S. Hamilton and Joseph P. Quinlan

² Figures 2015, Centraal Bureau voor de Statistiek

³ The Transatlantic Economy 2017, Daniel S. Hamilton and Joseph P. Quinlan

⁴ AmCham Study, March 2018, executed in close conjunction with Bain & Company

⁵ Intellectual property rights intensive industries: contribution to economic performance and employment in the Netherlands. September 2013. A joint project between the European Patent Office and the Office for Harmonization in the Internal Market

The Investment Climate in the Netherlands

Key Points

- Foreign Direct Investment (FDI) is an important driver of the Dutch economy, and in 2016 global inward FDI stock was at its highest level since 1990. This increase was driven by economic growth and strong performance of the global stock market. Looking forward, Brexit, tax reforms in the US and the Netherlands and Automation will likely impact global FDI.
- Most important factors in a company's decision to establish or extend business abroad are workforce qualification and availability, overall economic environment including a good tax climate and infrastructure quality. The Netherlands is an attractive destination given its technological / digital readiness, workforce quality and overall economic environment. That said, many other countries vie for FDI, and the Netherlands has areas to improve – in particular labor regulations, innovation and infrastructure require continued attention.
- The government can influence the attractiveness of the Netherlands through business reforms. Lowering corporate tax and repealing tax on dividends are positive policy changes, as well as additional investment in infrastructure and the liberalization of labor regulations.

Observations

Foreign Direct Investments

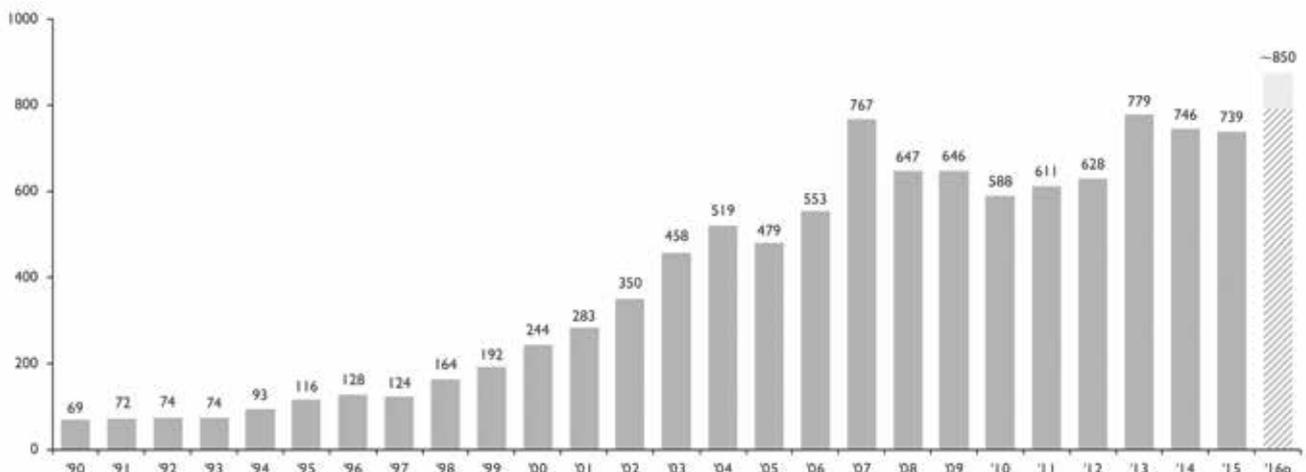
Foreign Direct Investment (FDI) is an important driver of the Dutch economy. About 40% of business revenue in the Netherlands is driven by foreign-owned companies. In 2016, inward FDI stock was at its highest level since 1990 (Figure 1). This increase was driven by economic growth and strong performance of the global stock market. However, even though the Netherlands is gaining share versus other European countries, it is not back at its peak of 2007 (Figure 2).

