KPMG

AmCham GERMANY

Business Destination Germany

US Business in Germany 2022

How CFOs of German subsidiaries of US corporations evaluate Germany

Survey

Preface

Dear Readers,

Germany and the United States have one of the strongest bilateral economic relationships in the world. Taken together, they represent over a quarter of global GDP. The US and the EU (of which Germany is the largest economy) combined represent over 40% of world trade. Germany is the largest market for the US in Europe, and the US is the largest market for Germany globally. In addition to export trade, US and German companies have both invested heavily in one another's economies with a total foreign direct investment stock that exceeds 700 billion USD. There are more than 1.5 million people employed by subsidiaries of US companies in Germany (hereafter also referred to as US Inbounds) and German companies in the US.

Business Destination Germany 2022, this year's biennial survey of 360 managers of German subsidiaries of international investors (100 of which are US Inbounds), is the first since the COVID-19 pandemic began. This study, **US Business in Germany 2022,** is a supplement publication, which summarizes the results of the answers given by those 100 US Inbounds in Business Destination Germany 2022 compared to all other Inbounds in Germany. They demonstrate clearly that the trans-atlantic business relationship between Germany and the United States continues to be solid – against a background of the global struggle to put the COVID-19 pandemic in the rearview mirror as soon as possible. This publication not only presents the results of the survey but also seeks to put them in context taking into consideration the depth and breadth of the German and US economic relationship, as well as the footprint of US Inbounds in Germany.

In spite of the pandemic, Germany's attractiveness as a business destination for US companies remains very high. Specifically, its public safety, political stability and standard of living are rated very positively. However, even more than in our last survey in 2019, the importance of digitalization and a clear view that Germany is lagging behind other EU countries in this regard was a common point made by respondents. More than one-third of the managers surveyed agreed that Germany ranked amongst the most digitally underdeveloped countries in the EU. While steps have been taken to address the digitalization gap in recent years, a cohesive strategy is needed to ensure Germany addresses its current issues.

On September 26, 2011, following the 16-year chancellorship of Angela Merkel and her ruling party CDU, a new composition of the Bundestag was elected. The way has now been paved for a new federal government: the three negotiating parties have settled on a coalition agreement that will form the basis for an SPD-led government. Various new legislative measures are expected to be put forward and acted upon as a result. In a time of change it will be vitally important to consolidate and expand the perceived strengths of business location Germany, while at the same time address the weaknesses in a satisfactory and timely manner.

We are very pleased to be publishing this survey together, for the first time, with the American Chamber of Commerce in Germany e.V. (AmCham Germany). Working side-by-side with the most recognized transatlantic business organization in Germany has ensured – and will continue to do so – that the most important issues facing those engaged in the transatlantic economic relationship are explored, discussed and addressed for years to come.

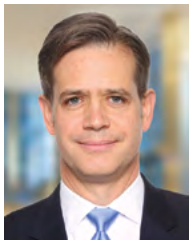
Our thanks go to the participating managers of US Inbounds who shared with us their empirical experience and the assessments borne out of it.

We wish you an interesting read with lots of new insights that will allow you to make the right decisions for your company in Germany.

With our best wishes

Andreas Glunz
Managing Partner
International Business
KPMG in Germany

Simone Menne
President
AmCham Germany



Warren Marine
Partner,
USA Country Practice Leader,
KPMG in Germany
Treasurer, AmCham Germany

Please note: The results from the entire group of 360 surveyed Inbounds – representing a total of 17 countries of origin – can be found in the comprehensive survey "Business Destination Germany 2022".

Contents

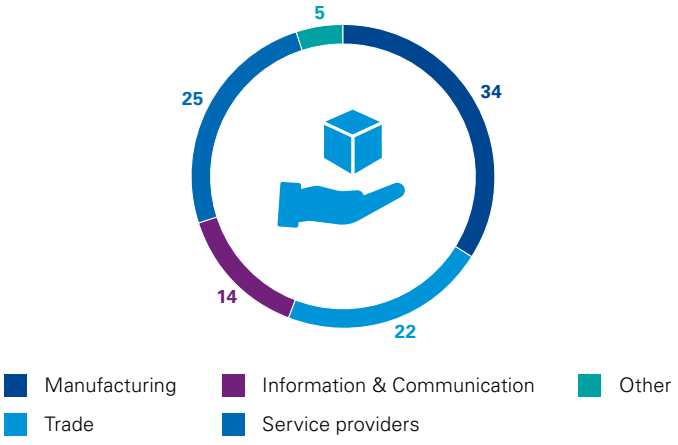
Methodology

The US Business in Germany 2022 survey is derived from the Business Destination Germany 2022 survey for which the opinion research institute KANTAR interviewed, on behalf of KPMG in Germany, 360 CFOs of German subsidiaries of foreign parent companies, whereby only the largest subsidiary per parent company was engaged. Thereof 100 CFOs are employed at German subsidiaries of US-groups.

The survey was conducted between June 14 and August 16, 2021:

For the Business Destination Germany 2022 survey, the opinion research institute KANTAR interviewed 360 managers of German subsidiaries of international majority shareholders hereafter referred to as "Inbounds" by telephone from June 14 to August 16, 2021. The respondents – mainly CFOs – represent the eight main investor countries: USA (with 100 participants) and Japan, China, the UK, France, the Netherlands, Switzerland and Austria (each 30 participants). In addition, 50 Inbounds from other investor countries were also surveyed: Brazil, Denmark, Finland, Greece, India, Italy, Sweden, Spain and South Korea.

Figure 1:
Split of surveyed US Inbounds by industry



Source: KPMG in Germany 2021; n=100 (US Inbounds)

All of the respondents were asked for their views on the pros and cons of Germany as a business location in comparison with other European countries.

The biggest group of interviewed company representatives comprises 100 German companies with a US parent company:

US Inbounds interviewed were selected based on the size of their annual turnover in Germany; the majority of which (75%) have an annual turnover between 100 and 500 million EUR. Very large companies with a turnover above 500 million EUR account for 12 per cent of our survey sample. Smaller companies with a turnover of less than 100 million EUR account for the final 13 per cent.

Two-thirds (66%) of the US Inbounds surveyed said that they use their German location to distribute their products, 42 percent said they are engaged in manufacturing or other production activities, and 21 percent conduct research and development.

External sources:

The survey results presented in this publication have been supplemented with extensive, additional analysis drawn from a variety of publicly available information with the goal of providing deeper insights into the survey results. All external sources are either referenced underneath the various graphs of this survey or can be found within the footnotes section and in some cases in the body text itself.

For more information regarding Business Destination Germany 2022 survey please click here.

Executive Summary

US Inbounds current state of business and future expectations

Current state

- Almost three quarters (73%) of the 100 US Inbounds in Germany surveyed rate their **current economic situation** as **good or very good** (Chapter 2.1).
- More than half (53%) of the US Inbounds surveyed use their German location as their **European headquarters.** A number of Inbounds from other non-EU countries also make this choice, such as Switzerland (67%), China (60%) or Japan (57%). 44 percent of US Inbounds also use Germany as a **hub for their non-European activities.** Even more, almost 7 out of 10 companies (67%) use Germany as a **base for the entire German-speaking DACH region** (i.e., including Austria and Switzerland) (Chapter 2.5).
- The **export quota** of the US Inbounds surveyed is one-third (33%). Accordingly, the strong international network and export orientation of the German economy resonates with US Inbounds operating in Germany (Chapter 2.5).

Expectations

- For 2022, 59% of US Inbounds forecast a **further improvement,** while 72% expect this in the medium term (within 5 years) (Chapter 2.1).
- Germany, as the economically strongest industrialized country in the EU, has gained additional attraction since January 1, 2021 for British companies and also for US corporations, as they seek to maintain access to the European single market following Brexit. 26% of British Inbounds and at least 13% of the US Inbounds cite **Brexit as the reason for increasing investment in Germany** (Chapter 2.4).
- The **planned expansion investment** of US Inbounds has declined: In 2021, only 18 percent are planning to invest at least 10 million EUR per year in Germany compared to 24 percent two years ago and 47 percent four years ago. The average annual investment in the coming years for US Inbounds was only 4 million EUR, well behind the average of all 360 surveyed Inbounds of 7.2 million EUR, and over 25% less than the average for US Inbounds from the survey two years ago (Chapter 2.2).
- Those US Inbounds who want to invest in the coming years (48 of 100 companies surveyed) will focus on **increasing** their **workforce** (73%), **digitalizing** their business (71%) and **expanding capacity** (63%) (Chapter 2.3).
- The three **most popular federal states** for prospective investment by foreign investors are Bavaria (34% put this state amongst their Top 3 choices), Baden-Wurttemberg (29%) and North Rhine-Westphalia (24%) (Chapter 2.6).

The strengths and weaknesses of business destination Germany from the perspective of US Inbounds

Strengths

- Germany constantly scores very high in respect of **fundamental location factors,** including: **public safety** (83% rate Germany amongst the Top 5 EU countries), the **stability of the political system** (81% view it as an EU Top 5) and the **high standard of living** (81%). These results demonstrate that Germany is seen by US investors as a **safe haven for long-term investment** (Chapter 1.1).

- In terms of the **availability of qualified specialists** Germany has made significant progress: 37% of CFOs of US Inbounds place Germany at least amongst the Top 5 in Europe. Two years ago, only one in four (26%) held this viewpoint (Chapter 1.8).

- While there is a wide range of location factor reform needs in Germany, it should not be overlooked that more than 40 percent of those surveyed see Germany as amongst the Top 5 EU countries for 10 out of 16 location factors highlighted in the survey. And although a number of location factors are rated less favorably than two years ago, they still point to **fundamental strengths.** These include, in particular, labor productivity (75 percent see Germany at least amongst the Top 5), logistics infrastructure (58 percent), the research environment (50 percent), openness to foreign investors (47 percent) and process automation (45 percent) (Chapter 1).

Weaknesses

- As per the 2021 assessment by US Inbounds, the **weaknesses** that existed two years ago in our last survey **remain** (tax system and logistics infrastructure) **or have become even worse** (digital infrastructure). Whereas comprehensive measures are being planned and undertaken to improve the digital infrastructure in Germany, the same does not hold true and cannot yet be observed for all other weaknesses identified by US Inbounds and Inbounds from other countries (Chapter 1).

- By far the **least favorably rated location factor** in Germany is **digital infrastructure.** Only 13 percent of US Inbounds see Germany among the Top 5 countries in the EU, with 36 percent even placing it in the Bottom 5 (Chapter 1.2). This is followed closely by its **tax system.** Only 23 percent place Germany's tax system in the Top 5 in Europe, with 25 percent actually seeing it as the worst performer (Chapter 1.6).

- Also, the **logistics infrastructure** (roads, bridges and railways) is perceived as not up to the standards required of a modern European country. The quality of the infrastructure is assessed as having deteriorated substantially compared with our survey undertaken four years ago; now only 58 percent put Germany at least amongst the Top 5 in the EU (four years ago it was 72%) (Chapter 1.4).

- In a European comparison, Germany takes the unenviable top position in terms of being the most expensive for **energy costs,** which is due to its ongoing energy restructuring (Chapter 1.5).

- While Germany has traditionally been known for having high **labor costs,** it has also been recognized as having one of the highest levels of productivity. However, **labor productivity** has stagnated since 2017 in Germany while most other EU countries and the US have experienced increasing labor productivity (Chapter 1.9).

- Not only have the previous weaknesses of Germany as a business location from the point of view of US Inbounds not improved in the last two years, but at the same time the perceived **fundamental strengths** of Germany as a location has **dropped** down: Germany's process automation has gone down from 56 percent to 45 percent and its innovative strength from 48 percent to 34 percent (Chapters 1.3 and 1.11).

- In the opinion of US investors, Germany distinguishes itself with its **engineering skills and inventiveness,** which is expressed in top rankings in registered and granted patents respectively. However, Germany is viewed as too hesitant and critical in the implementation of said patents and innovations. What is required is more courage and fewer concerns about **establishing new technologies in the market** (Chapters 1.10 and 1.11).

Executive Summary

Facts about Inbounds in Germany

Facts about all Inbounds in Germany

- The total number of all **Inbounds in Germany** is almost 27,000. Around 3.7 million people in Germany found employment at Inbounds, which equates to 12% of all employees in the country. Inbounds in Germany achieved around a quarter (24%) of the sales of all companies based in Germany.[1]
- Based on the facts above it can be stated that Inbounds, in particular the large group of US Inbounds, clearly make a **significant contribution to prosperity in Germany**.

Facts about US Inbounds in Germany

- **By number of Inbounds** the USA is the **number 3 investor** in Germany with 2,675 Inbounds after the UK with 3,647 Inbounds and Switzerland with 3,344 Inbounds.
- **By number of employees and generated sales** the USA is by far the **number 1 investor** in Germany: US Inbounds employ around 640,000 people and generate sales of nearly 300 billion EUR. This represents 17% of all jobs in Germany provided by Inbounds from all countries and 18% of all their sales.[2]
- **US direct investment in Germany** in 2020 was 162 billion USD, which represents a remarkable increase of 7.3% compared to 2019 (up from 151 billion USD) and 20.5% compared to 2018 (up from 135 billion USD).[3]
- US corporations have undertaken an average of about **230 Greenfield projects annually** in Germany since 2016.[4]
- 4.1 percent of the **German world market leaders** are **US-owned,** such as the Wirtgen Group, an international group in the construction machinery sector owned by Deere & Company.[5]
- US groups continue to demonstrate a high level of **innovation** with their companies in Germany and actually make up 6.7 percent of German companies in innovative markets.[5]
- There are a significant number of **well-known US companies** doing business in Germany whereby the industrial, technology and services sectors are very well represented. Examples include Amazon (Munich), Ford (Cologne) and IBM (Ehningen, near Stuttgart).[5]
- The US Inbounds surveyed have existed for an **average of 63 years,** reflecting the fact that many US Inbounds originated as traditional German founded companies which were acquired by US groups.[5]
- **Munich** has the highest concentration of US Inbounds and **North Rhine-Westphalia** has more US Inbounds than any other German state.[5]

[1, 2] Eurostat 2021 (latest available recorded year is 2018)
[3] Bureau of Economic Analysis (BEA)
[4] fDi Markets 2021
[5] List of German companies with a US owner (Die deutsche Wirtschaft (DWW), 2021)

Facts about trade between Germany and the USA

- The **volume of trade** between Germany and the US grew from 111 billion EUR in 2010 to 170 billion EUR in 2020. This is an increase of 55%, or around 4.5% annually during the last decade.[6]

- In the year 2020, **German exports to the US** totaled 103.8 billion EUR, almost 15% less than in 2019, primarily reflecting the effects of the COVID-19 pandemic. More than two-thirds of all German exports to the US are in the vehicle, machinery, electrical engineering and chemical-pharma sectors.[6]

- **German exports** in May 2021 **to the US** grew by a whopping 40.9 percent compared to the same month in COVID-19 influenced 2020.[6]

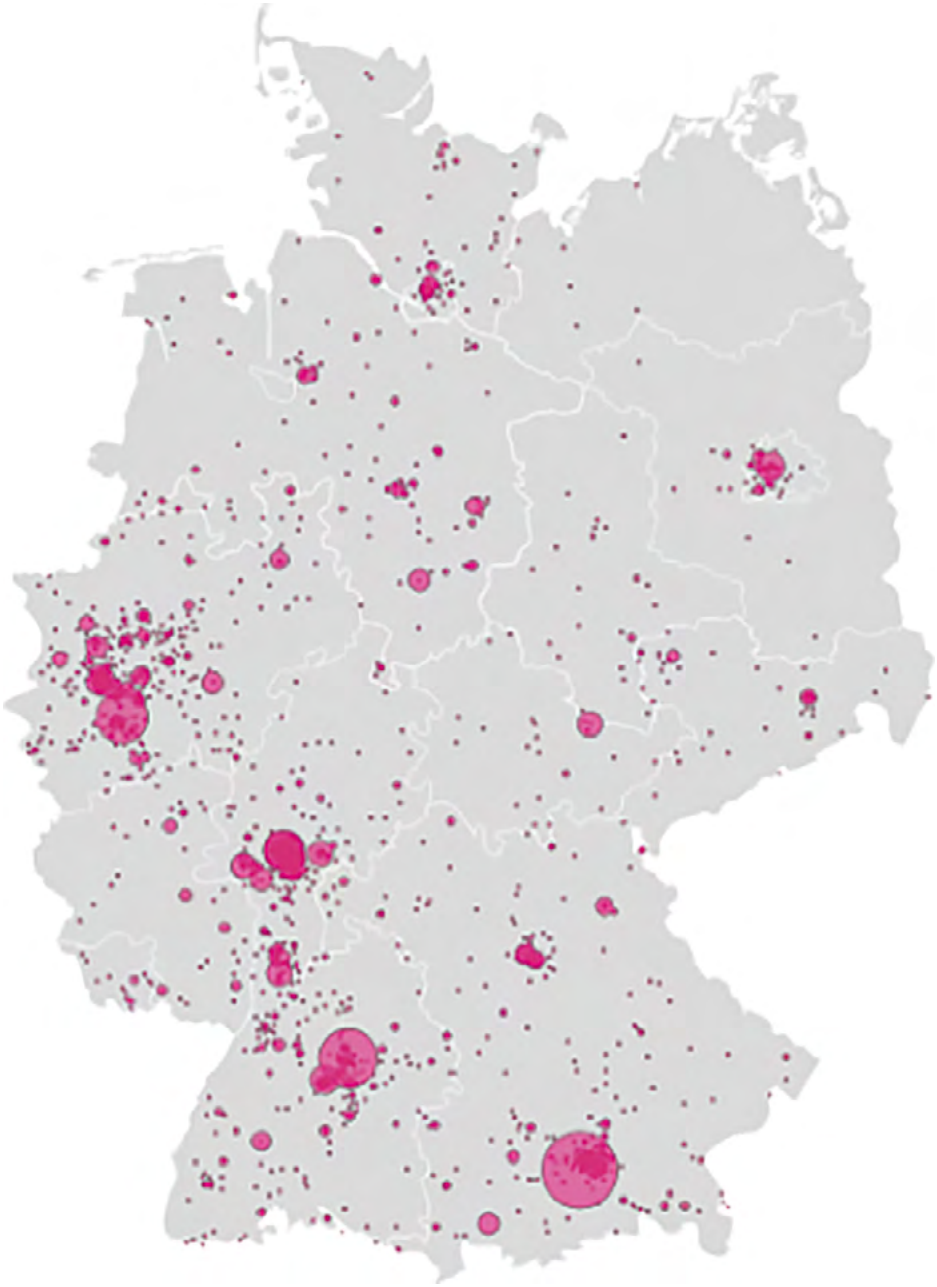
- **Imports from the US** totaled 67.7 billion EUR in 2020. The most important product groups imported by Germany from the US in 2020 were data processing devices, electronic and optical products, pharmaceutical products, vehicles and vehicle parts and chemical products.[6]

Note: Further insights regarding economic relations between Germany and its international trading partners can be found in KPMG's comprehensive **Business Destination Germany 2022** survey.

