Portugal is on Europe's radar
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Portugal is back on track

The EY Attractiveness Survey is unique of its kind. For years, it has been giving powerful insights to foreign investors, policymakers, citizens and all who want to contribute to the development of Europe and Portugal in particular. This survey allows EY to contribute with a view of how international investors (established or not) see the attractiveness of Europe as a whole and Portugal in particular. It also identifies critical areas where the relevant stakeholders can work together to ensure the alignment of factors that enhance national (perceived and real) competitiveness.

So, it is with pride that we present the complete version of this EY Portugal Attractive Survey 2017, as a part of the european EY Attractiveness Survey launched in several countries, and with the key conclusions and recommendations that resulted from the different sessions to discuss the factual analysis of the data.

There are different political, economic and social destabilizing factors that constrain the way Europe is perceived as an investment option in the global landscape. However, our study shows that global investors continue to believe Europe is a “must be” market.

Portugal is no exception to this trend. In fact, the country has been increasingly appearing on the world’s radar as a country that offers unique conditions, namely related to social stability (also the result of improving economic indicators), to diversification and innovation, and to the increasing investment on national differentiating factors.

Results are very encouraging: the study shows that in 2016 there were a record 59 new foreign direct investment (FDI) projects.

In addition, Portugal was the European country with the highest rate of positive investment intentions, back in line with 2008 levels.

Another good news is that Portugal has not yet achieved a steady state: 62% of investors interviewed believe that it could become even more attractive in the coming years and recommend areas where it should invest in order to strengthen this position.

Portugal is seen as an innovator: there is a growing importance of sectors, such as research and development (R&D) and technological areas. Tourism is also attracting more and more notoriety.

Although all of these are good news, there is still a disparity in the perception of the country. On one hand, we have a regional bipolarity centered in Lisbon and the north region. And on the other hand, the perception of unestablished investors shows a country less competitive and with a less perceived value, whereas established investors see a more specialized country.

Looking forward, it becomes imperative to see:

- How can we eliminate perceived divergences between established and unestablished investors;
- What are the differentiation factors of investment attraction in each of the regions; and
- What are the pillars or factors which must be strengthened and or developed to increase Portugal’s differentiations competitiveness.

In the last chapter of this study, and on the basis of our analysis and discussions with relevant stakeholders, we make some recommendations for a more attractive Portugal. These recommendations were discussed with several players who were kind enough to contribute their time and experience. To all of them we would like to send our sincere gratitude.

Our goal is that this study will contribute to this process of analysis and definition of the key strategic lines of action.

We would also like to thank all the study participants, government entities and EY collaborators who supported us in the elaboration of the study.
Executive summary

In 2016, Portugal hit new record numbers of FDI. Portugal is seen as a socially stable country, with potential to increase its productivity and to become more attractive in labor costs. Emphasis is placed on the need to support the high-tech industry and small and medium enterprises (SMEs), as well as reducing corporate taxation.

Portugal is on investor’s radar, as the short-term investment intentions and Portugal’s attractiveness perception is above European average. Thirty-two percent of investors expect to invest in Portugal and 62% estimates an increase in the country’s attractiveness. R&D and logistics are the sectors with most investment intentions. Manufacturing, marketing and sales still represent a large portion of the investments.

The key conclusion is that the available information reaches established investors much easier than unestablished ones. Additionally, there was an increase in the number of respondents who considered the information available as insufficient and that greater proactivity is necessary in making it available, especially to unestablished investors.

Portugal is seen as a socially stable country, with potential to increase its productivity and to become more attractive in labor costs. Emphasis is placed on the need to support the high-tech industry and small and medium enterprises (SMEs), as well as reducing corporate taxation.

Factors considered most attractive by investors

- Social climate stability: 77%
- Potential to increase productivity: 76%
- Labor costs: 75%

Factors considered less attractive by investors

- Corporate taxation: 42%
- Political, legal and regulatory stability and transparency: 42%
- Flexibility in labor legislation: 40%

Between 2016 and 2017, there was a 10% decrease in the attractiveness of telecommunications infrastructure and in the level of local labor competencies.

Three key areas of intervention from the perspective of investors:

- Support high-tech industries and innovation: 41%
- Reduce taxation: 37%
- Support SME: 34%

Established investors selected reduction of taxes as key area of intervention. Unestablished investors identified the development of education and skills.
The IT and tourism sectors are viewed by investors as driving the development of the country.

Unestablished investors view more traditional sectors, such as consumer goods, real estate, construction and transport, and car industry, as the driver for the Portuguese development. Page 32

The startup ecosystem in Portugal is similar to its European peers, but there is room to improve Portugal’s perception as an innovator country.

There is a great discrepancy between the perception of established and unestablished investors, with established investors more optimistic about the startup ecosystem and the level of innovation in Portugal. Page 28

However, the attractiveness of other regions is residual and shows the need to build regional competitive awareness. Page 30

Portugal brand
Policymakers should combine public and private interests to attract international events to disseminate the correct information about the country. Established companies should create an ambassadors club.

Business services location
Cost savings generated by investing in outsourcing support services or in business service centers, coupled with access to language skills and historical and economic connections.

Talent will drive investment
Universities should increase the connection to their surrounding business environment. Companies must assume their share of the responsibility in training and developing talent.

Surf the digital wave
Policymakers need to enhance the startup environment, educators must prepare theirs students for the digital era and companies should constantly scan for business opportunities.

Benchmarking against competitors
Policymakers must ensure a continuous benchmark of Portugal’s competitive positions in an agile way, reacting to new business models driven by digital and associated technologies.

Simplify and make it last
Policymakers must address regulation and fiscal complexity, clearly defining objectives and effectively communicating it, making sure investors have a clear perception. Page 36 to 41

The Lisbon area is seen as the most attractive in Portugal, but Porto appears as the destination with the greatest number of new investments and jobs created.

However, the attractiveness of other regions is residual and shows the need to build regional competitive awareness.
Chapter 1
About Portugal
World influences: the world is growing slower but with a positive outcome

In 2016, the world economic activity decelerated, reaching the lowest growth since the beginning of this international economic and financial crisis.

The International Monetary Fund (IMF) lifted its forecast for world growth to 3.5% during 2017. This upward revision was based on the economic news from several regions across the globe and was underpinned by a wide spread recovery of global manufacturing. IMF also stated that it expects international trade to expand by almost 4% this year.