Looking forward, overall FDI is likely to be impacted by Brexit, US and NL tax reforms and Automation. The effect

of Brexit on FDI is limited to date; as the Brexit vote took place in June '16 and a number of large M&A deals were made just beforehand. Even though the devaluation of the pound sterling has increased short term FDI flows, most companies will await the terms of department and trade deals with the EU before making long term investment decisions.

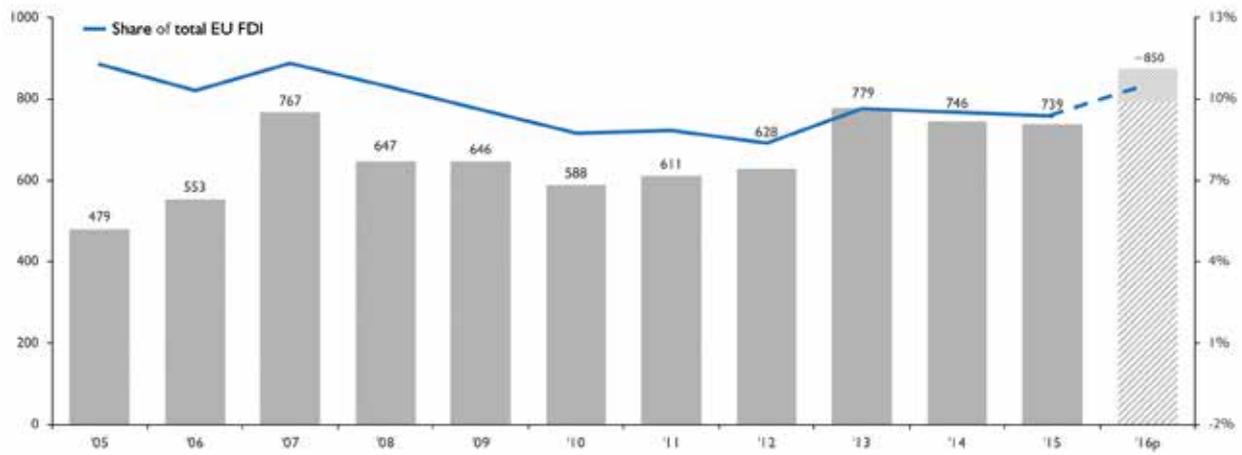
The US tax reform contains a number of changes to stimulate the US economy. The impact on global FDI could be both negative and positive. The cut in corporate tax rate frees up money that could be invested in the US, but also abroad. The move to a Territorial System makes it easier to repatriate foreign profit but it also lowers the barrier for foreign investment.

Figure 1 Global inward FDI position in NL (\$B)



(Source: OECD)

2 Global inward FDI position in NL (\$B) and Dutch inward FDI stock as % of total EU



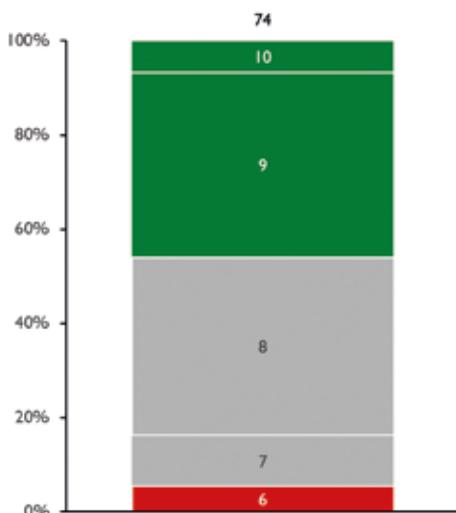
(Source: OECD)

NL tax reforms will impact the Dutch investment climate by increasing tax avoidance legislation. The Anti Tax Avoidance Directive is high on the EU agenda, and the Netherlands intends to adapt even stronger legislation.

Automation will partially offset the effect of the aging population slowing down labor force growth by increasing productivity. This increased productivity will reduce labor costs in developed countries, reducing the need to offshore labor. Additionally, the need for high level technology increases the attractiveness of innovating countries like the Netherlands.