[6] German Federal Office of Statistics (Destatis), 2021

Executive Summary

Where US Inbounds are located in Germany



Note: Circle size in proportion to number of employees in a region
Source: KPMG presentation, 2021 (data from Bisnode company database, 2019)

Table 1:
Selected large US Inbounds in Germany

US parent group	German subsidiary (group level in Germany)	Company type and/ or Field of operation	2019 sales of German sub-sidiaries** (in EUR bil.)	Employees in Germany 2019
Amazon.com, Inc.	Amazon Group companies*	Internet retail trade	29.57	12,000
Ford Motor Company	Ford-Werke GmbH	Automobile	20.31	25,844
Exxon Mobil Corp.	ExxonMobile Central Europe	Mineral oil	9.00	3,000
Philip Morris International	Philip Morris GmbH	Wholesale tobacco products	6.80	703
Deere & Company	John Deere GmbH & Co. KG	Agricultural and forestry machinery	6.70	10,439
Ingram Micro Inc.	Ingram Micro Holding GmbH	Retail	6.60	1,468
HAVI Group, LP	HAVI Europe Management GmbH & Co. KG	Logistics	6.20	7,539
Walgreens Boots Alliance	Alliance Healthcare Deutschland GmbH	Chemicals & Pharmaceuticals	4.90	2,830
Tech Data Corporation	Tech Data GmbH & Co. oHG	Retail	4.80	1,043
Microsoft Corporation	Microsoft Group companies*	Technology & business services	4.42	2,515
Arrow Electronics, Inc.	Arrow Central Europe GmbH	Semiconductor	4.20	911
ConocoPhillips Company	JET Tankstellen Deutschland GmbH, Phillips 66 Company	Mineral oil	4.20	244
McDonald's Corporation	McDonald's Deutschland LLC	Consumer markets	3.80	61,230
International Business Machines Corporation	IBM Deutschland GmbH	Technology & business services	3.80	5,514
The Dow Chemical Company	Dow Group companies*	Chemicals & Pharmaceuticals	3.60	3,575

* *Individual subsidiaries of the Group in Germany have been aggregated.*

** *Sales of overall group that were reported by US Inbounds (consolidated financial statements) in Germany, which means that part of the sales was generated abroad but reported by the respective German entity.*

Source: Annual reports of individual corporate groups and their consolidated annual financial statements in the Federal Gazette.

US Inbounds Assessment of Germany as a Business Location

Key findings:

- Top rankings for public safety, political stability and standard of living
- Growing availability of skilled employees
- Quality of digital and logistical infrastructure has steadily declined over the years
- Germany is expensive in terms of electricity, taxes and labor costs
- Labor productivity in Germany remains high but is stagnating
- Great challenges in achieving future value creation – while Germany is strong in inventing it is perceived as weak in implementing its innovations

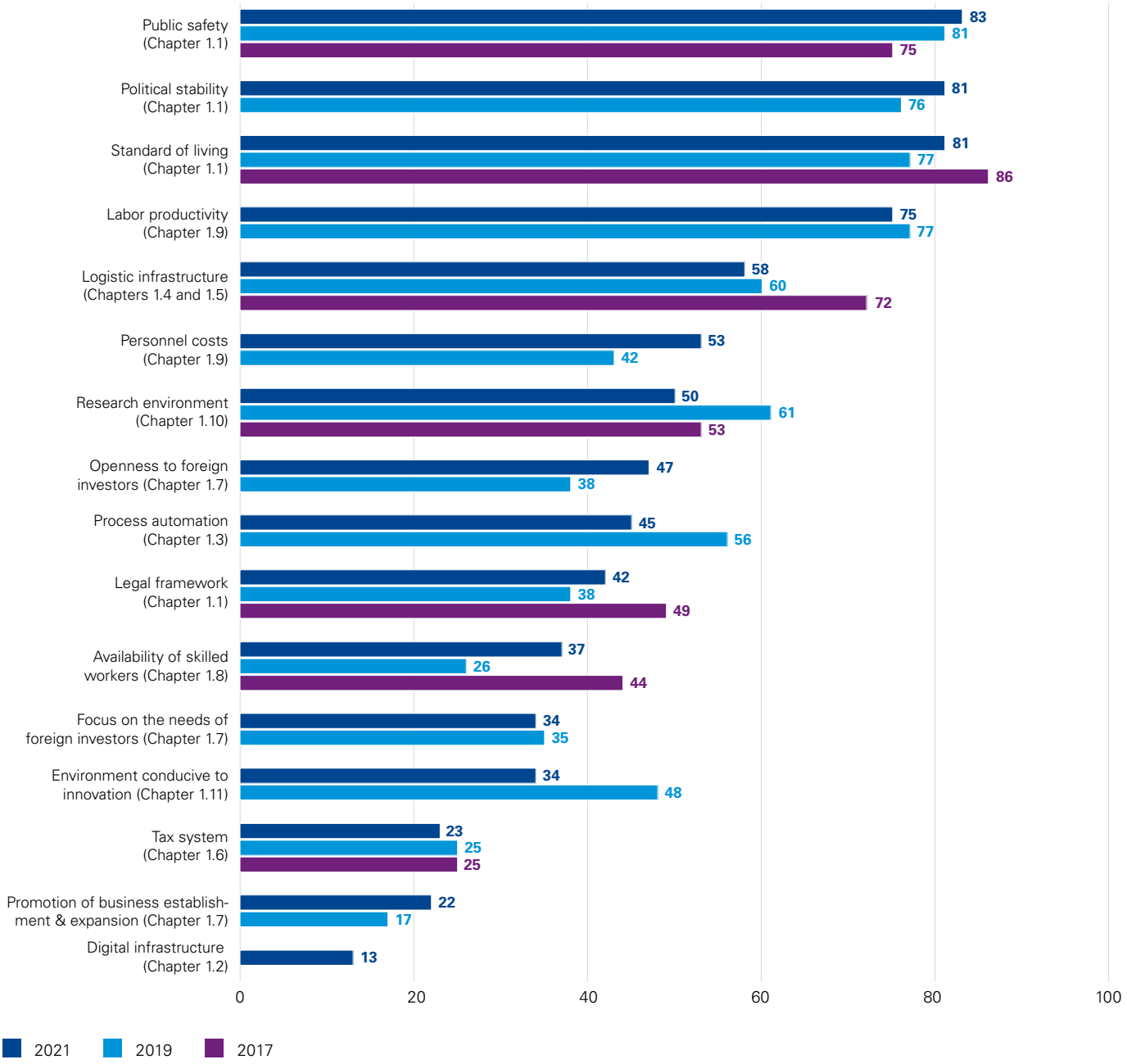
1.1 Germany's fundamental location factors encourage US investors

In this chapter we analyze the location factors that are most important to foreign investors when they make their investment decisions. The interviewed company representatives of US Inbounds were asked to rate Germany in terms of various location characteristics in an EU comparison. Some of the questions have already been asked as part of the last three KPMG surveys, so it is possible to show a pattern over a period of time.

The following graphic summarizes the evaluations of the location factors. The percentages show how many of the executives of US Inbounds surveyed see Germany as at least among the Top 5 most successful EU countries.

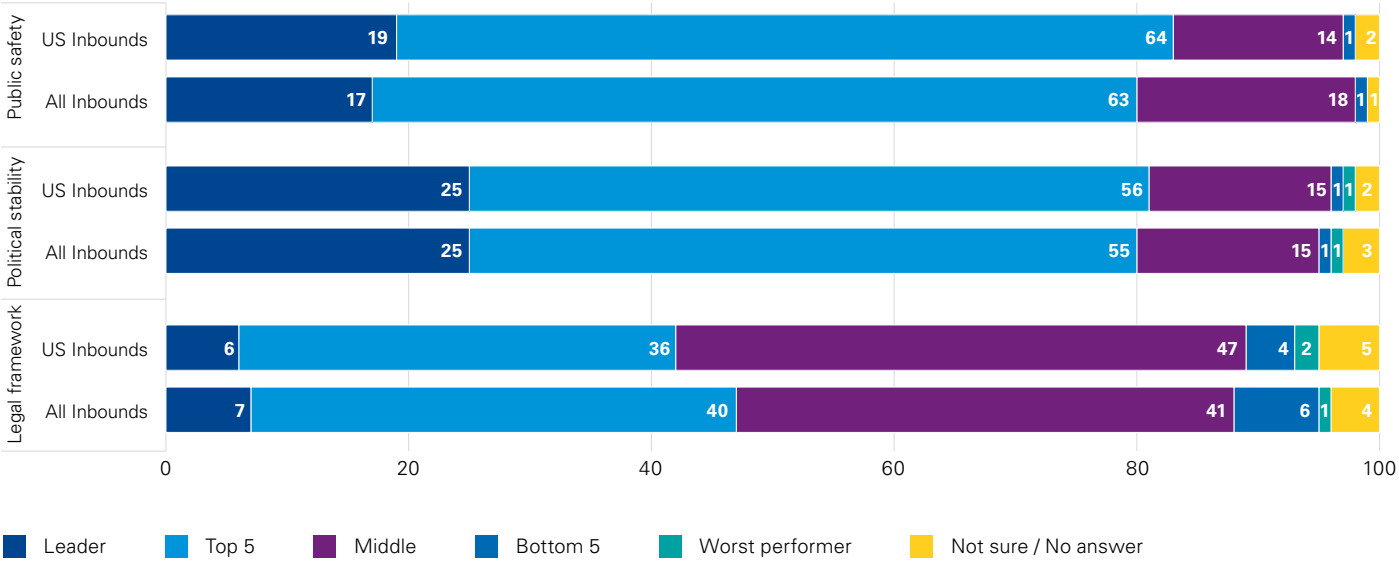
Figure 2:

Overview of all examined business location factors according to share of US Inbounds that see Germany as at least amongst the Top 5 in the EU (surveys 2017, 2019 and 2021)



Source: KPMG in Germany 2021; US Inbounds: n=100 (2021), n=100 (2019), n=57 (2017)

Figure 3:
Assessment of Germany's fundamental location factors in 2021 as per US respondents compared with all 360 respondents from all investor countries (figures in percent)



Source: KPMG in Germany 2021; n=360 (all) and n=100 (US)

There are location factors that create the foundation of, and underpin, any form of economic activity in a country: public safety, political stability and legal frameworks. Potential investors typically only move on to examine all other location factors once these base factors have first been assessed as satisfactory. Hardly any investor would be willing to get involved in a country in which they would have to be concerned about the continued existence and stability of its political institutions, the predictability of the judiciary or the surety of their investment.

Public safety and political stability in Germany, in particular, are highly valued by US investors. 83% see Germany as at least amongst the Top 5 of all EU countries for the former, 81% for the latter. Germany scores significantly weaker in terms of the legal framework. Only 42 percent see Germany as a leader in this category (at least among the Top 5 EU countries). US Inbounds, therefore, are more critical when it comes to this factor than the average of Inbounds from all countries of origin (47%).

We suspect that this factor – both for the US Inbounds and for the others – performs less well due to Germany's many bureaucratic hurdles and complex approval procedures when it comes to economic activity. The former Chairman of the German Council of Economic Experts, Lars Feld, points out that Germany can significantly improve its reputation as an investment location without incurring significant additional costs by just reducing its excessive bureaucratic regulations.

According to Feld, investment activity is suffering from a density of bureaucratic regulations that is akin to economic strangulation. Although the reduction of bureaucracy and lean approval processes are regularly spoken about by the German administration, too little action is happening in this regard.[7]

There are, however, no doubts among US Inbounds about legal security in Germany. The political and legal institutions are regarded highly from the point of view of all international investors and have formed the foundation for economic prosperity in Germany since the end of the Second World War.

As in our previous surveys, Germany's standard of living (quality of life, residential and leisure value) is also perceived as excellent – 81% of the executives surveyed are of the opinion that it is one of the highest ranked (at least Top 5) of all EU countries. The overwhelming majority of the executives agree that Germany is a place where one feels extremely comfortable.

Please note that the following applies to all graphical information in this study: due to rounding differences percentage figures may not add up to 100% at all times.

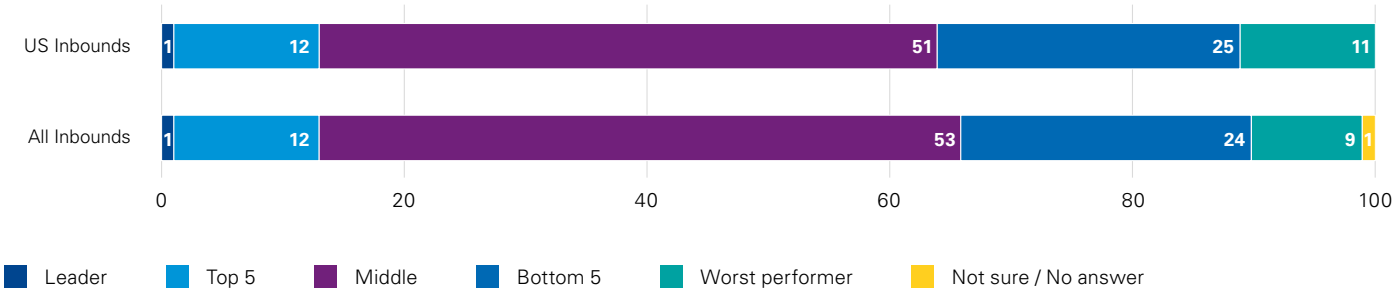
[7] Eine Renaissance der Wirtschaftspolitik? Da wäre ich vorsichtig, WirtschaftsWoche, April 17, 2021

1.2 Digital infrastructure rated by far as the worst business factor in Germany

Innovative digital business models require an excellent digital infrastructure. The result of the survey for digital infrastructure (network availability, 5G, industrial networks) is a clear wake-up call for the Germany authorities if they wish their country to be a desired business location. 25 percent of US Inbounds rank Germany's digital infrastructure as amongst the Bottom 5 in the EU, and a further 11 percent even consider it the worst performer. The assessment of the US Inbounds is, therefore, similar to the assessment of all Inbounds that were surveyed; a worrying issue for a leading industrial nation that wants to set a course for future value creation.

The COVID-19 pandemic has meant that physical distance from fellow human beings has become the norm in social interaction. Digital forms of interpersonal interaction have, therefore, gained significant importance. In this huge (economic) crisis, in particular, society has been made acutely aware of the importance of digitalization in all aspects of life. And the basis for it is fast, high-quality broadband connectivity.

Figure 4:
Assessment of digital infrastructure in Germany in 2021 as per US respondents compared with all 360 respondents from all investor countries (figures in percent)



Source: KPMG in Germany 2021; n=360 (all) and n=100 (US)

"The pandemic has relentlessly revealed the importance of digitalization and new technologies and has forced executives to prioritize transformation within their companies. The potential of digitalization is enormous and can, for example, help to reduce costs through process automation and engage customers more actively through new digital business models. Alongside that process, it is also important to keep potential risks in mind and mitigate against them proactively by ensuring cyber security and people enablement along the whole value chain."

Ioannis Tsavlakidis
Managing Partner Consulting, Head of Advisory EMA, KPMG in Germany

Broadband-Landline connectivity

Slow data lines in Germany are still an enormous problem, especially in rural areas. This is especially true for many medium-sized companies, some of which were among the US Inbounds surveyed. The more peripheral a community is, the less favorable is its level of fiber optic coverage. The 2021 regional planning report[8] describes the inadequate digital connection of many businesses in rural areas as a "serious competitive disadvantage". Inadequate broadband expansion is hampering their development, so that they can only use the remarkable potential of digitalization to a limited degree. This issue is so worrying precisely because in many rural areas in Germany there are highly innovative medium-sized companies whose development is being hindered by network infrastructure that is badly in need of an upgrade.

