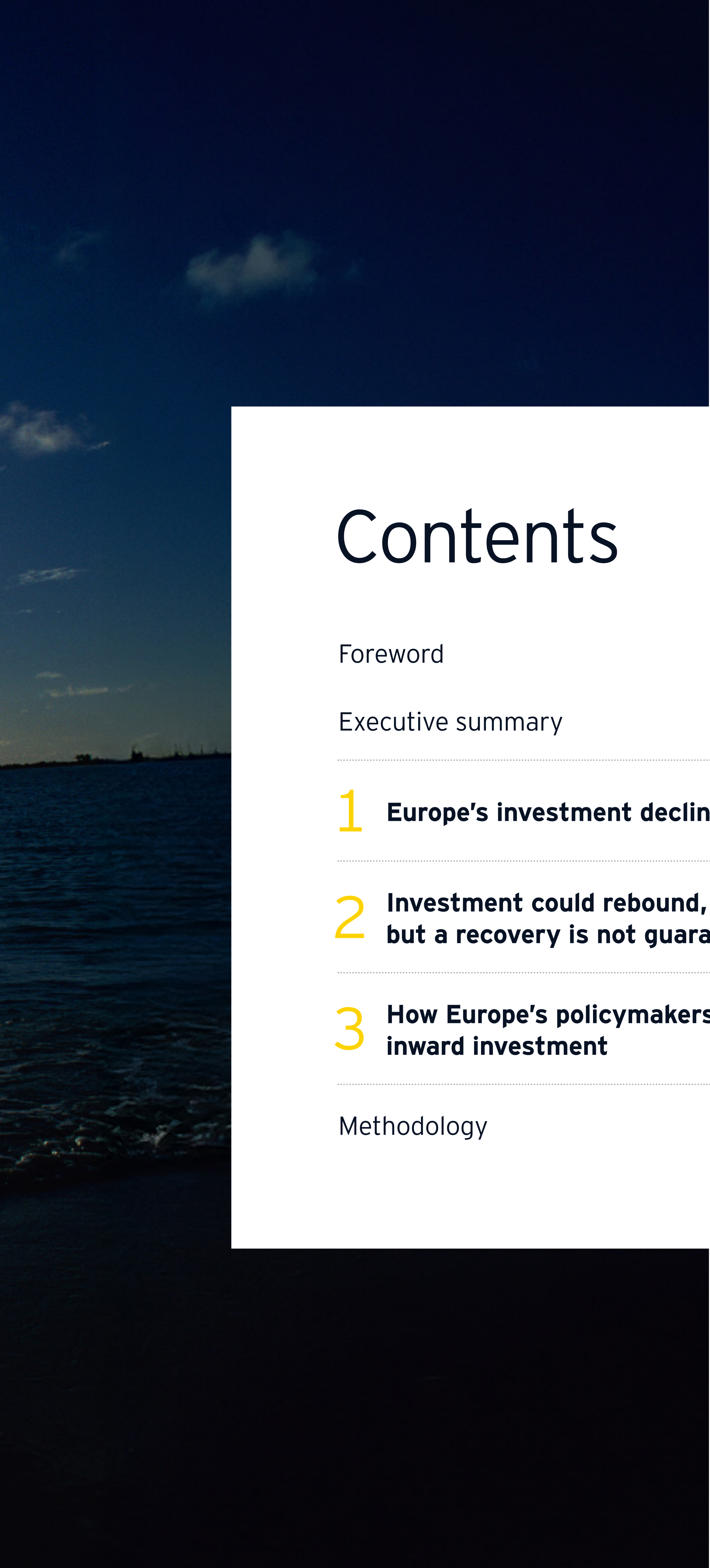
Amid global competition for investment, what more can Europe do?

Policymakers can enhance Europe's attractiveness to foreign investors by focusing on nine critical areas.

EY Attractiveness Survey

Europe

June 2024



Contents

Foreword

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"In the long history of humankind ... those who learned to collaborate and improvise most effectively have prevailed.

These words – attributed to Charles Darwin, history's most famous naturalist, geologist and biologist – come to mind when assessing the findings of the 23rd annual EY Europe Attractiveness Survey.

If Europe is to prevail as an attractive destination for foreign direct investment (FDI), businesses and governments need to cooperate and adapt. They must act urgently and decisively.

A continent in need of reinvigoration

Europe is home to 500 million consumers and is the world's third largest economy behind China and the US. It has a well-diversified industrial base, robust infrastructure, some of the world's leading academic and research institutions and a highly educated and skilled workforce. According to this year's EY Europe Attractiveness Survey, 62% of businesses with and without operations in Europe believe the continent outperforms other regions on the availability of workers with advanced skills, such as scientists, engineers and data analysts.

The entire continent is making strides in building a greener and more digital economy, which is critical for long-term sustainability and competitiveness.

However, more and more data indicates that Europe must redouble its efforts to remain a global economic and industrial powerhouse. Its share of global industrial output declined from 21% to less than 15% between 2001 and 2021. Most recently, the United Nations Conference on Trade and Development (UNCTAD) estimates that the value of greenfield FDI in Europe declined by 20% in 2023 but increased by 2% in the US, 8% in China and 17% across Asia. Now, this year's EY Europe Attractiveness Survey finds that the number of FDI projects in Europe fell in 2023, for the first time since 2020.

There is no shortage of ideas for how Europe can boost its competitiveness and attractiveness. Former Italian Prime Minister Enrico Letta, for instance, put forward a series of recommendations in an **extensive report** in April 2024. Many trade associations, business groups and political stakeholders have released their own proposals ahead of the European elections.

In this report, we outline a nine-point plan to improve Europe's attractiveness to foreign investors. This is vital. Most FDI in Europe is internal — a business located in one European country establishes or expands a project in another. That said, key countries outside Europe, such as the US (accounting for 19% of projects), China (5%) and Japan (3%), contribute significantly. Europe needs to attract investment from these countries to maintain investment flows.

The recommendations are divided into three categories, based on their degree of urgency and the necessity of making course corrections, and span a wide range of issues: from regulation and energy to artificial intelligence (AI) and talent. They are informed by a global survey of 500 executives and the detailed analysis of 5,694 FDI projects in 45 countries across Europe.

The survey finds that an increased regulatory burden is now considered the number one risk to Europe's attractiveness. A consistent theme that emerged in the survey data and supplemental interviews with external experts is that regulators need to find a better balance between protecting citizens and encouraging change. Volatile energy prices and political instability are ranked as the joint second-biggest risks to Europe's future attractiveness. Our nine-point plan provides ways to mitigate these threats.

Despite the challenges involved in navigating turbulent global geopolitical and economic waters, businesses remain optimistic about Europe. Three-quarters of the executives surveyed expect Europe's attractiveness to improve in the next three years. And 72% plan to expand or establish operations in Europe in the next 12 months, up from 67% in 2023.

Europe's future depends on solidarity, innovation and purpose

Whichever road Europe takes to improve its attractiveness, it must act with unity. Some of this has been lost in recent years: Leaders in certain countries have been elected with views that are at odds with the European project; individual Member States are implementing their own laws, adding complexity for business; and some of Europe's most senior politicians disagree about how to restore Europe's competitiveness. Member States should consider Darwin's words about the importance of collaboration.

All stakeholders need to think about Darwin's second imperative: improvization. Because of protectionism, heightened geopolitical tension and increased competition for investment, what made Europe attractive in the past might not work anymore. It is time for a new approach — one that responds with agility to a changing world.

Political and business leaders also need to tell a positive story about Europe, despite the challenges ahead. It is time to write a new story with a new purpose. With the right interventions, Europe can reinforce its status as one of the world's best destinations for FDI. Now, the region's leaders need to work together to make that a reality.

Executive summary

01

The macroeconomic and geopolitical climate caused FDI in Europe to decline in 2023 for the first time since 2020

FDI projects were announced in Europe
5,694
↓ **4%** from 2022

FDI in Europe created jobs
319,923
↓ **7%** from 2022

US investment in Europe fell by
↓ **15%**
from 2022

02

France, the UK and Germany secured the most projects in 2023

France


↓ **-5%**
vs. 2022

UK


↑ **+6%**
vs. 2022

Germany


↓ **-12%**
vs. 2022

03

Europe continues to be an attractive investment destination over the long term

2023		2024
67%	The surveyed executives plan expand or establish operations in Europe	72%

75% think Europe's attractiveness will increase during the next **three years.**

04

To maintain Europe's appeal to foreign investors, policymakers must consider the current factors that influence investment decisions ...

Liquidity of financial markets and availability of capital	32%
Strength of the domestic market	27%
Cost of energy	26%

05

... and mitigate more fundamental challenges. In the next three years, investors perceive the main risks for Europe's attractiveness to be:

1. Increased regulatory burden — 41%

=2. Volatile energy prices and/or energy supply issues — 33%

=2. Political instability — 33%

Find out more about **FDI trends in Europe**.

