



INVESTORS' AGENDA OF PRIORITY POINTS

The 2011 Investors' Agenda of Priority Points

**Doing what works to stimulate
innovation and flexibility**

INTRODUCTION AND EXECUTIVE SUMMARY

The Netherlands economy contracted sharply during the crisis but began to recover slowly from mid 2009. As economic growth strengthens, the new government coming in after the June 2010 elections has been confronted with the task of consolidating public finances without putting the recovery at risk. The most crucial longer-term challenges are to secure fiscal sustainability and raise potential growth. Improving the attractiveness of the country for the foreign investor is important in meeting these challenges.

This year's Priority Points has taken into account the limited room the new government has to maneuver - given the considerable financial cuts that are necessary to ensure the nation's financial stability and the constraints imposed by the nature of the coalition itself. For example, the limited room to ease termination laws - a measure supported by both government partners CDA and VVD but not by a sufficient number of other political parties.

While continuing to stress the need to relax termination laws, we see flexibility can be significantly improved by increased employability. AmCham encourages measures to increase diversity, the participation and acceptance of elderly employees and emphasizes the need for policy to encourage individuals to work on their own employability. Policy need not focus on termination legislation if we can build flexibility and employability into the nation's citizens by formal and business in-house education. Increased employability can be an avenue to the flexibility business needs.

Innovation - the key to meeting all national and global challenges - needs investment in education as well as entrepreneurial encouragement to stimulate the creative solutions to the complex problems we are all faced with.

On the tax front AmCham sees the recent introduction of the innovation box as an excellent initiative that only needs a bit of fine tuning to work optimally for research-based investment. We also continue to stress the need for longer term stability and predictability in tax legislation.

The Priority Points

Stimulate labor flexibility through increased employability in the Netherlands:

Prevent long-term unemployment by incentivizing job-seeking.

Tackle demographic ageing and the growing dependency ratio.

Stimulate skills for the future.

Innovation stimulation in the Netherlands:

Invest more in education, talents and skills.

Ensure that the conditions for businesses are conducive for innovation - less red tape and sufficient tax and other incentives for small innovative companies.

Tax measures:

Maintain and enhance the innovation box

Ensure stability, consistency, predictability and simplicity in tax legislation.

Simplify the existing interest deduction limitation rules to increase clarity among the business community.

Have tax losses carried forward indefinitely.

LABOR FLEXIBILITY THROUGH INCREASED EMPLOYABILITY

The knowledge and skills that people possess directly influence their life chances - *employers look to employ ability*. There is overwhelming evidence that better qualified individuals are, the stronger their chances of living longer healthier lives and/or contributing productively in a well-paid job.

The relationship between the education and training system and the labor market, the changing demand for skills, and the routes and careers that people chart through an increasingly complicated labor market increasingly occupy the attention of public employment policy-makers. The 2010 general election made it clear that a new government - of whatever political color - would be faced with a range of pressing policy issues on all fronts. However, the changing demands for skills, the need to increase productivity and to reduce expenditure on welfare mean that policies relating to employment and skills will be among the most important.

Priorities

- a. **Prevent long-term unemployment by incentivizing job-seeking.**
- b. **Tackle demographic ageing and the growing dependency ratio.**
- c. **Stimulate skills for the future.**

Explanatory Remarks

Prevent long-term unemployment by incentivizing job-seeking.

The Netherlands has the lowest rate of both general unemployment as well as youth unemployment in the EU. However, low rates of economic growth and uncertainty in product markets are likely to produce relatively low hiring rates among employers. Many employers - thanks to temporary benefit measures - held on to staff during the recession and will be able to respond to the forthcoming upturn with little need to turn to the labor market. Efficiency and equity require that such vacancies as do emerge are filled quickly and that access to them is reasonably well shared out among jobseekers. Public policy needs to ensure that people do not become locked into long-term unemployment and inactivity. Incentives must be maintained for newly unemployed to pursue active and effective job hunts, with the objective of securing speedy return-to-work, supplemented by:

- providing more help with employability and vocational skills, such as literacy, IT and customer service skills as well as an aptitude for work, as unemployment spells lengthen;
- increasing the conditionality and liabilities for benefit sanctions among longer term unemployed to ensure that they take the opportunities that present themselves.
- Neighborhoods of persistent inactivity and unemployment (among certain ethnic groups, for example) are targeted, which may also require intervention on the demand side (through job creation programs or subsidies for employers).

