

MARCH 2007

The European Attractiveness Scoreboard





March 2007 - The European Attractiveness Scoreboard

Europe: A land of dynamic investment opportunities

The European Union is making new headway in being a prime business destination for foreign investors.

Now the world's leading market, Europe saw its market grow to over US\$14 trillion in 2006, putting it in front of the United States, and well ahead of both China and India. Europe's magnetism when it comes to foreign direct investment is strengthened further by its open borders, common euro currency and modern high-speed railways and highways – all of which facilitate the flow of doing business between EU countries.

We, the Invest in France and Invest in Germany agencies, have aligned to promote the dynamic business opportunities available in Europe, with a focus on attracting new foreign investors and a wider international talent pool. Based on joint research efforts conducted over the past year, we are launching an analytical tool entitled the European Attractiveness Scoreboard (EAS). The first initiative of its kind, the EAS benchmarks the EU as a whole against other leading world economies and offers a transparent, top-down perspective designed to help foreign enterprises improve their investment decisions.

We are touring China, Japan and India to meet with opinion leaders in an open discussion about the benefits of doing business in the EU, using the scoreboard to showcase Europe's strengths and efficiencies in the domains of market and business vitality, human resources, research and innovation, infrastructure, administration, costs and taxation, energy and sustainable development, and technology.

When compared on an international scale, the EU stands out in a number of categories. The scoreboard lists Europe as a powerful player in the field of innovation, ranking it a global leader in scientific production and a top contender in world patents. Europe is also at the head of the telecommunications industry. It has the largest market and the highest number of mobile subscribers in the world, and is therefore well positioned for new forms of e-commerce. The EU is equally recognised for its competitive high-tech trade, which is more diversified than trade in the US thanks to its broad range of industrial clusters. A high rate of job creation related to foreign investment projects is another point that demonstrates Europe's attractiveness.

Because of these advantages many international corporations from America and Asia, as well as from a growing number of emerging economies, are already investing in the European market. The EU is also attracting foreign companies with its reputation for generating high-quality products and services, and it will continue on this path to offer investors a unique added-value advantage.

Solid financial institutions and a strong currency – the euro is a key worldwide currency and represents one quarter of central bank reserves according to the International Monetary Fund – as well as a highly skilled workforce, which includes some of the world's most talented scientists, researchers and technology experts, are also drawing investors to Europe.

In addition to being an attractive place to do business, and having overcome its historical differences, the EU today – and notably the relationship formed between France and Germany – can serve as a role model to other nations. Europe is a proven example that it is possible to integrate nations peacefully and, more importantly, that it can lead to a positive economy and political stability.

With a unified strategy in place, the door to the European Union is wide open and ready to welcome new foreign investors into a sophisticated and diverse business environment set for long-term success.

Philippe Favre
French Ambassador
Chairman and CEO
of Invest in France Agency

Dr. Horst Dietz
Managing Director
of Invest in Germany

WHAT IS THE EUROPEAN ATTRACTIVENESS SCOREBOARD?

Europe is the world's largest market, with vast natural, technological and human resources. European countries compete strongly to attract investment that will maximise the potential of these resources. This competition is largely individual, with each government trying to lure investment locally. But France and Germany decided in 2005 to collaborate and sell all of Europe to foreign investors.

There is a strong economic logic to promoting Europe as a whole instead of as a collection of member states. Most countries in the area use the same currency, the euro, and by implication strive to develop and follow monetary and fiscal policies designed to ensure the safety and predictability of their money. But even where the euro is not used, European governments cooperate in other ways to enhance the common business environment. Laws, regulations, tax policies and infrastructure projects all intermingle to modernise the European marketplace.

Europe's business, political and labour leaders understand that the European Union (EU) encompasses 27 countries – five hundred million people – with different needs to be satisfied and resources to offer. Investments that may not be ideally suited for France may find a home in Germany, Italy or one of our partner EU member states in Central Europe. Europe may become a “one stop shop” offering sophisticated investors a wide range of opportunities located in a safe, stable, modern economy. For this reason, and to help investors truly understand the investment potential of Europe, Invest in France and Invest in Germany created the “European Attractiveness Scoreboard”.

The specific purpose of this scoreboard is to demonstrate, using factual, quantitative data collected by international institutions, the true benefits and risks of investing in Europe. We are confident that when Europe's attractiveness is evaluated with hard numbers rather than perceptual surveys conducted on small samples, the new European Attractiveness Scoreboard will demonstrate the advantages of the EU to foreign investors. Prepared to rigorous academic standards, the scoreboard will be a dependable basis for promoting Europe as a business region. It consists of a selection of 56 objective indicators based on internationally recognised statistics. It was designed in collaboration with two of Europe's top business schools, ESCP-EAP European School of Management, Berlin, and HEC School of Management, Paris. Professors Herwig Haase (ESCP-EAP) and Michael Segalla (HEC)



agreed to review the new scoreboard using the highest academic standards to evaluate its objectivity and usefulness as a business tool. Both professors represent institutions that train the best managers in Europe. This offers international investors the assurance that these open, objective, and rigorous standards can be used with confidence.

The following factors, decisive for an international investor, are reviewed in the scoreboard:

- Market and business vitality
- Human resources
- Research and innovation
- Infrastructure
- Administrative environment
- Costs and taxation
- Energy and sustainable development
- Internet and ICT-readiness

The European Attractiveness Scoreboard shows how Europe is positioning itself compared with other leading world economies. Avoiding micro-regional analysis, it analyses the EU as whole and will better serve investors whose affiliates will be supported by the consolidated resources of the combined EU economies. Concentrating on the overall position of Europe helps avoid becoming distracted by individual problems unique to one or more regions within Europe. It helps focus the analysis of investment potential on the factors that are truly important to the success of an international investment. It makes Europe as a whole visible. We believe this visibility will lead to a greater appreciation for the vibrant EU market among international investors, entrepreneurs and corporate executives considering new foreign investments. The European Attractiveness Scoreboard will be produced annually in order to track the development of the European economy.





**The European
Attractiveness
Scoreboard**

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**The European
Attractiveness
Scoreboard**



MARKET AND BUSINESS VITALITY

The EU: market expansion and business vitality

With GDP of over US\$14 trillion in 2006, the EU market is larger than the US market (US\$13 trillion) and far outstrips any other single market. Although its growth rate was modest between 2001 and 2006, it nevertheless added nearly €1.5 trillion to its value. Because the euro increased in value, this expansion amounts to US\$6 trillion. In comparison, the USA added US\$3 trillion, China and India together added US\$2 trillion and Japan added less than US\$0.3 trillion over the same period. Europe is a dynamic market with strong consumer spending, especially in key areas such as passenger cars and personal care items, that exceeds or matches any other market region. The EU is the world leader for exports of goods and services, including in the high tech sphere. Internal flows are even more spectacular: any site located in Europe guarantees access to the whole market.

More firms are listed in Europe than anywhere else, and as many top global companies are based in Europe as in the USA. These firms play a major part in the world market for foreign direct investment, investing in all parts of the world, including Asia, the USA and Eastern Europe.



Market size and market share are among the main investment motivations. The size of Europe's economy is a major factor attracting inward investment. Sophisticated investors know that the EU's economic performance fuels the biggest market in the world. With GDP of US\$14.2 billion in 2006, it is bigger than the US market (US\$13.2 billion). Even the EU-15 (the EU before its recent enlargement) is a larger market than the USA. The euro zone is three-quarters of the size of the US market.

The EU's internal market is highly integrated. A number of barriers have already been eliminated. Languages, regulations and consumer tastes obviously differ from one country to the next. But competitors all play by fair rules.

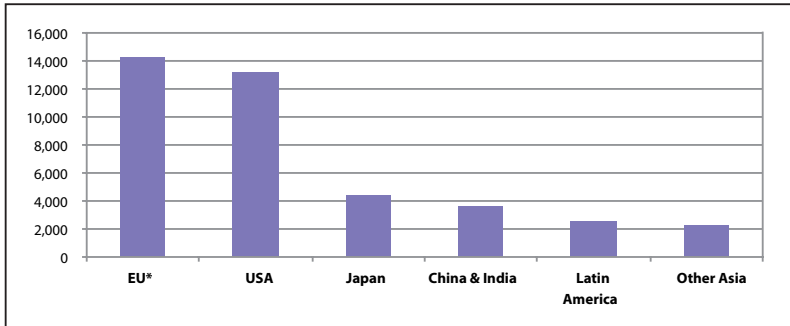
Measuring Europe's national income either by traditional gross national income or by **purchasing power parity** (PPP) clearly shows that the region is the equal to the USA and well ahead of other regions. Computing national income and income per capita with PPP tends to accentuate the income of developing countries since the calculation is based on what US dollars could buy in their markets. Using PPP as a measure places China third in the world economy, after the EU and the USA but ahead of Japan.

International comparisons of **economic growth** also rely on exchange rates. In the last 5 years, Europe was not the growth-centre of the world and the strength of the euro probably depressed some European exports. But the EU market nevertheless added nearly €1.5 trillion to its value between 2001 and 2006. Because the euro increased in value, this expansion amounts to US\$6 trillion. In comparison, the USA added US\$3 trillion, China and India together added US\$2 trillion and Japan added less than US\$0.3 trillion over the same period.

Furthermore, during 2006, when exchange rates played a lesser role on relative expansion, the EU market's value increased slightly more than that of the USA, twice as much as China and four times as much as India.

GDP 2006

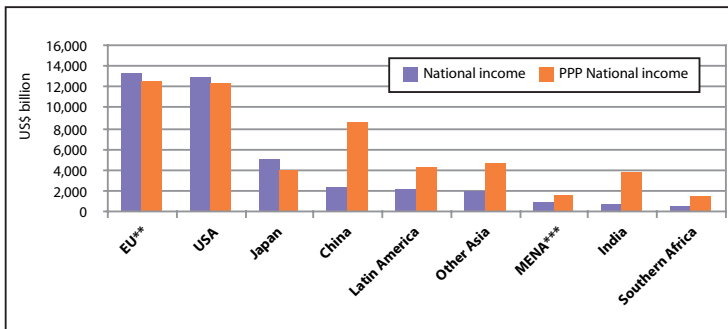
US\$billion



Source: The Economist Intelligence Unit, 2006 estimates derived from IMF and OECD data (Jan-2007). * EU-25

National income

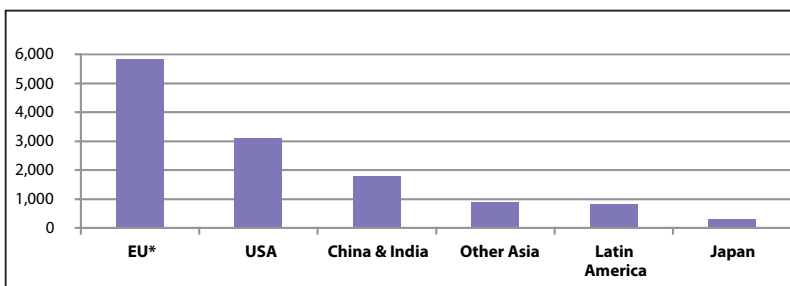
at current and PPP* exchange rates (2005)



* PPP: purchasing power parity ** EU-25 ***Middle-East North Africa.
Source: World Bank, World Development Report 2007

Market expansion 2001-2006

GDP expansion in current US\$billion



Source: The Economist Intelligence Unit database (Jan-2007)* EU-25

When **translated into euros** at current exchange rates, China's market expansion is still impressive, with an increase of €600 billion between 2001 and 2006. The real growth of the Chinese economy was sufficient to compensate for the downward trend in the yuan/euro exchange rate. Nevertheless, the expansion of the two biggest Asian economies – taken together – was significantly outstripped by the performance of the European market, notwithstanding Asia's far greater real growth rate.