How can policymakers reboot Europe's attractiveness?

The upcoming renewal of most European institutions is an opportunity to look at ways to boost Europe's attractiveness. Foreign investors say that policymakers could focus on nine areas, which we divide into three groups based on the level of urgency and the scale of the intervention needed.

Refresh

Europe's current direction of travel on the green and digital transitions is right, but policymakers must act to adapt to an ever-changing playing field:

01 **Find the right regulatory balance between protection and innovation.**

02 **Maintain manufacturing competitiveness.**

03 **Create a fertile environment for innovation.**

Maintain

Europe is seen as advanced in sustainability, skills and infrastructure – policymakers should take action to maintain its leading position:

07 **Focus on the economic benefits of sustainability.**

08 **Boost workforce productivity and promote Europe's critical skills.**

09 **Balance tax competitiveness and revenue growth.**

Accelerate

Initiatives are underway in the critical areas of energy, capital markets and trade, but policymakers could boost efforts to address areas of immediate concern for foreign investors:

04 **Restore confidence in energy prices and supply.**

05 **Unlock private investment with a full capital markets union.**

06 **Unify to responds rapidly to global trade wars.**

Europe's investment decline dissected

01

Europe's FDI recovery loses momentum in 2023

After two years of growth, the post-pandemic recovery of FDI in Europe has stalled: 5,694 FDI projects were announced in Europe in 2023, down 4% from 2022.

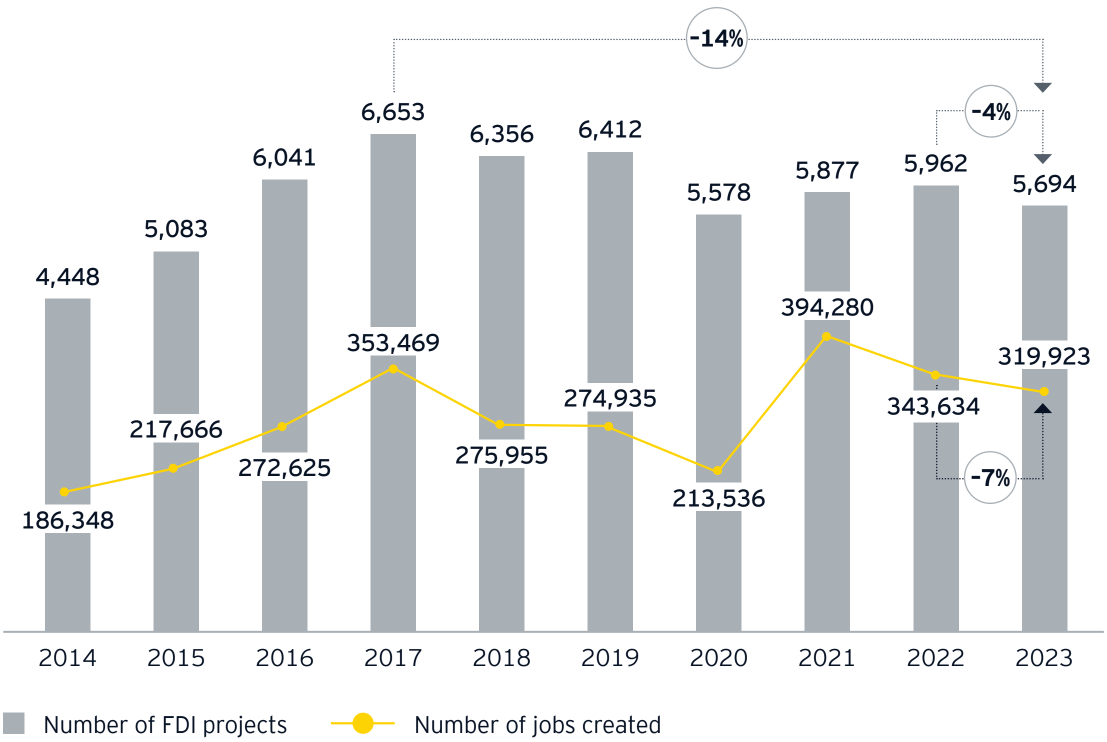
Measured by the number of announced projects, FDI remains 11% below the level in 2019 — just before the COVID-19 pandemic hit Europe — and 14% below the record high of 2017. The number of jobs created by FDI projects in 2023 fell sharply, down 7% from 2022.

The decrease was caused by a combination of slow economic growth, persistently high inflation, high energy prices, geopolitical uncertainty, declining demand for office space and competition from attractive stimulus measures in the US.

There has also been a decline in investment from the US and Asia. Investment from the US into Europe declined by 15% in 2023 compared with 2022 and by 29% compared with 2019. The number of projects announced by Asian businesses in 2023 was 9% below 2019.

Figure 1

Number of FDI projects announced in Europe between 2014 and 2023



Source: *EY European Investment Monitor 2024.*

The UK rebounds as France stalls and Germany declines

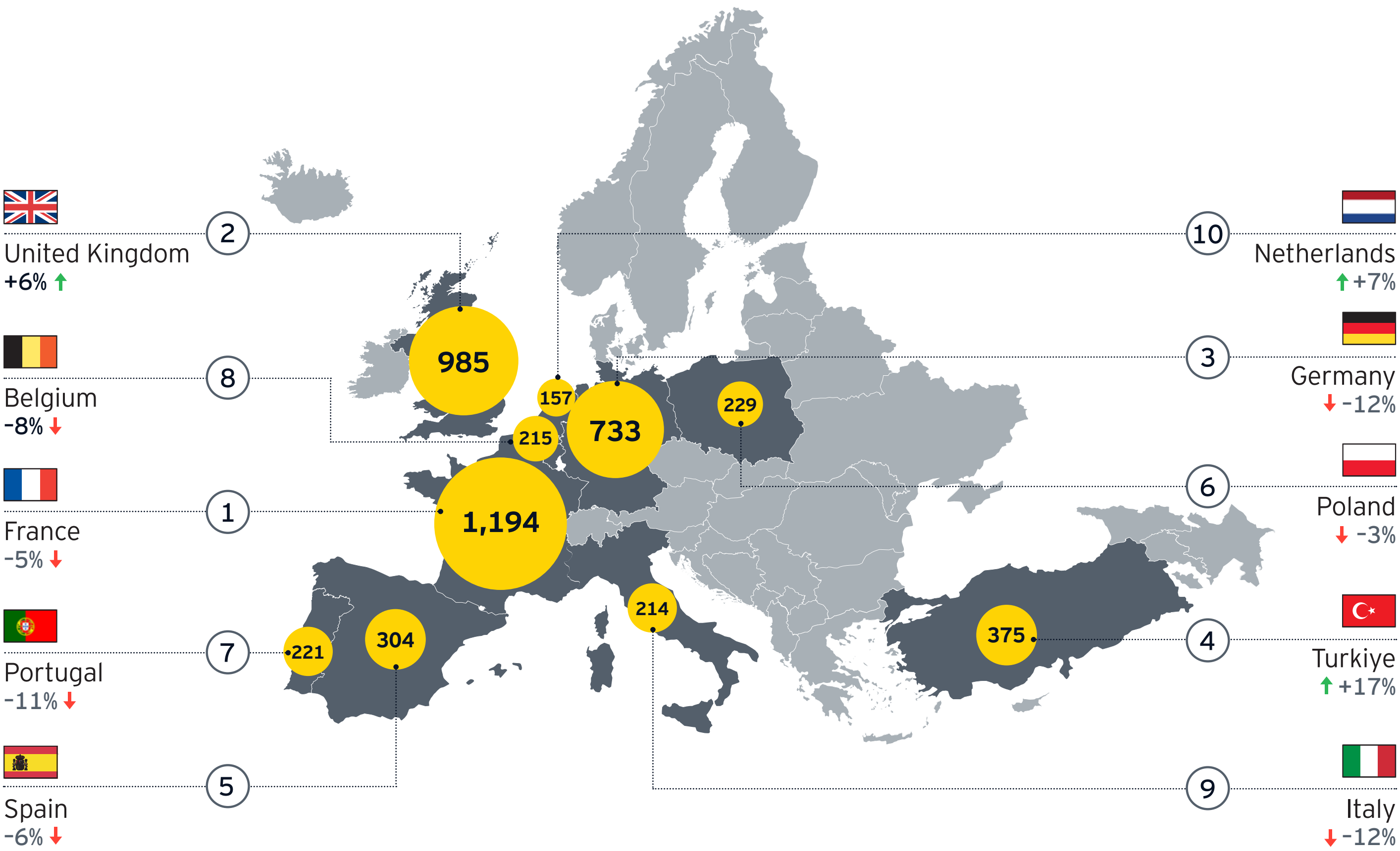
Investment in France fell by 5%. But the number of jobs created by FDI increased by 4%, which illustrates the benefits of France's business-friendly reforms and an economy that is healthier than in other European countries.