Even though the geopolitical context has brought in instability worldwide

A higher number of cross-border investment flows means a larger number of companies are impacted by geopolitical instability in different locations.

There are several drivers that have been promoting this instability, namely with the US elections and uncertainty on how will US politics change, and the impact it will have on businesses in the US and globally.

In Asia, the Chinese Government is seeking to rebalance the economy toward domestic consumption and is investing heavily in skills, science, innovation and services as the economy’s drivers, with consequences being felt everywhere.

In Latin America, countries such as Brazil and Venezuela face a persistent recession and social turmoil. There are ongoing conflicts in Middle East and tensions over North and South Korea.

Forecasts for Portugal consider a more rapid growth in the next two years

In 2016, the changes that started in the past continued to show improvements. The Portuguese economy has revealed a capability to adjust and restructure due to the internationalization of national companies, in fact, both exports of goods and services (much triggered by tourism) increased when compared with 2015.

Portuguese labor market increased its competitiveness, with employment showing an increase above gross value added and the unemployment rate decreased approximately by 1.3 percent points (p.p.).

This was the year of the stabilization of the economy with an increase in the current and capital account surplus (by 0.5 p.p.), and a reduction of the general government deficit (by 2.3 p.p.). This combined with an estimation of reduction of the public debt weight on Gross Domestic Product (GDP) in 2017, helped to create the right conditions for Portugal to leave the Excessive Deficit Program.

It will be important that all of these indicators allow Portugal to once again outweigh the current estimates for 2017 and 2018, and start a convergence route achieving a GDP growth above Euro Area average.
Macroeconomic and political environment show stability

“After the storm, the calm comes,” this Portuguese saying coming from the time of the Portuguese discoveries fits too well to the momentum that Portugal is living in. In the early 2016, it was difficult to believe that Portugal would achieve a 2.0%\(^1\) government deficit. In reality, Portugal’s indicators have consistently shown a positive performance, with the most recent news being the end of the Excessive deficit program, unemployment rate continuously declining, coupled with a background of stabilization in the structural balance and a reduction in the primary structural balance.

As in the past few years, in 2016, Portuguese GDP per capita continued the convergence toward the average EU level and currently stands at around 71%.

Households’ and corporations’ indebtedness ratio reflected a reduction due to the deleveraging process of the Portuguese economy in 2016. This reduction in the indebtedness ratios will lead to a more sustainable and cohesive economic growth.

All of these changes led to an improvement in the consumer confidence index reaching 1.7%\(^2\). However, there is still work to be done and currently, Portugal’s rating according to Standard & Poor’s is still at BB+, with a stable outlook though. The next evaluation is due this summer and the outlook is favourable, although Jean-Michel Six admits that the country needs a more solid growth as the public debt is still high.

By 2020, Portugal is developing a more competitive, sustainable, creative and internationalized economy by increasing the knowledge and technology intensity of the various sectors and the economy as a whole, and by strengthening the weight of activities that produces tradeable goods and services abroad.

The main goal is to increase the exporting intensity to increase the efficiency of the business activity. High-tech industry is poised to be the driver and the support of the new industrial revolution. According to Banco de Portugal, it is expected that the exports of goods and services will grow by 6.0% in 2017, and will continue to contribute to the economic growth.

Industry 4.0 is setting the ground to promote the economy. Some of the key focus of this digitization include training and qualifications of human resources, technological cooperation, legal and normative adaptation.

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1 Economic Bulletin, May 2017, Banco de Portugal, 2017
2 Instituto Nacional de Estatística, June 2017 (difference between positive answers and negative answers)
How well does Portugal rank globally?

There are many indicators that measure attractiveness and competitiveness of countries. But what are they saying about Portugal?

- **Portugal has world-class infrastructure and technological services:** According to *Doing Business 2017* from the World Bank, Portugal ranks number 15 in the overall quality of infrastructure and number 24 in the air transport infrastructure; 99.8% of households have fixed broadband coverage; In the e-government development index, Portugal is in the 37th position. Portugal is a leading country in performing operations through an Automated teller machine (ATM) network.

- **Portugal is easy to do business with:** In the World Banks *Doing Business 2017* report, Portugal ranks number 25 in ease of doing business and number 19 in enforcing contracts, out of a total of 190 countries.

- **Portugal is peaceful:** Portugal ranks the third place (out of 163 countries) on the Global Peace Index. The World Economic Forum, in 2016, ranked Portugal in the ninth place (out of 140 countries) with the smallest impact of crime and violence in business activities.

- **Portugal provides good quality of life:** It earned several awards promoting quality of life in Portugal (e.g., world’s leading golf destination 2013, europe’s leading beach destination 2016, Lisboa golf coast – golf destination of the year 2016. On the World Travel Awards, Porto earned 111 nominations and was named as european best destination in 2017).

- **Portugal has talent:** Twenty-six percent of graduates have degrees in sciences, engineering, and technology having a result above European average; 60% of the population speaks at least one foreign language and 5% of the population are foreigners; two management schools are in the Financial Times top 25 of the best in Europe.

- **According to the Global Competitiveness Report 2016-2017, Portugal has competitive costs:** The country was ranked 64th place (out of 138 countries) in terms of labor market efficiency. According to Cushman & Wakefield, in 2016, Lisbon has competitive office space prices with an average cost from 8.5€—18.5€ per square meter.

- **Portugal is an open door to an European market:** With over 500 million people and more than 260 million people from Portuguese speaking market.

- **Portugal is competitive:** According to *The Global Competitiveness Index 2016 - 2017*, Portugal ranks number 46 in the overall performance out of 138 economies. Characterized as an innovation-driven economy, Portugal’s highly scored pillars include the categories of “health and primary education”, “infrastructure” (namely the quality of the roads) and “technological readiness” (with emphasis on the quality of internet bandwidth).
Strategic location with international accessibility

Portugal is the western country in Europe.

Located on the Atlantic side of the Iberian Peninsula, next to Spain and with 943km of coastline, Portugal is strategically positioned between Europe, Africa and America.

Coastal areas have higher population density, and the main cities in the country are Lisbon and Porto.

Provides access to larger markets in the EU (508m people) and Portuguese speaking countries (260m people).