The 'Broadband Atlas' (BBA) created by the Federal Ministry of Transport and Digital Infrastructure (BMVI) states that, for example, in rural areas only 24.3 percent of commercial locations have data lines with download speeds of one gigabit. Even in cities that proportion is only 56.4 percent.[9] The main sticking point in broadband expansion is the question of how to deal with the particularly expensive last mile, i.e., the final stretch to the home or business. It is often made of copper cabling, some of which is up to 80 years old; a DSL connection on this type of cable can usually only be used to achieve peak values of between 50 and 100 Mbit/s. The fiber optic represents the backbone of digitalization, yet Germany has delayed its adoption and expansion for several decades.[10]

Cellular networks and campus networks

5G, as the next generation of the mobile cellular network, will open up new business models and as a consequence add additional sources of income for companies in all sectors of the economy. Productivity boosts related to 5G application options are based on higher data speeds, lower latency times and a simplified division of the physical infrastructure into several virtual networks that can be tailored to different end users (network slicing). The global association of mobile operators, GSMA, predicts that 5G will contribute 2.2 trillion USD to the global economy by 2034, accounting for 5.3 percent of global GDP. In particular, two key industries in Germany – the manufacturing industry ("smart manufacturing") and the automotive industry ("autonomous cars") – could achieve significant productivity leaps through bespoke use of the new generation of radio technology. The market research institute Oxford Economics[11] even predicts the creation of over 200,000 new jobs in Germany in the event of a full 5G rollout by 2030.

In the summer of 2019, the Federal Network Agency (BNetzA) auctioned frequencies to telecommunications companies to set up nationwide mobile networks. At the same time, it reserved part of the spectrum of 5G frequencies (between 3700 MHz and 3800 MHz) for local networks in industry, agriculture and for research institutions. Corporations, medium-sized companies and universities immediately took advantage of this option and by May 2021 frequencies for 120 campus networks had already been allocated. The technology group Nokia estimates that the potential total number of 5G campus networks in Germany will be between 5,000 and 10,000 by 2025, the majority of which will be allocated to German medium-sized companies.

It makes sense for industry to have direct access to these frequencies as, after all, they know the requirements for their systems best. Industry working as efficiently as possible is what ultimately counts and that can also mean having maximum autonomy over one's own network infrastructure. Therefore, the Federal Network Agency's decision – which in addition to the nationwide auctioning of frequencies also provides for the allocation of local and regional frequencies on request – is recognized as a step in the right direction in the view of the big four German industry associations: VCI, VDA, VDMA and ZVEI.

[8] Raumordnungsbericht 2021, Bundesinstitut für Bau-, Stadt- und Raumforschung

[9] Aktuelle Breitbandverfügbarkeit in Deutschland, Bundesministerium für Verkehr und digitale Infrastruktur, December 2020

[10] Schnelles Internet – Warum Deutschland hinterherhinkt, tagesschau.de, March 18, 2019

[11] Study: "Restricting Competition in 5G Network Equipment throughout Europe", June 2020

Please note: A distinction is made between scenarios, the figure refers to the baseline scenario (benchmark). If Huawei is excluded as a supplier for technical infrastructure, for example, the scenario would be different.

1.3 Process automation

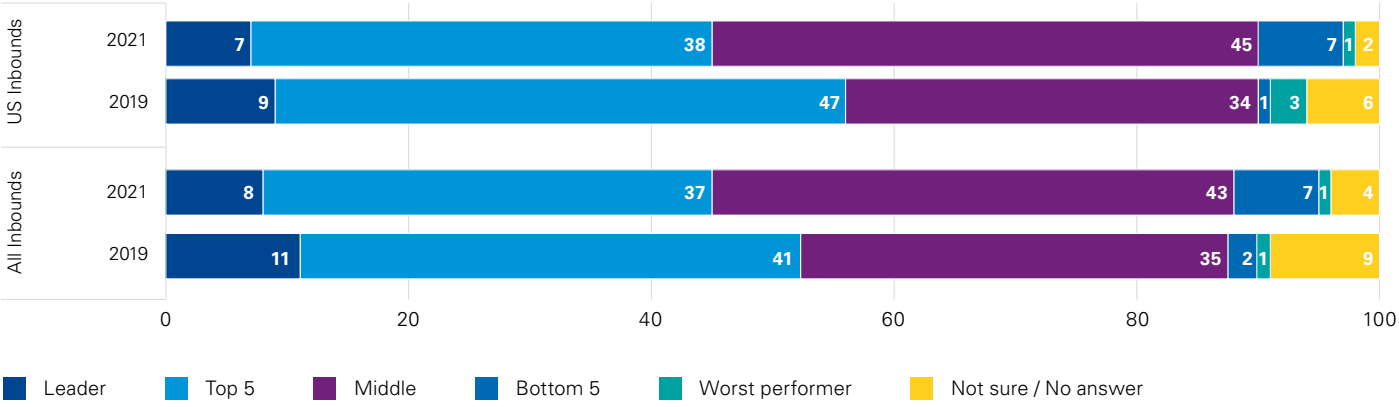
As with research & development (see Chapter 1.10), the degree of maturity of Germany as a location in terms of the automation of processes has significantly decreased since our 2019 survey. Two years ago, 56% of the US Inbounds rated Germany as a leader (at least among the Top 5 EU countries) in this field that is important for making future leaps in productivity. This year only 45% percent hold this view and, as a result, Germany as a business location has lost ground in another extremely relevant field from the point of view of US Inbounds.

According to the 2020 World Robotics report, published by the International Federation of Robotics, Germany actually has the highest density of automated systems in Europe in relation to numbers of employees. It had 221,500 industrial robots while France, on the other hand, had only 42,000 such units in 2020. This put Germany in fifth place worldwide, behind Japan, China, the USA and South Korea.

The above figures indicate that Germany is on the right track in this category and its large industrial sector, in particular, offers numerous opportunities for achieving further leaps in productivity using automated systems. It is possible that the interviewed US Inbounds had the level of automation in their mother country in mind as a benchmark when assessing Germany, which would mean in comparison that Germany still has some catching up to do.

Figure 5:

Assessment of German process automation as per US respondents compared with all 360 respondents from all investor countries (figures in percent)



Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US); 2019: n=340 (all) and n=100 (US)

1.4 The logistics infrastructure in Germany is increasingly showing signs of wear and tear

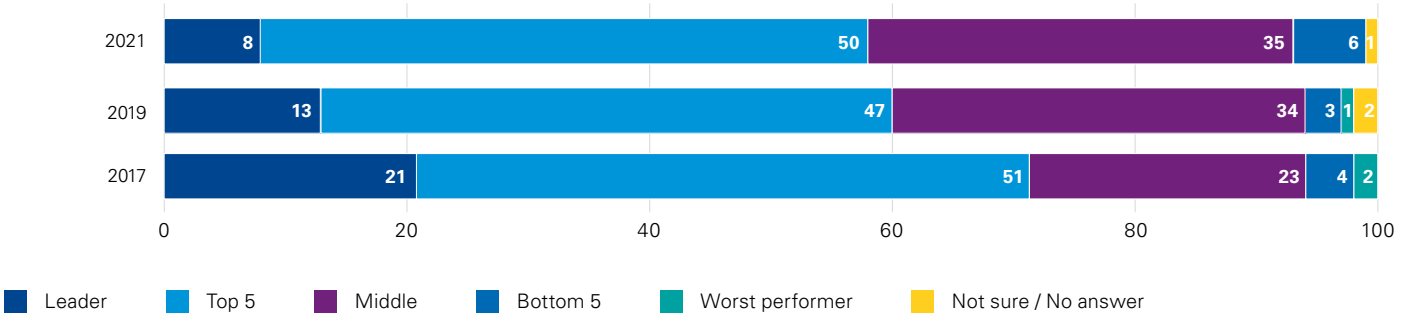
Germany's logistics infrastructure (e.g., roads, bridges and railways) continues to deteriorate according to the US Inbounds questioned; a view that also grows more negative with each passing year. Four years ago, the proportion of those who still ranked Germany's physical infrastructure at a minimum in the Top 5 in the EU was 72% but today that figure stands at 58%.

According to the KfW municipal panel, figures from May 2021 show that, in spite of increased investment, the municipal investment backlog has risen further to 149 billion EUR. This is largely connected to schools (46.5 billion EUR) and transport infrastructure (33.6 billion EUR).[12] For example, in August 2021, the new centralized federal highway administration, Autobahn GmbH, pointed out that around 3,000 of the country's bridges were in a poor or unsatisfactory condition. In addition, according to the Federal Highway Research Institute, every sixth kilometer of German autobahns – which translates to 10,000 kilometers of roads – is in poor or even very poor condition.[13] Damaged roads cause delays in supply chains, among other things, and result in economic expense on a daily basis. These official observations back the survey participants' views that Germany's physical infrastructure is in need of urgent care.

As if that isn't enough, a report of the World Economic Forum shows a gradual deterioration in quality across all of Germany's infrastructure. So, in addition to the roads and the railways, also in need of improvement are airports, ports and the power supply.[14]

A reliable estimate of the exact total need for public investment is not possible. Prior to the COVID-19 crisis, the German Economic Institute (IW) called for an investment offensive in infrastructure – in order to make Germany future-proof – to the tune of 450 billion EUR over ten years. Numbers of this magnitude are not implausible if one takes into account the quality of the existing infrastructure and the cost of new infrastructure. What the COVID-19 crisis has meant with regard to public investment needs cannot yet be forecast. However, it has no bearing on the fact that a solid and modern infrastructure is an important building block for the future vibrancy of any economy.

Figure 6:
Assessment of German logistics infrastructure by US respondents (figures in percent)



Source: KPMG in Germany 2021; US Inbounds: n=100 (2021), n=100 (2019), n=57 (2017)

[12] KfW Research, KfW Municipal Panel 2021 – Summary, May 2021

[13] 10.000 Kilometer Sanierungsstau, Spiegel Plus, November 13, 2020; Primary source: Bundesanstalt für Straßenwesen (Federal Highways Research Institute)

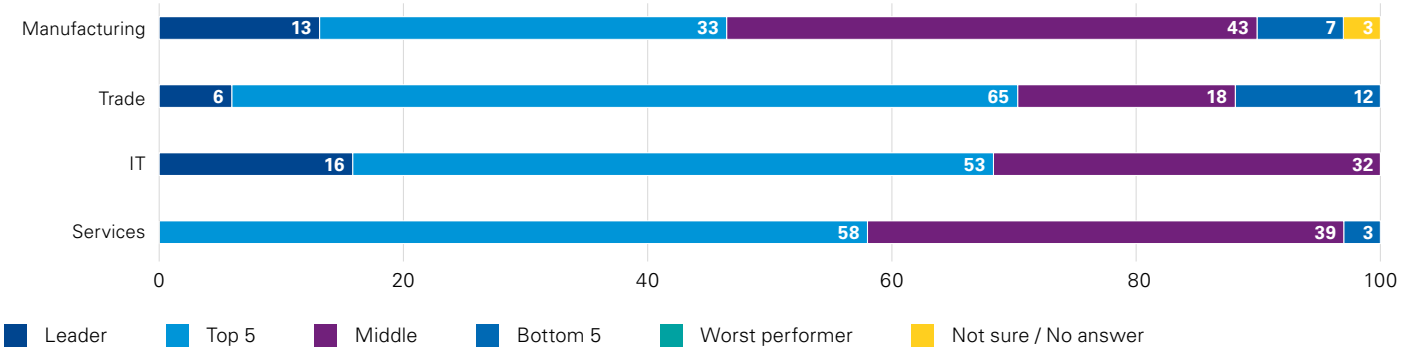
[14] World Economic Forum, The Global Competitiveness Report, 2020

1.5 Energy conversion in Germany drives up electricity costs

In addition to the availability of a high standard of infrastructure, the price for its use is also an extremely relevant location factor. In this regard, electricity costs are what is relevant for energy-intensive industries. It is, therefore, understandable that the evaluation of the infrastructure of sectors with high energy requirements, such as the "manufacturing industry" (46%), is more negative than that of those in the service industries (58%) and in trade (71%) for which cheap electricity is not as crucial to the success of their business.

On the positive side, foreign investors in Germany can traditionally count on a very reliable power supply. Here, Germany actually shows itself to be above any criticism. In 2019 – the most recent reporting year – the Federal Republic of Germany had a total of only 159,872 supply interruptions in its medium and low-voltage power grids. According to the Federal Network Agency their outage duration fell to just 12.20 minutes on average; in previous years, too, the numbers were similarly impressive. This puts Germany in the top grouping of the World Economic Forum ranking that deals with the quality of the electricity supply, especially from an economic point of view.

Figure 7:
Assessment of German infrastructure in 2021 by US respondents according to their sector (figures in percent)



Source: KPMG in Germany 2021; US Inbounds (n=100): n=30 (Manufacturing); n=17 (Trade); n=19 (IT); n=33 (Services); n=1 (Others)

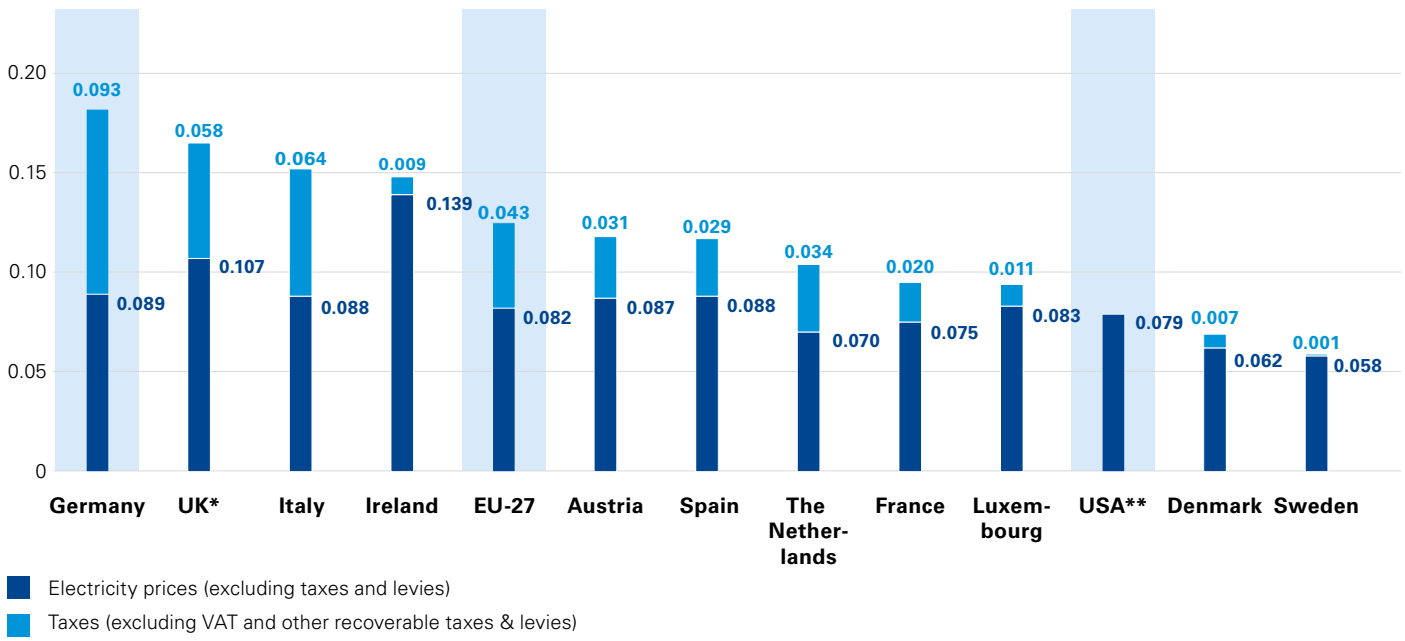
Due to the switch from traditional energy sources such as coal, gas and nuclear power to renewable energies, the prices for electricity in Germany have risen sharply in recent years. As calculated by Eurostat for the second half of 2020, the actual industrial electricity costs in Germany – that is those that exclude reimbursable taxes – at 18.18 cents per kWh are well above the EU-27 average of 12.54 cents per kWh, and above prices in neighboring France where it is only 9.5 cents. The United States with an average electricity price of 7.9 cents offers companies even more favorable location conditions. Germany, therefore, has now ousted Italy from the inglorious top position it held in 2019 as the country with the most expensive industrial electricity costs in the EU.

The inflated electricity prices in Germany are the result of a very high proportion of non-refundable taxes, which reflect the short-term economic costs for the early shutdown of nuclear power plants and the promotion of renewable energy. Germany is the only EU country with a share of non-refundable taxes and duties in relation to the total electricity price, which in the second half of 2020 was more than half (51.1 percent). By contrast, the 2020 average across all EU-27 states was only 34%.

German politics seems now to be attempting to bring in countermeasures. Part of the economic stimulus program to cope with the pandemic consequences is aimed at reducing the EEG surcharge; initially from 6.76 ct/kWh to 6.5 cents (from January 2021) and then to 3.72 cents in 2022. This program should be financed through income amounting to 11 billion EUR from CO_2 pricing and additional budget funds. This countermeasure prevents a further increase in the total price, but it will not reverse the trend of rising electricity costs in Germany.