Much policy debate focuses on the institutional arrangements for active labor market policies (should they have a national or local focus? how far should they be outsourced to the private or voluntary sectors? etc.). International evidence, however, suggests that these arrangements are not as important as:

- Appropriate incentive structures for those managing and delivering the return-to-work programs for workless groups. Recent evidence has shown that poorly designed performance incentives can lead to providers 'creaming' the easiest-to-place candidates.

- A greater degree of flexibility and individualization in the support packages offered. A one-size-fits-all approach rarely meets the needs of the diverse range of people in unemployment.

Any policies on offer to reduce long-term unemployment must be tested against the above two criteria.

Tackle demographic ageing and the growing dependency ratio.

In 1980, children in the EU outnumbered pensioners by 36 million, but now the total European Union population contains six million more over-65s than under-14s.

As the age at which young people leave fulltime education or training increases, so working lifetimes need to be extended to contain the rising cost burden placed on prime-age taxpayers, and ensure there are enough people to meet expected future demand for workers. This means that:

- Legislation or other mechanisms are needed to encourage employers to train - and hire – older people;
- Further and higher education funding may need to change, and flexible part time provision increased, to allow and encourage older people to acquire new skills;
- Pensions and taxation arrangements need to become more flexible to accommodate people drawing income from multiple sources;

Stimulate skills for the future.

Many new jobs and skills will be required as industry and services evolve and recover over the next 10 years. While the supply of university graduates in many disciplines may exceed the quantity of jobs available, there is likely to be a rising demand for technicians in IT, in manufacturing, in maintenance services, in health services across a range of sectors driven by:

- Growing technological complexity – driving up skill levels across the production sectors;
- The growing attention given to higher value-added product market strategies – accentuating the need for higher skills at intermediate level;
- Changing skill mix in some professions, including public and professional services.

Furthermore, high levels of customer service skills are likely to attract a growing premium in the labor market, as employers seek competitive advantage. There will be a continuing demand for personal service occupations, in particular care assistants, as demographics and female participation in the labor market continue to increase demand for caring services for both younger (particularly preschool) and older age groups. The level of service that carers have to offer will continue to rise with advances in assisted living for the elderly, and increasing attention paid to the impact of early years childcare on life chances. Growing skill demands will not be confined to frontline paid carers. With public expenditure likely to be under continual pressure over the next decade, the management of care services will require continual innovation, careful financial management and persistent commitment to providing a high quality service.

Potential employees at all ages and training providers alike need access to effective information, advice and guidance to ensure supply is available to meet these and other emerging areas of demand for employment and skills.

To absorb and develop learning skills it is essential that language and cognitive abilities are in place before schooling begins at the primary level. Pre-school and summer school participation needs to be encouraged - even made mandatory - for children lacking these basic requirements due to shortcomings in a home situation.

STIMULATING INNOVATION - IMPLEMENT WHAT WORKS!

Innovation is becoming a sound bite - it is increasingly being taken for granted as something which will just continue to happen. However, not only does innovation drive the economy, it influences the very quality of our day-to-day life. It is the only way to meet all of our national and global challenges. But real innovation - along the lines of the development of the web browser, the mobile phone, the first PC - needs decades of institutional push and resources behind them to develop. The Netherlands - and the EU - must not become too shortsighted and more risk averse when it comes to developing broad strokes in new technology. In the past 10-20 years there has been a depletion of the resources behind engineering, technology and science - in Europe and in North America. These areas of study have been denied the sufficient and necessary nutrients to thrive - to plant the seeds that are needed for breakthrough innovative developments.

