The EU and its Partners:

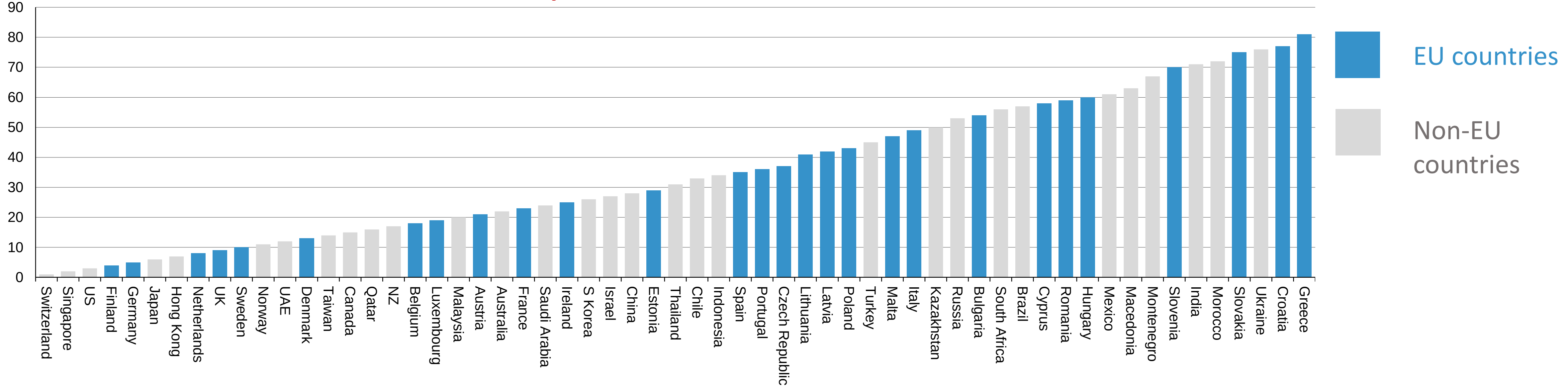
Attracting International Investors

How can the EU work with its partners?

Europe's economic situation remains fragile

- The EU has made progress since the financial crisis, stabilising the Monetary Union and launching the Banking Union.
- Nevertheless, Europe's economic recovery has been subdued.
- One of the key weaknesses has been investment.
- Global surveys of competitiveness show that Europe has fallen back.
- Europe needs to pursue its multi-pronged competitiveness agenda with full force.