Portugal has 15 airports, with Lisbon, Porto and Faro being the three international airports of the country. Both Lisbon and Porto have daily connections to most European cities, and Lisbon also has privileged connections to Africa and Brazil. Faro is mostly used by charter airlines, providing access to the Algarve region, acclaimed for its golf courses and beaches. Lisbon has the most dynamic airport, contributing with 49.3% of scheduled movements, followed by Porto’s airport with 20.3%.

An history of contact with cultures and tolerance
Portugal has more than nine centuries of history as an independent country and seven of them with defined borders until today. Throughout history it established relations with countries of all continents. These relations allowed cultural and religious tolerance that characterizes the Portuguese people.
1. About Portugal

**Cost competitiveness**

Price stability in 2016 is closer to Germany and Poland than to neighboring Spain. This stability is due to the consistent decrease of unemployment as illustrated in the macroeconomics data. Price stability, coupled with competitive wage cost, is a good indicator for business models, especially those more sensitive to labor costs, although the minimum national wage has increased in the past year.

According to Eurostat, in 2015, there were approximately 75 thousand students with secondary school's certificates. Also, 61% of the population speaks one foreign language, 27% of Portuguese aged between 25 and 34, speak at least two foreign languages, and 5% of the population are foreigners. Portugal currently has two business schools included in the European Business School Financial Times top25 ranking. Currently, Católica and Nova rank at number 23, ex aequo, which reflects a good improvement in this ranking.

Portugal is ranked 22 out of a pool of 138 countries by the Global Competitiveness index report 2016-2017 in quality of infrastructure, such as roads, telecommunications and internet access, and has one of the best internet velocities in the EU28 due to a focus on public investment. Ranked third country in the modernization, Portugal has almost two thirds of the households with fibre-to-the-premises (FTTP) access, only behind Lithuania and Latvia.

Additionally, recently the PISA 2015 ranking showed that Portugal is now above the European level of knowledge in subjects, such as maths, literature and science.

**Financial services**

Although Portugal has a modern financial system, the banking system has been struggling with low profitability because of low inflation, low growth, low interest rates and high levels of indebtedness of both public sector and households. The government has already bailed out some of the banks in recent years. Apart from this scenario, since Portugal is integrated in the EU, it enables access to multiple funding options, and provides continuous and tightening control over market stability and the solidity of key players.

Portugal ranks in 11th place in the Global Energy Architecture Performance Index Report 2017 and has managed to run for 107 consecutive hours only by solar, hydro and wind power energy. Fifty-eight percent of the energy consumed in the country is provided by renewable resources, compared to 28% of the European average.
Tax system

In the last few years, the government implemented some measures to facilitate the interaction with the tax payment platform. In Portugal, tax payers only need to fill a tax return and pay by the time of submission. In average, it takes 30 minutes to submit it electronically. The payment is also made online. Comparing the total tax rates between some European countries, Portugal has considerably less representation in the companies profit. However, the bureaucracy is still a problem, as the time spent to prepare and pay taxes is still one of the highest compared to our European peers.

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<tbody>
<tr>
<td>Total tax rate (percentage of profit)</td>
<td>39.8</td>
<td>49</td>
<td>50</td>
<td>40.4</td>
<td>62.8</td>
<td>48.9</td>
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<tr>
<td>Time to prepare and pay taxes (hours per year)</td>
<td>243</td>
<td>152</td>
<td>234</td>
<td>271</td>
<td>139</td>
<td>218</td>
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<tr>
<td>Number of payments (per year)</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>7</td>
<td>8</td>
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Source: Doing Business 2017, World Bank, 2017

Investment protection

There has been an effort from the Portuguese Government to digitalize the interaction between itself, citizens and companies. So, many services were made available online, reducing time and money spent in bureaucracy. Contract enforcement standards are in line with the other European countries, but there is still room to improve in order to achieve the results of the most developed countries.

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<tr>
<td>Days required to enforce a contract</td>
<td>547</td>
<td>510</td>
<td>611</td>
<td>685</td>
<td>395</td>
<td>499</td>
</tr>
<tr>
<td>Cost of enforcing contracts (percentage of claim)</td>
<td>13.8</td>
<td>18.5</td>
<td>33</td>
<td>19.4</td>
<td>17.4</td>
<td>14.4</td>
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<tr>
<td>Days required to register property</td>
<td>1</td>
<td>12.5</td>
<td>28</td>
<td>33</td>
<td>64</td>
<td>52</td>
</tr>
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Source: Doing Business 2017, World Bank, 2017

Innovation and R&D

According to Eurostat, Portugal produces 21,000 graduates every year in science, technology, engineering and mathematics. Portugal has more doctorate graduates than the European average by 171% and international scientific co-publications by 173%. The country has a great R&D potential that is not being capitalized as the number of patents applications are 19% of the European average. Also, Portugal is aligned to best practices regarding the quality of scientific research.

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<tr>
<td>Availability of latest technologies</td>
<td>6.0</td>
<td>5.5</td>
<td>5.7</td>
<td>4.8</td>
<td>6.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Firm-level technology absorption</td>
<td>5.3</td>
<td>4.7</td>
<td>5.1</td>
<td>4.7</td>
<td>5.2</td>
<td>5.7</td>
</tr>
<tr>
<td>FDI and technology transfer</td>
<td>5.1</td>
<td>5.0</td>
<td>5.1</td>
<td>4.6</td>
<td>5.0</td>
<td>5.2</td>
</tr>
<tr>
<td>Capacity for innovation</td>
<td>4.6</td>
<td>4.3</td>
<td>4.8</td>
<td>4.1</td>
<td>5.4</td>
<td>5.7</td>
</tr>
<tr>
<td>Quality of scientific research institutions</td>
<td>5.1</td>
<td>4.5</td>
<td>4.8</td>
<td>4.1</td>
<td>5.8</td>
<td>5.8</td>
</tr>
<tr>
<td>University-industry collaboration in R&amp;D</td>
<td>4.0</td>
<td>3.5</td>
<td>3.7</td>
<td>3.3</td>
<td>4.3</td>
<td>5.4</td>
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Source: Global Competitiveness Report 2016-2017, World Economic Forum, 2016 (1=not at all; 7=extremely well)

Business environment

Overall, Portugal ranks number 25 in a total of 190 countries. This is the reflection of the security and social stability, and the country reforms, namely in areas, such as reduction of the time and cost needed to materialize a company. There has been an effort to minimize the bureaucracy and accelerate this process through the use of digitalization. There have been efforts to minimize the negative impact of the bureaucracy to get electricity and to pay taxes, but there is still room for improvement.