Computations in euros show a sharp nominal decline of Japan and the USA among world markets. The only way that the US market could retain some predominance during this period is by running a huge trade deficit.

Europe is a sophisticated market and its consumers are among the wealthiest in the world. Moreover, in many EU countries, **real GDP per capita** is growing faster than in other developed economies. This is particularly the case for the new member states, all of which are engaged in a catch-up process. The diversity of its internal market is one of Europe's specific advantages.

The EU combines therefore a wealthy and mature market in the west with a dynamic market in an emerging economy in the east.

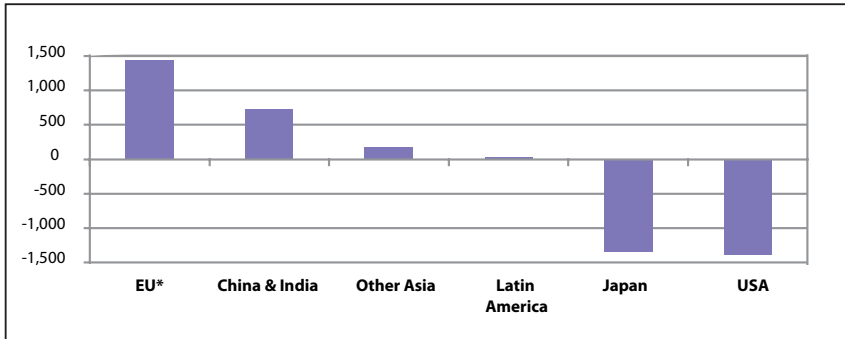
Romania and Bulgaria joined the European Union in January 2007, **increasing its population to 493 million**. This is the world's fifth largest population after China, India, Africa, Latin America and the Caribbean. Moreover, the European Union is linked with neighbouring European countries, such as Switzerland and Norway, through numerous treaties facilitating economic, scientific and personal business relationships.

The European Union has 80 million young people – that is less than in Asian or Latin American countries, but 25% more than in the USA. This youth population should fuel the future growth of the European economy.

The ageing society means that Europeans are living longer, and older people enjoy greater purchasing power in Europe than those in most other regions. As a result, new markets in special health products and care services are springing up.

Market expansion 2001-2006

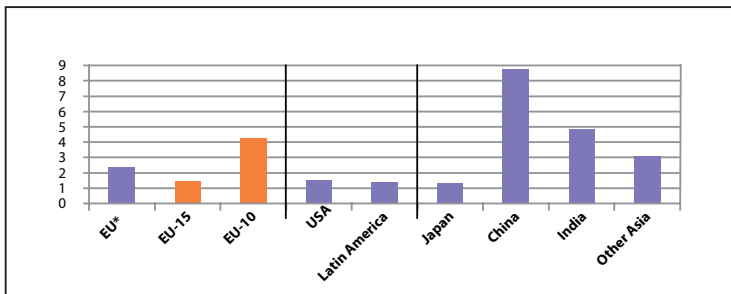
GDP expansion in current € billion



Source: The Economist Intelligence Unit database (Jan-2007)* EU-25

Wealth: Real GDP growth per capita

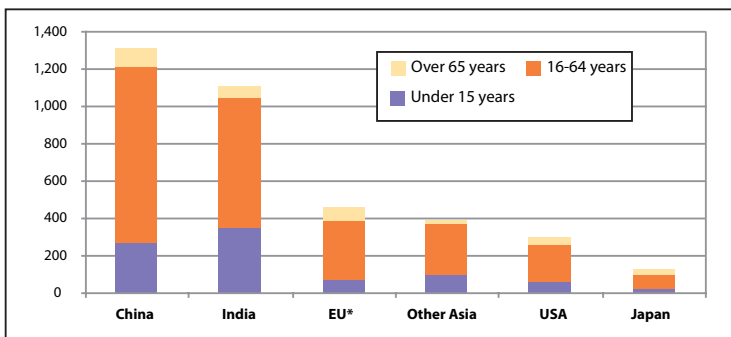
percentage rate on 2001-2005



Sources: Main Economic Indicators April 2006 (OECD), IMD.
*EU-25 -Regional data are averages of percentage changes by country

Population-market size

(2005, million of persons)



Sources: OECD, Eurostat, IMD (national sources) * EU-25

Although the growth of China's car market is particularly impressive, the USA and the European Union are still by far the largest markets and production bases for **passenger cars**. The USA is leading by a narrow margin but only when light trucks and SUVs are included in the data.

The European market is highly competitive and sophisticated. While cheap cars are successful in some parts of the market, many other Europeans value the technical qualities of their vehicles, not just the price. For these reasons, all the world's leading carmakers have manufacturing sites in Europe.

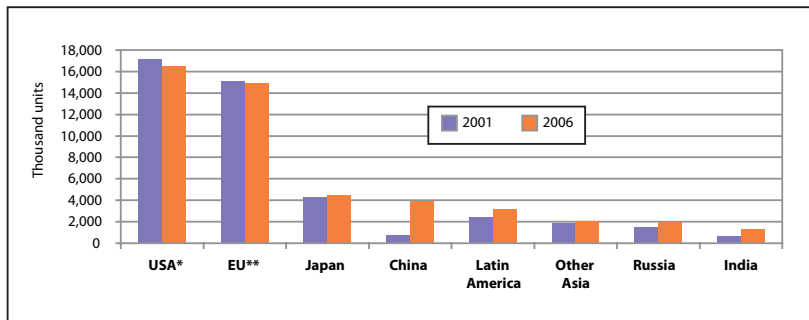
Latin America, Russia and China have experienced the highest growth rates for **cosmetics and toiletries** sales in recent years, owing to higher living standards, urbanisation and greater status-consciousness. But Europe is still by far the world's largest market for personal care industries. Most European markets are mature and competitive, with a taste for new products. Consumers are willing to pay more for higher performance if they also see added value – for example in the markets for anti-ageing or sun-care products.

Europe is also a key innovation and production base for cosmetics, with a long-standing tradition of product quality, sophisticated customer relations, world brands, demanding manufacturers and a reputation for luxury products.

Companies are drawn to emerging economies because of their **rapidly growing** middle-classes. Only this segment of the population can afford products such as cars and luxury goods. Yet most households earning over US\$10,000/p.a. still live in Europe and North America. In 2006, some 95% of European and US households earned more than US\$10,000/p.a. compared with only 2% of Chinese households and 3% of Indian households. Fortunately, these percentages are rising quickly. Furthermore, translated at PPP exchange rates, a US\$10,000 threshold is equivalent to US\$40,000/p.a. in China and to around US\$50,000/p.a. in India.

As it was already observed for total GDP, the purchasing power of Europeans rapidly caught up with US nominal income between 2000 and 2007, due to euro strength.

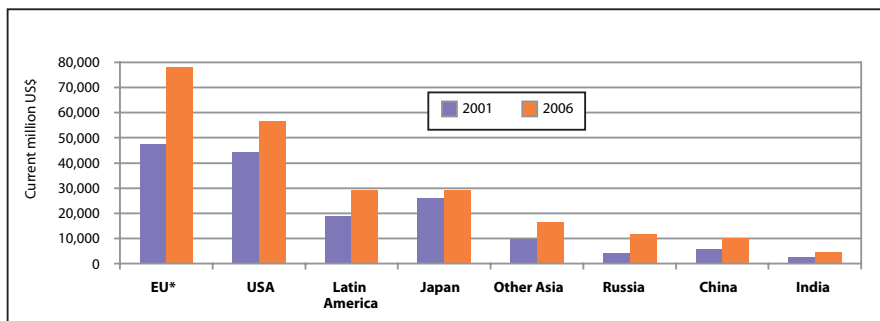
New passenger car registrations



Source: The Economist Intelligence Unit database (Jan-2007)* EU-25

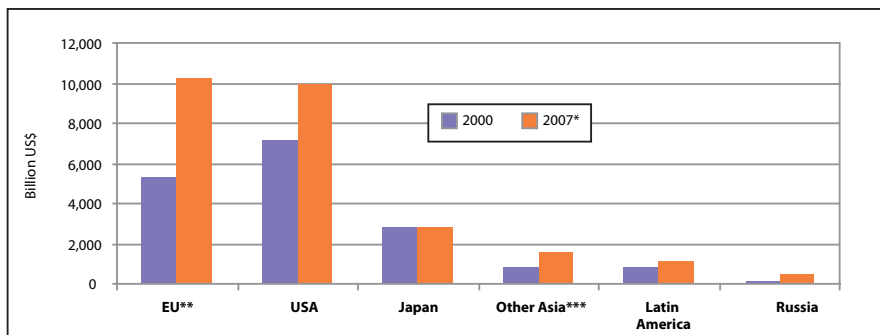
* USA : data includes light trucks and sport utility vehicles

Cosmetics and toiletries, sales value



Source: The Economist Intelligence Unit, Online database (Jan-2007) *EU-25

Total income of households earning > US\$10,000 p.a.



* 2007: EIU forecast

EU: EU-25, Norway, Switzerland * Other Asia: including, China, India, Korea

Source: The Economist Intelligence Unit, Market indicators and forecasts Online database

The European Union is the **world's largest exporter of goods and services**. In 2005, its exports totalled US\$1.8 trillion, far ahead of the USA (US\$1.25 trillion), China (US\$850 billion) and Japan (US\$700 billion).

Furthermore, the value of trade between EU member states is twice as high as extra-EU trade, thus reflecting the extent to which the internal market is now integrated.

This is further evidence that a base in any of the member states gives easy access to the whole European market and beyond.

The volume of **high-tech trade** (including exports of aerospace products, electronics, pharmaceuticals and chemicals) is very similar in the USA and in the EU.

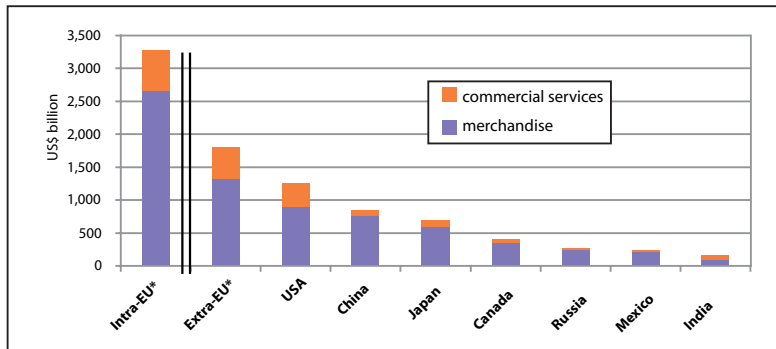
However, the structure of trade in the EU is much more diversified than that of the USA, because Europe has a large number of industrial clusters. Those clusters are well-known for their spill-over effects, thus attracting even more investors.

Nevertheless, the high-tech market is fiercely competitive and highly challenging. Therefore, the presence of international companies in Europe market is an advantage. Almost all the world's top high-tech firms have research facilities in Europe.

European global companies compare well with their US counterparts. This fact is not widely known because "Team Europe" is usually considered in light of its 27 individual players. This similarity explains why the EU and the USA are one another's biggest trade and investment partners.

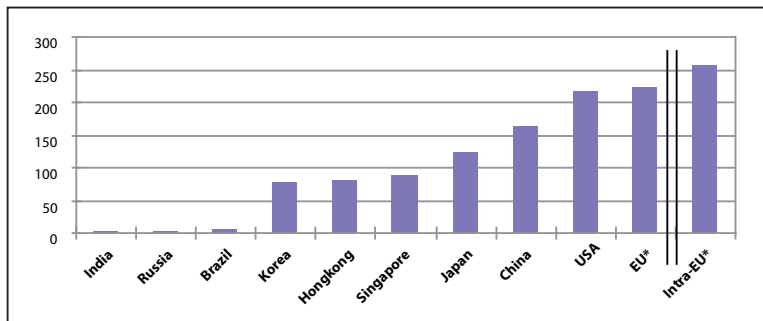
Most "transnational corporations" – as defined by UNCTAD – are European. This is further testimony to European market integration. European firms not only trade in their neighbourhoods; they easily create and develop affiliates there. This provides a sound basis for developing their exports farther afield to Asia and America.