Global competitiveness index, 2014 – 2015

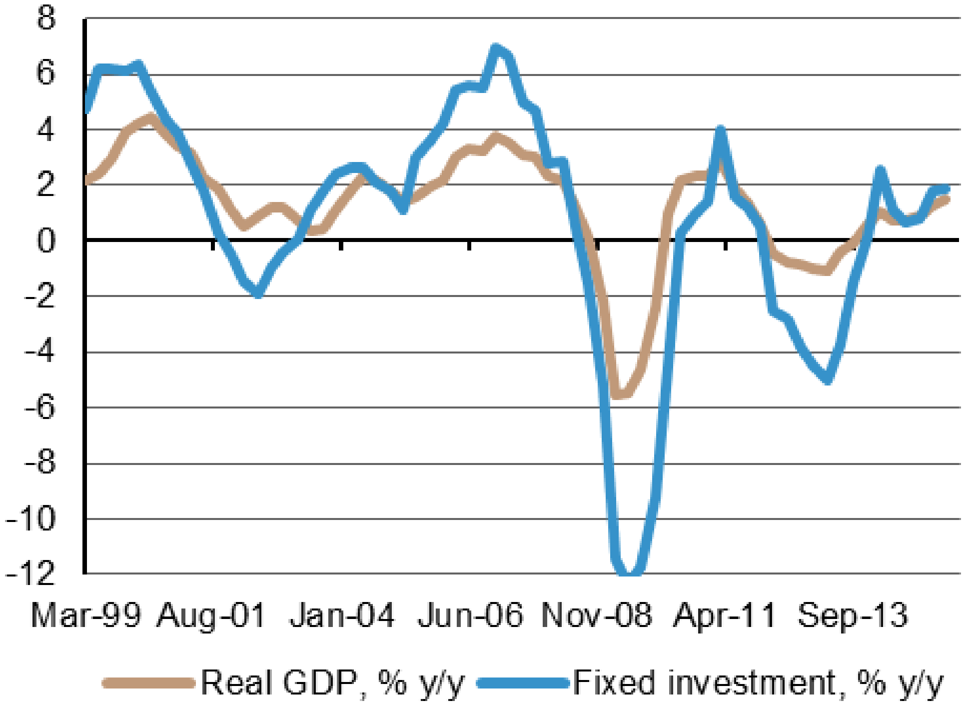


Source: The Global Competitiveness Report 2014-2015, World Economic Forum. Note: Numbers represent ranking in index; the lower the number the higher in the ranking.

Weak investment contributes to Europe's slowdown

- Europe is a low growth area.
- Weak investment is at the heart of Europe's weak growth, both cyclically and structurally.
- Strengthening investment would raise Europe's short-term growth momentum as well as its long-term growth potential.
- But, surveys show that Europe's attractiveness to foreigners needs to improve.
- A lot of work is under way:
    - Structural reform agenda
    - Juncker Plan
    - Capital Markets Union

Euro area investment still subdued



Source: Haver

How can international investors help to boost Europe’s economy?

- Our Discussion Paper examines how international investors can support the growth and jobs agenda and contribute to the Capital Markets Union (CMU).
- Three case studies analyse the needs of three types of international investors: corporate, private and institutional investors:
    1. Case study on how to boost Private Equity and mobilise investment from private investors
    2. Case study on attracting international investors into infrastructure projects
    3. Survey amongst Swiss SMEs considering investment in the EU
- Our Paper shows that there remain important obstacles that prevent international investors from investing in the EU.
- We put forward some case-specific recommendations to boost investment and share ideas for the policy-making process.

CASE STUDY 1 -
Attracting international private investors

- <u>Private Equity</u> markets could play a substantial role in investment funding.
- Private Equity is a source of funding for long-term projects and SMEs which are less likely to attract more traditional forms of investment.
- But, Private Equity is under-developed in Europe (USD 641bn *vs* USD 2,000bn in US):
    - Restrictive regulatory regime (e.g. client classification)
    - Unfavourable tax legislation (withholding taxes, capital gains tax)
    - High hurdles for registration of alternative investment vehicles
    - Cumbersome administrative processes and red tape, not least for <u>private placements</u>
- Recommendations for reform of the Private Equity framework:
    - Review retail client classification in MiFID – it is too wide and hence restrictive
    - Make targeted adjustments to tax systems
    - Harmonise interpretation of the AIFMD passport across the EU (review in 2017)
    - Make a pan-European marketing passport available to non-EU AIFMs
- <u>Mobilising UHNW savings could be very effective</u>:
    - Globally, cash holdings account for more than 25% of total wealth
    - Need for diversification, open to long-term investment and Private Equity

CASE STUDY 2 -
Attracting institutional investors to large infrastructure projects

Novel funding strategies are key

1. Thames Tideway Tunnel (TTT)

- Large project size and long planning horizon made the TTT project unsuitable for PPP.
- TTT project had novel funding structure that combined public and private funding.
- Risk to private investors was limited to industry-standard of smaller projects.

