

American Chamber of Commerce
in the Netherlands

Investors' Agenda of Priority Points 2015



Executive Summary
Study Investment Climate

Introduction

Each year, the American Chamber of Commerce in the Netherlands (AmCham) publishes the Investors' Agenda of Priority Points. The Priority Points are AmCham's program to increase entrepreneurial activity and foreign investment in the Netherlands. They are the key to AmCham's ongoing dialogue with government, employer organizations, legislators and other stakeholders. The issues raised are based on a recent AmCham study and have been distilled from concerns expressed by our members - business leaders and practitioners who are faced with investment challenges on a daily basis. The solutions proposed are born out of maximizing the economic benefit to business and society as a whole - more investment, more labor participation and enhancement of productive capacity.

The Investment Climate in the Netherlands

AmCham Study, March 2015

Before presenting the executive summary of the 2015 Investors' Agenda of Priority Points, AmCham would like to share the summary of its recent study on the Investment Climate in the Netherlands. This study presents reference material for some of the recommendations in the Priority Points 2015.

AmCham's study has shown that it seems that the Dutch investment climate is becoming less favorable as compared to other EU countries, especially the UK. The growth of global investment into the Netherlands is slowing down faster as compared to other EU countries. Furthermore, the UK is receiving relatively more US investment at the expense of the Netherlands since 2010. Competitiveness of the Netherlands is strong, but is decreasing, and this is partly due

to decreasing corporate tax rates in the UK and Germany.

AmCham's study has further found that the Netherlands has been attracting fewer US headquarters than the UK recently.

A survey by the World Economic Forum reflects that restrictive labor regulations and government bureaucracy are perceived to be the most problematic factors for doing business in the Netherlands. Employment by US companies in the Netherlands is still growing, however, this raises the question whether the reduction in newly set up headquarters and investments will later be reflected in lost jobs.

AmCham would like to recognize and thank the Amsterdam office of Bain & Company for their valuable analysis that helped make this study possible.

Executive Summary of the Investors' Agenda of Priority Points 2015

An Attractive Fiscal Investment Climate

Stability, consistency and predictability of the business tax regime are paramount factors for the Dutch investment climate. The Dutch business tax regime is one of the key policy tools available to the Dutch government to create jobs and foster sustainable growth of the Dutch economy. The Netherlands is well placed to be the preferred jurisdiction for today's global multinationals, that work on the technology of tomorrow, to support the future Dutch economy. However, the Dutch investment climate is vulnerable to competition from neighboring countries; other countries have copied the most attractive elements of the Dutch corporate tax regime. The Netherlands intrinsically still ranks as one of the most attractive jurisdictions for international investors, but improvements are necessary to keep on par with tax regimes in the rest of the world. Once the erosion of the pillars of the Dutch business tax regime has been halted, the Dutch government should focus on continued, enhanced competitiveness. This may be done by abolishing the withholding tax on dividends for tax treaty resident shareholders that hold a qualifying interest, review (budget neutral) opportunities to improve the indirect taxation of goods and services distributed via the Netherlands, or by eliminating the limited nine year net operating loss carryforward period, and reductions of the Dutch corporation tax rate in order to keep up with the downward momentum set by neighboring countries.

A Skilled, Flexible and Active Workforce

AmCham supports increasing flexibility and agility in the labor market by easing employment

protection. Furthermore, it is important to achieve a better fit of skill-sets of employees; continued learning forms an important part hereof. AmCham recommends to engage in social dialogue and offer (fiscal) stimulation to encourage different career path expectations, allow flexibility to tailor employee benefits and opportunities to maintain the employability and motivation of the workforce.

A Competitive Industry

Increasing regulatory pressure raises operational costs and requires significant investments, which ultimately impacts competitiveness. AmCham recommends to avoid additional, incremental and inefficient requirements for industry when implementing EU directives, related regulations, policies or national legislation; give industry targets, not detailed prescriptions. The Dutch government should play an active role in this respect.

Other Points of Focus: Data Protection, Class Actions, TTIP

AmCham strives to closely monitor developments in data privacy and class actions. Especially the developments regarding the new EU General Data Protection Regulation require special attention in order to avoid implementation of legislation which would adversely affect business and investments in the EU and the U.S.

AmCham further supports the constructive position the Dutch government has taken in the negotiations about the Transatlantic Trade and Investment Partnership (TTIP) which aims to reduce transatlantic barriers to trade and investment.