3 How likely are you to recommend the NL to a foreign company seeking to establish/expand business abroad?

(Scale of 0-10, 0=Not at all likely, 10=Extremely likely)



(Source: Dutch Investment Climate Survey, February 2018 (N=74))

Attractiveness of the Netherlands

The Dutch Investment Climate Survey questioned 74 local executives on their opinion of the attractiveness of the Netherlands. The Netherlands is an attractive destination for companies to establish or expand business abroad; 46% of local executives is very likely to recommend it to other companies (Figure 3). Moreover, 84% of local executives is positive about the economic outlook of the Netherlands.

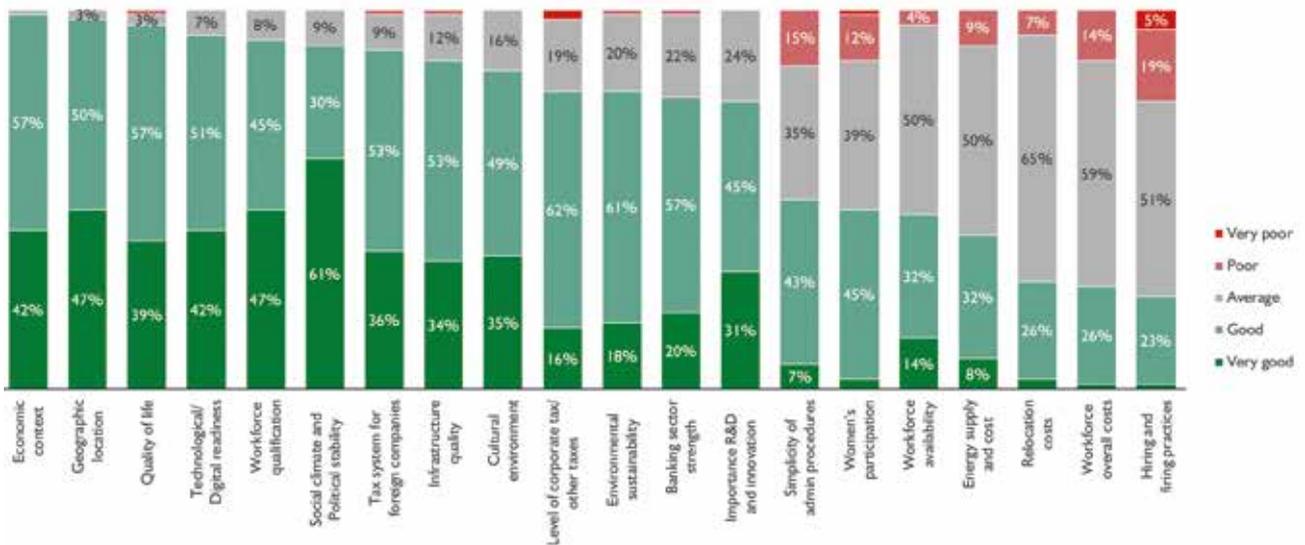
Multiple factors play a role in determining the attractiveness of a country, of which workforce quality and availability, overall economic environment and infrastructure quality are very important. When looking at the Netherlands, positive factors are technological / digital readiness, quality of the workforce and the overall economic environment (Figure 4). However, many other countries vie for FDI, and the Netherlands has areas to improve - in particular on certain workforce factors, innovation and infrastructure. Also, maintaining a competitive tax climate remains essential.

“Everybody speaks English, the economy is stable and the workforce is highly educated.”

CEO, Tech Media Telecom

The quality of the Dutch workforce, including education quality and English proficiency, is good. However, there is an availability gap, as it is hard to find the right talent. Furthermore, the overall costs of the workforce are high, which is the main reason why companies move capacity abroad.