Leading exporters (2005)



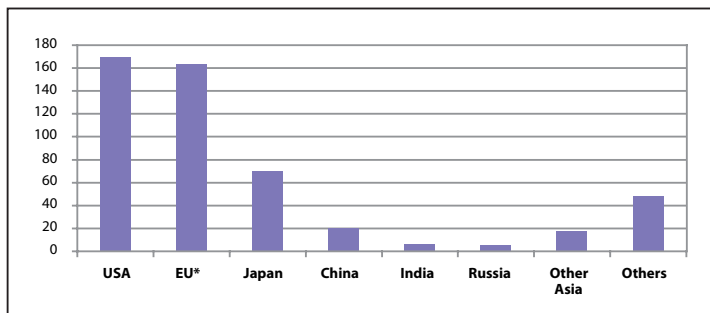
Source: WTO, International trade statistics 2006 *EU-25

High-technology exports in billion US\$(2004)



Source: Eurostat, World Bank: World Development Indicators 2006 *EU-25

Top 500 global companies ranked by revenue, sorted by country (2006)



Source: 2006 Fortune Global 500 *EU-25

China has become a major competitor of both the USA and Europe for **foreign direct investments** (FDI). This competition exists at a continental level and is not merely a challenge for each individual EU member state. However, each member state has comparative advantages for FDI - either in a specific range of products or in specific business functions. The emergence of China as a powerful economy also provides European firms with many opportunities. Japan is not as open to foreign projects as the EU and the USA despite all its recent efforts.

During the last three years, intra-EU inflows of FDI have increased tremendously because of the rapid pace of European integration and enlargement. Those flows are not taken into account when comparing the EU with the USA since US interstate investment flows are not recorded in balance of payments statistics (despite keen competition between federal states).

Europe is a vibrant market, where numerous **foreign investment projects** get underway every year. The huge number of reported new jobs created by “footloose” (mobile) inward investment proves Europe’s attractiveness for both foreign and intra-European investors. However, and as expected, there are more intra-European projects than non-European inward investments (56% versus 44%). This resulting impact on jobs is consistent with the market values of FDI.

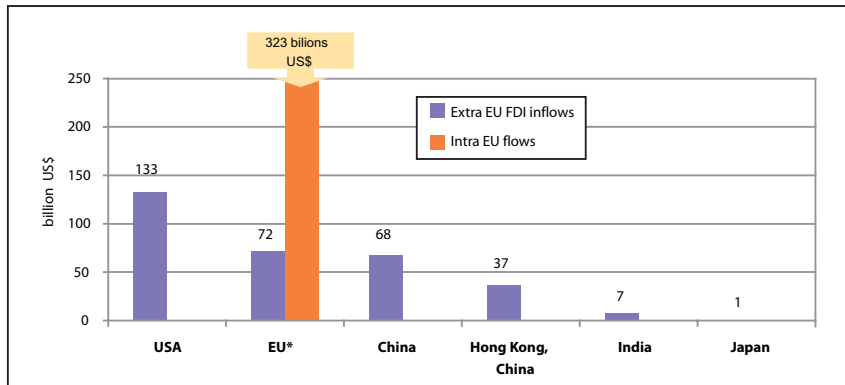
The total number of jobs associated with “footloose” investment projects is much higher in Europe than in the USA. In contrast to FDI statistics, surveys on greenfield and expansion projects do include interstate flows. Europe’s share of foreign projects compared to intra-EU projects follows a similar pattern to that in the USA (with 64% of jobs reported in interstate projects compared with 56% between European countries).

Foreign investment is evolving with an increasing **shift away from manufacturing into services**. Since 2005, the number of foreign inward investments in service functions (55%) exceeds that for industrial functions (45%) according to the latest E&Y quantitative survey of greenfield and expansion projects which up to now has focused solely on Europe. However, foreign manufacturing projects (including logistics) are still delivering higher than average job creation than are service activities.

All in all, the openness of the European economy, its macroeconomic stability and transparency are the main drivers of trade and FDI in all business areas.

FDI inflows

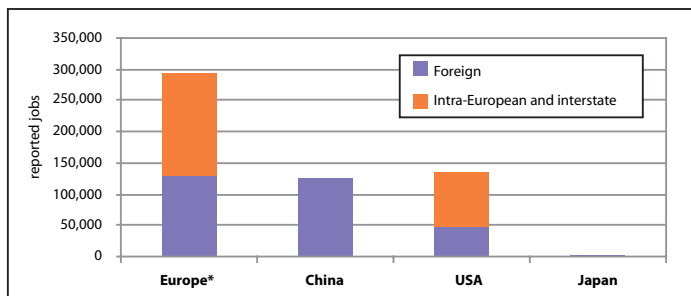
(2004-2006, average)



Source: Eurostat (2006), UNCTAD (2007) *EU-25

Reported new jobs

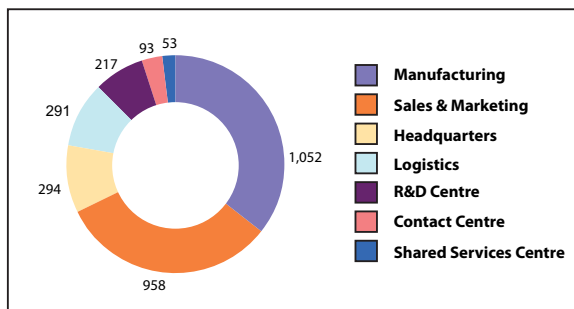
in inward investment decisions (2005)



Sources: IBM-PLI (GILD database) * Russia and Turkey included

Foreign inward investment by business function

number of FDI projects in Europe (2005)



Source: Ernst & Young, European Attractiveness Survey 2006



**The European
Attractiveness
Scoreboard**

2 ► HUMAN RESOURCES

The right place to find a highly productive workforce and talented expatriates

The economically active population of Europe includes a large number of researchers and technology graduates. Compared with nearly every other economy, Europeans work fewer hours with greater productivity and they experience fewer private-sector labour conflicts. After a pronounced trend toward improving the quality of life by working fewer hours, either through negotiations between trade unions and firms or by legal enactments, workers are stabilising their work-time demands at somewhere between 35 and 40 hours per week. Europe is very attractive to highly qualified expatriates. It ranks second among the world's elite talent as a choice of residence. And it also attracts more foreign students than the USA.



Economically active populations are obviously related to the total populations. However, because of a better employment rate than in India, the EU workforce is still more than half India's workforce. Employment rates are less favourable compared with China.

Globalisation has opened up the labour market: China and India still demonstrate a surplus workforce and are catching up in terms of skills, with rising incomes. Both levels are relatively stable in Europe.

The **number of researchers** is important for the innovative capacity and welfare of economies. In this area in particular, emerging economies are strongly dynamic. China has already largely overtaken Japan, but India is still far behind.

High potential researchers are attracted by centres of excellence. These locations are very important for companies to satisfy their need for top-level knowledge and to tap into information pools.

The number of **tertiary graduates in science and technology** is one of Europe's strengths. These graduates are qualified to work on innovative projects driven by foreign investors. Mobilising highly skilled science- and technology-trained personnel is always a challenge and Europe is particularly well positioned in this field.

In poor countries, science and technology graduates make up only a small proportion of the population, and in developed countries many students tend to prefer better-paid business specialisations.

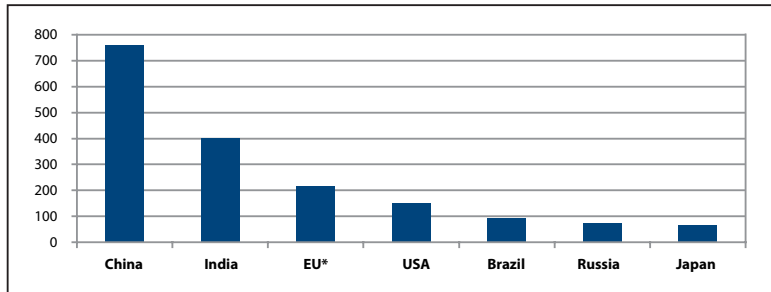
In the EU, the percentage of tertiary graduates in science and technology among the young (12%) is still growing: it is higher than in the USA and roughly the same as in Japan.

1,200,000

PRODUCTIVE WORKFORCE AND TALENTED EXPATRIATES:
THE NUMBER OF RESEARCHERS (1,200,000) IS SECOND ONLY TO
THE USA.

Economically active population

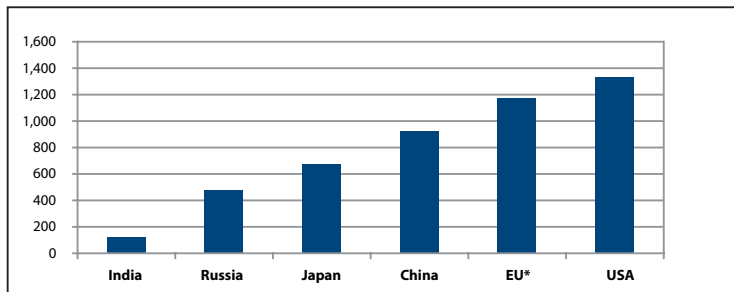
in millions, 2005 or latest available year



Source: ILO (2006) *EU-25

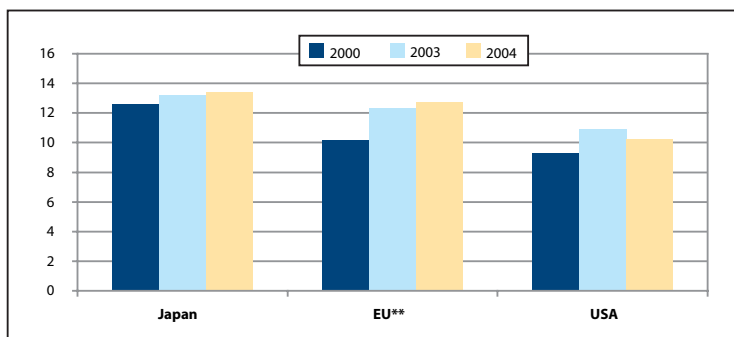
Researchers

full time equivalent in thousands (2004 or latest available year)



Source: UNESCO Institute for statistics (2006) *EU-25

Science and technology graduates*



*Tertiary graduates in science and technology per 1000 of population aged 20-29 years ** EU-25
Source: Eurostat (2006)

Workers in Europe tend to **work fewer hours** per year than those in other regions of the world. Whether this results from a greater emphasis on leisure and quality of life or from overly rigid labour market regulations is a much debated issue.

In any case, the earlier long-term trend towards a shorter working life has come to a halt, especially because of the financial constraints of an ageing society. The new measures adopted in most European countries, including private-sector contracts, all tend towards longer working hours.

Overall labour productivity is very high in Europe, although the USA is ahead. In fact, differences exist between European countries, with some high labour-cost Western countries leading the world in terms of productivity per worker or per hour.