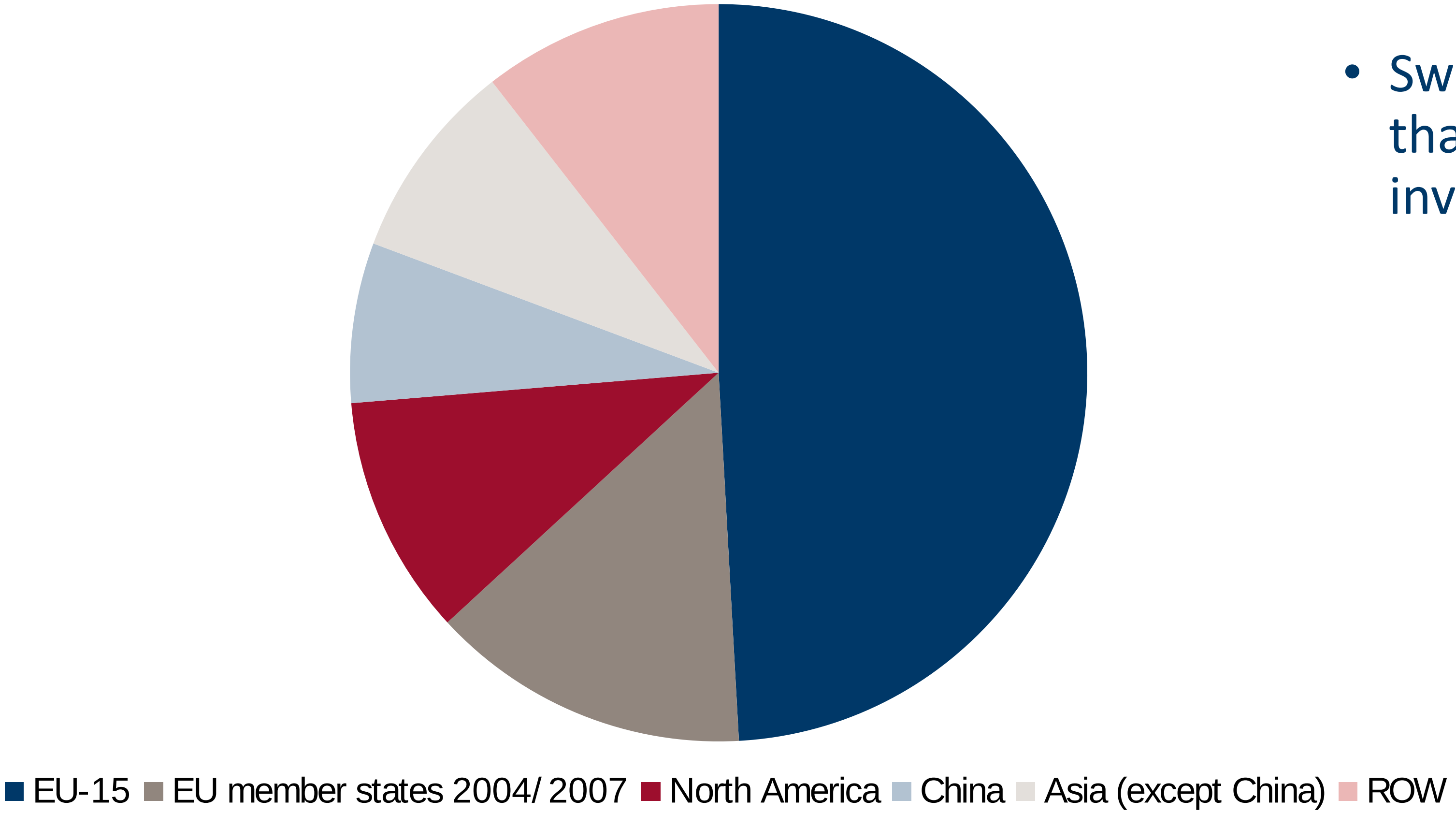
2. Channel Tunnel / High Speed 1 / Eurostar

- Government support/risk control in construction phase, then monetization.
- 30-year concession to two Canadian pension funds.

- **Lessons learned:**
  - Encourage efficient risk-sharing (via contingent guarantees, Project Bonds, LGTTs).
  - Promote increased standardisation (new standardised asset class, standard docs).
  - Enhance comparability and transparency (infrastructure pipeline, risk transparency).
  - Address further legislative and regulatory burdens (Solvency II classification of infrastructure as non-liquid asset class).
  - Create public competence centres and strive towards more efficient procurement processes.
  - Create a transparent and reliable framework for dispute resolution.