Priorities

- a. **Invest more in education, talents and skills.**
- b. **Ensure that the conditions for businesses are conducive for innovation- less red tape and sufficient tax and other incentives for small innovative companies.**

Explanatory Remarks

Present Innovation Environment

There is a movement from national to international systems of innovation. Since the 1990s it is fair to say that worldwide, the largest part of worldwide economic growth has been associated with the acceleration in the diffusion of technological change and worldwide access to knowledge as opposed to individual countries' domestic efforts in research and knowledge accumulation. The low-hanging fruit of problem-solving has been plucked (discoveries and product development in a garage are becoming folklore) and the remaining modern challenges are so complex, they can, in large part, only be solved by a group effort. Teams working toward innovation not only require talent, but also a genuine blend of cognitive diversity - members with different backgrounds, varying life experiences, and diverse fields of study. Only through this kind of collaboration - porous exchanges of ideas not harnessed by non-disclosure clauses - can larger, global problems be divided and conquered.

Failure, a willingness to fail and the ability to learn from failure are an absolute critical part of innovation. Nobody wants to fail, but we need to be willing to take that plunge - and self-analyze to learn from our failures. The way to be innovative is by failing more. If not given the opportunity to fall short of new goals, engineers and thinkers will be incapable of setting their sights high. Luckily for the entrepreneurially-minded, Silicon Valley is a forgiving place, and those with great ideas are often given credit just for stretching and broadening new notions into the marketplace. What distinguishes Silicon Valley - and on a much smaller scale YES!Delft - is not how they deal with successes but how they deal with constructive failure. In the Netherlands and much of Europe what is lacking is a culture of constructive failure - the ability to take your experience and cash in on it as an asset and start again. Too often the business culture is one of: *fail and you're finished*. Failure is the secret sauce of successful industry clusters like Silicon Valley.

AmCham Netherlands encourages the following policy developments for innovation stimulation in the Netherlands:

Invest more in education, talents and skills.

Aim for excellent universities with excellent research infrastructures. Encourage and finance more applied research and ensure that incentives work. Academics should be rewarded not only on the number of research publications but also the quality of teaching and their eventual entrepreneurship capabilities. Encourage academics to pursue a part of their income with an entrepreneurial activity in the real world. Support more incubator initiatives like YES!Delft within institutions of higher learning. Encourage students to pursue internships abroad. Teachers in primary and secondary schools should have more of their remuneration based on their teaching qualities. Reward a good teacher - it pays off!¹

Ensure that the conditions for businesses are conducive for innovation- less red tape and sufficient tax and other incentives for small innovative companies.

Business cannot operate in a vacuum. The national and supranational (EU) entrepreneurial ecosystem matters - the capital markets, patent laws (the single EU patent), labor and tax regulations, etc. Selecting key industry areas on which to focus economic and innovation policy is merely backing the winners of today and should be avoided. *We cannot know in which sectors the country will be earning its keep in 10-15 years time.*

The role of government is to create *non-discriminatory generic policy* that is supportive of anyone with an innovative idea and entrepreneurial talent. They may be existing companies but also may be manufacturing or service enterprises that have still to see the light of day. Care should be made that any innovation subsidies goes to those that need them - small innovative startups and younger companies that demonstrably need the funding - and not to projects of established companies where the R&D investment would have taken place anyway. Bankruptcy laws should be sufficiently supportive of new innovative businesses failing and encouraged to start again. Knowledge immigrants are essential to promote the needed cognitive diversity within successful innovation teams. A reduction of red tape and ensuring sufficient tax incentives for innovation and promoting a competitive capital market are what is needed for the country to develop the comparative advantages and skills it needs to ensure its future prosperity.

¹ The size of the association between use of performance-related pay and student achievement is about one quarter of a standard deviation on the math and reading tests and about 15 percent of a standard deviation on the science test. Source: Woessmann, Ludger: Cross-Country Evidence on Teacher Performance Pay, August 2010; CESifo Working Paper 3151: <http://www.cesifo-group.de/portal/pls/portal/docs/1/1185332.PDF>

TAXATION - CONSISTENT, PREDICTABLE & SIMPLE

When making international location choices, a country's tax climate is a crucial element for foreign investors. AmCham believes that one of the most important factors in making the Netherlands a location of choice is for the Dutch tax system to be consistent, predictable and simple. There have, however, been several changes to the Dutch Corporate Income Tax Act in recent years and there are certain proposed changes to the rules for taxation of group interest that have created a level of uncertainty about the future tax system in the Netherlands. The attractiveness of the Netherlands as an international location of choice is, in the view of the AmCham, improved through implementation of the following priorities.