Figure 8:

Electricity prices for non-household consumers in 2nd half of 2020 in EUR/kWh for selected EU-27 countries (and the US and UK)



* *For the UK only prices for the 1st half of 2020 were available*

** *Figure for US refers to average electricity price for Commercial, Industry, Transportation without Residential; taxes are already included in the indicated price; average price for the three sectors in 2020 was 9.1 US cents and 7.9 euro cents, respectively (EIA/ Monthly Energy Review September 2021, p. 165)*

Sources: Eurostat 2021. EIA – Monthly Energy Review

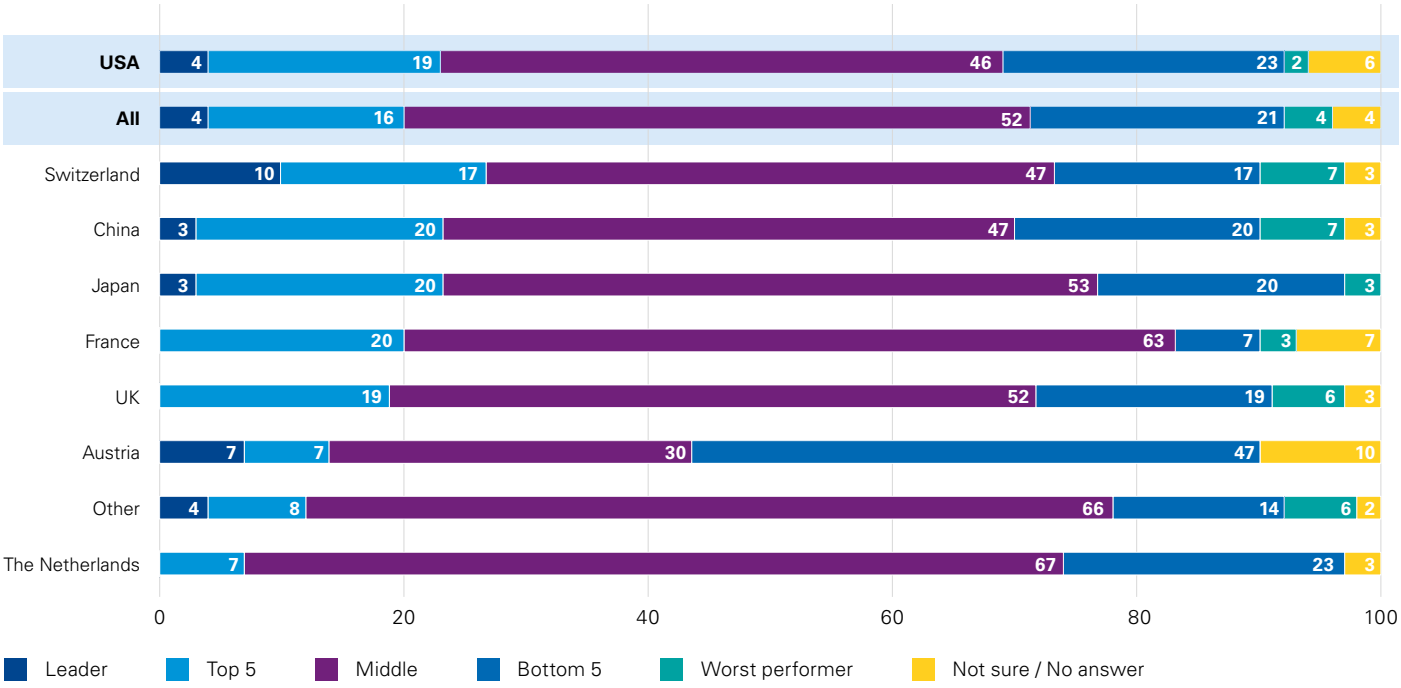
1.6 High tax rates and complex tax system

In our biannual studies the German tax system has always been perceived by US Inbounds in Germany as a nuisance; a negative judgment that was confirmed once again in this year's study. The proportion of those who see the German tax system as one of the most unattractive in the EU (Bottom 5 or worst performer) has risen to exactly a quarter. In 2019 the total was 21% and in 2017 it was 16%. The assessment by the study participants representing US Inbounds is significantly less critical than, for example, Austrian Inbounds of whom 47% consider the German tax system to be one of the most difficult to deal with (Bottom 5 or worst performer) in the EU.

The main reason for negative viewpoints in this category is that Germany is a high tax rate country by international comparison. While the average tax burden for corporations across the EU is only 22.1 percent, across Europe only 18.98 and for all OECD countries 22.81 percent, subsidiaries of international corporations in Germany are taxed at an average tax rate of 30%.

In Germany, for example, the total taxation of corporations consists of a corporation tax (15%), the solidarity surcharge (0.825%) and a different trade tax rate depending on the region. These varying business tax assessment rates that are set by the municipalities generally lead to tax burdens between 7% and 21%. Municipalities that want to offer incentives for business relocation set low assessment rates. Overall, the total corporate tax rate fluctuates between 22.8 percent and 36.8 percent due to local trade tax rates. The average trade tax rate is around 14 percent, resulting in an overall tax rate for corporations of around 30 percent.[15]

Figure 9:
Assessment of German tax system in 2021 as per US respondents compared with each investor country (figures in percent)



Source: KPMG in Germany 2021; n=360 (all), n=100 (US), n=50 (Other), each n=30 (NL, JP, AUT, UK, CH, CHN, FR)

[15] Corporate Tax Rates Table; KPMG Research (https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online/corporate-tax-rates-table.html)

1.7 Foreign investors are welcome but not a primary focus

Germany is perceived by 47% of US Inbounds to be a country that is open to international investors. Thus, the number of those who rated Germany at least among the Top 5 EU countries for this location factor has increased significantly since our last survey two years ago – by 9 percentage points.

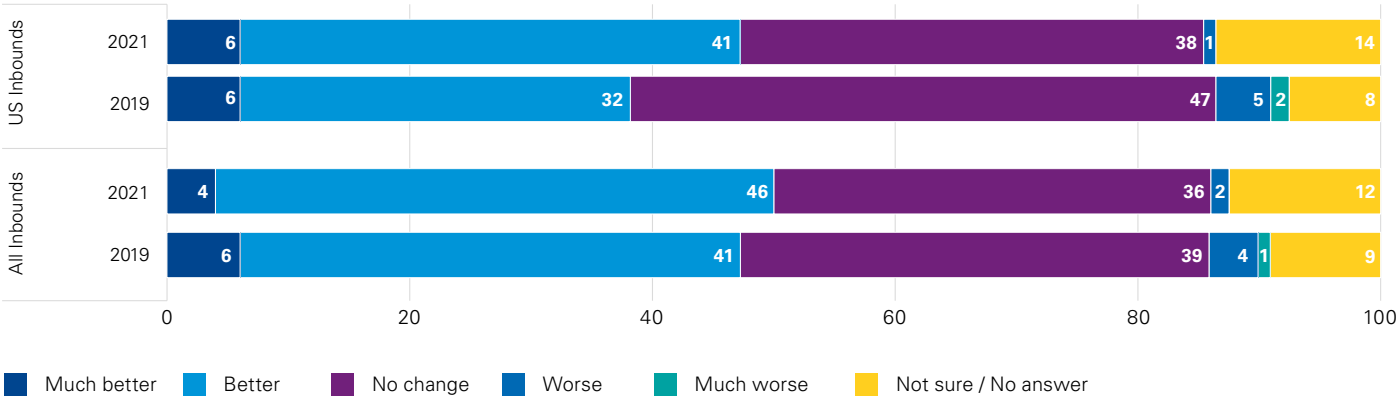
However, there still seems to be a gap between a perceived openness towards foreign investors and the concrete measures that are actually being taken to promote business establishment in a practical sense. Indeed, only 22 percent of the US Inbounds surveyed put Germany at least in the Top 5 of EU countries when it comes to promoting / providing incentives for company settlement and expansion (Figure 11). However the view that Germany is at least one of the Top 5 in the EU for this location factor is put forward by US Inbounds 5%-points more often than 2019.

Startupdetector, the industry service from Berlin, in cooperation with Statista, calculated how long it took in 2020 after a notary appointment for startups to be entered and published in the commercial register. The overall results point to stark differences between the speeds of action of local courts in different locations. In some places, startups had to wait several months after the notary appointment before their company was included in the commercial register. In other places the process was completed within a few days. The procedures of drawing up contracts, submitting them to the court, opening a business account and paying in share capital are still very time-consuming in many places in Germany. Furthermore, a large number of bureaucratic formalities, such as registering new managing directors via notaries, are still not possible via digital channels.

Those interviewees who state that incentives for foreign companies to locate to Germany need improving also seek to remove a tightening of foreign trade regulations in Germany. Stricter regulations for investment capital coming from outside the EU were put in place by the authorities to protect Germany's critical infrastructure and future technologies from foreign influence. These measures are perceived as protectionist by some investors and potential investors.

Figure 10:

Assessment of German openness to foreign investors as per US respondents compared with all 360 respondents from all investor countries (figures in percent)



Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US), 2019: n=340 (all) and n=100 (US)

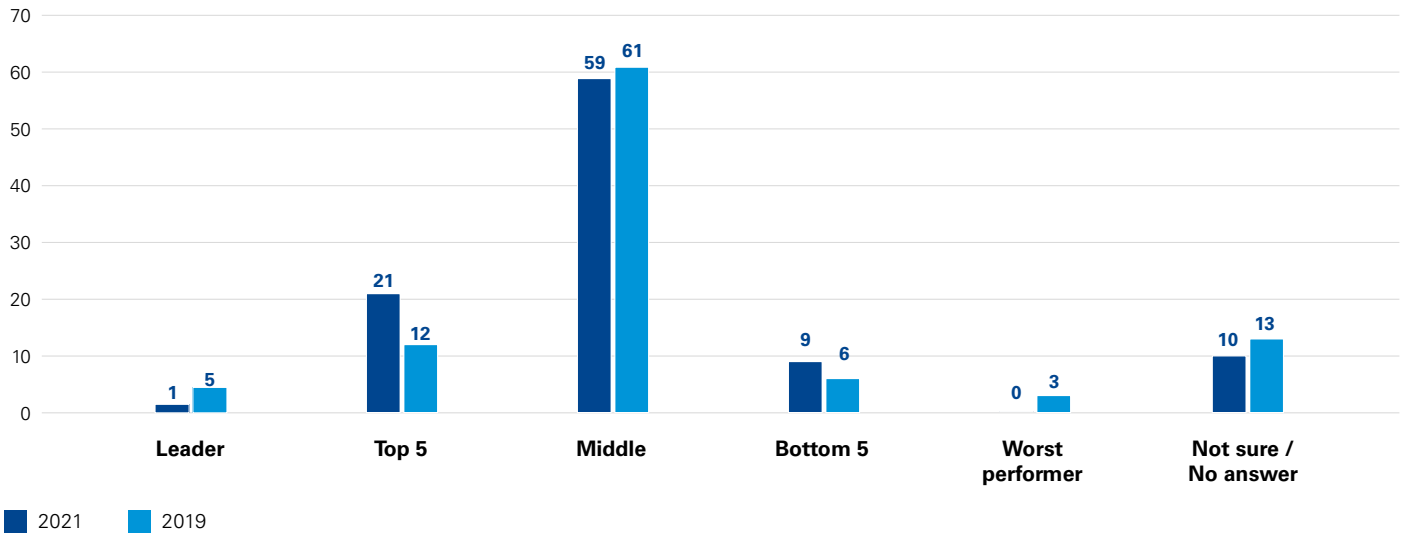
The foreign trade regulation ("Aussenwirtschaftsverordnung") allows for – under certain conditions – the examination and, if necessary, rejection of participations and takeovers by buyers from outside the EU. It was tightened at the end of 2018 and since then the German Ministry of Economic Affairs has been allowed to examine and, if necessary, prohibit foreign investment in certain areas of its critical infrastructure, such as IT, where security is paramount. The threshold for initiating such an audit has been lowered from a prospective 25 percent stake to a 10 percent stake in a company.

In April 2021, the federal government tightened the ordinance for a second time, so that in future it will be easier for it to intervene in the potential entry of investors from non-EU countries into German high-tech companies. The core element of this legislation is new reporting requirements for investment in high-tech and future technologies, as security interests could be affected in these cases. It includes scrutinizing potential investors in artificial intelligence, autonomous driving, robotics, semiconductors, cyber security and aerospace. The reporting obligation applies from 20% participation; it already applies from 10 percent in the case of particularly security-sensitive critical infrastructures.

Of course, the thrust of the foreign trade decree is not directed at individual countries, however, the results of our survey indicate that non-European companies specifically – in addition to Chinese, Japanese or US-American companies – could get the impression that they are the target of stricter foreign trade regulation.

Figure 11:

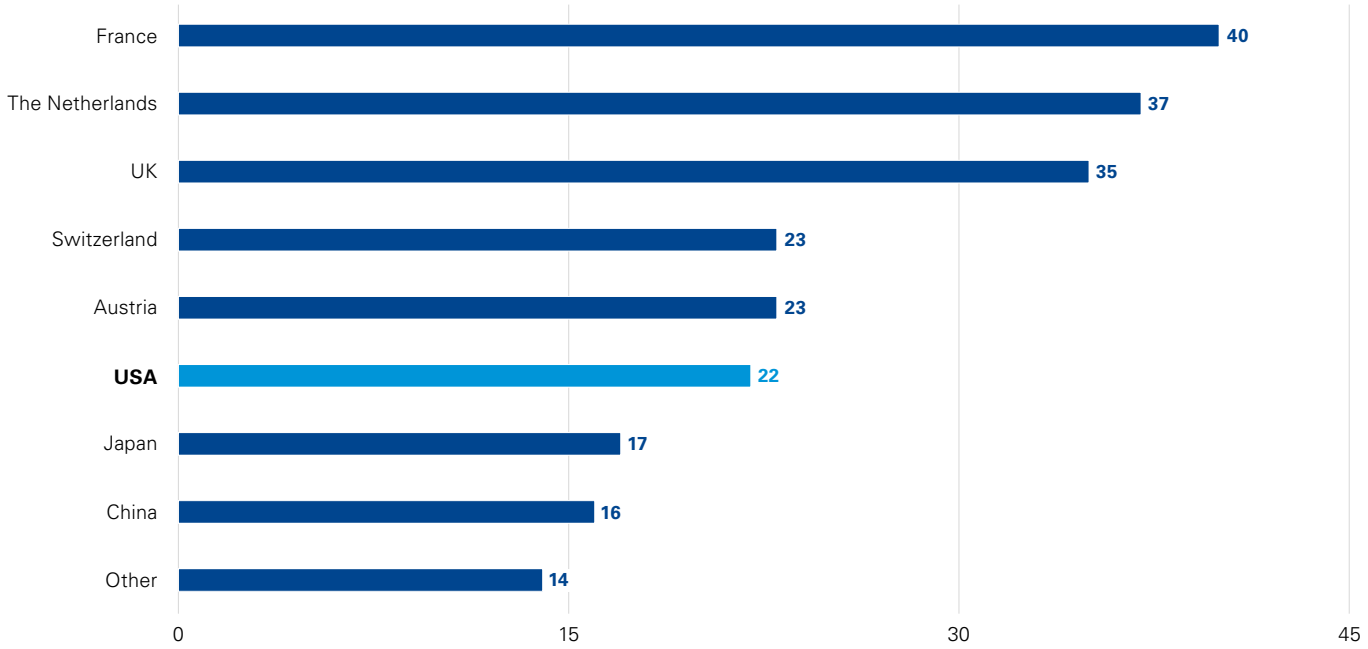
Assessment by US Inbounds of promotion / incentives for company settlement or expansion in Germany (figures in percent)



Source: KPMG in Germany 2021; US Inbounds: n=100 (2021), n=100 (2019)

Figure 12:

Share of respondents per selected country who rank Germany in 2021 at least amongst the Top 5 in the EU regarding promotion / incentives for setting up or expanding companies (figures in percent)



Source: KPMG in Germany 2021; n=360 (all), n=100 (US), n=50 (Others), each n=30 (NL, JP, AUT, UK, CH, CHN, FR)

1.8 Growing availability of a well-trained workforce

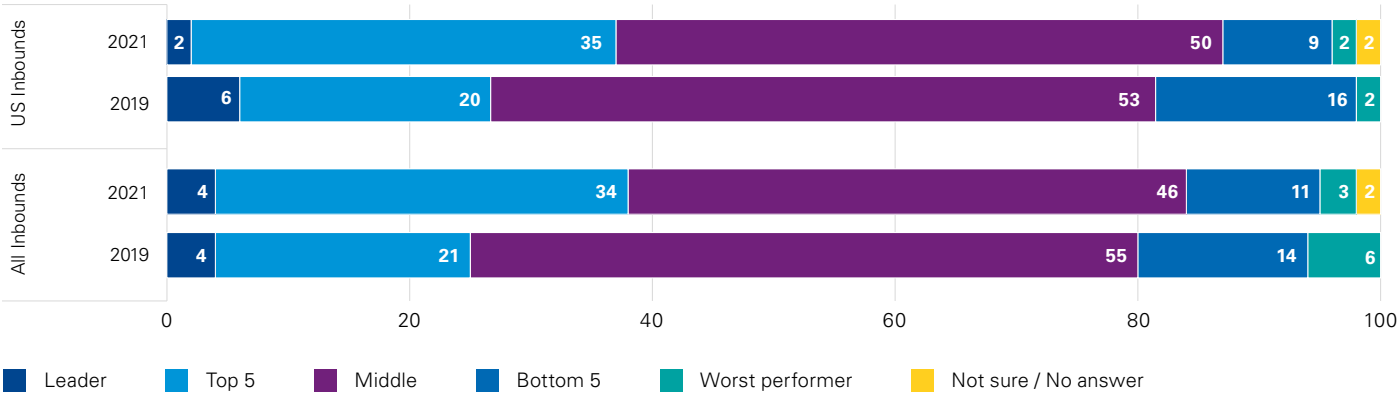
It is evident that, from the perspective of the interviewed US Inbounds, Germany has made progress in terms of the availability of skilled workers. Two years ago, only 26% of the US Inbounds gave Germany a good ranking in this category (at least Top 5). Indeed, almost a fifth of those questioned even saw Germany among the Bottom 5 EU countries for finding suitable personnel. This year, 37% see Germany among the Top 5 EU countries, and only 11% see it among the Bottom 5 or as worst performer. This development is in line with the average level of all Inbounds, which also noted a better labor market compared to 2019. The proportion of those who see Germany at least among the Top 5 countries in terms of the availability of qualified workers has risen by 13 percentage points across all Inbounds.