CASE STUDY 3 –
Attracting corporate investments: the view of Swiss SMEs

The survey targeted internationally-oriented Swiss SMEs. It shows that SMEs remain very keen to invest in the EU, despite some concerns.



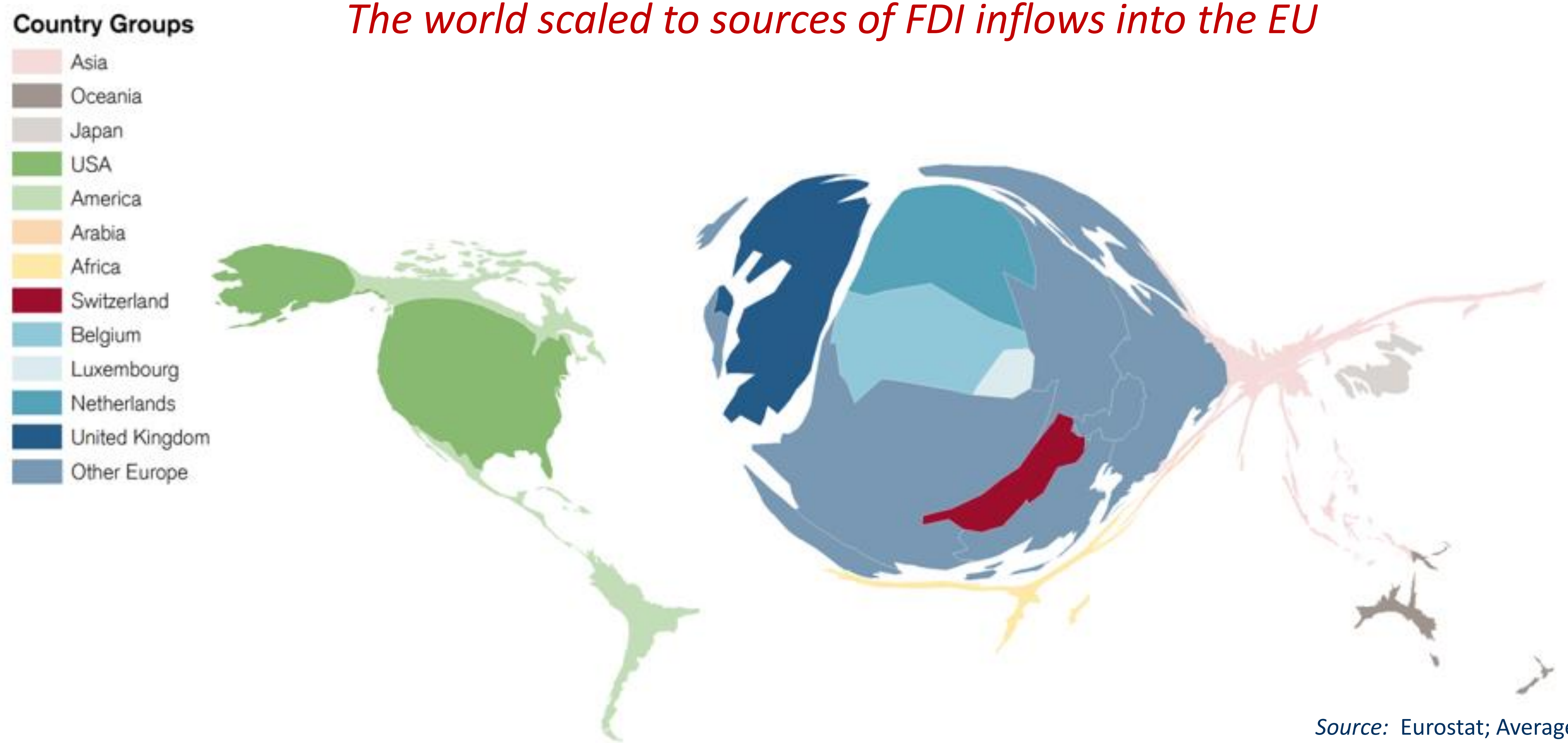
- Swiss SMEs plan to locate more than 50% of their international investments in the EU in 2016

Source: Credit Suisse/S-GE Industry Survey 2015

FDI is a highly desirable form of investment

Total stock Foreign Direct Investment (FDI) in the EU is estimated at EUR 13.7 trn in 2013/2014. Of this Switzerland provided EUR 0.6 trn.