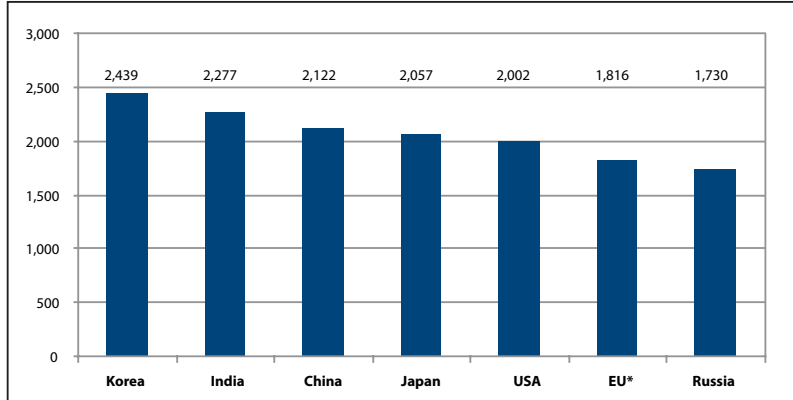
Because of different definitions and regulations, particularly on the minimum duration of reported strikes, the available data on **industrial disputes** are not fully comparable at the international level.

However, companies can rely on the general conclusion that strikes in Europe are generally less frequent than in North and South America in the private sector. This results partly from the generally acknowledged social balance in the economic systems of European societies.

1,200,000

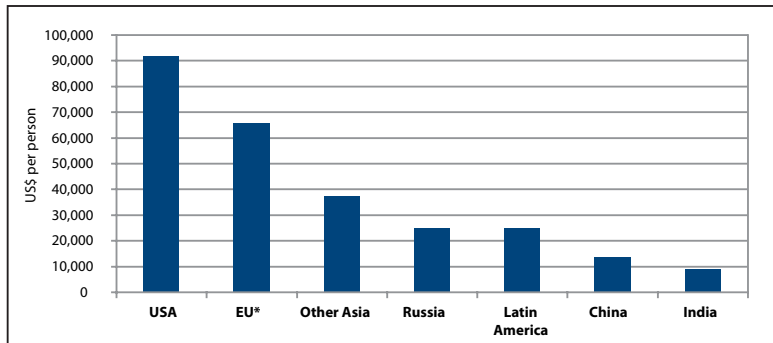
PRODUCTIVE WORKFORCE AND TALENTED EXPATRIATES:
THE NUMBER OF RESEARCHERS (1,200,000) IS SECOND ONLY TO
THE USA.

Working hours per year (2006)



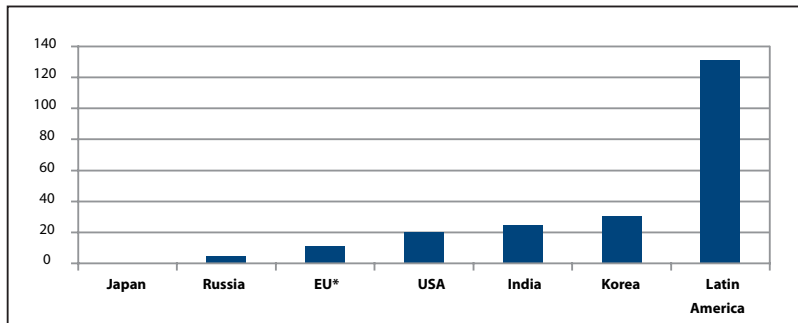
Source: UBS, IMD on line (updated Dec-2006) *EU-25 median

Overall productivity of labour (2006, GDP at PPP per worker)



Source: The Economist Intelligence Unit database (January 2007) *EU-25

Strikes: Working days lost per 1,000 inhabitants per year (average 2000-2004)



Sources: IMD Online (Updated: May 2006), from ILO Yearbook of Labor Statistics 2005 and national sources
*EU-25 median

Highly qualified expatriates are attracted primarily to the USA, traditionally a country of immigrants. But the European Union is obviously a serious alternative for the world's elite: almost 5 million non-Europeans with a tertiary level of education now live here.

Many highly qualified Europeans choose to live and work in a European country other than the one they were born in. Although there is no available comparison with similar movements within the USA, these data testify to growing mobility inside Europe, despite its multiplicity of languages.

The right of free movement for EU citizens has led to greater mobility for all Europeans, but there are still various internal administrative barriers that need removing.

Countries compete against each other to **attract the best students in the world**. They do so for a number of reasons. The first of which is to boost the competitiveness and prestige of their universities and thus attract more funding. This competition opens new markets for educational services such as off-shore and online services. The second reason is that countries want to attract skilled and talented people. Students will end up in laboratories and companies, whether in the domestic market or in foreign affiliates abroad. In any case, they will be more open to international realities, languages and cultures.

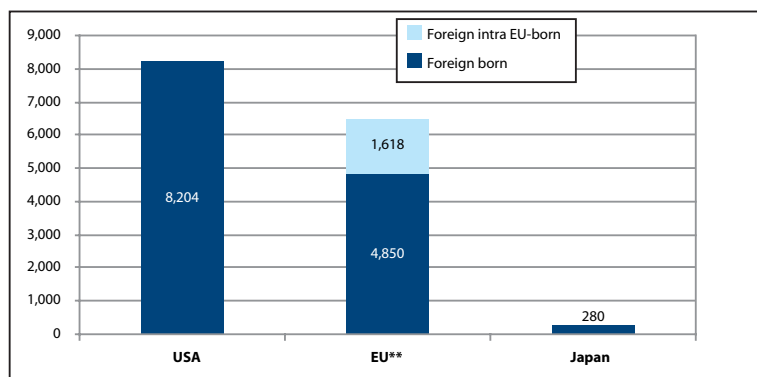
Few people probably realise that Europe attracts more foreign students than the USA. It attracts fewer students from Asia, but many more from Africa. Many Americans and Canadians like to come and study in Europe. In general, foreign students feel at ease in Europe where they find themselves in a dynamic and diverse environment.

This finding does not take into account the mobility of students inside Europe, which is mainly a result of EU-organised exchange programs like Erasmus, which is now open to non-Europeans (Erasmus Mundus).

1,200,000

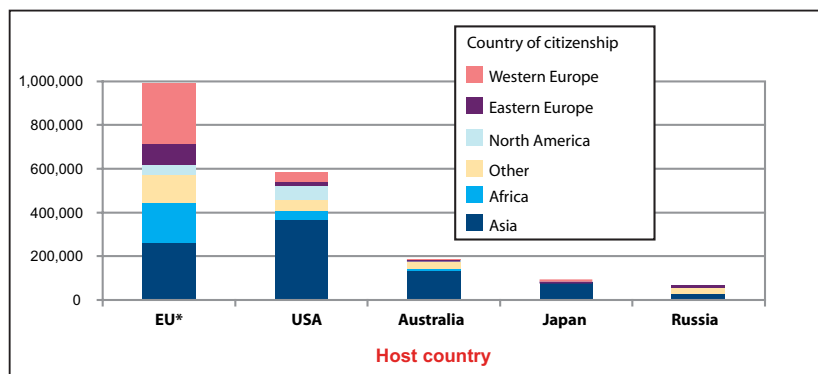
PRODUCTIVE WORKFORCE AND TALENTED EXPATRIATES:
THE NUMBER OF RESEARCHERS (1,200,000) IS SECOND ONLY TO
THE USA.

Foreign-born persons with a tertiary level of education* (2004)



*Academic and vocational tertiary, advanced research (54, 5B & 6 levels of education) **EU-25
Source: OECD, International Migration Outlook SOPEMI 2006

Foreign students in tertiary education (2003)



*EU: EU-15 host universities
Sources: OECD, Education at a Glance 2005.



**The European
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3 ► RESEARCH AND INNOVATION

A scientific powerhouse

Although its R&D and other knowledge-intensive investments represent a lesser share of its GDP than in the USA or Japan, EU basic and applied researchers are powerful innovators across many fields. Europe is in fact a world leader for scientific production. The USA is trailing in terms of scientific papers but is ahead in terms of citations. Europe and the USA have traditionally had similar high numbers of world patents. The USA overtook Europe in recent years, but the gap should not be overestimated and can be reversed, as was the case in the early 1990s.

The European Union is among the major players in scientific advances, technological prowess and higher education. However, Europe's **investments in R&D, software and higher education** are low when measured against its GDP.

All European countries – including the new and less developed member states – are seeking to enhance their performances. Because of the Lisbon Agenda targets – recently revised and updated - the EU is taking fresh measures to boost the development of the knowledge-based economy. Europeans are well aware that lifelong learning and education are not only a “playing field” for elite universities and business schools but also a challenge for everybody to invest in his or her own human capital.

Research and innovation resources are strong drivers of foreign inward investment in Europe. Europe is a major player in this area, second only to the USA. The 2006 EU Industrial R&D Investment Scoreboard shows that the top 1000 EU companies increased their R&D spending by an average 5.3% in 2005.

The European research area is already a reality for investors. It results from successive EU framework programmes for research and technological development, major international R&D ventures, and the work of institutions and companies such as ITER, Galileo, CERN, the European Space Agency, and EADS.

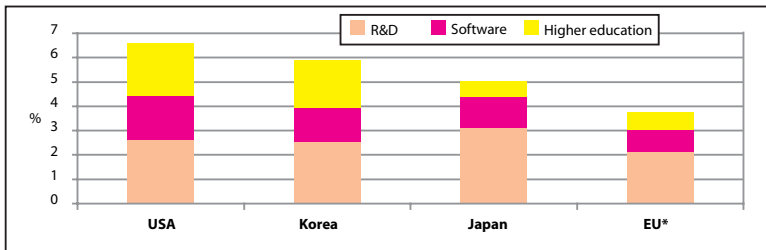
Foreign investment in R&D centres is a major concern in all countries (including the new EU member states). Foreign affiliates are already making significant contributions to R&D in home and target countries.

Foreign firms investing in R&D centres expect to find a cooperative environment. One indicator of the cooperative relationships on R&D between governments and companies is **the share of government-financed business R&D**. In the EU, investors can expect firm support from governments to foster a positive R&D environment. The share of government-financed business R&D (8%) is smaller than in the USA (10%), notably in defence, but is much higher than in most other regions/countries.

In contrast, the EU scores higher than the USA on the share of public research financed by business. This is another type of R&D cooperation between the corporate sector and governments. According to the OECD, business finances a growing share of R&D in the areas of higher education and government's laboratories, averaging 6% in the EU-25, against 3% in the USA.

Investment in knowledge

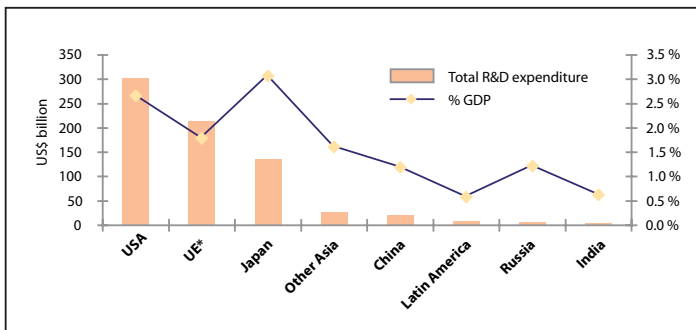
as a % of GDP (2002)



Source: OECD: Science, Technology and Industry Scoreboard 2005. *EU-15 without Greece, Italy, Luxembourg

R&D expenditure

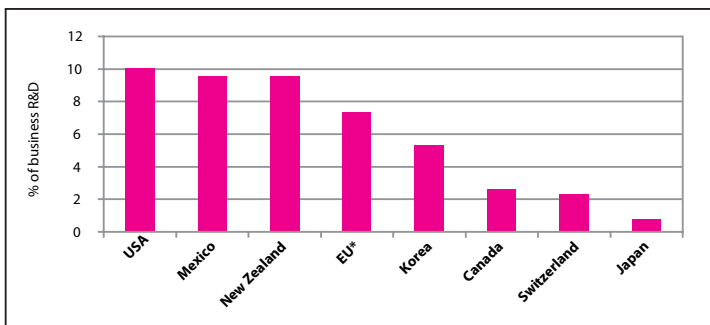
total and as a % of GDP (2003-2004 average)



Sources: OECD, Eurostat, IMD *EU-25

Government-financed business R&D

(2003)



*EU-25
Source: OECD, MSTI database, May 2005

Europe is the biggest scientific powerhouse in the world in terms of **scientific production**, measured by the number of scientific papers published. The USA is ahead in terms of the number of citations, which partly reflects the reputation of its own scientific journals.