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<tbody>
<tr>
<td>Ease of doing business overall rank</td>
<td>25</td>
<td>32</td>
<td>27</td>
<td>24</td>
<td>29</td>
<td>17</td>
</tr>
<tr>
<td>Days to start a business</td>
<td>4.5</td>
<td>13</td>
<td>9</td>
<td>37</td>
<td>3.5</td>
<td>10.5</td>
</tr>
<tr>
<td>Dealing with construction permits (days)</td>
<td>113</td>
<td>205</td>
<td>247</td>
<td>153</td>
<td>183</td>
<td>96</td>
</tr>
<tr>
<td>Days to get electricity</td>
<td>41</td>
<td>107</td>
<td>68</td>
<td>122</td>
<td>71</td>
<td>28</td>
</tr>
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</table>

Source: Doing Business 2017, World Bank, 2017

This set of indicators is usually used for the initial selection of investment location. The information compared with some of Portugal’s competitors in FDI attraction (Spain - ES; Czech Republic - CZ; and Poland - PL) as well as to core EU countries (France - FR; and Germany - DE).
Portugal shows a balance between quality and cost

Portugal should not be shy about its competencies and its capability to attract FDI by providing good business conditions to established and potential investments. By joining the indicators shown in the previous pages and ranking them, we can see that financial services indicators are not competitive in Portugal. In this ranking, Portugal shows to be cost competitive and, at the same time, delivers business environment and investment protection indicators in line with countries, such as Germany, France or Spain. In fact, in this indicators Portugal appears more competitive than its neighbor in almost every criteria and is not so distant from other countries results, such as Germany or France.

How did Portugal evolve compared with their peers?

Although Portugal’s position in the ranking and indicators analyzed is still very favoring, the gap is getting smaller, and in some cases Portugal lost positioning when compared with previous editions of this study. In fact, it seems that Portugal only got more competitive when we look at the tax system, mostly because of the decrease of the tax rate for companies. It is important for Portugal to maintain its positioning: Portugal is doing well, but in a global world, Portugal must do better than the others.
In fact, in this indicator Portugal appears more competitive than its neighbor in almost every criteria and is not so distant from other countries results, such as Germany or France.
Chapter 2

Foreign direct investment in 2016—Portugal is on the radar
2. Foreign direct investment in 2016

**FDI in Portugal reached new peaks in 2016**

In 2016, the European Investment Monitor (EIM) registered 59 FDI projects in Portugal, the best year since EIM began monitoring FDI in 1997 and significantly higher than the pre-crisis period.

The number of jobs created by foreign investors in Portugal is estimated to be around 2.5 thousand in 2016, which represents a 28.1% decrease, when compared with 2015.

The number of jobs created is clearly affected by a reduction in the average number of jobs created per project (59% of the projects were from manufacturing sector), being lower in both the pre-crisis average and the previous year.

**Political uncertainty is an opportunity for Portugal**

World’s social and political environment has been turbulent in 2016. Europe has also played its role in this environment with Brexit negotiations, uncertainty of France and German elections, the rise of populism and the terrorist threat. Portuguese social climate and its high level of security made it a more attractive location than other European peers.

Even though it is clear that Europe is a “must be” market for multinational companies, it seems that there are now more candidates to join the short list for new investors. We can see top destinations as the UK and Germany with growth rates below European average both in the number of new projects and number of jobs creations, whereas areas such as Eastern Europe and other European countries show positive outlook. For example, Poland and Czech Republic registered an increase of number of projects by 21% and 59%, respectively.

**Skills and labor costs are still attractive**

European market is still a very sought market for international investors and, within Europe, Portugal is able to offer highly trained resources at lower costs. Investors say existing resources are highly qualified and flexible, and that labor costs are very competitive. The European region that is proving to be more competitive in this indicator is Central and Eastern Europe (CEE) whereas Poland and its neighbouring countries, including the Baltic States are attracting very high number of FDI projects, such as shared service centers (up 83% for CEE in 2016) as well as other activities of services supply to companies. As cities, such as Warsaw and Prague are beginning to have tightening labor markets, investors are tending to relocate their investment intentions to second-tier cities, such as Lodz or Brno because it will be less difficult to recruit workers at a competitive price.

Specialized skills, on the other hand, are becoming scarce on a global level and companies are selecting their next investment on the basis of skill availability. Portugal, as well as elsewhere, is starting to show signs of scarce resources on some skills, such as IT engineers, programming technicians as well as in some languages. There are already measures in place to qualify or reconvert existing resources but one other key aspect to consider is that investors are selecting destinations not only on the basis of the existing pool of talent but also based on the ability to attract global talents to those destinations. And once again, Portugal is showing the right attributes to attract international talent.

**Future attractiveness will need to consider attractiveness factor for foreign investors and talent.**
I very much promote the idea of plan sphere – the notion that Portugal is at the center of the world, in a time zone that manages to serve the main European markets and outside Europe. “

Investor testimonial

Germany and Spain lead FDI in Portugal

Germany and Spain were the main investors in Portugal in 2016, with 14 and 10 investments, respectively. France led jobs creation with 900 new jobs and reached the fourth position in number of projects, with 8 new investment projects.

The US and Japan are also among the top sources of FDI in the country, illustrating the country’s geographical reach and logistical potential.

German investments created a total of 265 jobs mostly linked to manufacturing activities.

FDI projects and jobs created by source

Source: EY European Investment Monitor 2017
**FDI by activities in Portugal**

Manufacturing activities have consistently been the leading sector for FDI in Portugal. In 2016, these represented 59% of total projects and 76% of jobs created. Considering the relatively small size of the internal market, these projects essentially target external markets, taking advantage of the country's logistics infrastructure.

However, there is a visible trend over time for greater interest in business services projects. Business services include activities, such as marketing and sales, shared services centers and contact centers. These are usually demanding on international accessibility and availability of skilled workforce with language skills.

Last year, these represented 24% of total FDI projects in Portugal in 2016, despite the decrease when compared with previous years. This trend is equally visible in the number of jobs created, where this activity represented 17% of the total number of jobs generated, compared to 72% in the previous year.

R&D activities continue to generate interest from foreign investors with 6 new projects and the creation of 144 new jobs in 2016. The number of new PhDs per thousand inhabitants, aged 25 to 34 (1,440)\(^1\) exceeds the EU average (1,072)\(^2\), resulting in interesting opportunities for R&D projects.