FDI in Germany decreased by 12% in 2023, continuing a steady decline in projects since the onset of the COVID-19 pandemic. Industrial investors have been deterred by the country's recessionary environment, high energy prices and concerns about the security of the energy supply.

The UK bucked Europe's negative trend, with a 6% increase in FDI projects in 2023, but this was achieved from a low base: There was a 6% drop in the previous year.

Figure 2

Top 10 countries by FDI projects in 2023 — ranking, number of projects and change in 2023 vs. 2022



Source: *EY European Investment Monitor 2024.*

Services sectors suffer, but manufacturing holds on

Investment in services sectors dropped considerably between 2022 and 2023. In the sectors that have traditionally been Europe's largest for investment – software and IT services, and business and professional services – projects fell by 19% and 27% respectively.

More positively, investment in manufacturing was stable in 2023, declining by only 1%. Businesses maintained their manufacturing investment so they can meet future consumer demand, which is expected to rise. Ongoing efforts to reorganize supply chains and relocate production bases to Europe also kept manufacturing investment levels steady.

Figure 3

Top 15 Sectors by FDI projects in 2023 – ranking, number of projects and jobs, change in 2023 vs. 2022

Rank	Sectors	Number of projects in 2023	Number of projects in 2022	Change 2022–23	Number of jobs in 2023
1	Software and IT services	954	1,182	-19% ↓	42,214
2	Business services and professional services	556	765	-27% ↓	24,028
3	Transportation and logistics	457	417	10% ↑	26,414
4	Transportation manufacturers and suppliers	445	470	-5% ↓	51,472
5	Machinery and equipment	424	368	15% ↑	23,090
6	Finance	329	292	13% ↑	12,675
7	Electronics	316	276	-9% ↓	30,332
8	Utility supply	302	277	9% ↑	16,597
9	Agri-food	266	291	-9% ↓	12,654
10	Chemicals, plastics and rubber	255	249	2% ↑	13,379
11	Pharmaceuticals	226	234	-3% ↓	13,064
12	Metals & Minerals	160	139	15% ↑	6,165
13	Construction	157	142	11% ↑	3,799
14	Furniture, Wood, Ceramics & Glass	137	133	3% ↑	4,234
15	Medical Devices	123	122	1% ↑	6,196
	All others	587	605	-3% ↓	33,610
	Total	**5,694**	**5,962**	**-4%** ↓	**319,923**

Source: *EY European Investment Monitor 2023.*

External viewpoint

Jeroen Dijsselbloem
Mayor of Eindhoven

To attract investment in the technologies of the future, build ecosystems

Recent EU initiatives to increase Europe's strategic sovereignty in key industries have been a welcome development. Investments in semiconductor plants, for instance, help reduce Europe's reliance on its trading partners.

But if Europe is to be less dependent on Asia and the US over the long term, we cannot simply try to catch up on technologies that already exist. We need a leading position in producing the new technologies that will be dominant in the next 10 or 20 years – such as photonic chips, artificial intelligence, robotics, and battery technology.

In Eindhoven, we talk about providing a breeding ground for the next ASML – arguably Europe's most important technology firm, thanks to its unique technology. In ten years' time, we want two more such companies; in 20 years, we want four. That's the level of ambition Europe should have.

To deliver that ambition, Europe needs more ecosystems built around research institutes and universities, in combination with private partners. We consider Brainport Eindhoven to be Europe's most innovative technology region, and it provides a template that others can follow. It is thriving thanks to its "triple helix" of education, companies and governmental institutions.

Europe's universities are producing good fundamental research in the technologies of the future – but we are not good at taking those ideas and building commercial concepts. Ecosystems can help change that.

More broadly, governments have a significant role in helping create the conditions that attract companies. The Dutch government and regional authorities recently agreed a €2.5 billion package of measures to improve education, transport and housing in Eindhoven. These are critical considerations for employers looking to bring global talent to the region.

Another priority must be the development of Europe's capital markets. When an innovative startup is scaling up, seeking money to build its first production site, there are good chances it will find an American investor, rather than one from Europe. That can lead to production moving overseas. This is a major structural issue, which Brussels needs to address by creating deeper, more integrated financial markets.

We must make sure the companies of the future are supported to grow right here in Europe.

Investment could rebound, but a recovery is not guaranteed

02

FDI is likely to rise again

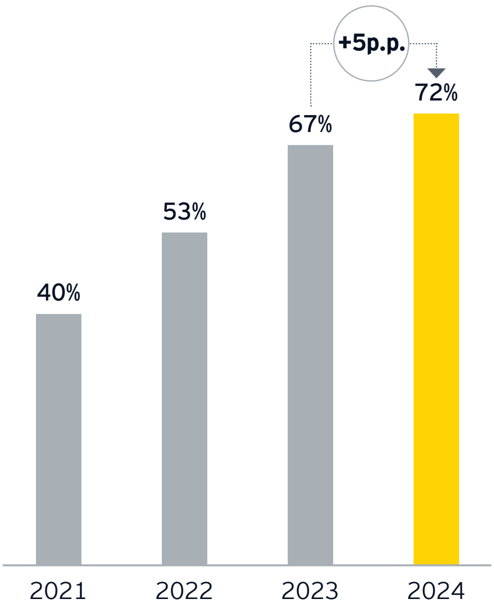
Investment in Europe could rapidly shift back to a growth trajectory: 72% of surveyed executives plan to establish or expand projects in the region, up from 67% in 2023 and 53% in 2022. And 75% expect Europe's attractiveness to improve during the next three years.

This strong appetite for future investment comes from pent-up demand to execute projects following a number of years of historically low investment, coupled with expectations that economic conditions will stabilize.

Investment levels might recover. But the survey data indicates that expansion projects will be prioritized over the greenfield developments that are vital for Europe's global competitiveness in industries including life sciences, electric vehicles, energy, AI and semiconductors. Reducing costs is the most commonly cited reason to invest. Accessing new markets and customers is only the fourth most important reason.

Figure 4

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



Data segments:

+
Financial services: **93%**
Chemical and Pharma: **90%**
Large companies: **88%**
Operations in Europe: **77%**
HQ in Europe: **75%**

−
Business services: **71%**
HQ outside Europe: **67%**
Operations outside Europe: **67%**
Industrials: **66%**
SMEs: **57%**

Source: *EY Europe Attractiveness Survey,* June 2024 (total respondents: 500 surveyed between 29 January to 1 March 2024).

Overregulation is now seen as the top risk to FDI in Europe

According to the survey data, the top three risks to Europe's attractiveness are:

1. An increased regulatory burden

Europe has pioneered new regulatory initiatives encompassing carbon disclosure, supply chain due diligence, data protection and the safe use of AI. But investors are worried that the expanding regulatory framework will stifle European business growth and agility.

2. Energy prices and supply issues

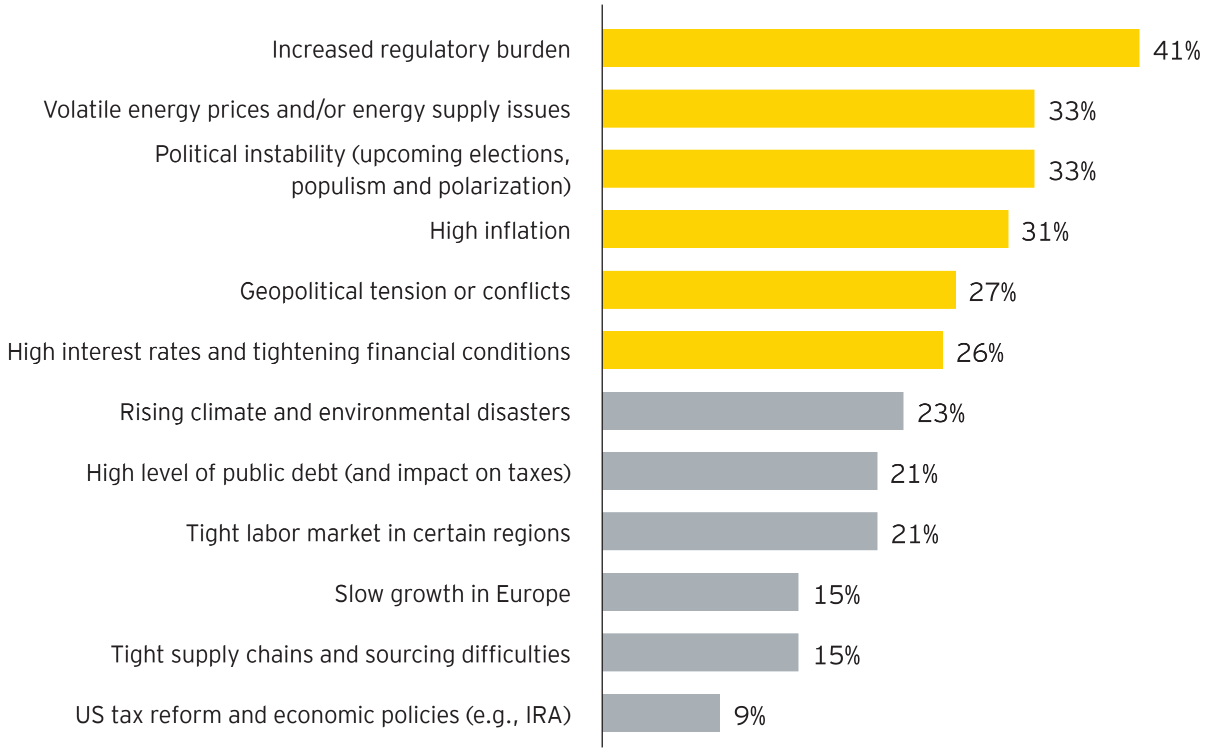
The second-biggest threat to Europe's attractiveness reflects concerns about the energy crisis of the past two years.