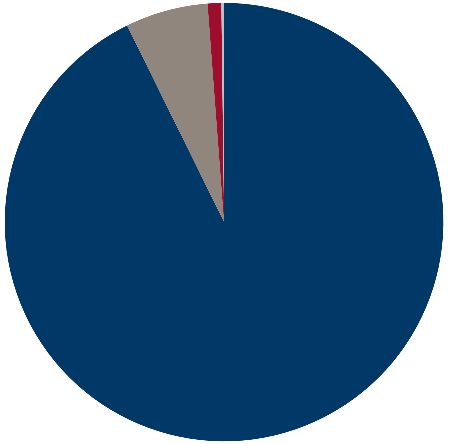
The world scaled to sources of FDI inflows into the EU

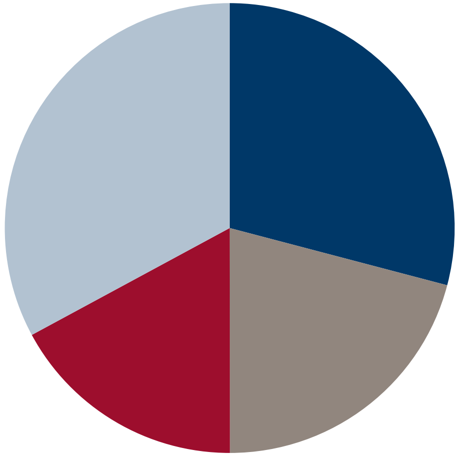


Source: Eurostat; Average 2013-2014

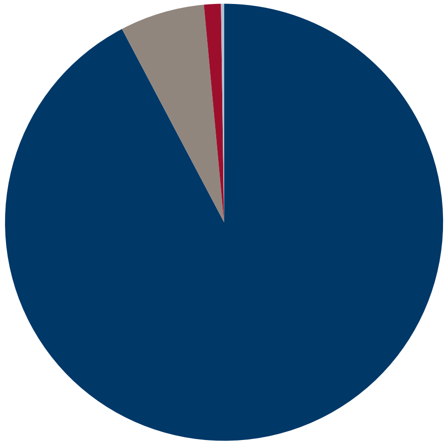
SMEs are the backbone of the EU and Swiss economies