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1. Research and Innovation Observatory, European Commission
2. Foreign direct investment in 2016
Digital in everything. Portugal, as Europe, is in the middle of a digital transformation that is changing the way people live and work, and transforming its economy and businesses.

Portugal’s historical strengths in manufacturing and, recently, business services are being reinforced by the use of robotics, artificial intelligence, the internet of things and other business-oriented digital technologies.

The efforts being made are helping in the creation of a digital ecosystem, with clusters for tech entrepreneurs in incubators. This should be supported by specialized venture capital (VC) firms and lawyers, and increasingly by policy initiatives and fiscal incentives to stimulate innovation.

All over the Europe, bright minds are applying digital technologies to every field, from agriculture to vehicles, from shopping to health care and social security, and Portugal has contributed with innovative solutions used by some major players.

Portugal and companies in Portugal are being innovative in very diversified areas, going from the cutting-edge sectors to the traditional ones.

Opportunity for Portugal: companies are still completing their European operational integration

Many companies are still completing their European economic integration, or are changing the way they operate to take advantage of deepening integration within the European single market.

As EY European Attractiveness Survey concludes, these adjustments cause them to invest across borders within Europe, and the rising number of FDI projects in recent years is itself a confirmation that companies are adjusting their operating models. Cost topics and time-to-market is critical; companies feel the need to adjust the nature and location of their operations to remain competitive in markets that are converging. Artificial intelligence, robotics and additive manufacturing are changing the economics of assembly.

Though some manufacturing moves east, drawn by lower labor costs, companies are also investing heavily in shared service centers to enhance operational efficiency, and in logistics, to facilitate flows of goods, reduce delivery times, and extend their market reach.

FDI trends provide valuable insights into companies’ strategies for the future, and the way they are adjusting to current economic and technology trends. Europe’s two leading FDI sectors show the scale and breadth of Europe’s ongoing digital transformation. The software sector was the single biggest source of FDI in Europe in 2016, launching 780 projects, up 12%. Business services, which includes many companies that facilitate the digital transition, was the next most active sector for FDI: the number of projects soared 46% in 2016. Together, software and business services account for 25% of European FDI.

Financial services firms and insurers, which have much to gain from digital technologies, continued to make cross-border investments. In 2016, overall numbers of FDI projects were up just 5% to 291 projects.

Growth in pharmaceutical projects stalled, but remains significant in cross-border investment. Industry leaders are shifting more of their research effort from in-house laboratories to collaborations with external partners, including university-based institutions.

What can Portugal learn from the European FDI trends?
Cities leading the investment.
Is there room for regional differentiation in FDI attraction?

As the EY European Attractiveness Survey suggests, in many European countries the economies of big cities may be growing twice as fast as those of the country overall.

And provincial areas in much of Europe gain less from the prosperity, job creation and business-invigorating benefits that FDI delivers.

Skilled people choose cities seeking the symbiotic access to highly-paid jobs, educational and research facilities, cultural and leisure facilities, transport and housing. So investors seek talent and opportunities in these concentrations of people, brainpower and markets. Talent has now become a strategic criterion for FDI success.

The downside, as our data suggests, is that the massive ongoing redistribution of talent and prosperity hollows-out old industrial and rural areas, leaving populations struggling amid declining services. Rural regions all over Europe cannot rival cities by offering a concentration of infrastructure, talent and an attractive lifestyle struggle to attract FDI.

This has multiple adverse consequences: it causes people to doubt Europe’s attractiveness, and it undermines confidence in FDI as a mechanism for economic renewal and growth. And by accentuating economic disparities between successful cities and the rest of the country in which they are found, it contributes to rural-urban migration and to a growing economic and cultural divide between city dwellers and the rest.

Portugal has good examples to show: there has been a recent trend of service projects located in the interior of the country (e.g., Fundão).

This results from the availability of infrastructure and resources, coupled with the efforts of some municipalities to create comprehensive value propositions that allow investors to accelerate market time and reduce costs.

These locations, with less competition than large cities, also tend to offer additional advantages in terms of employee attraction and loyalty.

FDI by region in numbers

The north region has the highest number of projects (36%) and jobs created (61%) in 2016. This region was also the one that had the highest increase of number of projects and number of jobs created since 2013, with 75% and 302%, respectively.

Santa Maria da Feira had the highest number of jobs generated in Portugal, followed by Bragança.

The Lisbon area was the destination of 13 of the 59 new FDI projects in 2016 (17% of the total), with the city of Lisbon hosting 10 of these projects and 85 jobs.

Also, in terms of type of projects, Lisbon and Algarve had a higher number of expansion projects, whereas in regions like Norte, Centro and Alentejo attracted new foreign investment.

These areas are now being discovered by several foreign investors, since the country has been on the news as an excellent destination to tourism and investment. This data supports the idea that investors established in Portugal, have a more positive idea from the attractiveness of the country, opposed to those who are unestablished in the country.

The activity that attracted the most number of projects in the country was manufacturing, with 59% of the total national FDI projects. It was also the activity that created more jobs.
FDI number of projects and jobs created in 2016

North
- 21 FDI projects
- 1,529 FDI jobs
- 44% of new projects

Center
- 16 FDI projects
- 770 FDI jobs
- 33% of new projects

Lisbon
- 13 FDI projects
- 85 FDI jobs
- 67% of new projects

Alentejo
- 8 FDI projects
- 110 FDI jobs
- 38% of new projects

Algarve
- 1 FDI project
- 0 FDI jobs
- 100% of new projects

Activity
- Manufacturing
- Logistics
- Shared Services Center and Contact Centers
- Sales & Marketing
- Headquarters
- Testing & Servicing and R&D

Source: EY European Investment Monitor 2017
Chapter 3

The optimism is back
3. The optimism is back

Investors are optimistic about future attractiveness

The optimism that accompanies expectations for attractiveness in Portugal has increased by 15 p.p. from 2016 to 2017. The doubts that have arisen with the political changes and led to the fall in this indicator since 2014 seem to be dissipating.

About 62% of investors believe that the attractiveness of Portugal will increase in the future. This result is the second best ever, just below the year 2014.