One third of world publications are produced by the European Union, the USA and Japan. Today, China is ahead of Russia and India. The EU enjoys a relatively strong position in medical research while the USA performs better in fundamental biology. China is more specialised in chemistry and physics while Russia specialises in physics and India in chemistry.

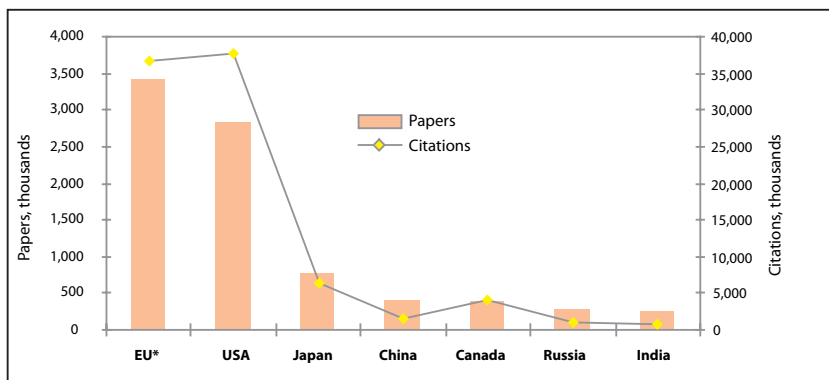
European competitiveness on **patents** is usually underestimated because of statistical biases in international comparisons. A new OECD study using “triadic patents” gives a more balanced picture. Triadic patents are filed at three patent offices: the European Patent Office, the Japanese Patent Office and the US Patent & Trademark Office. These patents are highly valued in world markets.

Europe and the USA have traditionally had similar numbers of world patents. The USA has had an edge over Europe in recent years, but the gap should not be overestimated and can be reversed as it was in the early nineties.

Innovative products and processes do not always translate into patents. The European Innovation Surveys have shown that innovation is widely spread among European firms, especially SMEs. Unfortunately, few comparisons with non-European countries exist.

Scientific production

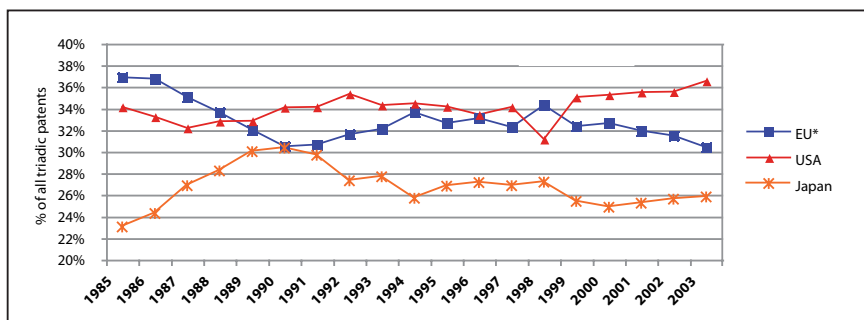
as measured by papers and citations (1996-2006)



*EU-25 countries among the world top 20 and Switzerland
Source: Essential Science Indicators (Thomson Scientific).

Number of triadic* patents

by country of residence of the inventors



*Triadic patents are world patents, registered at the same time in three patent systems: in the USA, Europe and Japan. *EU-25

Sources: OECD (2006)



**The European
Attractiveness
Scoreboard**

4 ► INFRASTRUCTURE

Top-level infrastructure assures access to all European markets and beyond

Europe's transport networks are first-class, assuring efficient access to the internal market and beyond. Unlike the USA, which has an excellent air travel network, Europe has both a highly developed air travel system and a superb rail network. The crown jewels of ground travel are Europe's famed high-speed trains, which are continually extending their reach. And Europe's modern container seaport infrastructure is second only to China's.

Assessing the overall quality and efficiency of transport infrastructure entails a number of pitfalls and requires a significant volume of research. The appropriate density of **motorways** depends on population distribution and many other geographical characteristics. However, building and maintaining an extensive highway network is certainly a challenge, even for developed countries.

One well known advantage of the EU's network is its carefully planned density and highly professional maintenance. The "Highway" indicator suggests that this network will permit all firms, located in any European country, to easily reach any client in the EU. This unified network is the backbone of European logistic companies, some of which are world leaders in this sector.

The trans European **high-speed rail network** (i.e. supporting trains that run at over 250 km/h) is still in development. In many EU countries, leading cities are well connected by high-speed trains –an example of natural distances being overcome by technology. Moreover, high-speed train development is consistent with the environmental targets of the EU.

Outside the EU, only Japan with its Shinkansen network of bullet trains can challenge Europe's leadership. Until now, the USA has had only a limited amount of railway infrastructure capable of supporting high-speed trains. In China, a magnetic levitation train is operating in Shanghai.

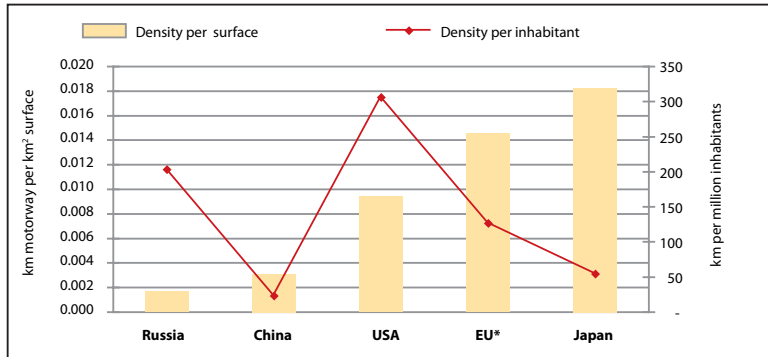
The overall quality of the European railway network is recognized worldwide and Europe is a major exporter of railway technology.

Giant seaports sustain Asia's export-led growth, particularly in mainland China, Hong Kong and Singapore. **Port container traffic** (most of it in medium to high value-added commodities) is another yardstick of a country's economic growth. As a result, China is the leader because of its massive export growth, while the European Union ranks second, ahead of the USA. The importance of European container ports reflects their role in Europe's exports while delivering goods to the markets in the region.

3,750

WORLD-CLASS INFRASTRUCTURE
HIGH-SPEED RAILWAY NETWORK: 3,750 KM

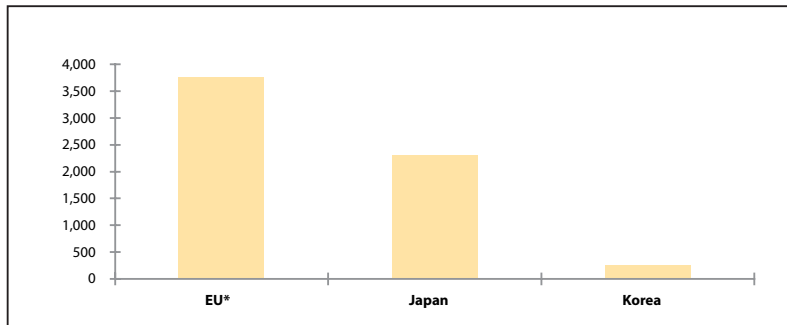
Motorway network density (2003)



*EU-25

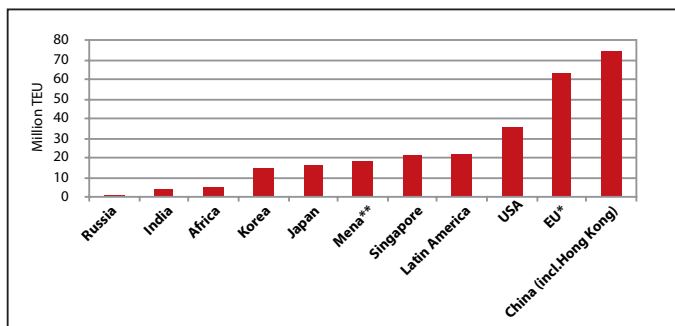
Source: IRF/European Road statistics (2006)

High-speed railways in km (2004)



Source: UIC (2005)

Port container traffic (2004)



*EU-25 **Middle-East North Africa

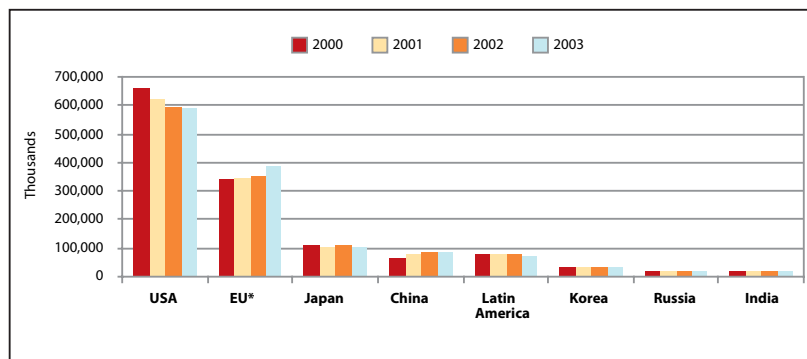
Source: World Bank, World Development Indicators 2006

The USA is the largest market for **air transport**. The distances that people have to travel and the poor condition of the railway infrastructure are factors that should be taken into consideration when making comparisons with Europe or Japan.

Air transport has been expanding in the European Union, despite the consequences of 9/11, and the number of passengers carried is greater than in Asia. In China, the number of air passengers is still very small relative to the country's huge population, although it is increasing every year. The Chinese market is already almost equivalent to Japan's.

Air transportation

Number of passengers carried by main companies



*EU-25

Source: IMD Online, updated May 2006 from International Civil Aviation Organisation



**The European
Attractiveness
Scoreboard**

5 ADMINISTRATIVE ENVIRONMENT

European regulations are business-friendly

Although labour market regulations differ from one European country to the other, the internal discrepancies are actually relatively small compared to the USA's multi-state model. In a recent, wide-ranging review of business regulations by the World Bank, the EU scored very highly, sometimes ranking ahead of the USA and in other cases just behind it.



L **abor market regulations** differ from one European country to another, but those internal discrepancies are small when compared with the USA.

Hiring difficulty: although mandatory minimum wages are high in some Europe countries, they appear to be commensurate with high productivity per worker. In relative terms, the official minimum wage is actually higher in China because value added per worker is lower.

Rigidity of working hours and firing costs: much more important are the differences between the EU and the USA in the area of paid annual leave and redundancy costs. Most European countries have national regulations in these areas, while in the USA the federal and state governments do not interfere in the private agreements between employers and employees. However, 75% of US private-sector employees do have a right to vacation, whether paid or otherwise, through their contracts with their firms. Consequently, European practices do not come as a surprise to most American investors.

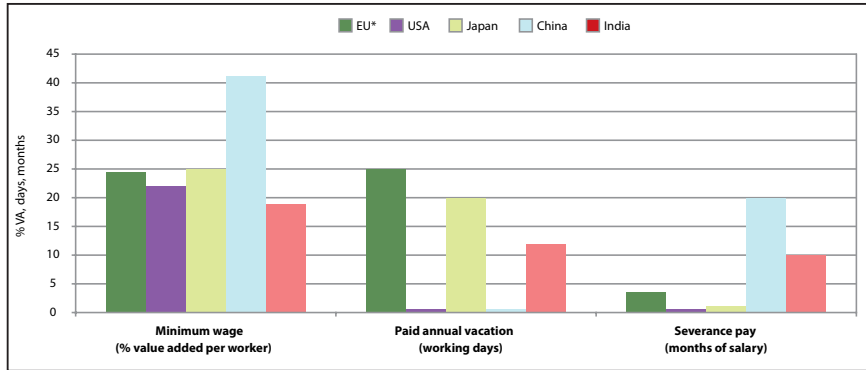
Setting up a business is easier in Europe than in most other parts of the world, except the USA.