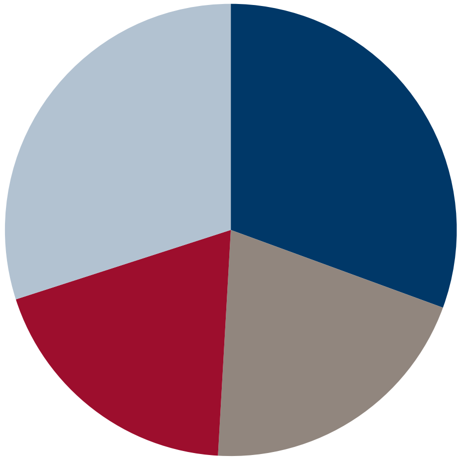
European Union





Switzerland





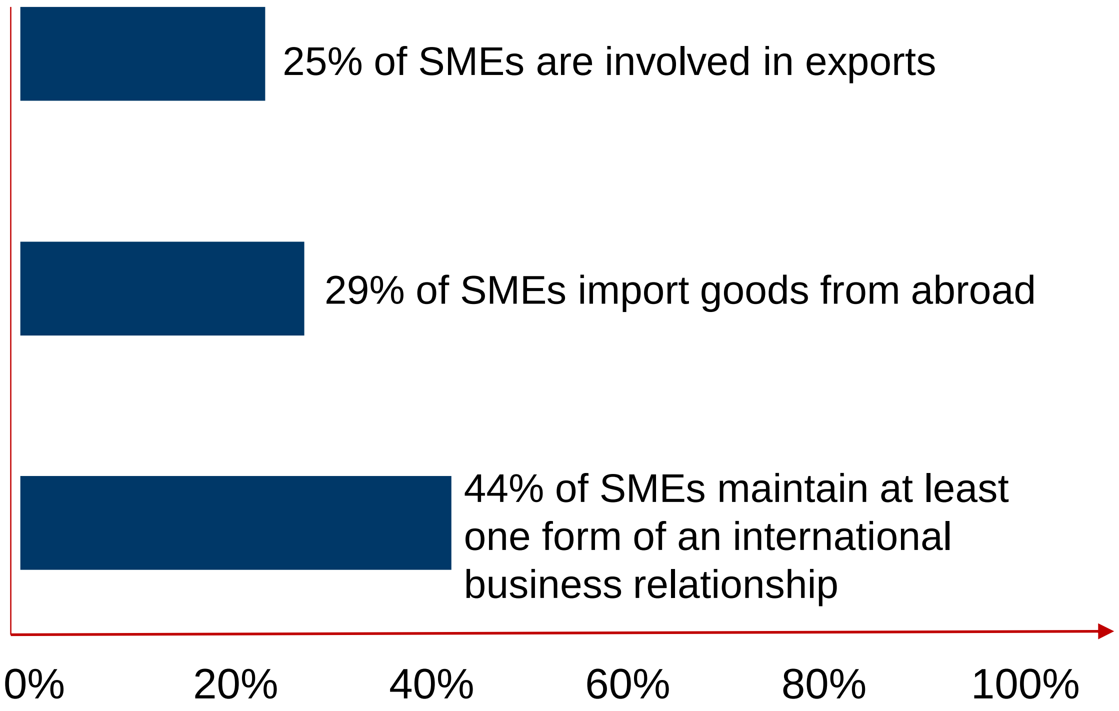
- In both the EU and Switzerland, 99.8% of all enterprises are SMEs

- In the EU and Switzerland, SMEs employ 67% and 70% of all employees respectively