In spite of the progress that this year's survey shows, the demand for graduates of MINT[16] subjects in Germany remains high. Increased digitalization and technologization are constantly opening up new fields of activity that require highly qualified experts. There is, for example, a lack of highly qualified academics in the production of regenerative energies, in biomedicine or in the research departments of industry. The use of data analytics solutions in German companies has also slowed due to a lack of available data scientists and data engineers.

According to figures from the Federal Office of Employment, in April 2021 there was a labor shortage of 145,100 people aggregated across all 36 MINT occupational categories (Figure 14). With 72,000 people, the MINT expert occupations form the largest bottleneck group, followed by 60,200 people in the MINT skilled worker occupations and 13,000 in the MINT specialist or master craftsman and technician segment. If one differentiates the gap according to MINT categories, the biggest bottleneck is found in the energy / electrical professions with 48,200, as well as construction professions with 31,000 and IT professions with 29,000.

Figure 13:

Assessment of availability of skilled workers in Germany as per US respondents compared with all 360 respondents from all investor countries (figures in percent)

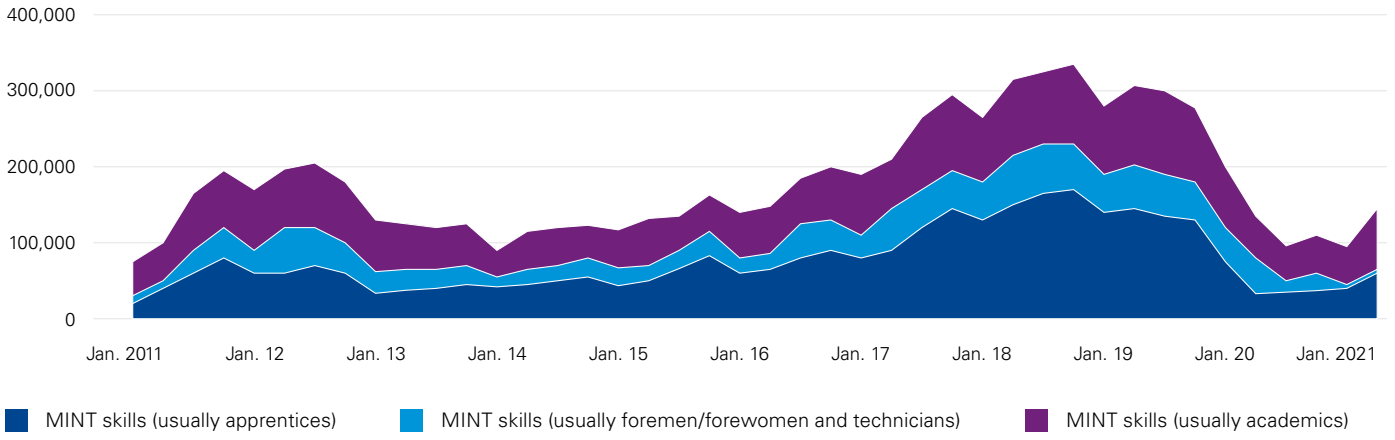


Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US); 2019: n=340 (all) and n=100 (US)

[16] The abbreviation "MINT" stands for mathematics, computer science, natural sciences and technology.

To remedy the problem, Germany is trying to recruit foreign skilled workers, for example, through the National MINT Forum. In addition, the new Skilled Workers Immigration Act, which came into force on March 1, 2020, appears to be bearing its first fruits. It is part of the federal government's skilled workers strategy, which is intended to make it much easier for qualified workers from non-EU countries to access the German labor market.

Figure 14:
MINT skills shortage in Germany from January 2011 to April 2021



Source: Federal Employment Agency, according to calculations by the Cologne Institute for Economic Research, 2021

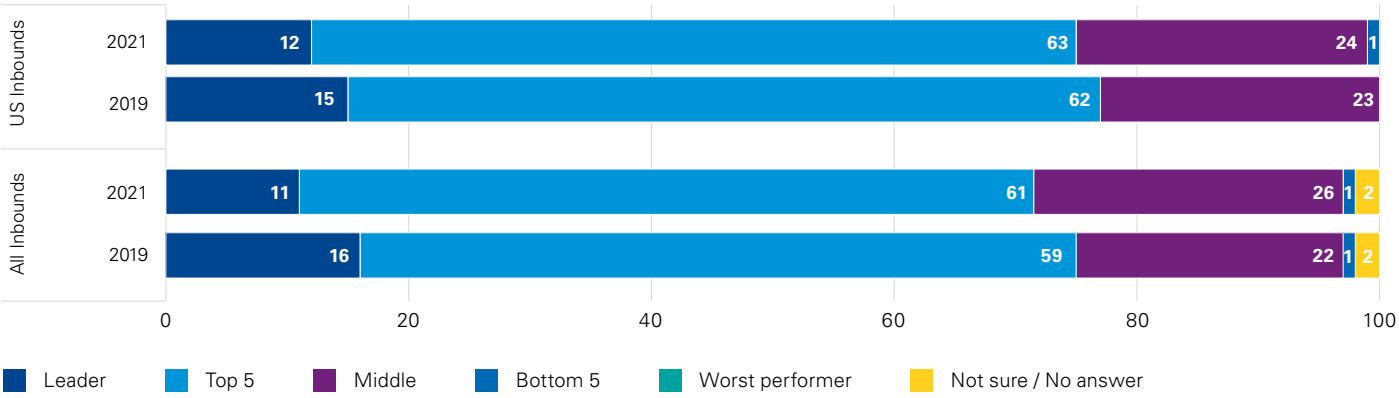
1.9 High labor costs with stagnating labor productivity

In addition to the availability of a sufficient number of well-trained specialists, the level of their remuneration also plays an important role for foreign investors: labor costs in Germany are relatively high by international comparison, not only to emerging countries but also to other industrialized countries. This applies, in particular, to additional wage costs in the form of social contributions. According to Eurostat, the cost of a worker in Germany at 36.6 EUR per hour is above the EU average of 28.5 EUR per hour. However, the average price for one hour of work is even higher in the Netherlands, France, Austria and, in particular, the Scandinavian countries.

High labor costs are tolerable for an economy as long as they are balanced with high labor productivity. In this respect Germany is one of the most respected countries in Europe. 75 percent of US Inbounds see Germany as at least one of the five most effective EU countries in terms of labor productivity.

Figure 15:

Assessment of labor productivity in Germany as per US respondents compared with all 360 respondents from all investor countries (figures in percent)

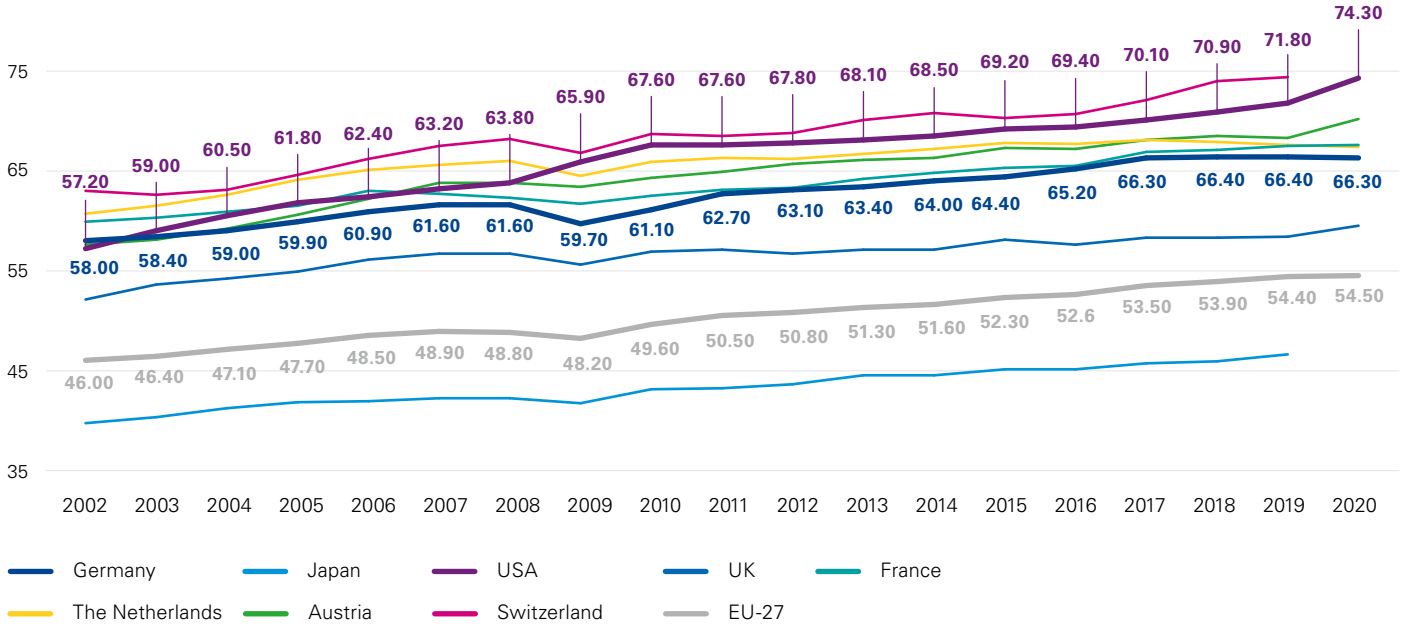


Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US); 2019: n=340 (all) and n=100 (US)

Labor productivity is regarded as a key variable in understanding whether the economy of a country is growing in an economically sustainable manner. Figure 16 shows how this important variable has developed since the beginning of the 21st century in Germany, the EU and other industrialized countries. Germany's labor productivity rose steadily until 2017 and was always above that of the other big European countries, UK and France, and also the EU average. Although starting from a much higher level of GDP per hour in 2000 of 58,00 USD/hour compared with the EU-27 average of 46,00 USD/hour, Germany's labor productivity grew at a similar rate as the EU-27 average. However, between 2017 and 2020 Germany did not experience any labor productivity growth at all, which is probably also the reason why the survey participants (both from US Inbounds and all Inbounds) rate it in 2021 as somewhat weaker than they did in our last survey.

The Advisory Council for the Assessment of Macroeconomic Development (SVR) had already pointed out a slowdown in the development of labor productivity as far back as 2015.[17] A study by DIW Berlin suggests that increasing bureaucratization could be a major reason for the stagnation.[18] Researchers from various disciplines and theoretical positions point also to increasing state regulation. On the one hand, regulations are necessary to ensure fair competition but, on the other, excessive regulation, e.g., in the area of public procurement, can inhibit development.

Figure 16:
GDP per hour worked, in USD, constant prices 2015 and respective PPPs



Source: OECD.Stat, 2021

[17] SVR, Zukunftsfähigkeit in den Mittelpunkt, 2015

[18] Deutsches Institut für Wirtschaftsforschung (DIW) 2019, Produktivitätswachstum sinkt trotz steigendem Qualifikationsniveau der Erwerbstätigen

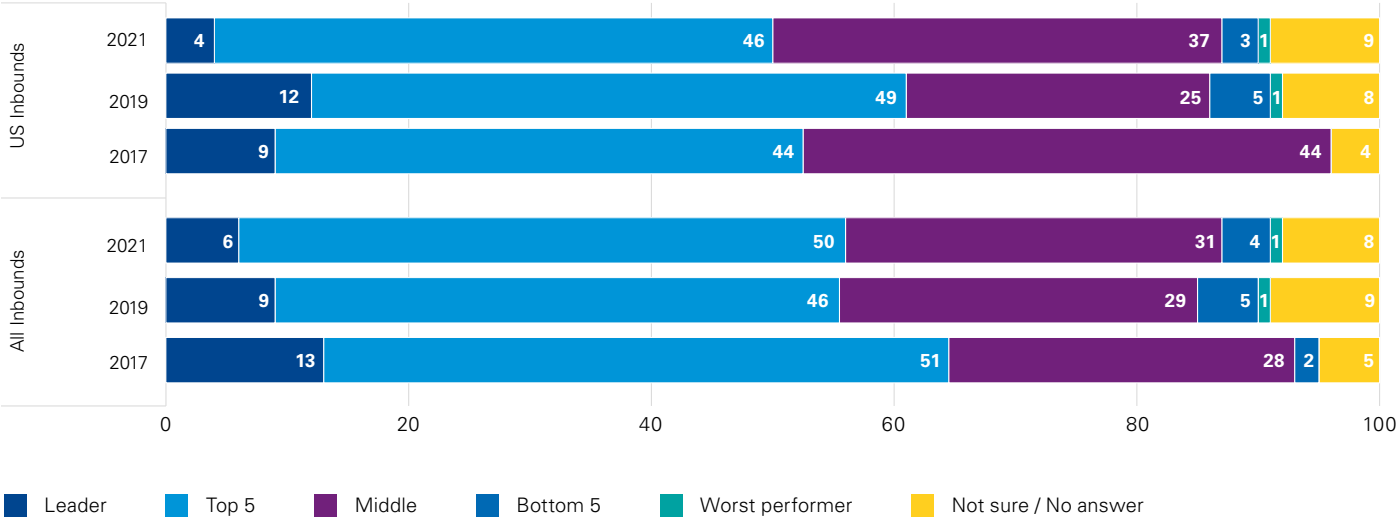
1.10 Measures being taken to keep Germany's strong research environment

From the point of view of US Inbounds, the quality of the German research landscape has clearly lost some of its approval compared to our survey two years ago. Germany is at least one of the Top 5 in the EU in this category for only 50 percent of them, two years ago it was 61 percent. This change in US Inbound perception means it is now less that the average assessment across all countries, of which 56 percent place Germany as least in the Top 5 amongst EU countries.

A 50 percent approval of Germany as a location for research and development (at least Top 5) by US Inbounds appears to be a good rating in principle. The strong negative trend – a decline of 11 percentage points – in terms of its perceived quality, however, will make prospective investors sit up and notice. After all, US corporations are still the major players when it comes to foreign direct investment in Germany, including research and development departments. This downward trend needs to be halted so that US Inbounds continue to be engaged in Germany.

Indeed, first measures have actually already been initiated in this regard. The funding program the federal government agreed upon in 2020 is perhaps one channel to alter this trend of negative perception; it provides 50 billion EUR for future sectors and industries. An important function of public funding initiatives is to stimulate private investment, which is essential for the transformation of the economy in terms of climate protection, digitalization and innovation. The funding program also includes tax leeway on profits that flow into R&D activities. This then strengthens the attractiveness of Germany as a research and innovation location across all sectors. In the years 2021 to 2024, cross-sector research grants amounting to 5.6 billion EUR are also in the offing. Expenses that a company can claim for tax purposes can be up to 4 million EUR per tax year. The tax relief for research and development activities in Germany is unique in this form and should also enhance its standing as a business location. Detailed information on the economic and future program can be found in our separately published Business Destination Germany 2022 study.