Nevertheless, reforms are under way and the European member states are promoting entrepreneurship by constantly making it easier to start a business, thus helping create more businesses and jobs.

The “Doing Business” report of the World Bank also looks at the **procedures for licensing in the construction industry**. This is important, for example, for a business wanting to build a new production site or headquarters. The bank considers that there is a trade-off between the safety that licenses create and their cost to the business.

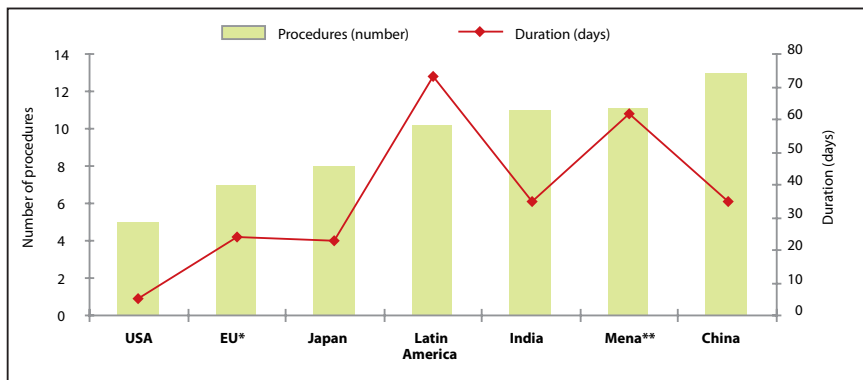
The number of procedures needed to comply with regulations is relatively small in most European countries, while the time spent on these procedures may vary depending on local situations.

Employing workers (2006)



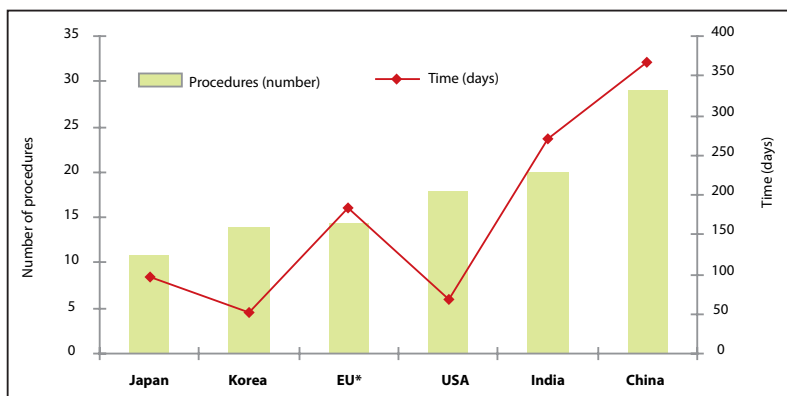
Source: Doing Business 2007 (World Bank) *UE25: median for 22 countries - are lacking: Luxembourg, Cyprus, Malta
**Legally mandated regulations about a limited liability company, domestically owned and with 201 employees

Starting a business



Source: World Bank, Doing Business 2007 *EU-25 (median) **Middle-East North Africa

Dealing with licenses



*EU-25 median. Source: World Bank, Doing Business 2007

Registering property is usually simple in Europe. In half of the European capitals, fewer than four registration procedures are required – no more than in New York, for instance.

However, registering property is more time-consuming in Europe than in most other countries. The EU and many member states are therefore making efforts to do away with red tape and to shorten registration procedures.

Getting credit is easy in the EU. Member states have an excellent average level of protection both for creditors and for debtors. This balance between the rights of both sides gives creditors the security they need to lend at fair conditions, thus providing easy access to credit for debtors, especially SMEs.

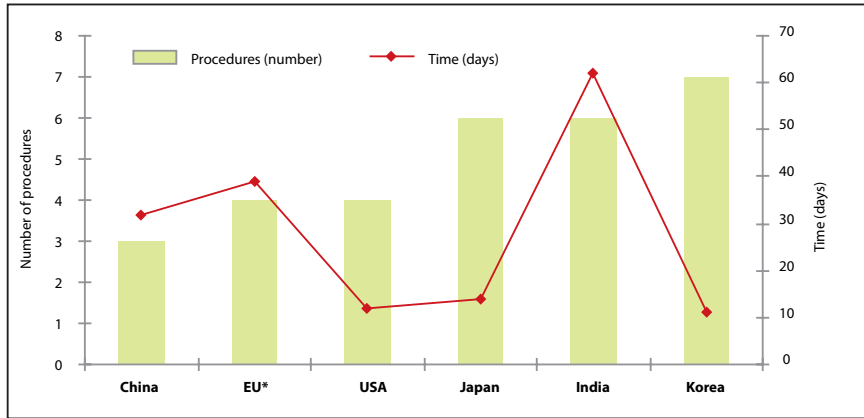
Another aspect of obtaining credit is access to venture capital, a fast-expanding activity in the EU.

Europe offers considerable diversity in the **financial sector** because it has several financial hubs. Strong competition among these centres creates the ideal conditions for going public, especially for smaller companies.

Compared with Wall Street, there are more but smaller financial centres in all European regions. The number of listed companies in Europe therefore exceeds those in the USA but America stock market capitalisation is higher. However, the EU still needs to improve its high technology exchanges if it is to rival to the NASDAQ.

Exchanges are presently in a consolidation period, which may see some trans-Atlantic and even global mergers.

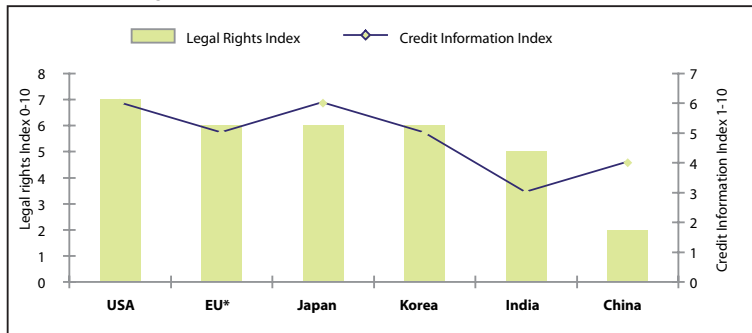
Registering property



*EU-25 median. Source: World Bank, Doing Business 2007

Getting credit

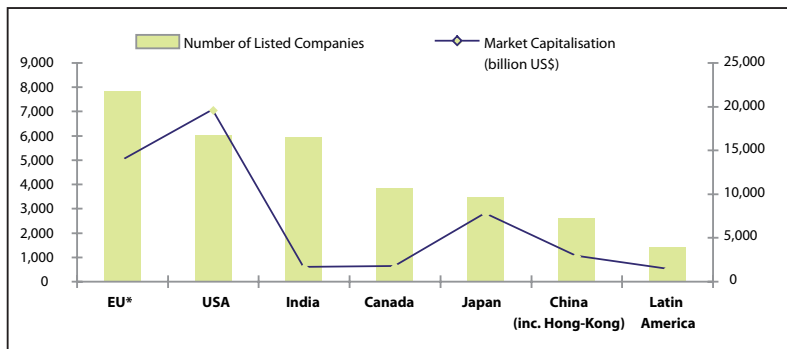
(10 = best regulation)



*EU-25 median
Source: World Bank, Doing Business 2007

Financial centres

(December 2006)



Source: World Federation of Exchanges

Paying taxes is not an easy process anywhere in the world and is therefore a burden for small and big firms alike. In Europe, there is no single tax system, yet a sole, comprehensive tax system is one of the EU's biggest projects. Up to now, only VAT rules are harmonised.

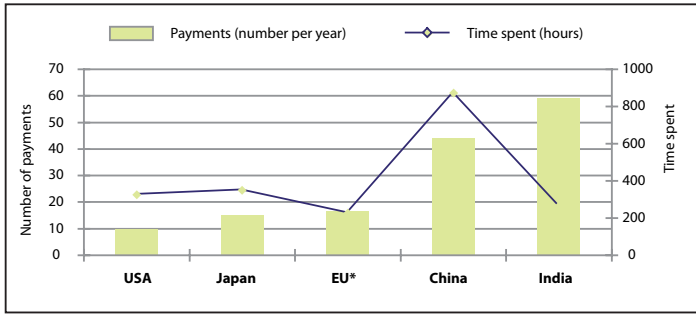
The current diversity of tax systems within Europe leads to strong competition among member states and is therefore both a burden and an advantage for the international investor.

In all, however, the low median score for Europe shows that its tax regimes are generally efficient. The situation has been improved by implementing IT related services, which in turn makes tax-paying procedures more comfortable.

All economies are eager to **promote the exports by comfortable business-friendly regulations**. The average number of documents needed for export is similar in Europe, Japan and the USA, but obviously the paperwork still requires too much effort.

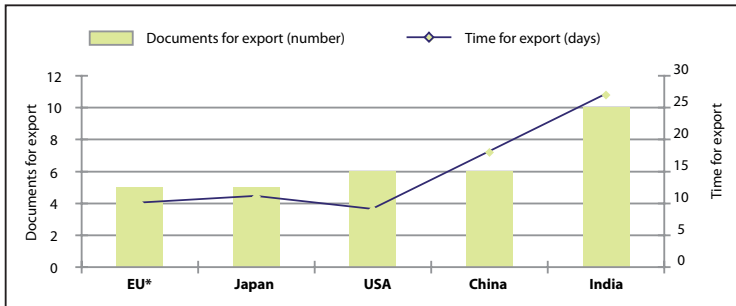
Europe is the leading exporter of the world, so it is hardly surprising that export procedures are on the whole very simple: on average, only five procedures are needed. However, lingering procedural discrepancies show that European countries are progressing at different speeds towards common trade rules.

Paying taxes (2006)



*EU: EU-25 median Source: World Bank, Doing Business 2007

Trading across borders - Exports (2006)



*EU-25 median Source: World Bank, Doing Business 2007



**The European
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6 ► COSTS AND TAXATION

The EU offers a wide range of price-efficiency mixes for businesses

Numerous taxation policy differences exist between individual EU member states. The EU combines a wealthy and mature market in the west and a dynamic market in the emerging economies of the east. Consequently, it offers a wide range of price-efficiency mixes for businesses, from low-cost labour countries to high-cost/high-quality locations. The admittedly higher level of taxation in Western Europe also helps maintain its excellent social and technical infrastructure.

Nominal tax rates on corporate profits are very low in the EU. On average, EU corporate tax rates are well below the levels seen in other regions and countries, particularly in the USA. From 1993 to 2006, tax rates have fallen in Europe – in some cases dramatically – because of tax competition among EU member states to attract businesses.

Even though corporate taxes are already low in the EU, a host of reforms are currently in progress to reduce rates even further and simplify the system. These reforms will help European firms as well as international firms in Europe to generate more profit more easily.

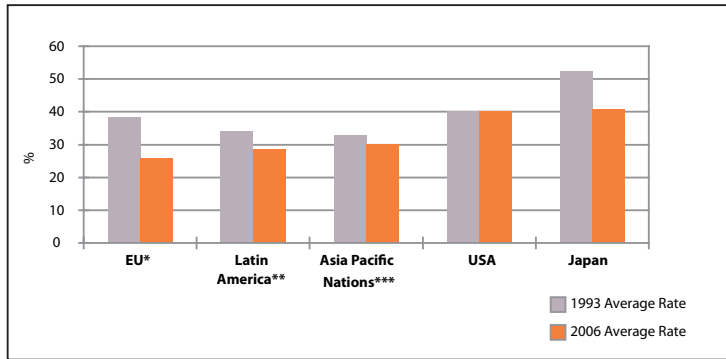
Corporate tax on profit is not the only tax on firms. Other levies include tax on income and capital gains. Furthermore, there can be considerable differences between statutory and effective tax rates.