The full version of the 2015 Investors' Agenda of Priority Points is available on AmCham's website: www.amcham.nl

The Investment Climate in the Netherlands

Key points

- The Dutch investment climate seems to be getting less favorable compared to other EU countries and is feeling increased competition from the UK
- US investments into EU countries, taken as a % of the GDP of the receiving country, show that the UK is receiving relatively more US investments as of 2010 at the expense of the Netherlands
- The Netherlands has been attracting relatively fewer US headquarters than the UK recently
- The US is still the largest contributor to foreign jobs in the Netherlands with an annual growth of 5% between 2008-2012, but it raises the question whether the reduction in newly set up headquarters and investments will later be reflected in lost jobs

Observations

Foreign Direct Investments

The growth of the global inward FDI stock into the Netherlands has stalled out. This FDI stock showed an annual growth of 15% between 1990-2007, while it only showed 1% annual growth between 2008-2013 (Figure 1).

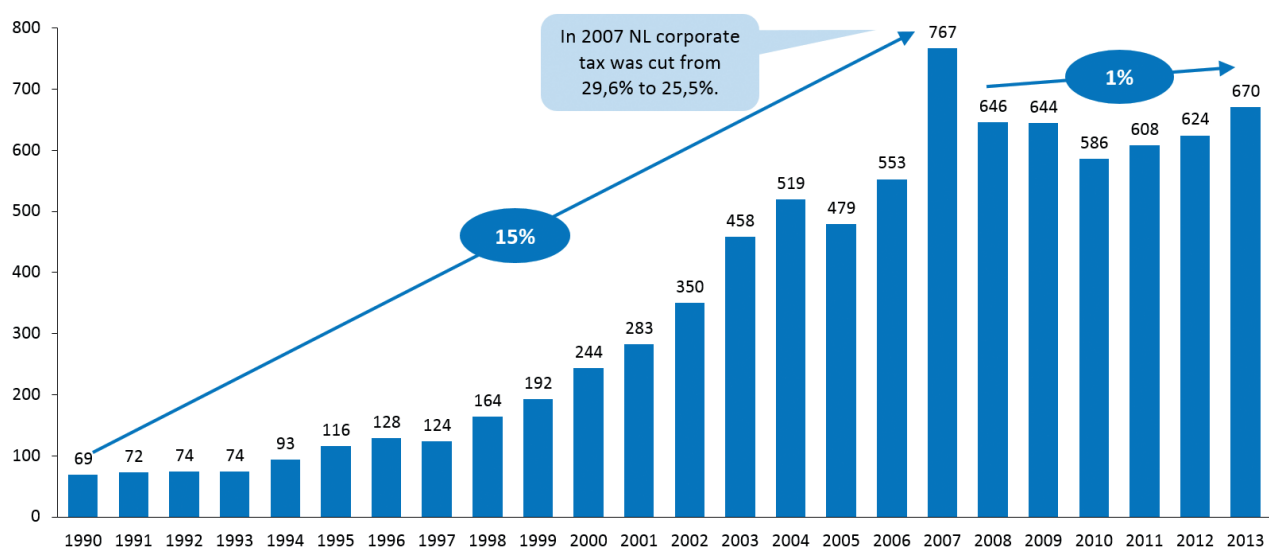
Comparing this global inward FDI stock of the Netherlands with other European countries, which is done by taking it as a % of GDP, shows that the Netherlands is relatively still the largest receiver of FDI stock. This, however, seems to be changing. In the Netherlands there is no growth of the inward FDI stock as a % of GDP between 2003-2012. Competing countries like the UK, Spain, France, and Germany do still show a positive growth in this same

time frame. The UK even shows a higher growth between 2003-2012 than it did between 1993-2003 (Figure 2).

The largest portion of inward FDI stock into the Netherlands is coming from the US, but this share is rapidly declining (from 23% in 2002 to 13% in 2012). There is also no absolute growth of inward FDI stock from the US into the Netherlands. All European countries (except for Slovenia and Greece) do contribute to positive growth of inward FDI stock into the Netherlands.