3. Political instability

Executives are concerned about uncertainty in the run-up to the European elections, rising social tensions, and political radicalism at the local level.

Figure 5

What are the main risks affecting Europe's attractiveness over the next three years? Rank up to three



Source: *Europe Attractiveness Survey,* June 2024 (total respondents: 500 surveyed between 29 January and 1 March 2024).

External viewpoint

Edvinas Kerza

ScaleWolf Managing Partner and Lithuania's former Vice-Minister of National Defense

Collaboration is ensuring security for investors in Europe

Companies may certainly be tempted to invest in Europe thanks to its manufacturing prowess, innovative culture, and sustainability credentials. But in an era where digital threats loom larger and geopolitics result in cyberwarfare, how will business leaders be able to invest safely?

Strength in numbers

An IT coalition, led by Lithuania, Estonia and Luxembourg, was launched in September 2023, with the aim of supporting Ukraine's Defense Ministry and Armed Forces in IT, communications, and cybersecurity.

The initiative is pivotal to Ukraine's operational efficiency and battlefield effectiveness. But coalitions like this don't only provide immediate assistance to Ukraine. They also strengthen Europe's overall defense landscape.

Rapid response

The establishment of the European Cyber Rapid Response Teams (CRRTs) and the Regional Cyber Defense Centre (RCDC) are other prime examples of joint initiatives, illustrating a comprehensive approach to cybersecurity that benefits not just Ukraine but the broader European community.

The CRRTs are designed to mitigate cyber threats through a collective response mechanism, which pools expertise from Member States, offering support in training, vulnerability assessments, and other critical cybersecurity measures. Such a setup boosts the participating countries' cyber resilience and facilitates a rapid response to incidents.

Meanwhile the RCDC, led by the Lithuanian Ministry of National Defense, aims to be a regional hub for practical cooperation in cyber defense. With a focus on cyber threat analysis, information exchange, and the protection of critical infrastructure, the RCDC is positioned to significantly strengthen cybersecurity measures across the region.

By leading and participating in these coalitions, developing groundbreaking technologies, and fostering strategic partnerships, Lithuania and its allies are setting a new standard for global security collaboration. All of this helps give foreign investors the confidence that their business will be in safe hands in Europe.

How Europe's policymakers can increase inward investment

Europe must compete more strongly with the US and Asia, so policymakers will have to take bold and decisive action to sustain its attractiveness. We have identified nine areas of action and segmented them into three groups based on their level of urgency and intervention.

Refresh

Europe's current direction of travel on the green and digital transitions is right, but policymakers must act to adapt to an ever-changing playing field.

01 Find the right regulatory balance between protection and innovation

In our survey, businesses say that an increased regulatory burden is the top risk to Europe's attractiveness over the next three years. Forty-one percent rank this as a top three risk, which is significantly more than the 33% who mention energy and political instability, which come joint second. In 2023, high inflation and political instability were seen as more important.

Concerns about new regulation are increasing because of the introduction of new laws such as the Carbon Border Adjustment Mechanism, the EU AI Act, FDI screening and product regulation in specific sectors. Investors are also likely to be frustrated by the growing disparity of regulation between and within European countries.

Achieving and demonstrating compliance is complex and costly, and can slow down growth and innovation. Noncompliance with new regulations carries huge fines. Therefore, an increased regulatory burden is a reason for investors to look beyond Europe when they consider new locations.

With limited resources, small and medium-sized enterprises (SMEs) typically struggle more than larger organizations to demonstrate regulatory compliance. This could explain why only 57% of surveyed SMEs plan to establish or expand operations in Europe in the next 12 months, compared with 88% of large businesses.

How could European policymakers alleviate these concerns?

- **Harmonize regulation.** Policymakers should try to harmonize regulation within the single market. To limit regulatory divergence, they should also exert their influence on jurisdictions outside the EU. Introducing new laws through legislation, rather than through directives, would reduce the scope for Member States to diverge from EU law. Expanding the single market to include previously excluded sectors such as finance, telecoms, transport and energy would also limit regulatory divergence.
- **Reconsider the pace of introducing new regulation.** The EU is typically a first mover in regulating areas such as data protection, AI and sustainability. A more gradual approach may be better, because it gives nascent industries more time to mature and for risks to materialize. In some instances, regulation might not even be necessary. Surveyed businesses agree: They rank "allowing regulation to keep pace with technological and other disruptions" fourth in a list of 15 initiatives that policymakers could pursue to maintain Europe's competitive position in the global economy.
- **Repeal old laws whenever possible.** Old laws must be repealed when new regulations are introduced. When this does not happen, businesses can be overwhelmed by needing to comply with regulations that appear to overlap.

"EU policymakers could do more to anticipate and understand the likely impact of new regulation on investment attractiveness. They could do this through more probing impact assessments. Post implementation reviews should also happen more routinely to ensure that the relevant regulation is working as intended.

Andrew Hobbs
EY EMEIA Center for Board Matters Leader, EMEIA Public Policy Leader

External viewpoint

John Brennan
Senior Director Government Affairs, Western Europe, Medtronic

If Europe wants to attract high-tech businesses, regulation must be more business-friendly

European government bodies have some issues to address if they want to compete effectively for high-tech business at global level.

Regulating businesses out of the market

One of the benefits of working in Europe is the strength of the rule of law. That said, European regulators' increasing tendency for an overcomplicated approach to technology is proving to be a deterrent. Other jurisdictions that have simplified their regimes naturally seem more attractive places in which to invest.

It feels like European regulators are ignoring industry when it comes to developing new regulation, rather than treating business leaders as consultative partners. Europe needs to approach these issues more strategically, and with a little more macro-economic and geo-political savviness, in order to avoid stifling European innovation and competitiveness.

A good example is the European Union Medical Device Regulation (EU MDR), which came into force in 2017. The EU MDR was in the planning stage for so long, with so many different inputs, that it came out swollen to epic proportions. Now, at implementation stage, all players, authorities, approval bodies and industry, are finding it practically impossible to implement in an efficient or effective way.

It has taken Medtronic, just like the rest of the MedTech companies faced with EU MDR, years to re-register all our products, with some perfectly good ones disappearing from the market in the meantime. It can take up to three years to obtain a product approval, and this has changed the way we perceive Europe as a market. Now, for many businesses, and increasingly, for many European start-ups, it makes more sense to develop, build and release new products in the US, Japan or even China first, and then look at the option of a launch in Europe as a follow-on to the primary market.

Delivering the goods

Another issue in Europe is around procurement. European governments want the latest tech to be built here, but government clients do not want to buy these latest tech products. These types of products are often more cost effective in the long run despite being more expensive up front. Current procurement is overly weighted toward upfront costs, which puts new technology at a disadvantage. It needs reform.

Nevertheless, if it can foster more effective, better-connected centers of innovation, Europe has tremendous potential as a high-tech hub, with innovation centers in the south of France, Ireland, Germany, Iberia, Poland and the Nordics — but they are currently disparate. The EU needs to bring these centers of innovation together so that venture capital funds, startups, established businesses and health care providers can understand each other's needs.

Likewise, what are hospital managers and physicians saying they need? Where is public money going? And is it going in the right place for our health needs? Our health is our wealth, by creating a platform to connect all of these dots, and to work in a deeper and more inclusive way with all stakeholders, Europe could show the world that it leads in taking its health seriously.

02 Maintain manufacturing competitiveness

FDI in manufacturing projects in Europe is proving resilient. The number of announced projects in 2023 was only down 1% from 2022 and 2% from 2020, but it was still higher than the annual average number between 2013 and 2022.

However, there is no room for complacency. Domestic demand for manufactured products could decrease due to demographic changes. Regulation associated with the drive to net zero could harm industrial production. And another spike in energy prices would raise manufacturing costs. That's not to mention the strong support for manufacturing in other parts of the world. Europe is particularly vulnerable to these shocks because a larger share of its manufactured goods is exported than in other countries around the world.