Figure 17:
Assessment of R&D environment in Germany as per US respondents compared with all 360 respondents from all investor countries (figures in percent)



Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US), 2019: n=340 (all) and n=100 (US), 2017: n=529 (all) and n=57 (US)

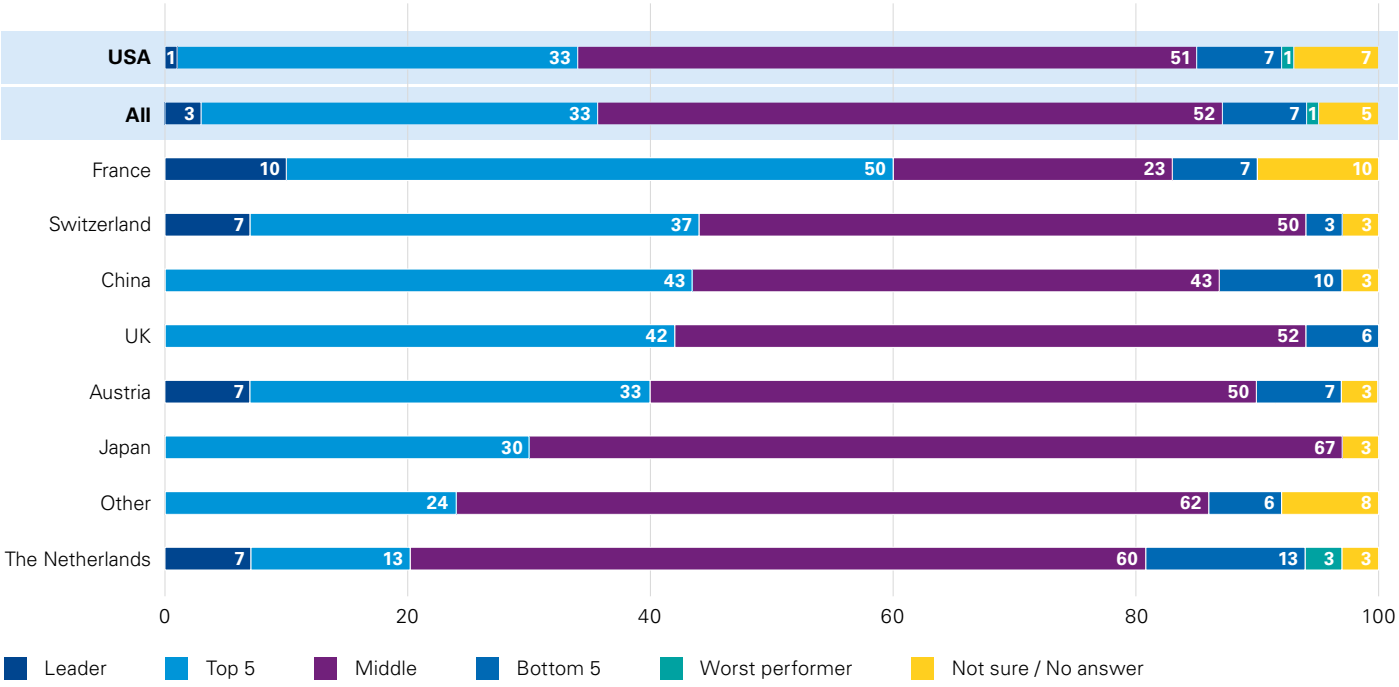
1.11 Innovative but weak in implementation

The disparity between the viewpoints of Inbounds is no greater than on the subject of Germany's innovation environment. The responses range from 20 percent (Dutch Inbounds) to 60 percent (French Inbounds) who put Germany in at the least the Top 5 in the EU in this category. The bottom line, however, is that the average rating of all countries, across the board, has decreased by 12 percentage points since 2019 and that of the US Inbounds has decreased even more at 14 percent (see Figure 2).

The overall sharp decline in the assessment of the framework conditions within which innovation is able to take place in Germany raises the question of exactly what obstacles the study participants are facing because it clearly does not fail because of innovative creativity.

Figure 18:

Assessment of environment conducive to innovation in Germany in 2021 as per US respondents compared with each investor country (figures in percent)



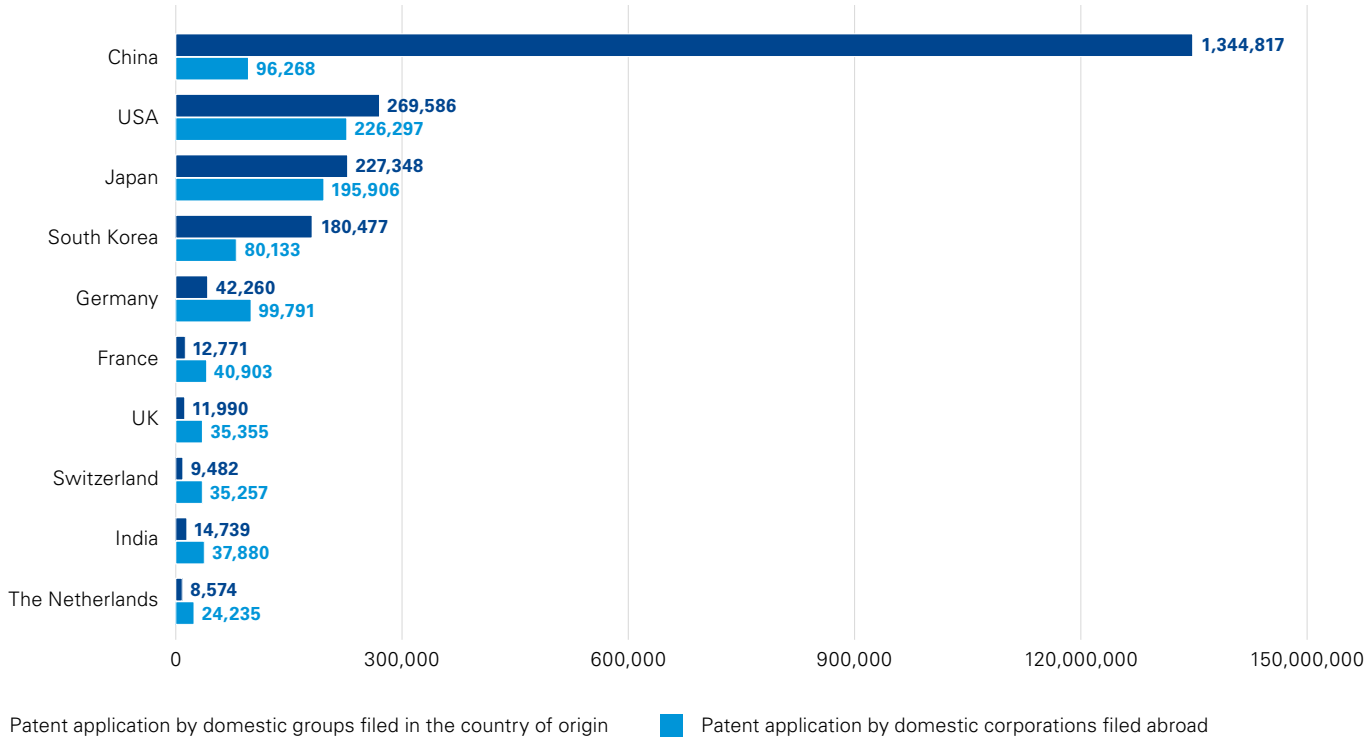
Source: KPMG in Germany 2021; n=360 (all), n=100 (US), n=50 (Other), each n=30 (NL, JP, AUT, UK, CH, CHN, FR)

As Figure 19 on the following page shows, about 142,000 patent applications were filed by German companies in Germany and abroad. Germany ranks fifth in worldwide patent activity in 2020 after China, the United States, Japan, and South Korea. According to this ranking, the total number of patent applications by German companies is about one tenth of the Chinese and one-third of the US level. Of course, when comparing China's and the United States' patent applications with Germany's, it must be pointed out that China has 15 times as many inhabitants and the US four times as many. Nevertheless, these figures make it clear that the international balance of power is shifting with regard to intellectual property and the innovation potential of companies and national economies – increasingly to the disadvantage of Europe and the US in favor of Asia. However, the overall picture also includes the fact that Germany still has a lot of potential that could keep it a pioneer in some areas in which it is traditionally strong: A study by the German Engineering Federation (VDMA), for example, points out that of the 825 start-ups of relevance to mechanical engineering, which develop applications based on artificial intelligence, 133 are based in Germany. This puts Germany in second place behind the USA (243).

Furthermore, according to a study by Bertelsmann, Germany has a high level of innovation in the health sector. In important vaccine technology, Germany is the country with the second most world-class patents. Ten percent of all world-class patents in this field come from Germany. In addition to vaccines, Germany has outstanding expertize in disease research and precision medicine. There is, therefore, no doubt that an abundance of technical know-how exists in Germany. The point is to convert this into marketable product. The potential in Germany is enormous as is proven, for example, by the numerous German technology leaders who have established themselves in the global market, especially in machine, plant and automotive engineering and health care. What is required now, is a culture of experimentation in which, for example, a symbiosis between traditional mechanical engineering and AI and data mining applications can come to the fore.

Figure 19:

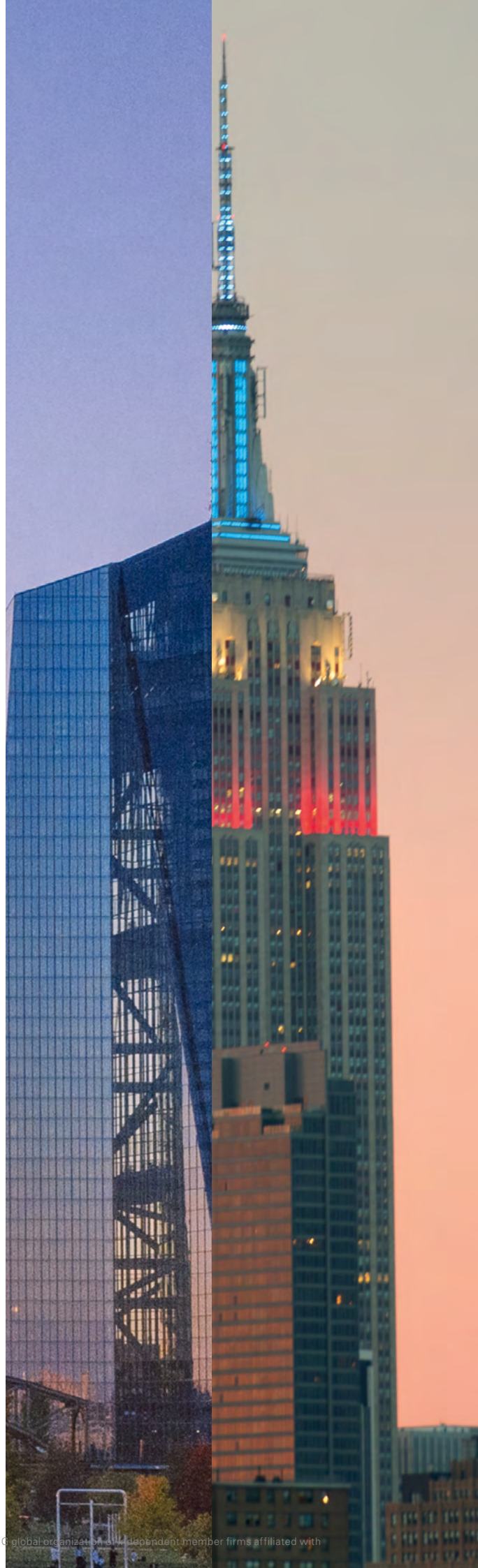
Patent applications reported by the World Intellectual Property Organization (WIPO) in 2020, according to country (numbers refer to patent applications by companies from respective country in country of origin and in foreign countries)



Source: World Intellectual Property Indicators 2021, World Intellectual Property Organization, 2021

However, the KfW Start-up Report 2020 points out that while Germany is always at the forefront when it comes to modern technologies it tends to hesitate when it comes to implementing them. In particular, the convoluted access to risk capital – which became even more difficult to access during the pandemic – is still very often seen, in spite of recent progress, as a decisive obstacle to the implementation of a business idea in Germany.[19]

In the recent past there have been examples that illustrate how Germany – due to political and social despondency – has failed to translate innovative concepts into actual value creation. After the dot-com bubble burst in Germany at the beginning of the new millennium and the German stock exchange segment Neuer Markt (Nemax50) was closed, the impression began to take hold in German politics and society that the Internet economy was completely overhyped, that it was something to keep at financial arm's length. So, while Germany subsequently completely slept through the growth of the Internet economy, tech giants such as Google, Amazon, Alibaba and Tencent became massive enterprises in the USA and China. Another example of German slowness to translate innovation into product relates to biotechnology, which admittedly, often has had to deal with a particularly skeptical public. In 1998, after long disputes, what was then Hoechst AG finally received permission to manufacture insulin using biotechnology. The Hessian federal government had refused this permit for 14 years. It was only when German patients simply obtained genetically engineered medicine from abroad that approval was granted. At this point in time, however, the foreign producers had already put themselves out of reach in the race.[20]



[19] KfW-Start-up-Report 2020

[20] Deutschland braucht ein innovatives Geschäftsmodell, Frankfurter Allgemeine Zeitung, August 4, 2021

US Inbounds Investment Plans, Structure and Mood

Key findings:

- Almost a third of surveyed US Inbounds in Germany (30%) are currently doing "very well" and a further 43% are doing "well"
- 72% of them predict that their situation in 5 years will be even "better" or "much better" than their current position
- US Inbounds more hesitant than average of all Inbounds about expansion investments in Germany, but massive expansion of M&A deals in 2021 where German companies are being purchased by US groups
- Investment priorities are digitalization of the business (71%) and an increase in staffing numbers (73%)
- 13% of US Inbounds increase their investment in Germany due to Brexit
- 53% of US Inbounds surveyed serve as European headquarters; their export quota outside Germany is exactly one-third of their turnover
- Baden-Wurttemberg and Bavaria are preferred federal states for possible future locations in Germany

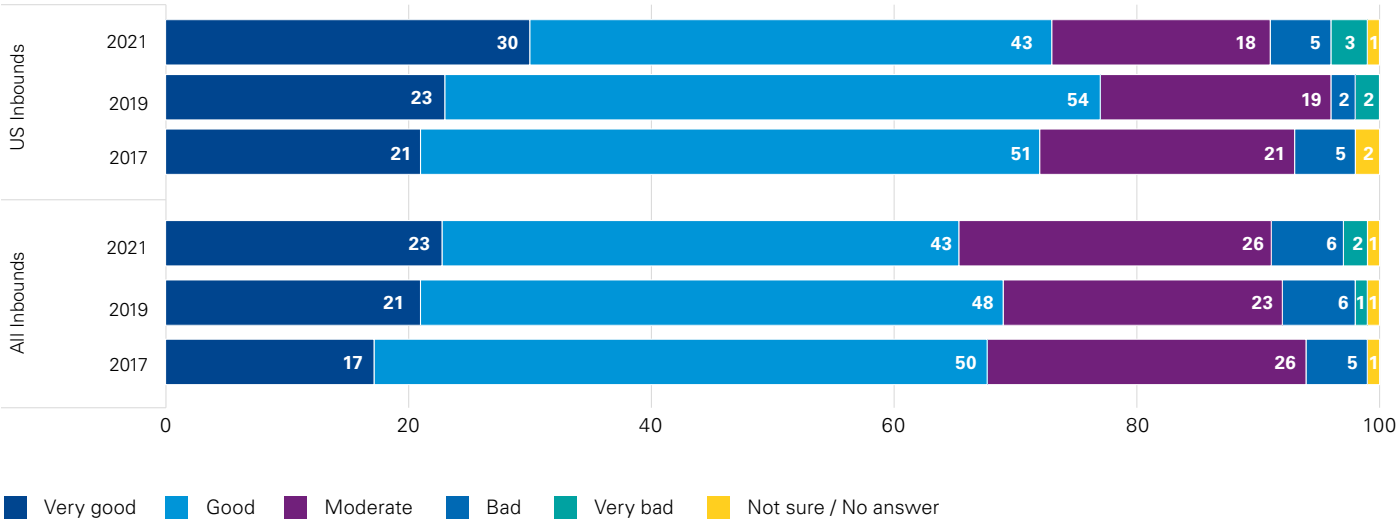
2.1 US Inbounds optimistic as pandemic is under more control

During this pandemic, the debate has been whether COVID-19 is a short-term shock for international supply chains or whether the entire inter-linked system of global trade will be damaged in the long term.

The optimism of our US Inbound survey participants surprised us considering the conditions created by COVID-19 in 2020. It seems that COVID-19 has had a significant economic impact on only very few of the US Inbounds in Germany. The proportion of them who consider the current economic situation to be at least "good" has decreased only marginally compared to 2019 – from 77% to 73%. On the other hand, the proportion of those US Inbounds who describe their situation as "very good" is up from 23% in 2019 to 30%. The proportion of those who consider the current climate "bad" or "very bad" has increased only slightly from 4% to 8%. Compared to US Inbounds, those from all countries as a whole rated the current situation slightly worse – 66% gave a "good" rating. Confidence amongst management of the US Inbounds has increased, no matter the industry, in view of the feeling that the economic situation is improving. Perhaps it is possible that the US Inbounds are currently anticipating a certain revitalization of the transatlantic partnership. In addition to the perceived lightening of the political climate, there are also some political measures that underpin the positivity. For example, the United States and the EU have settled the Airbus-Boeing dispute. The punitive tariffs imposed as a result of the dispute over the subsidization of aircraft manufacturers have been suspended for five years. The positive sentiment among US Inbounds, which is reflected in the study results, makes clear that economic ties between Germany, as part of the EU, and the US remain strong and intact.