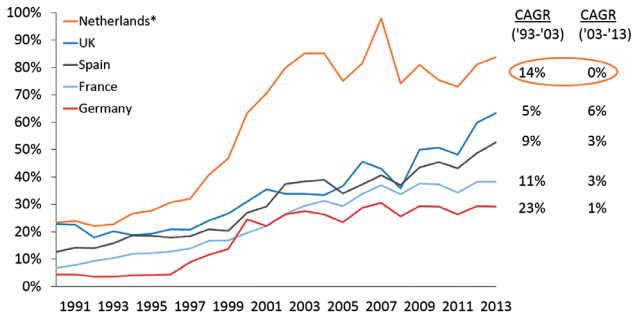
Although the FDI stock from the US into the Netherlands is not showing any growth, there is a stable FDI flow from the US into the EU. There was a peak in this flow in 2007, which was mainly driven by M&A investments into the Netherlands and the UK, and there was a dip during the

Figure 1 Global FDI stock into NL (in \$B)



(Data source: OECD)

2 Global inward FDI stock as a % of GDP

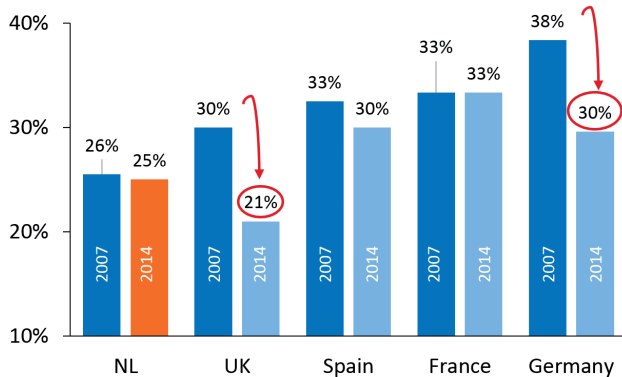


* Countries selected based on the fact that they have >\$500B inward FDI stock, and >\$20B inward FDI flow in 2013

crisis, but overall the FDI flow from the US into the EU is ~\$45B per year. What is striking is that there has been a clear shift in where these investments were going. Looking at the inward FDI stock coming from the US, taken as a % of the GDP of the receiving country, it shows that the UK is receiving relatively more US investments as of 2010 at the expense of the Netherlands (Figure 3).

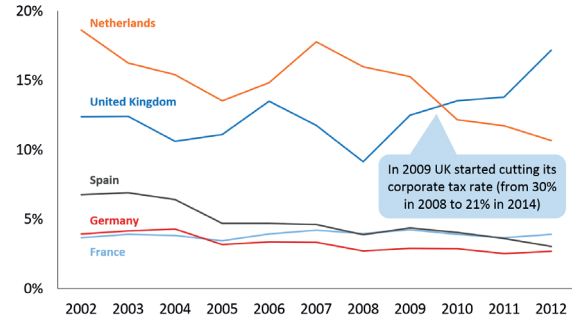
One of the likely drivers of the increased attractiveness of the UK is the fact that the UK started cutting its corporate tax rate in 2009. The UK lowered its tax rate almost on a yearly basis, from 30% in 2007 and 2008 to 21% in 2014 (Figure 4a). A few other possible drivers become apparent from country rankings that also take into account non-tax related topics. A comparison done by the World

4a Corporate Tax



(Data source 4a & 4b: KPMG, World Bank Group)

3 Inward FDI stock from the US as % of receiving country GDP

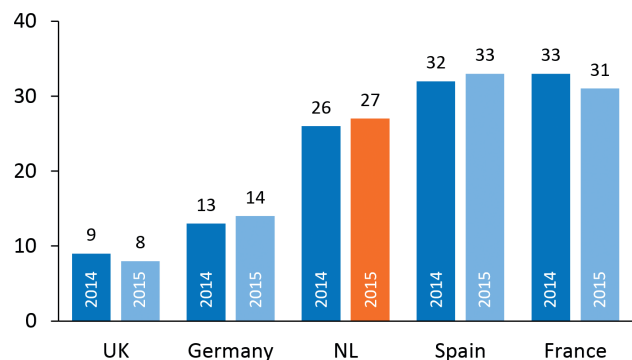


(Data source 2 en 3: OECD)

Bank, called the 'Ease of doing business index', indicates that the UK and Germany are clearly outperforming the Netherlands (Figure 4b). The differences between the UK and the Netherlands were largest when it came to 'dealing with construction permits' and 'getting credit'.

The UK is making large efforts to attract foreign investments. UK Trade & Investment launched a program 'Britain is open for business' in 2011 and upgraded this program in 2014. The program includes a range of tax relief initiatives, favorable patent regulations, a new 10% R&D expenditure credit, a tenfold increase in the annual investment allowance, and joint public and sector investment organizations. In 2012-2013 UK Trade & Investment assisted in 1332 projects which cost the UK government \$1.25M.