Many countries around the world have taken more drastic action than Europe to encourage manufacturing in recent years. The US is the most obvious example. To counter state intervention in China, secure supply chains and develop the technology needed to tackle climate change, it has introduced a series of industrial policies that bring together tax incentives and subsidies, including the Inflation Reduction Act and the CHIPS and Science Act.

The sheer scale of these policies means that Europe must expand on its own existing stimulus packages, such as the Net-Zero Industrial Act. In addition, policymakers could boost European manufacturing in the following ways:

- **Allow businesses to scale up to global relevance.** Policymakers must remove the barriers to the creation of large, Europe-wide businesses that can rival the scale of those in the US and Asia. Relaxing competition laws to allow mergers would help, as would harmonizing regulation across European countries.
- **Shore up supply of vital components.** Whether it is microchips used for advanced digital products or rare earth materials used in electric vehicle batteries, there is a global shortage of the materials and components needed to support high-growth industries. For many years, China has invested in ensuring its businesses have access to vital materials and components. More recently, the US has taken steps to protect its chip industry with the CHIPS and Science Act. Europe has responded with its Critical Raw Materials Act, which sets out targets for the domestic mining, recycling and processing of specific raw materials. That said, Europe will still need to import large quantities of vital raw materials. A new, long-term strategy for how to procure this is needed, especially when every other major industrialized country is doing the same.
- **Adjust procurement strategies.** European policymakers can directly support high-tech, digital industries by encouraging state-owned organizations, whether they are in health care, energy transport or another sector, to purchase them. Today, procurement decisions are primarily based on minimizing short-term costs. A change to consider the value and costs over the entire lifecycle of the product would lead to the purchase of more digital solutions.
- **Provide critical infrastructure at the pan-European level.** Investment in public goods that are essential to competitive manufacturing, such as energy grids and data infrastructure, should be coordinated at the European level instead of being left to individual countries.

> “
> As outlined by Mario Draghi in a recent speech, there are four telecoms providers in the US, but 34 in Europe, and that's a conservative estimate. Europe needs to allow businesses to merge in strategic sectors so that we get the size of businesses that are capable of investing at scale in projects such as 5G and fiber-optic broadband. This should be a key element of any strategy for manufacturing.

Alessandro Cenderello
EY Managing Partner for EU Institutions

External viewpoint

Benedikt Kuttenkeuler

Head of Government Affairs EU, Siemens

Changing Europe's manufacturing mindset

Many factors determine where companies locate their operations, but more and more businesses want to have their operations closer to their customers. I call this trend "glocalization" — the global trend toward localization motivated by the desire to be closer to customers. That does not necessarily mean within one country, but definitely within the same region — Europe being one of them.

Europe offers positives such as a high level of skilled workers and a relatively stable political environment, which is valuable in a climate where reliability is paramount. Businesses want reliable conditions for at least the expected lifespan of their investment. But businesses are also looking for growing markets, and Europe's falling populations make it less attractive.

A market that works for everyone

In the short term, the most important area the EU has to address is the burden of regulation. It is absolutely a good thing to introduce boundaries in the case of areas such as AI, but the risk to the consumer, the environment and society as a whole has to be balanced against supporting innovation. Over the past few years, Europe has tipped the balance toward overregulation. This makes it more complicated to innovate in Europe than in other regions.

Europe also needs industrial policy that supports innovation while avoiding privileging certain areas or technologies over others, or "picking winners" and only subsidizing these. Creating innovation-friendly markets for everyone is still the best way of moving forward and has served Europe well in the past. We need to find a way to level the playing field.

European public institutions also need to look at changing procurement policy. Sustainable solutions will never take hold under current procurement policies. Instead of increasing subsidies to sustainable solutions, a more market-conforming solution would be to change the way public bodies approach procurement, shifting the focus toward looking at overall costs and lifecycle assessments.

Tell a positive story about manufacturing

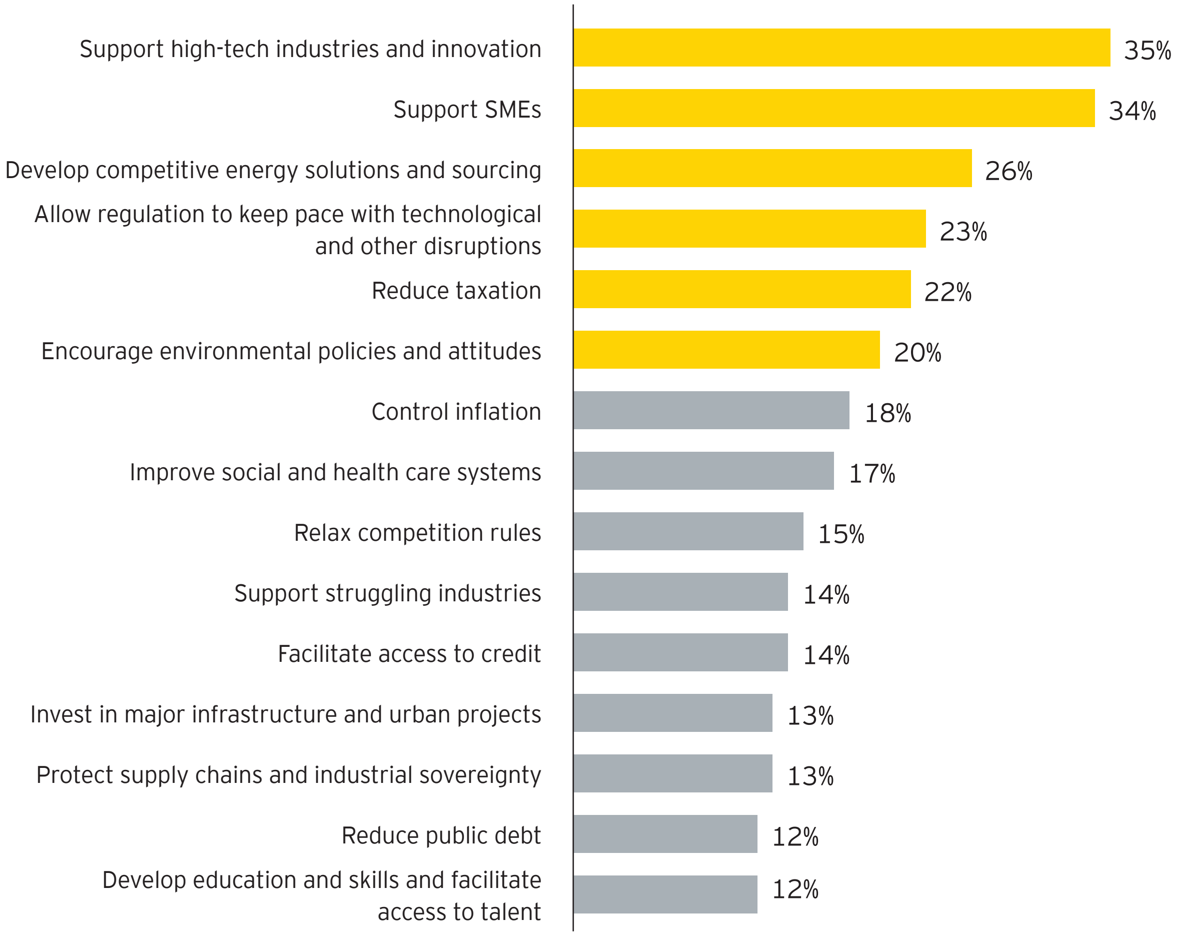
Some European countries — most prominently, the UK — have turned away from manufacturing in the past in favor of services. But Europe now understands that it cannot be dependent on the US and China for products and materials.

While Europe must work to address its issues around regulation and procurement, it cannot underestimate the value of a positive mindset around manufacturing. It may sound like a soft issue, but the willingness of European public bodies to say more about how they value manufacturing would go a long way to making manufacturing businesses feel more welcome in Europe.

03 Create a fertile environment for innovation

Figure 6

Where should Europe concentrate its efforts in order to maintain its competitive position in the global economy ? Up to three answers only



Source: *Europe Attractiveness Survey,* June 2024 (total respondents: 500 surveyed between 29 January and 1 March 2024).

When asked where Europe should concentrate its efforts to maintain its competitive position in the global economy, investors placed "support high-tech industries and innovation" first.

High-growth, AI-enabled businesses would benefit hugely from many of the other initiatives outlined in this nine-point plan, including adjusting the balance from protection to innovation on new regulation, encouraging the use of AI, unlocking capital markets and improving skills.

Moreover, businesses rank the environment for AI investment, development and use as the fourth most important technology-related factor that determines where they invest. EY research finds that almost all European CEOs are making or planning **significant investments in generative AI (GenAI)**, so this issue will become more important.

But only 44% of the surveyed executives say that Europe performs better than other countries on this measure. By contrast, 62% say Europe outperforms others when it comes to the availability of a workforce with technology skills. European government agencies also lag behind the US in their preparedness to adopt AI. **The Government AI Readiness Index 2023**, compiled by Oxford Insights, gave Western Europe an AI readiness score of 66.72, which is significantly lower than the US's score of 80.57.