Because of all these reasons, **collected corporate taxes** still amounted for a significant share of GDP in Europe, below Japan's level but above the levels in the USA, China and India. However, since the available data (for fiscal year 2004) were published, most tax reforms in Europe have sought to ease the burden, balancing it with the need to find resources for public expenditures.

Compensation levels in manufacturing are not uniform across the European Union. After the last two waves of enlargement, the EU now offers a whole range of price-efficiency mixes for businesses, from low-cost labour countries to high-cost/high quality locations.

Even NAFTA does not have such a wide spectrum of remuneration. The lowest level of wages within the EU is comparable to the average Brazilian wage. The highest levels in Western member states are above those in the USA. However, the high wage levels in some EU member states are competitive on the world market because they are associated with high productivity. For this reason, some European member states with the highest average wages enjoy relatively low unemployment rates.

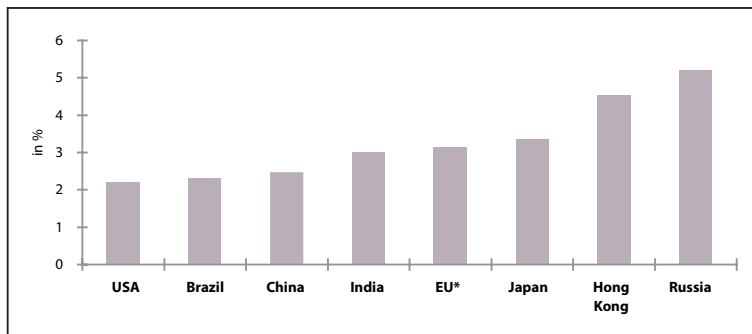
Corporate tax rates by economy



Source: KPMG's Corporate Tax Rate Survey 2006 *15 countries in 1993; 25 in 2006 **First year was 1995 with 1 country; 19 in 2006 ***2 countries in 1993; 19 in 2006

Collected corporate taxes

(on profits, income and capital gains, as a percentage of GDP 2004)

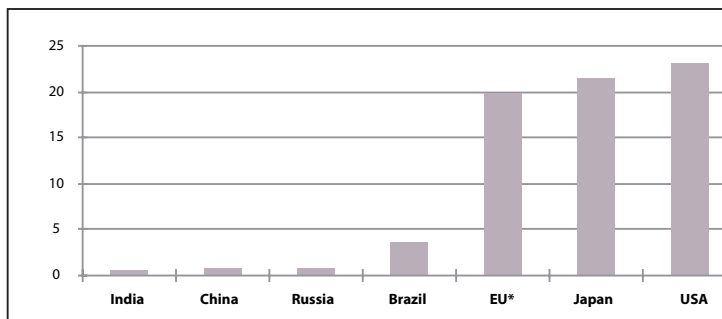


*EU-25 Average

Source: IMD (2006), derived from OECD data and national sources

Hourly compensation for manufacturing workers

(wages and supplementary benefits, in US\$2005 or latest available year)



Source: IMD Online, updated May (2006), Institut der deutschen Wirtschaft Köln (2007)

Remuneration in service professions has a dual significance: low-cost labour levels are attractive for cost-focused firms; high remuneration levels are attractive for expatriates and quality-focused firms.

Trends in the fast-growing service sector are similar to those in manufacturing. High skill levels make human resources expensive. As staff becomes a rare resource, so it becomes dearer.

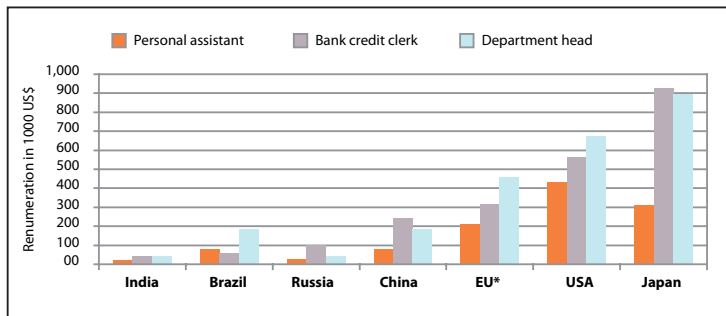
The average remuneration for service professions in the EU is relatively low, making Europe a very competitive destination for investments in this field. Of course, the enlarged EU offers a wide range of costs/efficiency mixes, as in the manufacturing sector.

Top executives' pay, including long-term incentives, varies greatly between countries. Levels are particularly high in the USA, but show some similarities in the EU, Japan and Mexico (in the case of Mexico, surprisingly high executive pay is probably a consequence of a brain-drain from the neighbouring USA).

Pay discrepancies are less evident in engineering. Engineers' pay scales vary accordingly to development levels and living costs in their countries. The European Union, through its two recent enlargements, is a union between countries at different levels of development. This may explain why, in half the member states, the remuneration of engineers is significantly lower than in Japan and the USA.

Remuneration in service professions

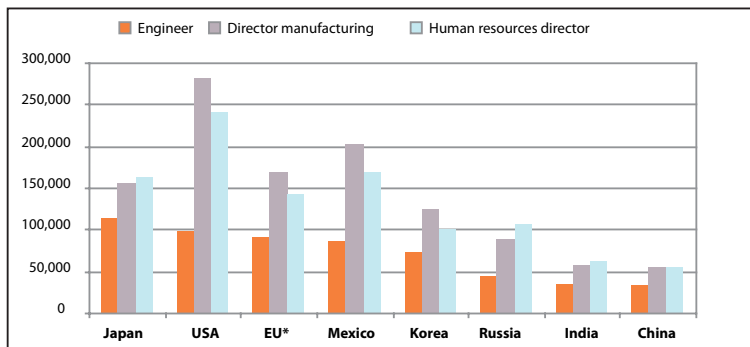
(2003)



*EU-25 without Cyprus, Latvia, Lithuania, Malta
Source: IMD (2006)

Remuneration of management

(2005, US\$)



*EU-25 median
Source: IMD Online (updated May 2006), from CC&T and national sources



**The European
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Scoreboard**

7 ENERGY AND SUSTAINABLE DEVELOPMENT

European countries promote sustainable development in industry and technology

The EU is actively promoting all industries and technologies favourable to sustainable development. It is diminishing its overall greenhouse gas emissions and is leading the world in R&D for carbon dioxide-free renewable energies. That said, developed countries in Asia are better at recycling industrial products.

Businesses are increasingly concerned about carbon dioxide emissions. Energy and sustainable development are factors in choosing investment destinations because environmental and energy-supply constraints are spawning new markets and technologies that foreign investors can tap into. From an economic attractiveness standpoint, meeting Kyoto targets implies special know-how, an environment-friendly image for countries and firms, “clean” producers and “clean” suppliers for investors, and hence new markets.

The EU actively promotes technologies that counter global warming. Although countries' individual strategies differ, particularly on nuclear energy, all member states have agreed to significantly reduce greenhouse gas emissions by using low-carbon technologies. The EU-15 region already has some of the lowest carbon dioxide emissions per unit of production. The EU new member states are still emitting more carbon dioxide but are also making faster improvements to comply with the common objectives. On the whole, the EU emits more greenhouse gas than the USA, but is improving more quickly.

Recycling industries are a good example of new markets, new organisation processes and environmental technologies. International investors in Europe will find a booming market and an open public environment, along with some of best of breed technologies. Europe fares well on one of the few available international indicators: paper and cardboard recycling. The EU clearly outperforms the USA, and is obviously far ahead of less developed countries. However, some developed Asian countries post better performances than the European Union as a whole.

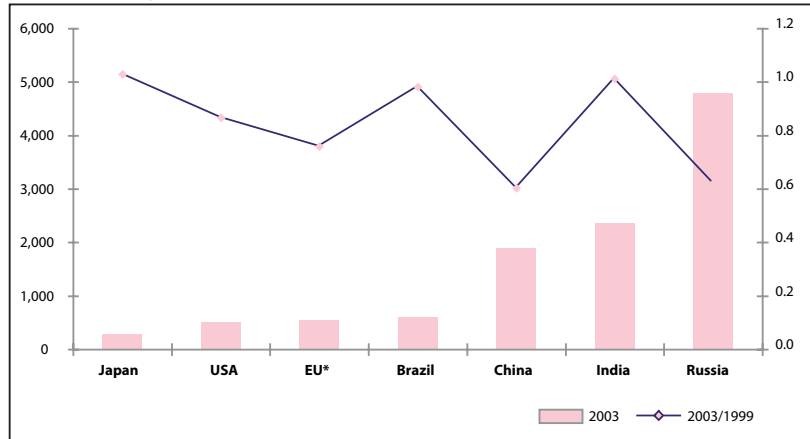
Securing Europe's energy supply and preparing for the post-oil era are major issues. International investors need to be assured that they will find a secure supply of competitively priced, high quality energy in Europe.

Electricity is a vital source of energy for many industrial and service businesses. European countries have been hit by increasing **electricity costs**, but not as hard as other parts of the world.

Access to electricity in Europe is secure because power failures are very rare. This gives the high-tech and software industry ideal conditions to work safely and efficiently.

Carbon dioxide emissions

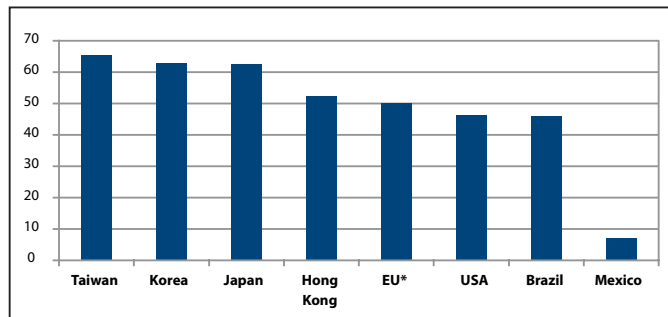
(metric tons per one million US\$ of GDP)



*EU-25 Source: IMD, OECD

Paper and cardboard recycling

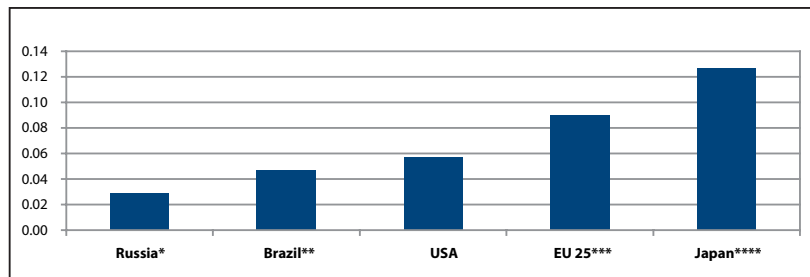
(percentage of apparent consumption 2005)



Source: Euromonitor International 2006, IMD *EU-25 average without Cyprus, Estonia, Latvia, Lithuania, Luxembourg, Malta, Poland

Electricity prices for industry (2005)

(U.S. dollars per kilowatthour)



Source: EIA 2006 *Latest available data from 2003 **Latest available data from 2004 ***Only data available for Austria, Finland, France, Greece, Ireland, Portugal, Spain, UK, Czech Republic, Cyprus, Hungary, Poland, Slovakia ****Latest available data from 2004

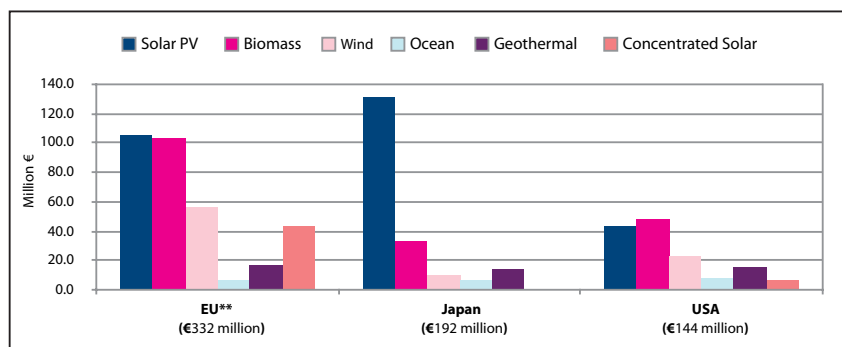
The European Union is committed to **renewable energy research**. The combined official budgets of the Commission and the member states are much larger than those of Japan and the USA, a fact that is not generally known.