The confidence in a more attractive future for Portugal arises both from companies already established in Portugal and the ones unestablished. However, it is also true that 77% of established companies believe in this increase whereas only 39% of unestablished companies have the same conviction. This is a great disparity in the perception between companies that are established in Portugal and those that are not.

European context

This number compares to a less optimistic European reality. Portugal is above 27 p.p. when compared with the European average.
Investors want to invest in Portugal

Regarding the decision to increase or establish operations in Portugal, 32% of the respondents intend to carry out this step in 2017, an increase of 7 p.p. compared to 2016.

Of the surveyed companies already established in Portugal, 50% intend to expand their activity, a value that is growing in relation to the previous year. However, there is a wide disparity between the view of established investors and those that are not yet established, which only have an investment intention of 4%.

There has been a further increase in investment intentions in higher value-added industries – R&D and Logistics – but the most representative sectors manufacturing, and marketing and sales.

Of the companies unestablished in Portugal and with positive intention, 77% of them intend to invest in the creation of marketing and sales teams, and the other 23% intend to locate their headquarters in Portugal. The companies already established in Portugal plan the expansion for the areas of manufacturing (27%), marketing and sales, research and development (20%), and supply chain and logistics.

European context

Portugal is the European country with the highest investment intentions in the short-term. This compares with a European average of 28% and a value of 18% for Poland. These results lead Portugal to levels of 2008, in a pre-crisis era.
3. The optimism is back

Attractiveness factors

Stability of the social climate is a factor of relevance and the “potential to increase productivity” was the most attractive factor for companies unestablished in Portugal.

The respondents presented a series of criteria according to which a company can evaluate the level of attractiveness of Portugal as a place to establish new activities. For each criterion, it was asked from the point of view of the company interviewed, if it considers very attractive, reasonably attractive, little or nothing attractive.

The three main attractiveness factors identified as “very attractive” were the stability of the social climate, the level of labor costs and the level of local labor competencies.

If we add the “very attractive” and “reasonably attractive” responses, the most attractive factors for attracting FDI are the stability of the social climate, the potential for increased productivity, and labor costs.

Among the factors considered to be unattractive are corporate taxation, labor law flexibility, and the stability and transparency of the political, legal and regulatory environment, the latter being the most voted “unattractive.”

Labor skills and infrastructures falling

The potential for increased productivity was the factor that registered a greater improvement, going from 66% to 76%, evidencing a clear improvement in the perception of companies. On the other hand, telecommunications infrastructure and level of local labor decreased its importance by 10 p.p., when compared with last year.

It should be noted that the perception of the quality of telecommunications infrastructures seems to differ significantly between established and unestablished companies.

The scenario has changed

Since last year, the scenario of the most attractive factor in Portugal has slightly changed. In 2016, the most influential factor seen by the investors was the level of human resources competences, comparing with present most attractive factor, social climate stability.

<table>
<thead>
<tr>
<th>Attractive</th>
<th>2017</th>
<th>2016</th>
<th>PT</th>
<th>Out PT</th>
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</thead>
<tbody>
<tr>
<td>Stability of social climate</td>
<td>77%</td>
<td>74%</td>
<td>86%</td>
<td>61%</td>
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<tr>
<td>Labor costs</td>
<td>75%</td>
<td>75%</td>
<td>85%</td>
<td>59%</td>
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<tr>
<td>Local labor skills level</td>
<td>71%</td>
<td>81%</td>
<td>81%</td>
<td>54%</td>
</tr>
<tr>
<td>Telecommunication infrastructure</td>
<td>67%</td>
<td>78%</td>
<td>82%</td>
<td>43%</td>
</tr>
<tr>
<td>Potential for productivity increase</td>
<td>76%</td>
<td>66%</td>
<td>84%</td>
<td>62%</td>
</tr>
<tr>
<td>Transport and logistic infrastructure</td>
<td>73%</td>
<td>72%</td>
<td>87%</td>
<td>50%</td>
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<td>Stability and transparency*</td>
<td>50%</td>
<td>53%</td>
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<td>47%</td>
</tr>
<tr>
<td>Portugal’s domestic market</td>
<td>55%</td>
<td>52%</td>
<td>66%</td>
<td>36%</td>
</tr>
<tr>
<td>Flexibility of labor legislation</td>
<td>46%</td>
<td>43%</td>
<td>51%</td>
<td>38%</td>
</tr>
<tr>
<td>Overall incentives offered by government</td>
<td>44%</td>
<td>44%</td>
<td>57%</td>
<td>23%</td>
</tr>
<tr>
<td>Corporate taxation</td>
<td>39%</td>
<td>43%</td>
<td>46%</td>
<td>29%</td>
</tr>
</tbody>
</table>

*Refering to political, legal and regulatory environment

Source: EY Portugal Attractiveness Survey 2017, EY, 2017 (total respondents: 203)
Little shared information with investors

In order to understand if the information reaches the companies, participants were also asked if their company regularly receives information about the attractiveness of Portugal to FDI.

Twenty-five percent of the respondents state that they receive information regularly, with the majority established in Portugal. It should be noted that 71% of unestablished respondents in Portugal report that they never receive information regarding the attractiveness of Portugal.

Comparing the results from 2017 and 2016 EY Portugal Attractive Survey it is visible that the information has become more available, but there is room for improvement as we can see in this year results.

Regarding the results from the total number of companies inquired, we can assess that the non availability of information has reduced, but seeing from unestablished companies point of view, the perception of the information not being available has risen by 1%.

The companies that never received information has reduced by 7% and the companies that receives information regularly has risen by 8%. Although the total numbers changed for the better, the companies unestablished in Portugal are receiving less information comparing to 2016’s results.

As a conclusion, we can see that the information is very important when we are talking about investment decisions, especially when the companies are thinking to invest in other countries, such as Portugal.
Industry 4.0: startup ecosystem is at the level of other European countries

One-third of the investors already established in the country considers Portugal competitive when compared to other countries. In relation to outward investors only 8% consider Portugal competitive in this matter.

On the other hand, a consistent percentage in both groups – established (18%) and unestablished (19%) investors – considers that the country is still behind most of its European peers in this dimension.

Also, this group are the ones that show a higher gap in the knowledge of the country and that does not know how to rank Portugal. This is quite possibly due to lack of information about the topic.

However, unestablished investors in Portugal are more skeptical about the competitiveness of the country’s innovative environment.