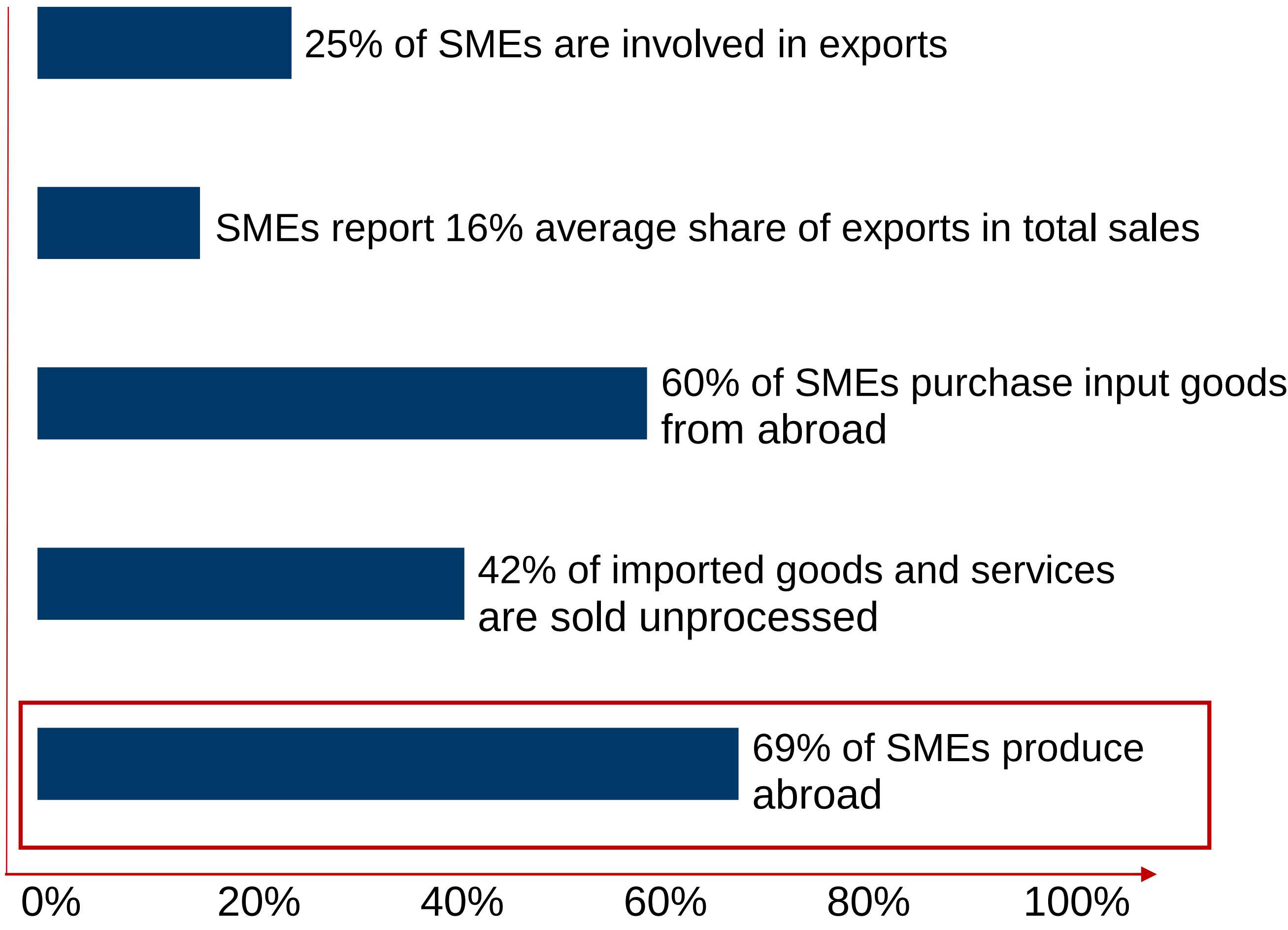
Source: Eurostat, Swiss Federal Statistics