4 Regarding the following factors, how does the Netherlands perform?



(Source: Dutch Investment Climate Survey, February 2018 (N=74))

The rigidity of hiring and firing practices is experienced as the worst factor of doing business. This is partially embedded in the culture of the Netherlands but might deter foreign companies that are less familiar with these policies.

Innovation and technological readiness are recognized as positive factors of the Netherlands and are essential in the light of the automation era. However, the Netherlands is not giving enough importance to R&D and innovation (Figure 4) which in turn will affect the capacity to innovate. The Netherlands scores lower on this than its competing countries: the UK and Germany. One of the underlying reasons here is that there is not enough talent available.

“Infrastructure is an absolute requirement for the Netherlands to remain competitive.”

Head Global Delivery, Tech Media Telecom

Infrastructure is a vital factor in the attractiveness of a country. For the Netherlands, this is even more important if the country wants to remain the ‘Gateway to Europe’. The quality of infrastructure is a positive trait, but the Netherlands risks to face serious capacity issues. Anticipating on changing and increasing needs, rather than reacting to them, is essential.

In essence, the Netherlands should be ready for the future as the quality and attitude of the workforce, technological/

digital readiness and economic environment are in place. It now comes down to turning points of attention into strengths and successful execution of constructive policies.

Impact Coalition Agreement Rutte III

The government plays an important role in making sure the Netherlands is ready for the future. Business reforms can make business easier, but also harder.

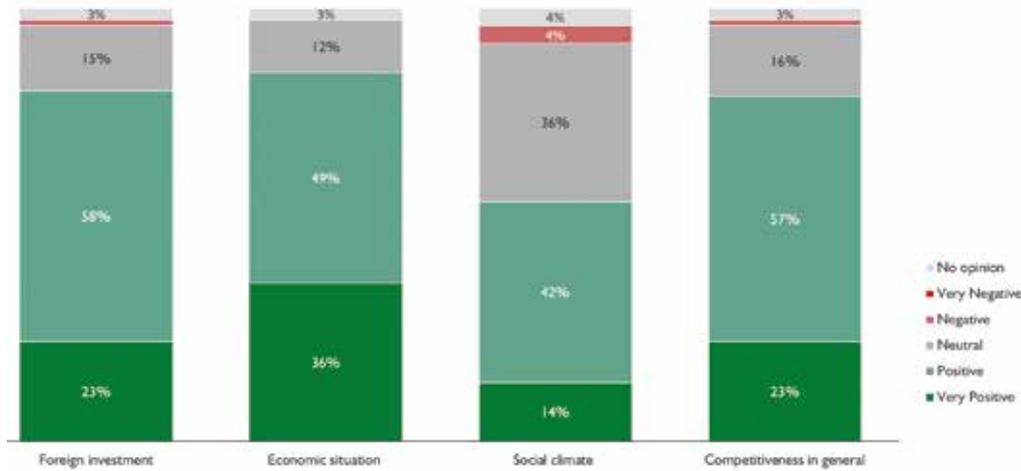
The government is well positioned to have a positive influence on foreign investment, economic situation, social climate and competitiveness in general (Figure 5). The decrease in corporate profit tax rate and repeal of tax on dividends can have a positive influence on the attractiveness of the Netherlands (Figure 6), with the side note that more simplicity and a lower, flat corporate tax rate are needed to remain competitive. Other potential positive changes are easing the restrictive labor regulations and investing in infrastructure, depending on their actual implementation.

These positive changes can help increase the attractiveness of the Netherlands, focus on ‘winning’ Brexit leavers and position the Netherlands as the ‘Gateway to Europe’.

“Eased labor regulations are specially good for quick growing and changing companies.”