4b Ease of doing business index (1 = most business-friendly regulations)



Headquarters

The UK has made a significant effort to attract foreign investments. This is reflected in the number of newly established European headquarters of US origin, which is growing faster in the UK than in the Netherlands (Figure 5a). More broadly, the UK also attracted a relatively large share of the total number of new European headquarters. Although GDP in the UK is ~3 times higher than in the Netherlands, the UK attracted ~5 times as many European headquarters in 2012 (Figure 5b).

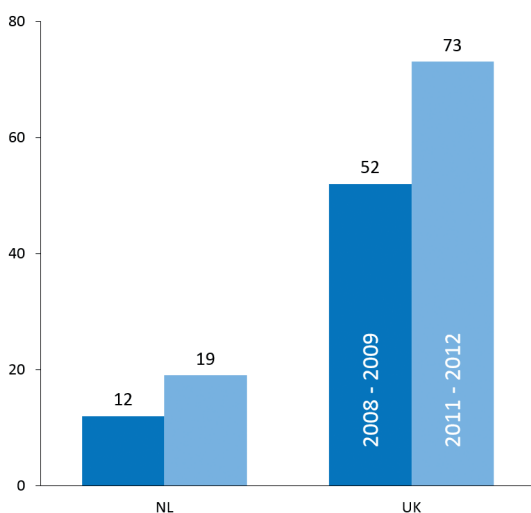
Employment

Unlike Foreign Direct Investments and newly set-up headquarters, foreign employment in the Netherlands is growing rapidly, with an annual growth of 4.1% between 2007-2012. In this period foreign companies had net created 155,000 jobs in the Netherlands, while employment by Dutch companies declined at an annual rate of -1.0%. Foreign employment plays an important role in the Netherlands, not only through direct job creation, but also through the additional jobs that are created to support the large amount of people working at these foreign companies (indirect foreign employment). The factor that links direct to indirect foreign employment is estimated at 0.9 (see appendix B).

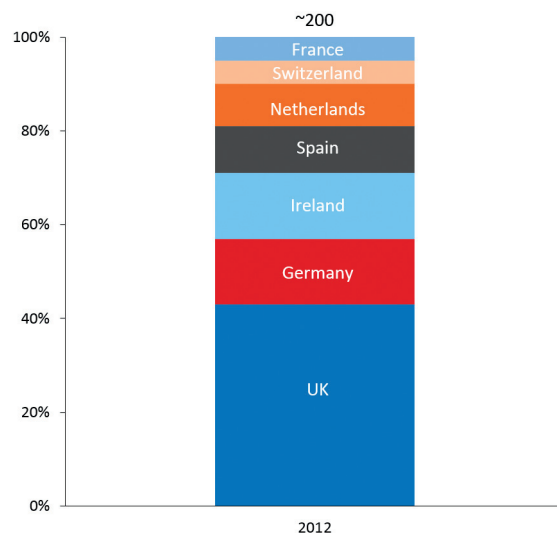
In 2012 there were ~858,000 people employed at foreign companies in the Netherlands, of which 24% was working at US companies. The US is not only the largest contributor to foreign jobs in the Netherlands, it is also the second fastest growing contributor slightly behind the UK (Figure 6a).

When looking at the number of people employed by US companies throughout Europe, the Netherlands is one of the few countries in which this number is still growing. Between 2008-2012 the number of people working at US companies in the Netherlands has shown an annual growth of 5%, while the annual growth in the UK was 0%, and even negative in Germany, France, and Italy (Figure 6b). This strong growth in the Netherlands was however for 72% driven by acquisitions by US companies, which effectively means that these jobs were shifted to being US instead of newly created. For 25% this growth was driven by organic growth of acquisitions by US companies during this period, and the remaining 3% of the growth was driven by US companies that had been US owned throughout the entire period from 2008-2012.