How can policymakers help Europe catch up?

- **Boost the workforce equipped with digital skills.** Executives say that availability of a workforce with technology skills (e.g., scientists, engineers and data analysts) is the top technology-related factor that determines where they invest. So Europe needs programs to build on its existing strengths and enhance existing capabilities.
- **Support the development of hardware and infrastructure.** AI relies on microchips, but European businesses import most of their chips from the US, which puts the industry at a strategic disadvantage. And building data infrastructure at scale in EU jurisdictions is also a necessity to provide the right support and protection.
- **Be prepared to adapt the EU AI Act.** The EU has a track record of very slowly adapting regulation once it is implemented, which creates areas of uncertainty. This is not possible with AI. The technology and its applications evolve rapidly, so regulators will need to be agile. Striking the right balance between encouraging innovation and protecting citizens will be vital.
- **Remove bureaucracy for SMEs.** High levels of red tape in Europe compared with the US deters some technology entrepreneurs from establishing operations in Europe. SMEs that are developing AI-enabled technology will need access to EU funding and help with demonstrating regulatory compliance so they do not become overburdened.

"With a diversified energy supply and a strong 5G network, Europe has all of the ingredients to become a global AI leader. But the lack of a large hardware or computing power company, and too much bureaucracy, could get in the way.

Beatriz Sanz Sáiz
EY Global Consulting Data and AI Leader

Accelerate

Initiatives are underway in the critical areas of energy, capital markets and trade tensions, but policymakers could boost efforts to address areas of immediate concern for foreign investors.

04 Restore confidence in energy prices and supply

Investors rank "volatile energy prices and energy supply issues" as the second-biggest risk to Europe's attractiveness over the next three years. Energy prices have decreased drastically since their peak in 2022 and, in some countries, are now lower than pre-pandemic levels. So why are investors worried?

Interestingly, businesses that are headquartered outside Europe, and might be unaware of the recent large decline in prices, are much more worried about energy prices. Forty-two percent flag "volatile energy prices and energy supply issues" as a top three risk to Europe's attractiveness, compared with only 28% of those headquartered within Europe.

Businesses are also likely concerned that future unexpected events could plunge Europe into another energy crisis. This dents confidence in Europe's attractiveness because competing destinations for investment, such as the US, have not experienced hikes in prices that are remotely comparable with Europe in the past two years. Businesses are also likely mindful of how the need to decrease reliance on imported energy and decarbonize energy generation might impact future prices.

The EU and individual countries have already taken drastic action in this area. EU energy subsidies rose from €177 billion in 2015 to €216 billion in 2021 and to **an estimated €390 billion in 2022**. Many countries, including Germany, have eased the burden on energy-intensive businesses by significantly reducing levies and fees.

Several initiatives have been designed to accelerate the low-carbon transition of Europe's energy sector. Most notably, the EU adopted the Fit For 55 package in April 2023. This includes a series of measures aimed at upgrading the EU's climate and energy legislation, and ultimately achieving a 55% net emissions reduction (compared with 1990) by 2030 and climate neutrality by 2050.

> "Energy prices in Europe are now very low, and in some areas better than before the COVID-19 pandemic. Concerns are high because of the recent experience of ultra-high prices, which no one thought was possible. Businesses might fear that they will return, perhaps triggered by China purchasing drastically more liquified natural gas (LNG), multiple French nuclear reactors needing to be maintained at the same time, or demand for electricity growing more than expected. Fresh approaches are needed to avoid this happening and ensure Europe has an energy supply that is secure, decarbonized and inexpensive.

Jérémie Haddad
EY Europe West Power & Utilities Leader

How can policymakers help restore confidence in energy?

- **Fund and develop specific energy infrastructure:** Assets such as grids and interconnectors could be funded at the European level. Interconnectors are crucial to integrating Europe's energy market, which will reduce costs and improve resilience. Interconnectors need coordinated planning and financing, which is too complex for a single country to manage alone.
- **Invest in Europe's energy transition.** An estimated €600 billion is required for Europe's energy transition. This increases the importance of completing the capital markets union. Enrico Letta's proposal to **create a savings and investments union** tied to helping the EU meet its ambitions for a fair, green and digital transition should be taken seriously.

05 Unlock private investment with a full capital markets union

Access to capital is now the most important factor that determines where businesses invest. Thirty-two percent of executives rank "liquidity of financial markets and availability of capital" as one of the top three factors that determine which country they invest in. This is an increase from 28% in 2023 and 25% in 2022.

High interest rates have increased the importance of capital availability. And the huge sums necessary for Europe's energy and digital transition have made liquid financial markets more important.

Enrico Letta's proposal to create a savings and investment union should be taken seriously. This would help to divert the €300 billion of individual Europeans' savings that is currently allocated outside Europe to financing the EU's strategic objectives. The union must be based on a fully integrated capital markets union, which would allow pension and insurance funds, and other institutional investors, to invest across Europe at scale.

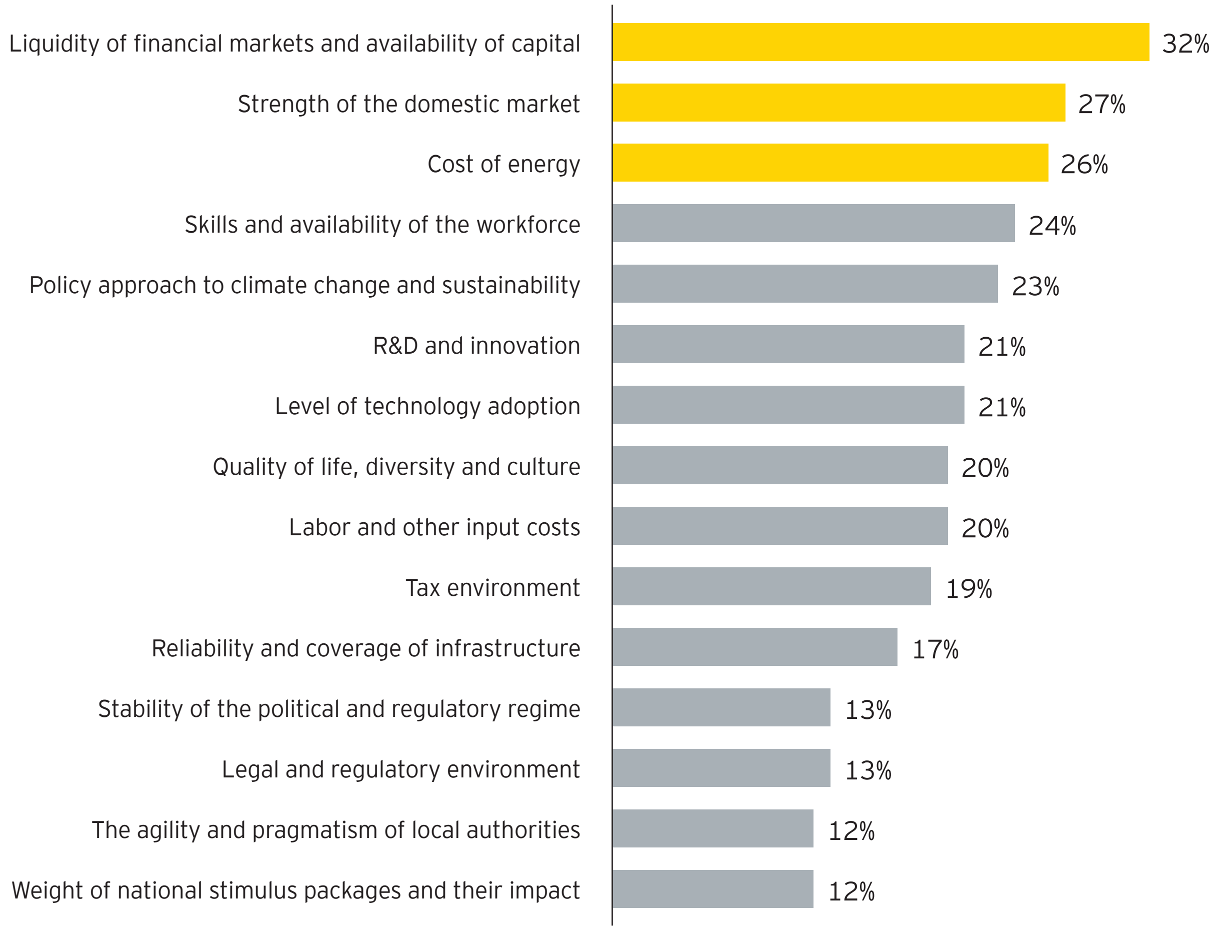
Unfortunately, there has been minimal progress toward a capital markets union in recent years. This should change. The Eurogroup has made recommendations to **advance the capital markets union in the next five years** that include developing an EU securitization market, improving capital markets supervision with an updated rulebook and reducing regulatory burdens.