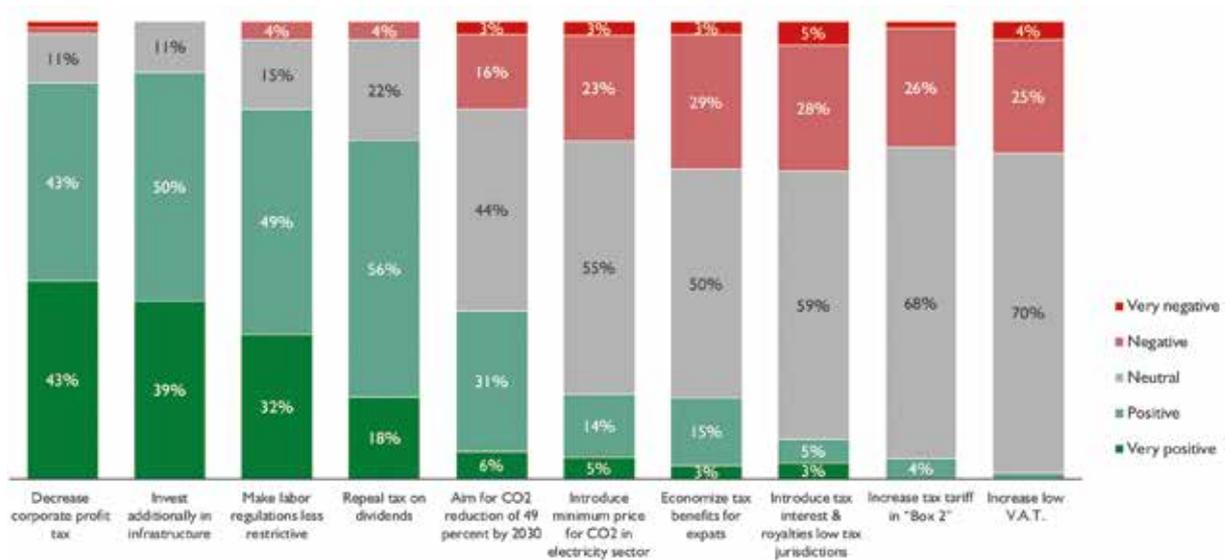
CEO, Energy and Industrials

5 What are your current thoughts about the future impact of work that will be undertaken by Mark Rutte and the Dutch government in the following areas?



(Source: Dutch Investment Climate Survey, February 2018 (N=74))

6 What impact do you think this policy change will have on the attractiveness of the Netherlands for companies looking to establish business abroad?



(Source: Dutch Investment Climate Survey, February 2018 (N=74))

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 Click on "FDI positions", "by partner country" 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. The data for the Netherlands is comparable
Total EU FDI Stock	OECD	OECD FDI positions database Note: Total EU consists out of member composition of the reporting period (EU25 for '05-'06, EU27 for '07-'12 and EU28 from '13 onwards)
Inward FDI stock as % of total EU FDI stock	OECD	Calculate per country: Inward FDI divided by total EU FDI
GDP	OECD	OECD database: http://stats.oecd.org/ Go to "National Accounts", "Annual National Accounts", "Main Aggregates", "Gross domestic product (GPD)"
Revenue from companies in NL	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) Foreign multinational enterprise (F-MNE): companies under foreign control; Domestic multinational enterprises (D-MNE): Dutch companies with foreign affiliates
Economic outlook / Attractiveness of the Netherlands / Coalition agreement Rutte III	Dutch Investment Climate Survey 2018	Objective: measure the morale of local executives of foreign companies in the Netherlands, their perception of the attractiveness of the Netherlands and their opinion on the impact of policy changes initiated by the coalition Audience: local executives that work or have worked for a foreign company in the Netherlands; Representing different industries and originating countries Methodology: online questionnaire in February 2018 (N=74) <i>Full survey results are available upon request</i>
Ranking on different factors	World Economic Forum	All countries are scored on different factors 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 137
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 The list of factors consists of: limited access to financing, restrictive labor regulations, foreign currency regulations, inadequate infrastructure, inefficient government bureaucracy, inadequately educated workforce, poor work ethic in the labor force, policy instability, government instability, crime and theft, corruption, complexity of tax regulations, high tax rates, inflation, poor public health and insufficient capacity to innovate

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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