5a Newly set-up European HQs with origin in the US

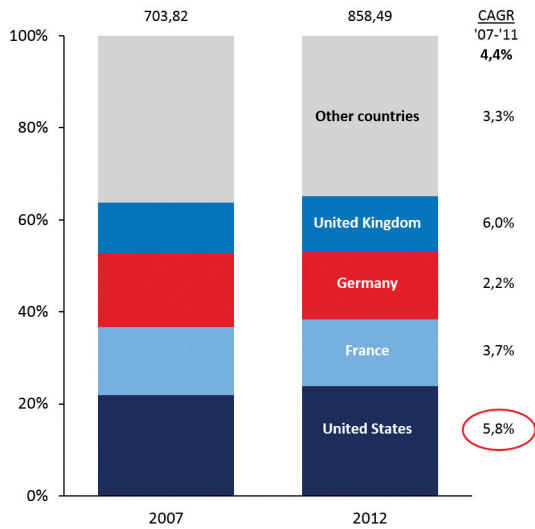


5b Total number of newly set-up European HQs



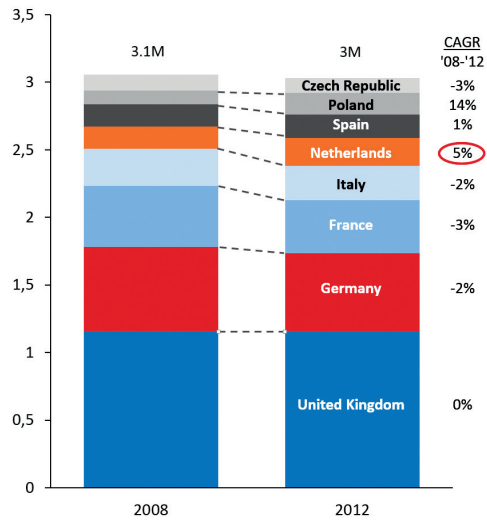
(Data source 5a & 5b: UK Trade and Investment, fDi Markets database)

6a Employment of foreign companies in NL



(Data source 6a & 6b: CBS, Eurostat)

6b People employed by US companies*



* Countries selected that have > 100.000 people employed by US companies

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 flow and FDI stock

FDI flow:

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

FDI stock:

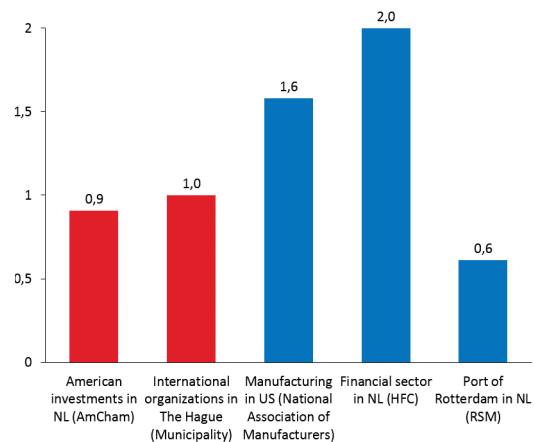
- FDI stock is the stock of investments at a given point in time
- FDI stock also reflects price changes of assets, and changes due to foreign exchange rates

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

Appendix B Indirect foreign employment factor

The indirect foreign employment factor links direct to indirect foreign employment and is estimated at 0.9 in this report.

Estimated indirect employment factor per source



Appendix C - Sources

Topic	Source	Source details / method / definitions
Global FDI stock into NL Global inward FDI stock as a % of GDP	OECD	Most recent FDI statistics for OECD and G20 countries: http://www.oecd.org/investment/statistics.htm Go to excel link "FDI series from 1990 to Q4 2013"
Inward FDI stock into NL by country of origin	OECD	OECD database: http://stats.oecd.org/index.aspx Go to "FDI" and select "FDI positions by partner country", then select the "Netherlands", the "inward" flow direction and currency "US dollars"
FDI flow from US into EU-27	OECD	OECD database (see above) Separately downloaded the inward flow data for each of the EU-27 countries except for Bulgaria, Cyprus, Latvia, Lithuania, Malta, and Romania (This method is the best way to exclude Special Purpose Entities, and is better than the US outward flow to the EU-27 countries)
Inward FDI stock from the US as % of receiving country GDP	OECD	OECD database (see above) Separately downloaded inward flows from US per country and divided by receiving country GDP (also from OECD database)
Ease of doing business index	World Bank	Metric takes into account the following factors: Starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders and enforcing contracts
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 list of factors consists of: Restrictive labor regulations, access to financing, inefficient government bureaucracy, tax rates, insufficient capacity to innovate, tax regulations, inadequately educated workforce, policy instability, poor work ethic in national labor force, inadequately supply of infrastructure, inflation, government instability / coups, foreign currency regulations, crime and theft, corruption, poor public health
Newly set-up European headquarters	UK Trade & Investment	Report: The UK – number one for European headquarters, May 2013
	fDi Markets	Non-public data Newly let-up headquarters: Inward investment projects with HQ operations
Unemployment	CBS	http://statline.cbs.nl/Statweb/ Unemployment: Labor force of people aged 15-65 working less than 12 hours per week
Companies and employment split by Dutch/Foreign and by country	Eurostat	http://ec.europa.eu/eurostat/data/database Jobs: people employed Foreign: companies based in NL controlled by foreign companies

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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