Figure 20:

Current economic situation of own company in Germany as per US respondents compared with all 360 respondents from all investor countries (figures in percent)

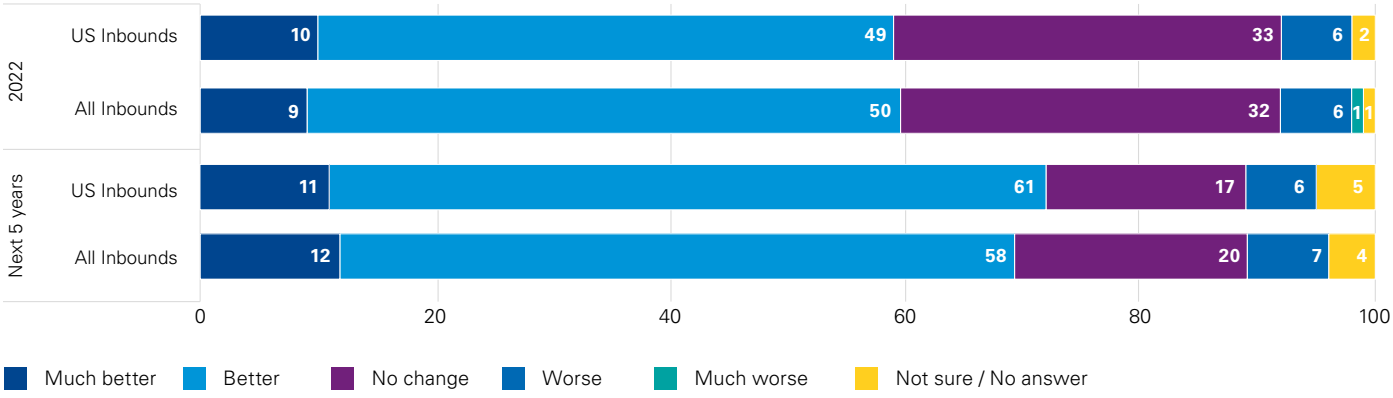


Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US), 2019: n=340 (all) and n=100 (US); 2017: n=529 (all) and n=57 (US)

In this year's survey we asked US Inbounds, for the first time ever, to assess their prospects for the coming year and also for the next five years. We did this to get an idea as to whether companies – in anticipation of the pandemic subsiding – view the future more positively than they view 2021. And they do, to a certain degree. The further into the future they looked, the greater was their optimism. 59% of US Inbounds forecast a further improvement in the short term (2022) and 72% in the medium term (5 years). These values are remarkable, especially if one reminds oneself that these views come on top of the 73% that found their current situation (2021) to be "good" or even "very good". In Germany, subsidiaries of US corporations are bursting with confidence, all the more when they view the pandemic as winding down.

Figure 21:

Assessment of prospects for 2022 / next 5 years in comparison to 2021 as per US respondents compared with all 360 respondents from all investor countries (figures in percent)

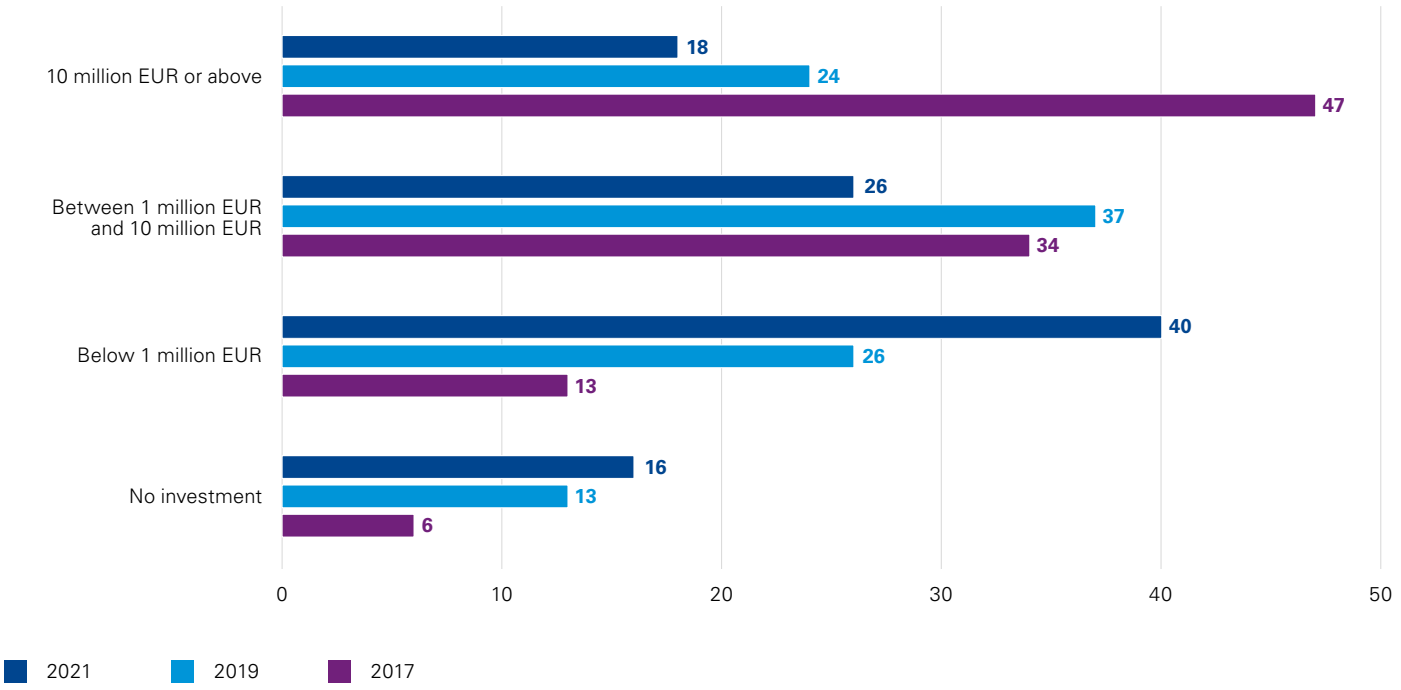


Source: KPMG in Germany 2021; 2021: n=360 (all) and n=100 (US)

2.2 Hesitation about expansion investment but very high M&A and Greenfields activity

Yet – in spite of this optimism and rather concerning too – the willingness of the study participants to invest in Germany has fallen markedly since our survey in 2017. Then, 47% of those who expressed an investment intention were still planning major projects valued at over 10 million EUR per annum; this figure fell to 24% in 2019 and to just 18% in our 2021 survey. Subsidiaries of US corporations in Germany are planning to invest an average of 4 million EUR per annum over the next five years. The average value across all countries is 7.2 million EUR (see Business Destination Germany 2022). At the same time, the average stated investment amount of US Inbounds in 2021 fell by 27% compared to the survey two years ago.

Figure 22:
How much does your US company plan to invest in Germany on average per year in the coming years? (figures in percent)



Source: KPMG in Germany 2021; US Inbounds: n=100 (2021), n=100 (2019), n=57 (2017)

The propensity to invest in Germany has fallen continuously since our first survey in 2017. The last survey in 2019 was undertaken shortly before the outbreak of the pandemic and the recent survey before the general election in Germany during a time when it was assumed that the main impacts of the pandemic had past. It appears the repeated deterioration of the investment plans does not seem to be influenced significantly by the pandemic. As a consequence it must be assumed that the attractiveness of Germany as a location for expansion investments is what has fallen.

When asked about their investment plans, the survey participants prioritize expansion (core business, staff increases, etc.) with a view to their unit in Germany (see Chapter 2.3). Decisions on huge investment volumes, such as in M&A deals[21] or the opening of new locations or factories (Greenfields) are, of course, primarily made at corporate level in the USA and were, therefore, not the focus of this category question.

This distinction is important because in contrast to significantly declining values of planned expansion investment by US Inbounds in Germany, we have noticed that the volume of foreign M&A deals in Germany, in particular, is growing massively. The reasons for this include the transformation of central German industries and particularly favorable financing conditions. According to J.P. Morgan and the Bank of America, investment in these areas in 2021 is likely to exceed the previous record year of 2007.[22] An exciting example of this is the offer by the US group Adtran for the German telecommunications equipment supplier ADVA Optical. Interestingly, it would be the first deal in Germany that would be paid for entirely with shares in the takeover group.

[21] M&A (Mergers & Acquisitions) is a collective term for transactions in the corporate sector such as mergers, company acquisitions, business transfers or takeovers.

[22] Das M&A-Jahr 2021 geht auf Rekordkurs, Börsen-Zeitung, September 9, 2021

Furthermore, the USA is traditionally the most important foreign investor in Germany with a view to Greenfield investments, i.e. the building up of new production facilities from scratch. One reason for the high number of Greenfield investments in Germany over the years is the aforementioned transformation of numerous German industries as a result, in many cases, of the increased importance of sustainability and climate protection. Google, to give an example, is investing one billion EUR in data centers in Germany that are to use green electricity. When asked about the reason for the large-scale investment, Google said it believed that Germany was playing a "key role" in the transformation of companies and organizations with a view to implementing sustainable forms of production.

"Tesla plans to invest around 5 billion EUR in a Greenfield battery factory adjacent to its Gigafactory in Gruenheide near Berlin. The Gigafactory is expected to start production of Tesla's Model Y in late 2021. These massive investments can be interpreted as a direct attack on the home turf of German's big 3 auto manufactures – Daimler, BMW and VW."

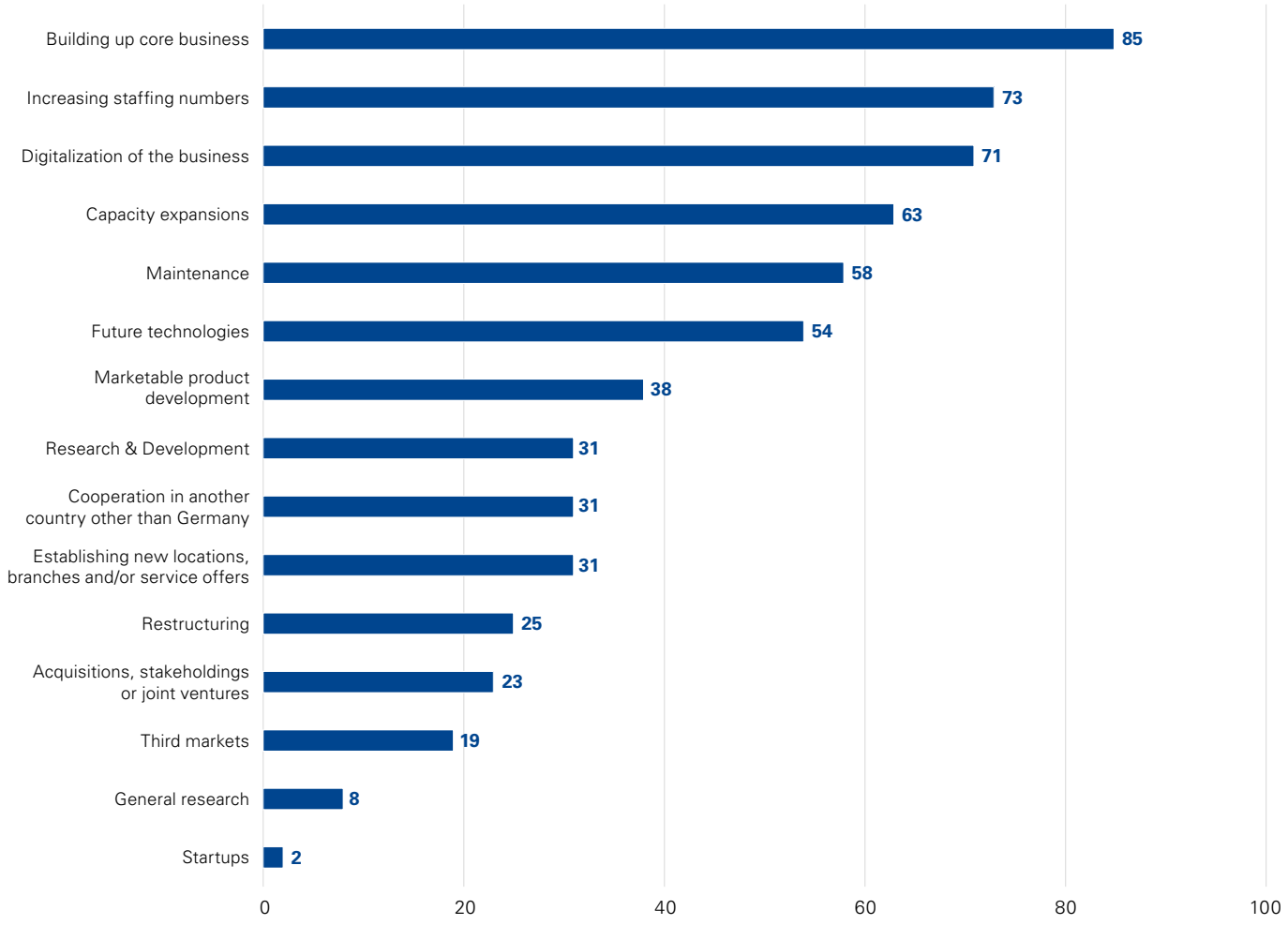
Warren Marine
Partner, Head of Country Practice USA, KPMG in Germany

2.3 Full focus on digitalization of the business and staff expansion

The focus of US Inbounds in terms of future investment is on expansion: 48% of the surveyed US Inbounds stated a precise annual investment total. They want to prioritize their core business (85%), and also invest in the digitalization of their business (71%) and an increase in their staffing numbers (73%).

In our 2019 survey, digitalization of the business was only stated as a priority by 52% of respondents. The awareness of a need for a consistent digitalization strategy has clearly risen sharply over the course of the pandemic.

Figure 23:
Expected areas of investment by US Inbounds in the next 3 years according to frequency of particular response (more than one answer possible, figures in percent)



Source: KPMG in Germany 2021; n=57 (2021), n=46 (2019) and n=32 (2017); US inbounds that have provided information.

2.4 Brexit's effect on investment activity

We asked the study participants whether Brexit has had any impact on their propensity to invest in Germany. Predominantly UK Inbounds stated that they are making more investments in Germany as a result of Brexit, with 10 percent stating a lot more and 16 percent slightly more

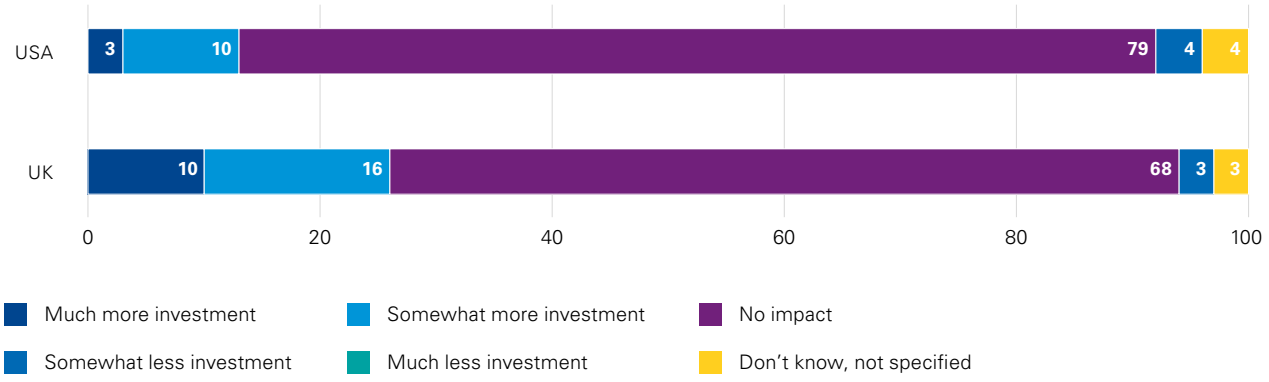
With regard to US Inbounds, it can also be noted that 13 of the 100 US Inbounds surveyed state that they are already investing more in Germany as a result of Brexit.

The main reason for the attractiveness of the UK for the US had been that it represented a bridge between Europe and the USA that enabled smooth passage into the EU internal market. Not to mention that both nations also share a common language, a long tradition of economic and political cooperation and cultural closeness.

Access to the EU internal market became obsolete with Brexit and the importance of the United Kingdom for the US has significantly declined as a consequence. The results of our survey suggest at the very least that US corporations are starting to move business from the UK to Germany.

Intel is a recent example of a US company that is adjusting its investment plans for Europe as a result of Brexit. The company, one of the world's largest manufacturers of semiconductors, wants to invest massively in production capacities in Europe in view of the international shortage of semiconductors. As a result, Intel plans to invest up to 95 billion USD in opening and upgrading semiconductor factories in Europe over the next 10 years. Intel's CEO, Pat Gelsinger, made it clear in an interview with the BBC that the UK – had Brexit not happened – "would have been a site that we would have considered. Post-Brexit … we're looking at EU countries and getting support from the EU".[23] This is a clear rejection of the UK as a location in favor of continental Europe, possibly Germany.

Figure 24:
Brexit's effect on Inbounds group investment activity in Germany according to country (figures in percent)



Source: KPMG in Germany 2021; n=100 (US) , n=30 (UK)

"On January 1, 2021, the United Kingdom left the European Union. All companies are affected by the customs processing of their goods. Necessary registrations, commissioning of a customs broker, as well as adjustments to the shipping document/ IT systems are mandatory in most cases so that the goods are not held up at the border. Furthermore, trade disruptions have been reassessed and it looks like that the relationship between the USA and EU will be improved."