As far as non-nuclear technologies are concerned, the European research portfolio covers all prospective technologies such as solar panels, biomass, wind, ocean and geothermal energies.

Europe's research will therefore help pave the way for a future with renewable and carbon dioxide-free energies.

Key renewable energies* research portfolio

(average annual values for 2000-2004 budgets)



*Non nuclear technologies **EU-25: national and EC budgets

Source: European Commission, *The State and Prospects of European Energy Research*, 2006



**The European
Attractiveness
Scoreboard**

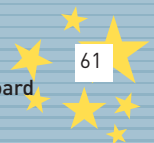
8



INTERNET AND ICT-READINESS

The EU, the place for ICT industries

Challenging conventional wisdom, indicators show that most EU countries have a higher level of expenditures in information and communication technologies (ICT) and more ICT-related patents than the USA. The European market for ICT is the biggest in the world. Europe's telecommunications market is far larger than America's (31% vs. 20%), while the US IT market is larger than Europe's (37% vs. 35%). Europe has the highest number of mobile phone subscriptions per inhabitants in the world, making it more open to new forms of e-commerce.



Challenging conventional wisdom, EU countries have very high levels of **ICT expenditure**. Europe spends nearly 3.5% of GDP on telecommunications infrastructure. This is slightly less than Japan but more than the USA. Being among the leaders for ICT investment encourages research and innovation.

Western countries of the EU enjoy some of the world's highest rates of workers applying **ICT-related skills** in their jobs (22% on EU-15 average), while new member states are catching up quickly from lower levels. All this makes innovative projects easier to implement.

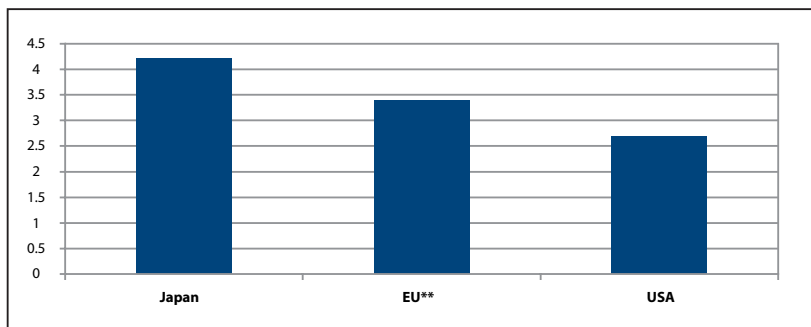
Even taking the intra-European discrepancies into account, the enlarged EU is ahead of countries such as the USA, Canada and Australia in demand for ICT-related workers (21% versus 20% in those three countries). Both the European Commission and member states – via their innovation policies – are highlighting this area of competition and are promoting new means for upskilling their workforces.

The EU leads the world for **ICT-related patents** awarded by the European Patent Office (EPO). The number of ICT-related patents is growing rapidly and most of these patents are filed by EU inventors. The European Union accounts for 40% of the total, significantly more than the USA and Japan. For example, Skype, the popular Voice-over-IP telephone service, was invented in Europe.

About 7% of all patents filed at the EPO are the result of international collaborative research, mainly with the USA and between EU partners. According to the OECD STI report, patents are concentrated in a small number of regions within countries. Half of all the patents registered in developed countries come from only 10% of their regions: innovation requires input (e.g. physical capital) and infrastructure (e.g. laboratories) that tend to be even more geographically concentrated than are skilled populations. This is why competitiveness clusters are flourishing all over Europe.

ICT expenditure* as a percentage of GDP

(2005)

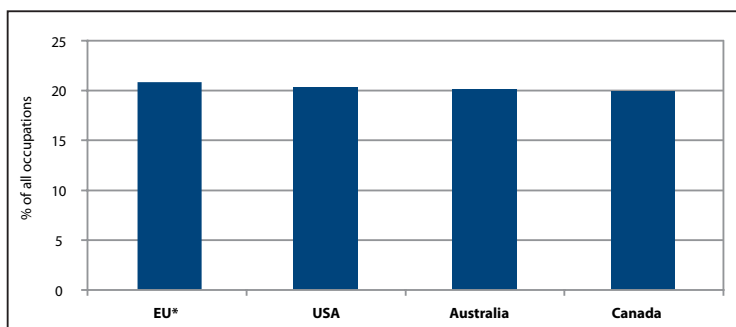


**EU-25 average

Source: Eurostat (2006) *Includes expenditures for telecommunication hardware, equipment, software and other ICT related services

ICT-related* employment

(2004)

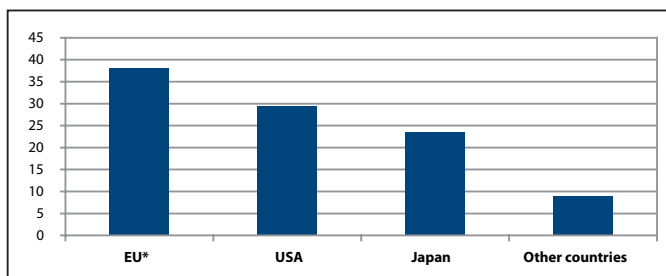


**EU-25 without Estonia, Cyprus, Latvia, Lithuania, Malta

Source: OECD Key ICT indicators (June 2006) *ICT specialists, basic and advanced ICT users

ICT-related patents at the EPO

(% share of countries)



*EU-15 Data from OECD Patent data base, September 2004

Source: OECD Key ICT Indicators (May 2006)

The European **ICT market** is the biggest in the world, more than double the size of Japan's, and account for about one-third of the worldwide market.

Europe's telecommunications sub-market is far bigger than the US market (31% vs. 20%), while the US IT sub-market is bigger than Europe's (37% vs. 35%). In general this market is highly developed and attractive because it is quick to adopt new products.

The growth of the number of **Internet users** over the last five years has been staggering. EU-15 penetration levels are already high and are closing the gap with the USA. Internet use is lower in the new EU member states, but growth rates are high and comparable to those in China.

Broadband has wide-ranging effects on the economy. It accelerates Internet use and attracts new uses, including Voice-over-IP and TV on broadband.

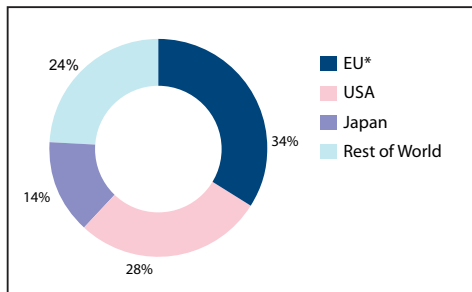
The EU15, the USA, and Japan are the top three regions for broadband Internet penetration. Asia, excluding Japan and China, is close behind but has lost its leading position in the last four years – although Korea is competing with Iceland for the first place. China, the new EU countries and Latin America lag behind but are growing quickly. Given current trends, China is projected to surpass the USA in total broadband lines within 2007.

India has almost no broadband penetration and is not creating new broadband users at a significant pace. Indian's lack of broadband performance is curious given recent reports about the prowess of its IT services sector and the offshoring of many shared service operations to its major cities. This could imply that at basic infrastructural level investments relying on high-speed Internet connections may be hampered.

In late 2006, a number of European Internet and telecommunication operators announced that they had committed themselves to establishing rapidly a **higher speed network** in the EU. Some are promising universal fibre optic connections directly to households by 2012.

Worldwide ICT market by region

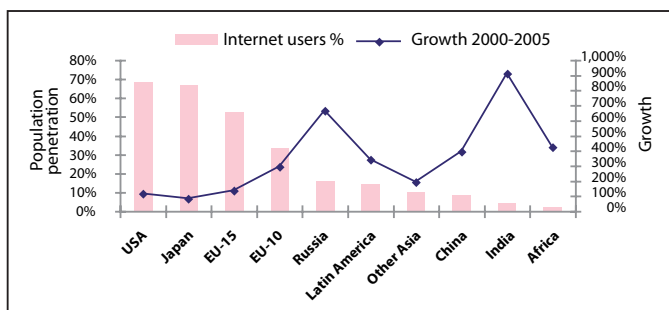
(2006)



*EU-25

Source: European Information Technology Observatory 2006

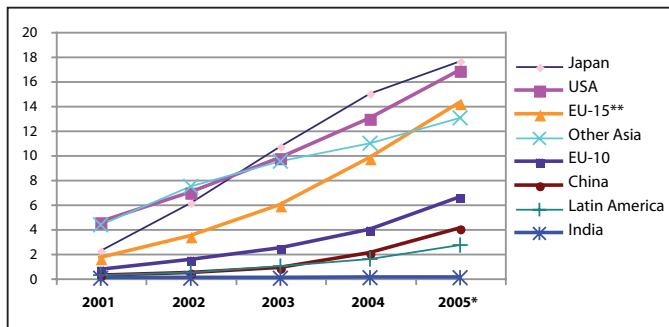
Internet users



Source: Internet World Stats (Nielsen/Netratings) – March 31, 2006

Broadband Internet penetration

(Broadband subscribers per 100 inhabitants)



*December 2005 **EU-15: weighted %

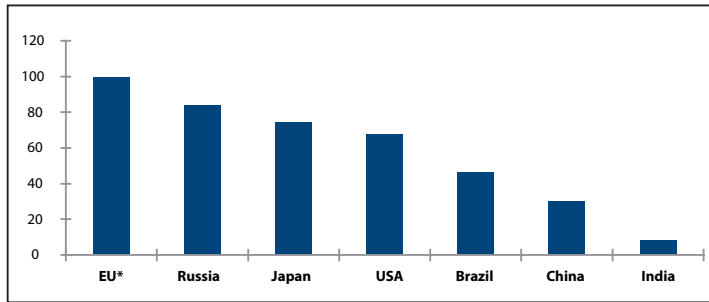
Source: OECD, ITU, IMD

Europeans are enthusiastic users of **mobile phones**. Europe has the highest number of mobile subscriptions per inhabitants in the world. Subscription rates for new users are climbing in China, India and other less-saturated markets.

Among developed countries, spearheaded by the European Union, roaming rates are rapidly declining and new technologies like 3G networks are creating interesting new mobile-phone delivered services. This high level of mobile use is expected to encourage many new forms of e-commerce.

Mobile subscribers per 100 inhabitants

(2005)



*EU-25 (non-weighted average of EU-member countries)

Source: ITU, ICT Statistics

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Note on European Union membership: on 1 January 2007 the European Union was enlarged to 27 members. However, most available indicators concern 2006 or earlier years and, hence, 25 members only (EU-25 or EU for short).

In some cases, it is useful to distinguish between Western Europe members (EU-15: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom) and the more recent Central and Baltic European members (EU-10: Czech Republic, Hungary, Poland, Slovakia, Slovenia, Estonia, Latvia, Lithuania, plus two Mediterranean islands - Cyprus and Malta). The last wave of enlargement brought in Romania and Bulgaria (both included in EU-27).

The euro zone comprises 13 members: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Slovenia and Spain.

Finally, in a few cases, sources add in neighbouring countries (Switzerland and Norway), and in one case Turkey and Russia (IBM-PLI source on FDI).

Methodological note:

This study uses either average or median values for EU data, depending on which value is most representative of the real situation.

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