Although most of the respondents consider Portugal as innovative as its peers countries, 13% of established investors and 32% of unestablished investors remain sceptical over Portugal’s competitiveness in this matter.

Portugal: Industry 4.0, the program

Considered by many as the fourth industrial revolution, this area was considered one of the pillars for the growth of the Portuguese economy. Portugal has released the Portugal 4.0 initiative so that the country could gain advantages in areas, such as human capital qualification, technological cooperation, startup modernization, financing and investing incentives, internationalization and standards and regulations. These were designated as critical areas for our country.

Universities are one of the most important centers of knowledge in this country. From north to south, Portuguese universities created synergies with corporates, with Parque da Ciência e Tecnologia da Universidade do Porto (UPTEC) being one good example of this.

Source: EY Portugal Attractiveness Survey 2017, EY, 2017 (unestablished: 77; established: 126; total respondents: 203)
Portugal: a moderate innovator and cradle of startups

The European Commission ranks Portugal as a moderate innovator in the European Innovation Scoreboard 2016, which shows a positive evolution in the development of the startup ecosystem. Lisbon in particular is becoming one of Europe’s largest startup hubs, following the lines of technological development and promoting an innovative incubator, through successful projects, such as StartUp Lisbon and Fab Lab Lisboa. Another good example of this trend is shown by the fact that Lisbon is hosting the Web Summit for at least two years (2016 and 2017).

The national capital was named European city of entrepreneurship in 2015, and considered a “business hub and Atlantic startups” by the European Entrepreneurship Region (EER), an initiative of the European Committee of the Regions.

Additionally, there are several clusters spread across the country in highly specialized and technological areas. Some relevant examples of this include the aeronautical, space and defense industry in Alentejo. The companies operating in this segment produce molds and pieces for Airbus, Embraer and Pilatus airplanes, as well as some of the software used in NASA.

A number of programs have already been implemented by the Government to support technological development and innovation, such as “Horizon 2020,” the EU’s largest research and innovation program and “Conectividade, Inovação e Tecnologia (CITec),” with the aim of training the Portuguese industry together with “Industry 4.0 - Digital Economy”. The main objective of these programs is to increase the capacity of creating resources directed to new technologies.

In the European context, Portugal recognized the urgent need to keep up with the trends and is setting a promising course in this area. It should seek a leading position in the wave of digitalization of the economy.

Portugal is a modern country that aims to innovate worldwide. Portugal has made innovation a priority across different sectors, as can be seen in some of the examples below:

- In the automotive industry, Autoeuropa is taking the lead in innovation as a JV from Volkswagen and Ford. Portugal was chosen for an investment in this sector, as the research and investigation combined with state-of-the-art technology and skilled labor proved to be an attractive factor.
- As worldwide leader in the cork industry, Portugal developed cutting-edge technologies to introduce this material in a wide spread of uses, such as fashion or aeronautical industry.
- In the paper industry, the Portuguese company Renova has secured a key role as an innovator in this segment with the production of tinted tissue paper for use as a decorative element.
- Vision-Box has been able to introduce a biometric exit solution to improve border security and facilitation.
- Portuguese shoemakers invested in machinery so that the shoemaking process would be more flexible and faster than Asian companies, so that factories can produce small batches of multiple styles for luxury designers.
- The Portuguese ATM system is one of the most developed worldwide, with SIBS having an overarching role in this and promoting a series of additional services to the common cash withdrawals.
Lisbon is the most attractive city in the country with Porto closing in.

There is a great discrepancy in the perception of the country’s regional attractiveness, with two regions considered attractive: Lisbon (53%) and the north (mainly Porto with 28%).

The perception between established companies and unestablished companies is once again quite different, even though Lisbon takes over as the most attractive city within both types of investors.

However, companies already established in Portugal consider that the North of Portugal (Porto) is much more attractive than the companies that do not have operations in Portugal.

Lisbon is identified as being specially attractive for private service companies (training, health, etc.) and additionally these investors only consider locating either in Lisbon or Porto.

Although Lisbon is the region with the highest perceived attractiveness for investment, the region with more projects (36%) and more jobs (61%) created in 2016 was the north of the country (Porto).

The information exists but is not proactively spread among wide range of investors

Most respondents (66%) believe that there is available information on regional attractiveness. Also, answers provided show that it reaches more easily established investors (74%) than unestablished investors (53%).

However, a higher number of investors considers that information for the decision-making process is not readily available and most consider that there is no proactivity in the way it is distributed. This is especially true with unestablished investors.

As far as sources of information are concerned, 70% of respondents considered that there are multiple sources of information.

Source: EY Portugal Attractiveness Survey 2017, EY, 2017 (total respondents: 203)
The perception between established companies and unestablished companies is once again quite different, even though Lisbon takes over as the most attractive city within both types of investors.
The majority of the respondents ranks tourism in the second place as key driver for the development of the economy.
Sector of growth: information and communication technologies, and tourism are the drivers of the future economic development in Portugal

The majority of the respondents ranks tourism in the second place as key driver for the development of the economy, which translates an increase of four positions in comparison to 2016 results.

This sector, combined with information and communication technology, lead this ranking. However, there is a big gap between the answers from the companies already established in Portugal and the ones that are not, with the first ones being more positive than the others.

Consumer goods, real estate, and transportation and automotive sector are the sectors considered most attractive to unestablished investors and also appear as relevant for established investors.

Business-to-business (B2B) segment assessment varies depending on whether this is done by established or unestablished investors, with the former having a much more positive view of the Portuguese sector.

Source: EY Portugal Attractiveness Survey 2017, EY, 2017 (total respondents: 203)
3. The optimism is back

Factors indicated by respondents as most critical for the development of the country (support to high-tech industries and reduction of tax burden) mirror the current needs companies are facing globally and translate the need to respond to megatrends, such as digitalization, innovation and efficiency. The fact that the established investors prioritize more these factors than others as qualification of human resources or improvement of quality of products demonstrates a better knowledge of the Portuguese reality, a more precise identification of current development needs of the country and puts Portugal in the same ground, as its most direct competitors in terms of development needs.

Source: EY Portugal Attractiveness Survey 2017, EY, 2017 (total respondents: 203)
Investors consider that Portuguese competitiveness is highly dependent on level of support provided to high-tech industries and to the reduction of tax burden.
Chapter 4

Recommendations for a more attractive Portugal
4. Recommendations for a more attractive Portugal

When they look at the current and future state of Europe, what do investors ask?