Gabriel Kurt
Partner, Tax, Head of Trade & Customs Germany and EMA, KPMG in Germany

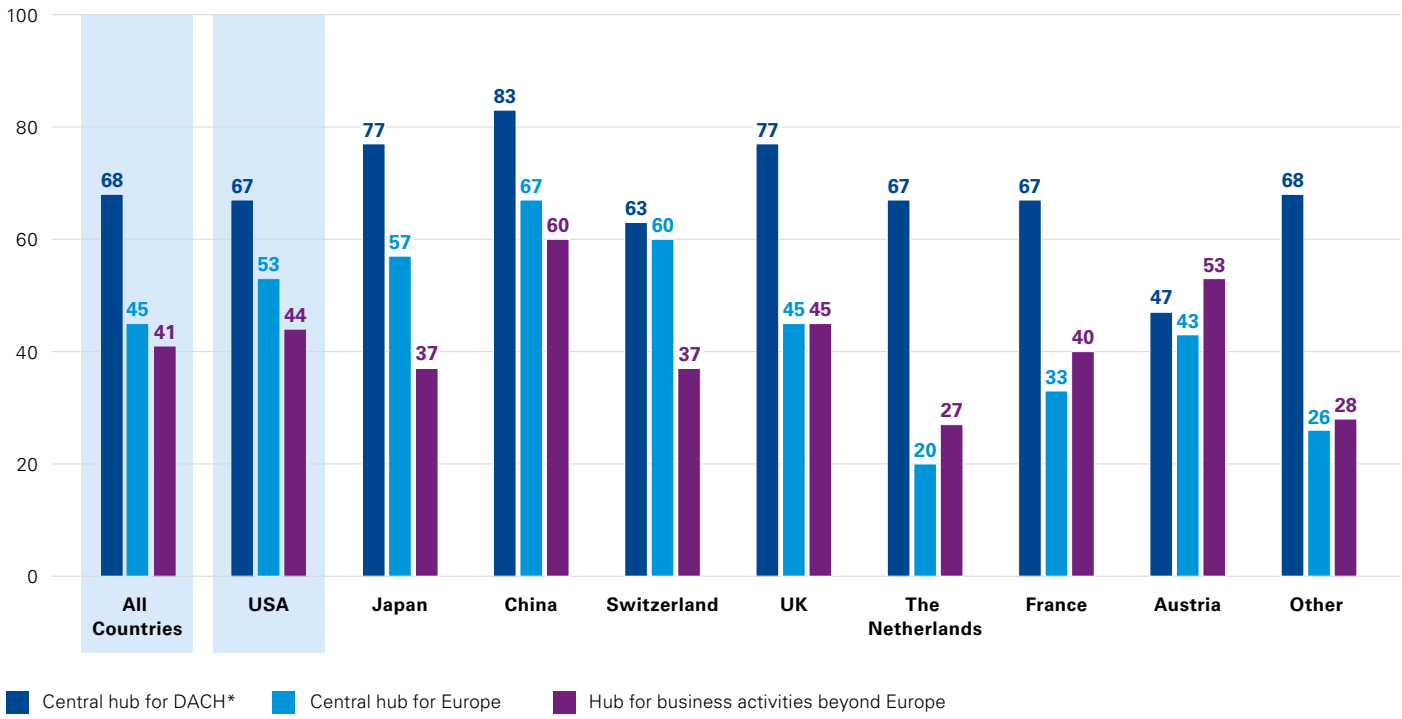
[23] Intel not considering UK chip factory after Brexit, BBC News, October 6, 2021

2.5 What role do US Inbounds in Germany play in the global activities of their parent companies?

Most of the subsidiaries of foreign corporations that we surveyed use their location in Germany not just for their activities in Germany but also as a base for their sales in Austria and Switzerland, i.e., for the German-speaking region (DACH region) as a whole. In particular, the companies from countries that are not members of the EU, which includes Switzerland and since 2021 Great Britain, often use their German subsidiary as their European headquarters. Germany, as part of the EU, situated at the heart of Europe, offers them access to the entire EU internal market, which is why it makes sense for corporations from non-EU member states to service the entire EU market from there. Around half of the US Inbounds (53%) use their German subsidiaries as their European headquarters too.

Many of the Inbounds surveyed even control their non-European activities from Germany; Chinese Inbounds (60%) especially but also US Inbounds (44%) are used as a hub for non-European trading activities.

Figure 25:
Role of Inbounds in Germany for group according to country (figures in percent)

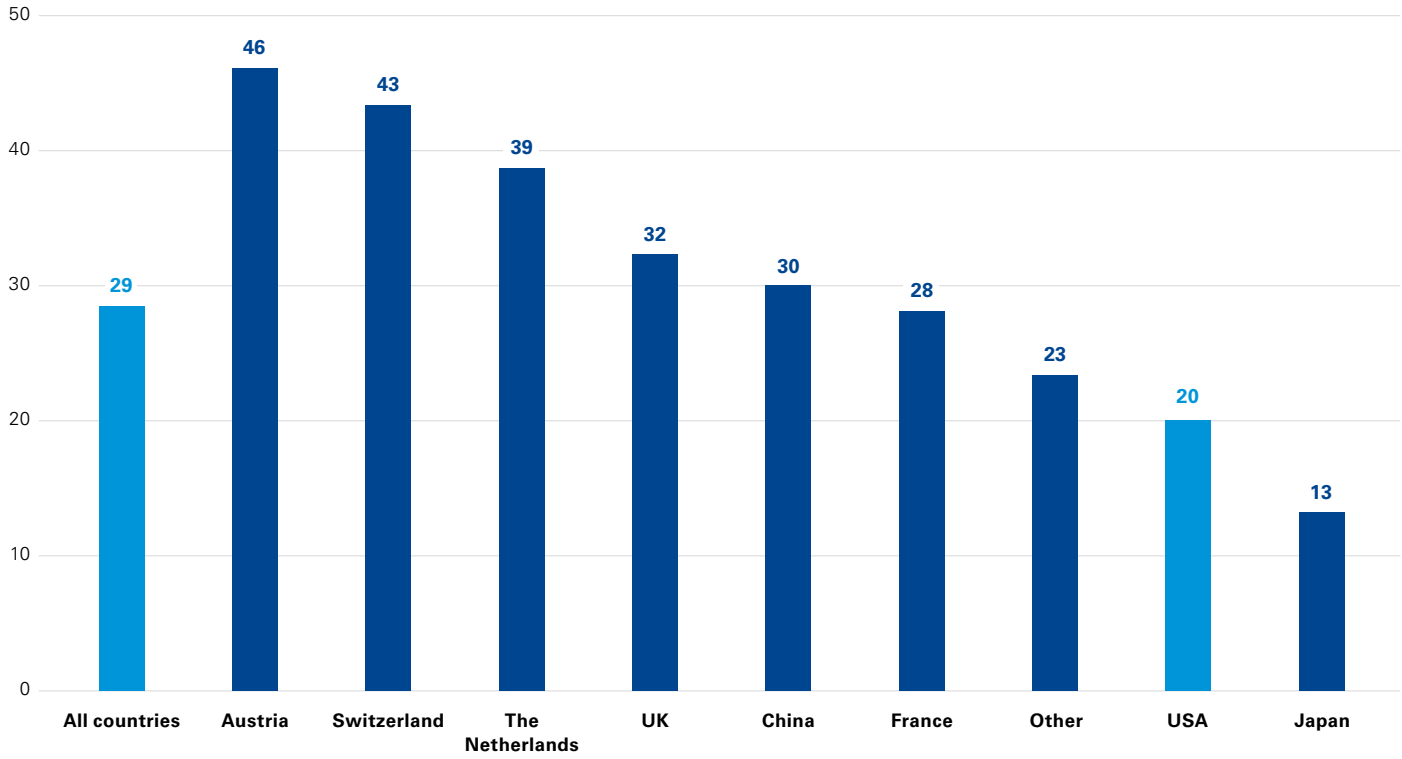


** DACH is an acrynom used to address German-speaking countries comprising Germany (D), Austria (A) and Switzerland (CH)*
Source: KPMG in Germany 2021; n=360 (all), n=100 (US)

On average, German subsidiaries of international corporations contribute 29 percent to the total consolidated sales of their global groups. This varies quite significantly, however, depending on the country of origin of the group. The turnover that US Inbounds contribute on average to group turnover is 20 percent, which is much less than the Austrian (46%), Swiss (43%) and Dutch (39%) Inbounds. It is noticeable that Inbounds from groups that are based on other continents – such as Japanese, American or Chinese Inbounds – create a smaller share of group turnover in Germany than that of subsidiaries from European groups (French Inbounds are an exception).

It seems that overseas corporations seek to open locations in Germany when they are already established and have a certain size. Corporations that are regionally closer to Germany, such as Austria, seek to do so even if the group is relatively smaller in size.

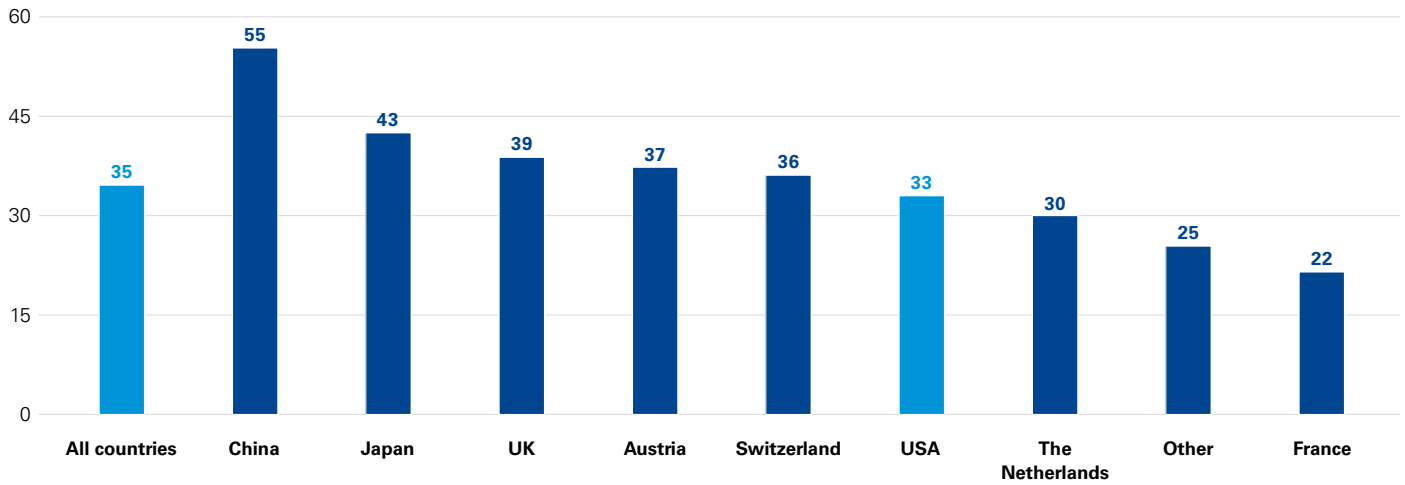
Figure 26:
Inbounds in Germany share of group sales according to country (figures in percent)



Source: KPMG in Germany 2021; n=360 (all), n=100 (US)

According to our survey results, the export quota of US Inbounds in Germany averages one-third (33 percent) of their sales and is, therefore, roughly in line with the average export quota of all German subsidiaries of international groups, which is 35 percent. 28% of US Inbounds have export quotas of over 50% against an average of 27% across all countries surveyed. Subsidiaries from Asian countries, in particular, have particularly high export shares; Chinese Inbounds average 55 percent (around half of Chinese Inbounds have export quotas of over 50 percent) and Japanese 43 percent. The high levels of export share underline the strategic objective of many international groups in Germany, which is to cover the entire EU region from their base in Germany, and some non-European markets too.

Figure 27:
Inbounds in Germany export quotas according to group country of origin (figures in percent)



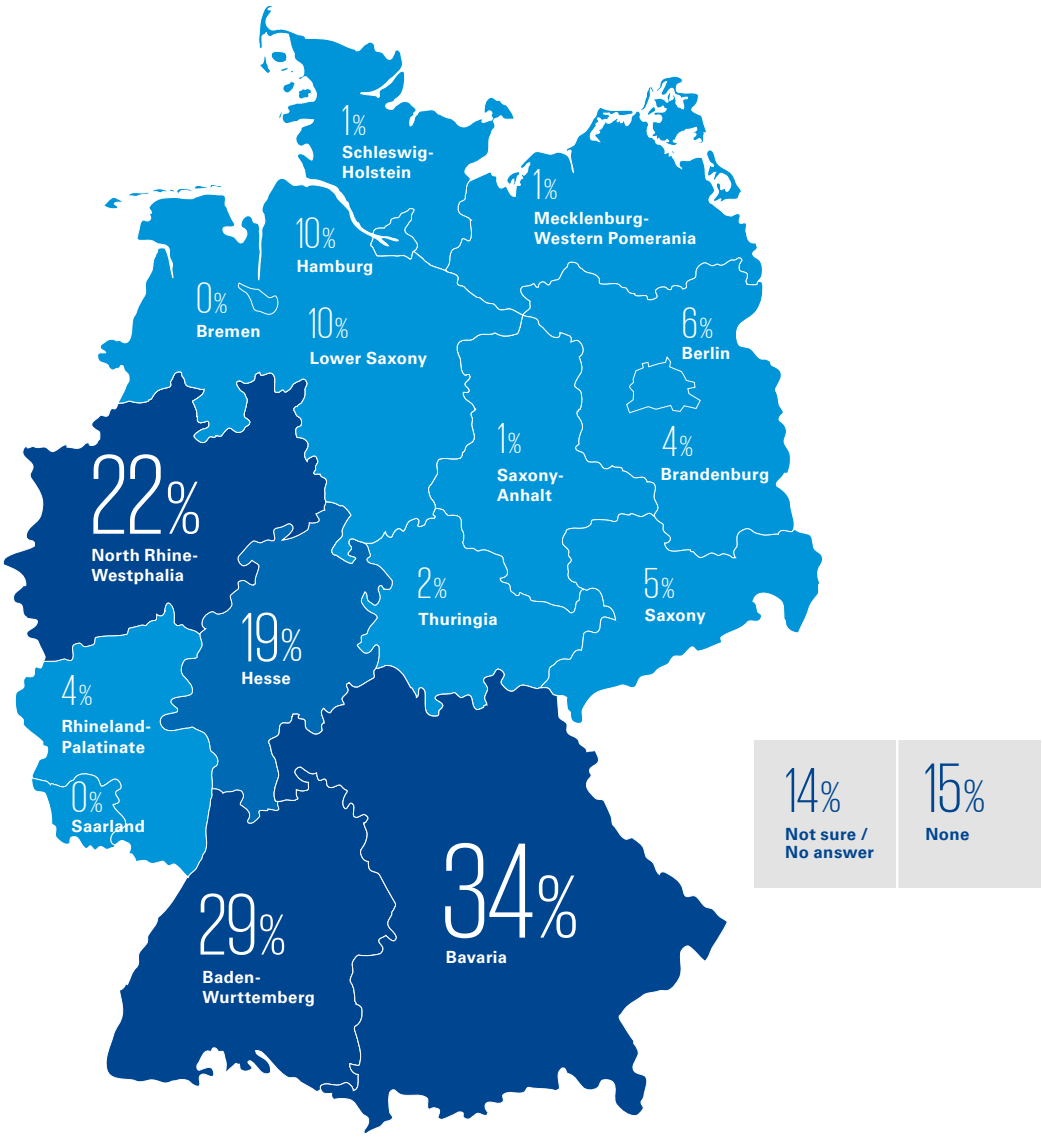
Source: KPMG in Germany 2021; All: n=360, US: n=100

2.6 Favored German federal states for possible future location

According to DWW, North Rhine-Westphalia (406 US Inbounds), Bavaria (359) and Hesse (302) are currently the most popular federal states for US corporations.[24] We asked the study participants which state they would prefer if they were to open another location in Germany. Figure 28 shows the frequency with which a respective federal state was named as a first choice for a potential location.

We note that in addition to the locations that are currently the most important for US Inbounds, Baden-Wurttemberg is very popular as a future location. While Bavaria followed by North Rhine-Westphalia and Hesse remain as prioritized locations for US Inbounds in Germany.

Figure 28:
US Inbounds future investment locations based on Top 3 choices (figures in percent)



Source: KPMG in Germany 2021; n=100 (US)

[24] Die Liste der deutschen Unternehmen in US-Besitz, Die deutsche Wirtschaft (DWW), 2021

About KPMG

KPMG is an organization of independent member firms with around 227,000 employees in 146 countries and territories. KPMG in Germany is one of the leading auditing and consulting firms and employs around 12,500 people in 26 locations.

Our services include Audit, Tax, Consulting and Deal Advisory. The Legal services are provided by KPMG Law Rechtsanwaltsgesellschaft mbH.

KPMG in Germany has established Country Practices for all relevant business corridors between Germany and the respective regions of foreign countries. All Country Practices consist of multi-disciplinary country experts who are familiar with the particularities and regulatory environment of these markets, who work regularly in these countries and who are involved in the corridor-related issues of the German and the respective international companies on a day-to-day basis.

For investors from the United States in Germany, as well as from Germany in the United States, KPMG's German and US firms have established US German Corridor practices to help companies navigate the complex challenges and risks of expansion and cross-border investments to, and from, Germany and the US KPMG's value-add is not only in the technical knowledge of the local environment, but also in its focus on and understanding of your specific needs and expectations. To achieve this, the US Germany Corridor on both sides of the Atlantic consists of teams of professionals with knowledge and experience working both in and with companies from your home country. In many cases, the teams consist of nationals from one country working in the other country, and professionals are actively rotated between the United States and Germany to further develop the experience of the respective KPMG teams.

Fore more information visit:
www.kpmg.de/us-german-corridor

About AmCham

The American Chamber of Commerce in Germany (AmCham Germany) is the voice of transatlantic business. As an independent membership organization, we represent a variety of US and German member companies from many different sectors.

Together with our members, we strive to enhance global economic and trade relations built on the strong foundation of American and German partnership. We actively support and promote our members' interests through our global networks in business, civil society and AmChams worldwide. AmCham Germany enables cross-cultural understanding, cooperation and new investment through our commitment to transparent dialogue, unrestricted trade and a competitive and open business climate.

Fore more information visit:
www.amcham.de

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