Priorities

- a. **Maintain and enhance the Innovation Box.**
- b. **Ensure stability, consistency, predictability and simplicity in tax legislation.**
- c. **Simplify the existing interest deduction limitation rules to increase clarity among the business community.**
- d. **Have tax losses carried forward indefinitely**

Explanatory Remarks

Maintain and enhance the Innovation Box

AmCham would like to compliment the Dutch government on its efforts to establish and further improve the innovation box (and its predecessor the patent box). Since 2007, the provision has become more and more attractive.

AmCham believes that the objective of stimulating innovative activities in the Netherlands can be further promoted by extending the benefits of the innovation box to companies that carry out research and development activities for the account of others (so-called contract R&D). One mechanism to achieve this could be the introduction of a research and development credit, which can be off-set against the corporate income tax. Other European countries have successfully introduced comparable rules. Their examples and experience may be used to successfully introduce such measure in the Netherlands

Ensure stability, consistency, predictability and simplicity in tax legislation

The recent amendments to the participation exemption and the innovation box although very positive, are only the beginning of the positive news required to continue to attract the business community to the Netherlands. Unfortunately, there have been several changes to the Dutch Corporate Income Tax Act in recent years (notably regarding restrictions on interest deductions) and certain proposed changes regarding taxation of group interest that have created uncertainty about the tax system and about the positions taken by the Dutch Revenue in individual cases. This may have a chilling effect on US companies wanting to invest in the Netherlands. Therefore, AmCham urges the Dutch government to refrain from making any further far-reaching amendments in Dutch tax legislation, with the exception of the amendments suggested in this paper. Also AmCham suggests abolishing complicated rules that resulted in significant "red tape", but that have not resulted in relevant additional tax income. An example of such rule is the packaging tax.

Simplify the existing interest deduction limitation rules to increase clarity among the business community

In recent years the Netherlands has created complicated detailed interest deduction rules, addressing various factual situations where it was considered appropriate to disallow the deduction of interest expenses. Although the AmCham is not opposed to rules limiting the deductibility of excessive interest expenses, AmCham believes that new rules, based on the following principles, should result in a stable and simple regime that is attractive for foreign corporations:

- third party interest should always be deductible;
- acquisitions from third parties should not be covered by a limitation on the deductibility of interest;
- the limitation on the deductibility of interest should only apply to interest on intra-group loans to the extent the debt-to-equity ratio of 3:1 is exceeded; and,
- eliminate the unnecessary duplication and complexity in the thin cap rules in relation to acquisitions (the "Goodwill Gap").

Given the significant adverse consequences for U.S. investors in the Netherlands and AmCham's concern about the negative reactions from foreign jurisdictions in relation to an interest box regime, AmCham strongly believes that an interest box should not be reconsidered.

Have tax losses carried forward indefinitely

The indefinite loss carry forward combined with the three year carry-back rule has been an attractive feature of the Dutch tax system for many years. In light of the current economic climate, reinstating the ability for a loss carry forward to be applied for an indefinite period would create much needed certainty in these unpredictable times.

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 involved in investment 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. American direct investment in the Netherlands amounts to over \$470 billion (source: US Department of Commerce, 2009). American companies directly employ about 225,000 people in this country. Indirectly another 250,000 more jobs are dependant on US investment here - increasingly in knowledge intensive businesses.

AmCham is concerned with matters affecting the investment climate in the Netherlands. We actively promote increased US investment in the country. We make sure that potential investors understand the well-known advantages of the Netherlands, which should be built upon:

- The Gateway to Europe with Schiphol Airport and the Ports of Rotterdam and Amsterdam;
- A workforce with impressive language skills, trained at excellent schools and universities;
- A stable and safe political, economic, labor relations, taxation and monetary environment..

Annually we publish our *Investors' Agenda of Priority Points* – policy suggestions and initiatives to make the country more attractive to (foreign) investors. We seek open dialogue and debate regarding the Priority Points with political parties, social partners and Government.