> "The EU has many competitive strengths, notably our single market, one of the largest integrated market areas in the world. A key component of enhancing European competitiveness is making tangible progress on the capital markets union (CMU). We now have a common vision among EU finance ministers for how to get the CMU where we want it to be. We need to ensure that European companies can access the financing to grow, innovate and realize their full potential in Europe and not be forced to look for funding opportunities elsewhere. The major challenges ahead of us, the green and digital transitions, require a much stronger role for private capital as public funding alone will not be sufficient. We need to facilitate private investment, and, make better use of savings in Europe, so we can fund Europe's future and maintain our key economic role in the world.

Paschal Donohoe
Eurogroup President, Chairperson of the Board of Governors, Minister for Public Expenditure, National Development Plan Delivery and Reform

Figure 7

Which factors are the most important when choosing a country to invest in? Up to three answers only



Source: *Europe Attractiveness Survey*, June 2024 (total respondents: 500 surveyed between 29 January and 1 March 2024).

“

A diversified, efficient and sustainable supply chain is key in addressing patients’ and healthcare systems’ needs. Europe, with its strong research and manufacturing ecosystem, has the opportunity to position itself at the forefront of innovation – we need a strong single market with transparent, fast and cost-efficient regulatory pathways to make it happen.

Gavin Wood

Vice-Chair and Member of the OMC (MD) – Johnson & Johnson, Company Group Chairman

External viewpoint

Kim Jørgensen

Director General at the European Investment Bank (EIB), and EIB Permanent Representative in Brussels

European policymakers are poised to refocus on competitiveness

The incoming European Commission is set to drive a renewed focus on securing Europe's economic competitiveness. The world has changed – and we need to be much more hard-nosed, at the European level, especially when it comes to fostering our industry and supporting its growth.

The EIB's eight core priorities, as set forth by President Calviño, align closely with the competitiveness agenda. They include accelerating technological innovation, where Europe has major potential and opportunities. Take artificial intelligence (AI) and quantum computing. Europe has lots of academics producing excellent research, and lots of startups with great ideas. But those companies don't have adequate access to the investment they need to scale up – so some move to the US or China. Europe hasn't lost the battle, but we do need to urgently unlock more high-risk investments and translate our R&D into more tangible commercial applications.

Naturally, the key priority for the EIB remains the consolidation of our role as Europe's climate bank, which includes supporting crucial investments in sustainable energy and in particular clean tech. The EU still has the edge when it comes to the nexus between tech and climate. Today, there is a real opportunity for Europe to continue to maintain its lead on wind energy. Yet banks have struggled with what they see as high-risk projects – so the EIB is offering €5 billion of counter-guarantees to unlock investment and support wind energy equipment manufacturing companies. Another area of high interest is, of course, to support and reinforce the grid infrastructure in Europe.

A strong CMU is needed

There is increasingly widespread recognition of businesses' concerns about the cumulative burden of rules and regulations. We need greater standardization and streamlining. That is why progress in creating a genuine capital markets union is essential. Europe has large capital markets, but they are fragmented, making it difficult for companies to finance innovation and growth. The US does this much better. As Europe focuses on competitiveness, better access to finance should be a priority.

This is particularly important for small and medium-sized companies and for the scale-ups. If we can't ease the burden on those companies, if we do not facilitate ample access to capital for growth, we will not see new champions emerging in the EU.

That warrants adequate regulation, which needs to be managed carefully – business also prizes stability – but the benefits will be substantial.

In parallel with legal changes, the EIB can pioneer innovative instruments to build the Capital Markets Union, as it has successfully done through Green Bonds since 2007 and more recently – in 2023 – through digital bonds.

06 Unify to respond rapidly to global trade wars

Executives believe that political risks could undermine Europe's attractiveness in the next three years. They rank "political instability in Europe (including upcoming elections, populism and polarization)" as the equal second-biggest threat to Europe's attractiveness alongside concerns about volatile energy prices. In parallel, businesses rank geopolitical tension and conflicts as the fifth-greatest threat to Europe's attractiveness.

Major geopolitical events in recent years have highlighted the interdependencies among geopolitical rivals, whether it be Europe's reliance on Russian gas or the US's extensive use of chips manufactured in China. As a result, many countries have launched initiatives aimed at de-risking global interdependencies.

European policymakers need to be aware that there are trade-offs between derisking from countries such as China, achieving net-zero targets and restoring economic competitiveness. For example, restricting imports of clean technology from China will reduce economic dependence, but potentially raise prices and therefore slow the rate of energy transition.

As geopolitical and global trade tensions intensify, European policymakers need to be equipped to respond rapidly and decisively. And to do so, individual Member States must be aligned on key areas. Which industries need to be protected? Which countries represent a strategy threat? The attractiveness of individual Member States relies on the attractiveness of the entire continent

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European policymakers face a trilemma: do they improve competitiveness, pursue the energy transition, or reduce economic dependency on other countries? They are trying to do all of these at the same time, but in the short term that's not possible, meaning something will have to give.

Famke Krumbmüller
EY EMEIA Leader, Geostrategic Business Group

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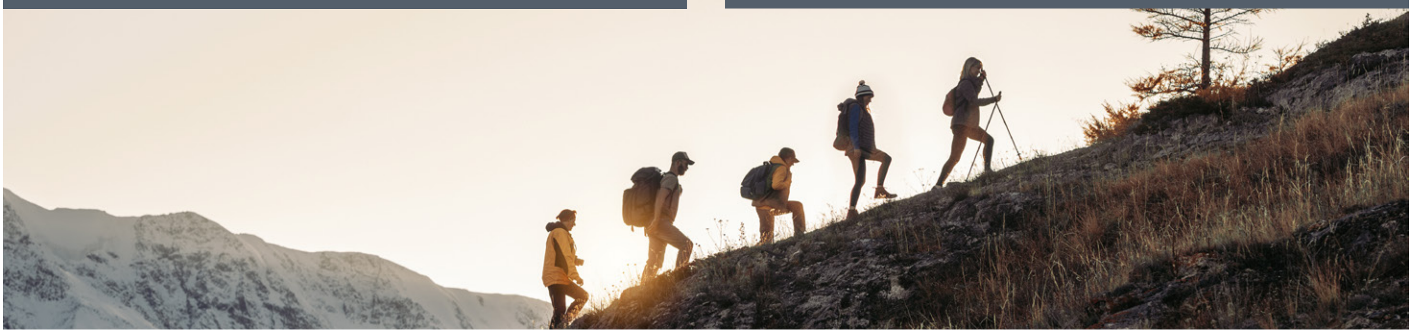
When disruption was less frequent, Europe could afford to take its time debating how to respond to an external shock or an interventionist approach in a competing market. Not now. It must now respond much faster, and this requires more of a united approach. The days of fragmentation and long negotiation must be over.

Marek Rozkrut
EY EU & CESA Chief Economist; Head of EMEIA Economists Unit



External viewpoint

Susan Danger
CEO, American Chamber of Commerce to the European Union

Europe must remove the roadblocks to Europe's attractiveness for investment

The three of the main issues impacting Europe's attractiveness to US businesses are regulatory burden, protectionist trends and a skills shortage. Many organisations want to invest here but cannot commit for these reasons. To address US investors' concerns, EU policymakers must prioritize an agenda that promotes a competitive, sustainable and digital Single Market, a strong and resilient Europe on the international scene and an equitable and democratic Europe.

Appropriate regulation to boost innovation

When it comes to regulatory burden, we need the EU to ensure better harmonisation across Member States to counter uncertainty and enable innovation. One example that springs to mind is the Carbon Border Adjustment Mechanism (CBAM), which is of great concern to our members. Permitting also needs to speed up – one of the most frequent comments I hear from potential investors is how long it takes to get a permit, especially compared to parts of the US.

For sustainability and digital policies in particular, the EU should assess regulations based on their impact on competitiveness. Europe makes some funding opportunities available, but many businesses perceive that they are relatively complex and difficult to access. Initiatives should strengthen the business case for decarbonization and address the effect on competitiveness vis-à-vis countries that have lower standards.

Partnership, not protectionism

And then, we have protectionism. On the positive side, there is a feeling that Europe has a greater sense of unity than it had before COVID-19 and the war in Ukraine. But at the same time, many countries are questioning the benefits of trade and looking after their own backyards. To continue drawing foreign investment, the EU should commit to an open, multilateral and rules-based system as well as to working with partners like the US that share our values in key strategic areas.

Opportunities to thrive

Finally, Europe now recognises it needs to act to fix the broken jobs pipeline. Part of that commitment must include addressing the mismatch between the skills that workers have and the skills that companies need – especially in the digital and sustainability sectors – as well as ensuring that Europe's diverse communities have equal access to the resources that help them live healthfully and thrive economically

If the public and private sector can work together to maintain the EU's competitiveness, Europe can sell itself better at home and abroad by telling a more positive story about its attractiveness to businesses.