EU and Swiss SMEs are quite international

European Union

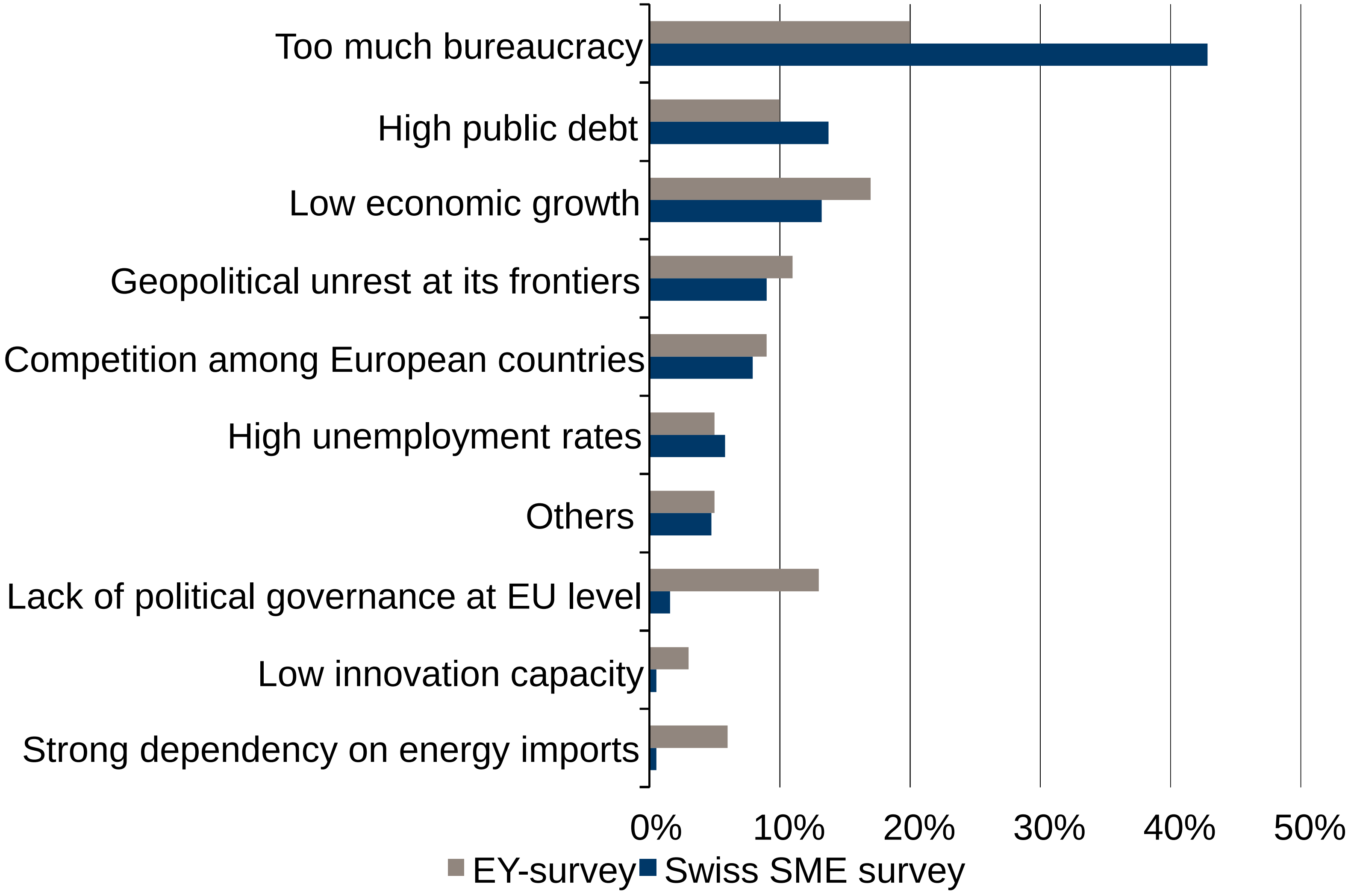


Switzerland



Source: EU survey 2010,, Credit Suisse Industry Survey 2014

The main issues companies see in the EU



- The main concern of Swiss SMEs is ‘red tape’ and too much bureaucracy

Source: Ernst & Young, Credit Suisse/S-GE Industry Survey 2015

Recommendations to improve cross-border investments by (domestic and foreign) SMEs

- Reduce ‘red tape’ within member economies by promoting best practices
  - Our survey shows that less ‘red tape’ would stimulate third-country SME investment.
  - EU should promote best practices based on experiences of Member States and non-EU countries.
- Enhance SME access to finance by promoting the Capital Markets Union and Banking Union implementation and completion
  - Despite the limited use of the capital markets today, a fifth of Swiss SMEs consider a common capital market in the EU a priority.
  - Strong banks can add to the funding sources of SMEs.
- ‘Think Small First’ to foster overall conditions favourable to SME investments
  - SMEs are disproportionally impacted by ill-conceived regulations.
  - Importance of the Commission’s 'Small Business Act‘.
  - In line with the EU Better Regulation Agenda.

Our conclusions: enhance the international dimension of the Capital Markets Union

- Europe can remove important obstacles that prevent international investors from contributing to the success of the CMU.
- Our Discussion Paper develops a number of recommendations that could reinforce the EU's attractiveness to foreign investors.
- **In addition, we encourage the EU to embrace the international dimension in its policy-making, based on the following steps:**
  1. Pursuing an enhanced approach to equivalence determinations for third countries;
  2. Communicating the EU's openness to investment from the outside world;
  3. Championing consistent international standards;
  4. Establishing formal regulatory dialogue with relevant third country authorities.