AREA DEVELOPMENT

U.S. Attracting FDI From European Manufacturers

High energy prices and bureaucracy at home, geopolitical tensions, and supply chain demands are among the factors spurring European companies to expand or relocate operations to the United States.

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Due to record-high energy prices and economic instability in Europe, many European manufacturers are looking to the U.S. market for relief and are considering shifting production to the states. To seize this opportunity and attract foreign direct investment (FDI) for U.S. sites, it is essential to understand the reasons behind this trend and the challenges European companies face when relocating.

{{RELATEDLINKS}} **The Trend**
For over a decade, European companies have been eyeing manufacturing in the U.S. Recent developments induced more and more European companies to plan on expanding their production in U.S. facilities or to relocate their manufacturing to the U.S. altogether — especially for products requiring energy-intensive manufacturing.

Between 2014 and 2020, European FDI in the U.S. increased by over 40 percent, rising to $3.19 trillion in 2021. For instance, 93 percent of German companies plan to grow their U.S. investments in the next three years, with construction, infrastructure, and industrial manufacturing industries leading the charge, according to the German American Chambers of Commerce.

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Some of the European companies planning to open U.S. facilities or increase investment at existing locations include Europe's largest steelmaker, ArcelorMittal, which announced it was cutting production at two German plants after its Texas plant exceeded expectations. While Tesla is pausing its plan to make battery cells in Germany, Volkswagen and Danish jewelry company Pandora announced U.S. expansions. OCI, a chemical company based in Amsterdam, is also expanding its Texas ammonia plant with an investment in the "high hundreds of millions," and Swedish battery maker Northvolt is considering pursuing its expansion in North America before doing so in Germany.

This growth trend continues. A survey of the German Chamber of Commerce and Industry (DIHK) revealed that every 10th company is planning to relocate production from Germany abroad.

Why European Companies Are Shifting Production
By shifting production abroad, European manufacturers are seeking to mitigate risks and costs in an unstable environment. These risks and costs stem from various factors, including the cost of energy, economic and political instability, increasing bureaucracy, infrastructure, and taxes.

1. **Record-High Energy Prices** — In recent years, Europe has been confronted with a historic increase in energy prices. The rise started in 2021 in the wake of the COVID-19 pandemic and growing international demand. Climate conditions and the vanished Russian natural gas supplies from European markets following

Russian's unlawful invasion of Ukraine have had an aggravating effect. While the climb in import prices impacted both producer and consumer prices, domestic industrial producers, in particular, suffered from skyrocketing prices.

2. **Geopolitical Tensions** — While comparatively high energy costs are a driving factor in relocation decisions — making European products less competitive — the head of the Innovation and International Competition Research Center at the Kiel Institute for the World Economy (IfW), Dirk Dohse, has identified geopolitical tensions as another consideration. The war in Ukraine and associated economic sanctions against Russia, as well as Russian countersanctions, directly and indirectly impact European companies. Furthermore, even three years after U.K.'s exit from the EU single market, Brexit still poses challenges for European companies. The allocation of manufacturing plants and a stronger presence internationally minimizes risk for manufacturers and enables them to better respond to the demands of consumers and supply chain partners.
3. **Customer and Supply Chain Demand** — The allocation of manufacturing plants and a stronger presence internationally minimizes risk for manufacturers and enables them to better respond to the demands of consumers and supply chain partners. CEO Tom Jenson of Norway-based FREYR says that, due to its battery plant in Georgia, "Customers value that we can provide products from multiple geographies." Moving production to the states also reduces logistics expenses involved in transportation across continents. According to a survey of the German Chamber of Commerce and Industry (DIHK), German companies frequently name high freight and transport costs and supply bottlenecks, as well as a lack of transport options, as obstacles in their global supply.
4. **Bureaucracy and Regulations** — Existing bureaucracy and regulations provide further motivation for European manufacturers. Many companies in Europe criticize increased bureaucracy, including long licensing procedures for exports, making the U.S. and its comparatively fewer regulations a desirable relief.
5. **Incentives from the U.S. Government** — Other incentives drawing European companies to the U.S. are provided by the U.S. Administration. Most notable is the Inflation Reduction Act (IRA) launched in August 2022 as a multibillion-dollar subsidy program to sustainably promote certain key industries in the states, providing about $369 billion worth of incentives to support green energy innovation, manufacturing, and usage. The legislation has raised competition issues for European companies and prompted many to explore utilizing the subsidies. The benefits of the IRA are, however, conditioned on using domestic products or manufacturing them in the U.S., requiring companies to thoroughly determine whether their product is eligible for the incentives.

Attracting European Business Investment

With the advantages of the IRA incentives, the comparably stable economic situation, lower costs, and fewer regulations, European companies are clearly motivated to increase investment in the U.S. and build new U.S. production sites. To ultimately capitalize on this trend and increase FDI, the U.S. must understand and address the two major challenges that European companies face in the relocation process.

1. **Workforce Issues** — First, the existing workforce issues in the U.S. should be addressed by presenting companies considering relocation with a proactive response. In recent years, European companies have experienced more and more workforce challenges in the U.S. Depending on the desired qualification and the total number and timeframe of workers needed, they can be a significant concern for companies looking to move production to the U.S. According to the German American Chambers of Commerce, building a sustainable workforce pipeline remains the No. 1 challenge for German companies in the U.S. for the second year in a row, with 78 percent reporting difficulties in attracting skilled workers in the U.S.

   The existing workforce issues in the U.S. should be addressed by presenting companies considering relocation with a proactive response. Workforce issues can be addressed by launching education programs and reducing existing regulatory challenges. Recruiting and educating the workforce through a system of apprenticeship programs also involves understanding what skills are needed for the jobs in demand. Local and state governments can collaborate with out-of-state businesses and institutions, like the German American Chamber of Commerce, to formulate training requirements that then make their way into community colleges. In addition, the legal framework must provide conditions to foster the expansion of educational programs among students and workers at all stages of their careers. Obstructive regulations hindering the recruitment of workers and restricting them from entering certain occupations, such as age requirements for apprenticeships, need to be reviewed and reformed.

2. **Support Companies in Claiming IRA Incentives** — The second important factor is to ramp up the knowledge of how foreign companies can take advantage of IRA subsidies and tax credits. The eligibility requirements are not easy for out-of-state companies to meet. In each instance, it is necessary to determine whether a company meets the requirements with the specific product. Local and state governments as well as site planning companies should provide guidance to out-of-state companies in this process.

The U.S. is uniquely positioned to take advantage of an influx of FDI by European manufacturers seeking relief from numerous challenges. With its robust infrastructure, skilled labor force, and access to a vast consumer market, the U.S. is an attractive destination for companies looking to diversify their production locations. To fully capitalize on this opportunity, we must be proactive in addressing the issues that can stand in the way of foreign companies shifting production to the U.S. and consider the incentives necessary to maintain a competitive edge.