Maintain

Europe's performance is seen as advanced on sustainability, skills and infrastructure: Policymakers should take action to maintain its leading position.

07 Focus on the economic benefits of sustainability

Countries' approach to sustainability can help them secure investment: Businesses rank "countries' policy approach to climate change" as the fifth most important factor influencing where they invest. When assessing potential locations, businesses look at:

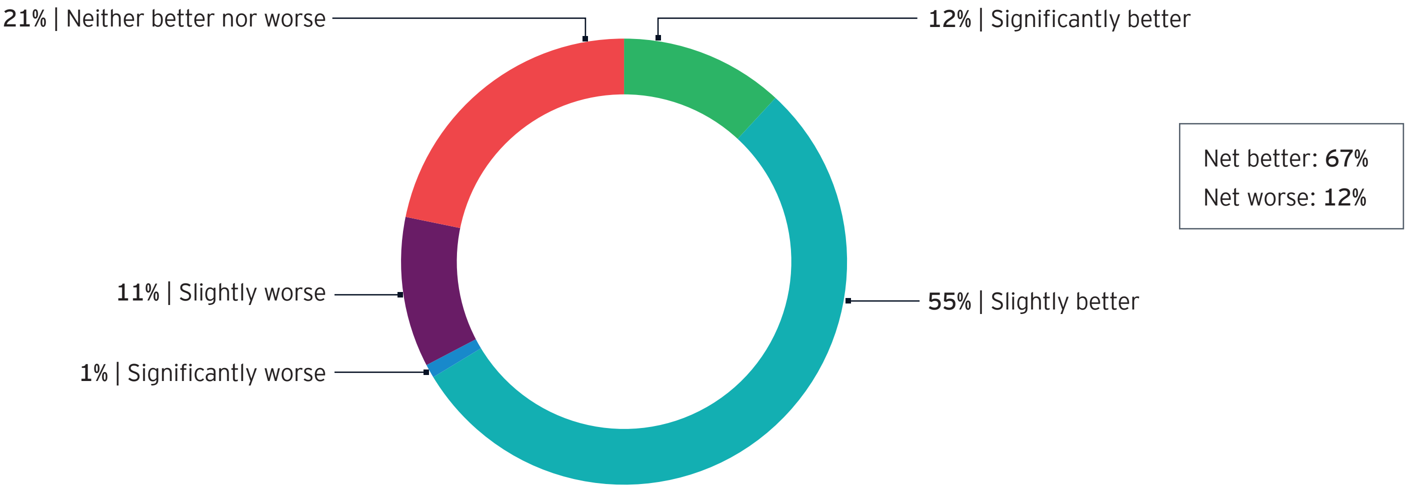
- The percentage of renewables in the electricity supply
- The ecosystem of innovative, cleantech and sustainability businesses
- Workforce, skills and competencies needed for sustainability projects

Europe is already a sustainability leader: 67% of executives say that Europe is better than other regions at helping its businesses achieve their sustainability plans. Within Europe, businesses say that Switzerland, France and Germany are best equipped to do this.

Europe is also one of the most attractive regions for renewable energy investment. The **EY Renewable Energy Country Attractiveness Index** finds that six of the 10 most attractive countries for renewables investment are in Europe, and Germany and France are the most attractive.

Figure 8

As an investment destination, is Europe better or worse than other regions at helping your business achieve its sustainability plans?



Source: *Europe Attractiveness Survey,* June 2024 (total respondents: 500 surveyed between 29 January and 1 March 2024).

Businesses want Europe to sustain its momentum in this area. They rank "encouraging environmental policies and attitudes" as the sixth most important way to improve Europe's attractiveness.

How can policymakers retain Europe's status as a sustainability leader?

- **Release funding for sustainability projects.** Just 42% of surveyed executives say that Europe outperforms other regions on the level of funding for sustainability projects.
- **Balance environmental regulation with ease of doing business.** Policymakers will need to be careful that any new regulation does not stifle business activity and impede Europe's other strategic ambitions.

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Any implementation of new regulation brings additional burden and cost, but the EU has clearly forecasted what they believe the costs are associated with legislation such as CSRD and others. The compliance process also brings huge benefits. It drives collaboration between senior executives that were previously isolated, and encourages them to think about the risks and opportunities associated with climate change.

Dr. Matthew J. Bell
EY Global Climate Change and Sustainability Services Leader

08 Boost workforce productivity and promote Europe's critical skills

The presence of a highly skilled workforce is a major factor that determines where businesses locate operations. When businesses that are planning to invest in Europe this year were asked about their motivations for doing so, "access skills" ranked second, following "reduce costs." In addition, investors ranked "skills and availability of the workforce" fourth in a list of 15 potentially important factors to consider when choosing where to invest.

Europe already performs well on this measure. For example, 62% say that Europe outperforms competitors in relation to the availability of technology skills such as scientists, engineers and data analysts.

Europe's comparative strength in this area explains why improving skills ranked last when businesses were asked where policymakers should concentrate in order to maintain its competitive position in the global economy.

But there is no room for complacency. Reports by the **European Centre for the Development of Vocational Training** and the **European Labour Authority** show that there are shortages of specific skills in the health care, software, construction, hospitality and engineering sectors.

The EU has commenced various initiatives to plug future skills gaps. Its **Pact for Skills** provides organizations in the private and public sectors with resources to navigate green and digital transitions, while the **Skills and Talent Mobility package** aims to facilitate the mobility of highly skilled workers within and into the EU.

The EU must maintain momentum with these initiatives. It is also vital that policymakers, businesses and academic institutions continue to collaborate to identify the types of skills that businesses need in the future.

09 Balance tax competitiveness and revenue growth

European governments face a challenging balancing act as they attempt to raise revenue for increased expenditure while maintaining competitive tax rates.

Although tax is one of many factors that influence where businesses locate their operations, authorities need to avoid draconian measures that could harm Europe's attractiveness. Indeed, 32% executives surveyed cite the pragmatism and flexibility of the tax authorities as one of the most important tax-related factors when choosing where to invest.

Europe's introduction of the 15% **global minimum tax** on companies with more than €750 million in revenue will inevitably see jurisdictions vie with one another to find new ways of offering tax breaks to attract companies.

Countries such as Ireland, Luxembourg and Switzerland, which historically had lower rates of corporation tax, are signed up to the new rate, but the position of other major economies, such as the US, is less clear, giving them a potential edge – particularly if a Trump administration opts out.

Although the revenue implications of the global minimum tax structure still hang in the balance, experts expect the reforms to shift tax competition between jurisdictions to credits, grants and subsidies, after the OECD confirmed last year that it will provide more favorable treatment for certain tax credits such as those contained in the US's Inflation Reduction Act.

> "There has been a huge volume of expenditure on COVID-19 and Ukraine, which will necessitate a more cautious budgetary approach. We need to get the balance right though, because it is also essential to fuel growth. We should not take measures that negatively impact growth.

Jean-Pierre Lieb
EY EMEIA Tax Policy and Controversy Leader

Conclusion

The recent decline in FDI in Europe, coupled with the targeted intervention in competing countries, creates impetus for policymakers to act to restore Europe's competitiveness and attractiveness. The survey data indicates that focusing on the nine areas outlined in this report would help. Success requires collaboration between European countries and between politicians and business. The spirit of urgency and unity that was demonstrated in response to the two most recent crises – the COVID-19 pandemic and the war in Ukraine – must be harnessed to restore Europe's competitiveness on the world stage.

Methodology

The European Investment Monitor

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

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

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

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

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

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

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

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

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

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

The perception survey

We explore Europe's perceived attractiveness via an online survey of international decision-makers. Field research was conducted by Longitude in February and March 2024, based on a representative panel of 500 respondents, which are determined on the most recently available FDI data (2022). The survey thus aims to get a representative sample of investors into Europe, by geography, industry grouping and size of company. We define the attractiveness of a location as a combination of image, investor confidence, and the perception of a country's or area's ability to provide the most competitive benefits for FDI.

Additional sources

- European Commission, OCO, OECD, World Bank, IMF, United Nations Conference on Trade and Development, Financial Times, JLL

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- **Paschal Donohoe,** Eurogroup President, Chairperson of the Board of Governors, Minister for Public Expenditure, National Development Plan Delivery and Reform
- **Kim Jørgensen**, Director General of the European Investment Bank (EIB), and EIB Permanent Representative to the EU Institutions in Brussels
- **Benedikt Kuttenkeuler**, Head of Government Affairs EU, Siemens
- **Edvinas Kerza,** ScaleWolf Managing Partner and Lithuania's former Vice-Minister of National Defense
- **Gavin Wood**, Vice-Chair and Member of the OMC (MD) – Johnson & Johnson, Company Group Chairman

For more information, please visit: **ey.com/attractiveness** **#EYAttract**

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