- How can we navigate the longer-term impacts of geopolitical changes and an uncertain economic outlook?
- What are the deep trends that will reshape markets and the economics of servicing them in the future?
- How can we best position our activities to optimize business performance in the long-term?
- Are our operations sufficiently insulated against sudden currency and financial market shifts?

How can I ensure my company has the required skills and capabilities in place to meet the challenges ahead?

- How can I be sure to maintain service delivery through an extended period of uncertainty?
- Is my financing assured, or should I consider new strategies and models for attracting funding and accessing investment?
- Are there any opportunities to take advantage of during this period?

What do policymakers ponder?

- How can Europe be made more attractive to foreign investors?

1. Portugal brand

Portugal, the country that was once identified as the “P” in PIGS (together with Ireland, Greece and Spain, the hardest hit economies at the outset of the financial crisis) is gradually becoming a hot spot for foreign investment.

Portugal's brand is evolving fast, as investors become aware of the quality and availability of infrastructure, international accessibility, competitive costs and quality of life. The international exposure of the country has benefited of initiatives, such as hosting the Web Summit – the world's largest technological startups' event – of historical records in tourism inflows and of a steady pace of new investments, especially in business services centers in the cities of Lisbon, Porto and Braga.

Our survey shows that the perception of investors about Portugal has improved and this is also reflected in the increase in the number of investment projects recorded. However, our survey highlights a gap in the perception of companies that are unestablished in the country, who fail to recognize the attractiveness factors selected by those who have already invested. This indicates the potential for focused efforts in the promotion of the country's business environment to translate into even more investment projects.

Consistent communication could highlight the country’s positioning as a test bed for new technologies, an early adopter of renewable energies, a source of innovation and a breeding ground for entrepreneurial spirit. These attributes add to the heritage resulting of more than 900 years of stable borders with the corresponding culture and values that result in social stability. The recognition of Portugal as the third most peaceful nation in the world (Global Peace Index 2017) is an additional reason for investors to include the “West Coast of Europe” in their location shortlists.

Policymakers should lead, combining public and private interests to attract international events as a mechanism to promote existing opportunities. Information about Portugal's attractiveness factors and success stories should be available, consistent, appealing and disseminated. Regions should highlight their specialization strategies while adhering to the country's overall message.

Companies have an interest in attracting investments that contribute to their value chains, making them more competitive. As such, they also have a role to play in spreading out consistent information about Portugal as an investment destination to their clients, suppliers and investors. Similarly, the dissemination of consistent information about Portugal as a source of innovative products and services would reinforce the global branding, while creating value for local producers.

Also, one possible action could be the creation of the “Portugal Ambassadors Corporate Club,” where international companies already located in Portugal, and Portuguese companies located abroad successfully would be a forum of discussion, clarification of potential investors, buddies and promoters of the brand Portugal.
2. A strong business services location

Global economic integration and the impact of digital are relentless trends, continuously creating cost pressure and disrupting business models. As most large European countries were already facing a shortage of talent, especially when language skills are essential to support large international operations, Brexit created additional uncertainty, especially for companies with a large footprint in the UK, but whose key markets are in the European continent. As companies are being spurred to accelerate their operational excellence transformation and delve into future international trading opportunities, the scouting of new locations should become an ongoing effort, with partnerships, alliances or direct investment driving competitiveness.

In the midst of this uncertainty, and after a period where large numbers of skilled workers were migrating to Central Europe, Portugal is now successfully attracting projects in business services, including high-end R&D projects who benefit of access to qualified talent at competitive costs. Policymakers should clearly target business services as a strategic sector, where the fast decision and implementation timings of new projects can rapidly generate much needed jobs for a young and talented workforce. The education and training policies should increase in flexibility, enabling private companies to contribute to curricula that result in a better fit between skills, and jobs. The focus on language skills should be maintained, reinforcing an already relevant differentiator.

In the wake of Lisbon and Porto’s recent success stories, second-tier cities should focus on building their value propositions for investors, highlighting their regional specialization strategies while creating conditions for a fast and secure deployment of new projects.

Companies should study their value chain and assess the potential impact of locating activities in Portugal, especially in manufacturing activities where there is already a strong supply base. The outsourcing of support services or the direct investment in business service centers could also result in significant cost savings, coupled with access to language skills, and historical and economic connections to relevant markets in Africa and South America.
3. Talent will drive investment

Access to talent, more than geography, will make the difference between success and failure in tomorrow’s world. The urgency of private companies to secure access to a reliable pool of skilled talent rings loud and clear from our survey. Policymakers need to continuously reassess education curricula, making sure they continue to be relevant in a world where technology is already disrupting most industries. Portugal already produces a proportion of science, technology, engineering and mathematics (STEM) college graduates that is above the EU average. However, this is an effort that must continue, coupled with a continued effort in the teaching of foreign languages, especially French and German. Initiatives may include:

- Increased interaction of students with the business environment of the region, promoting a growing connection of students with employment opportunities and the skills required
- Students’ exposure to the practical applications of competences associated with STEM areas, starting in basic education but especially from the third cycle onwards
- The availability of teachers for teaching a second language, starting in the third cycle, matching the origin of foreign investment in the region
- The reinforcement of academic curricula in information technology skills, including programming techniques
- Inclusion in the curricula from secondary school, programming techniques as a mandatory subject for students in scientific areas
- Giving priority to language skills, the use of information systems and the development of specific skills for use in business environments, in the vocational training programs for the unemployed
- Developing re-qualification programs for unemployed graduates, focused on acquiring skills in information technologies
- Promoting a training initiative for civil servants focused on foreign investment promotion, attraction and retention
- Continuing to defend the competitiveness of the tax regime for non-habitual residents, ensuring a rapid response in the appraisal of applications
- Creating an academy under IEPF as a way to increase collaboration between the institute and the investors in launching specific training and retraining initiatives for the unemployed

Universities should increase their connection to their surrounding business environment and strive to maintain the relevance of their curricula. Initiatives may include:

- Foreign language teaching
- Development of soft skills and vocational skills
- Develop programs with companies that ensure the inclusion in academic curricula of subjects with direct application in work environment, as well as periods of internship in a professional environment
- Support re-conversion programs, in collaboration with companies, designed to allow the mobility of graduates and non-graduates to areas with higher employability
- Support employability of students by providing a database to employers that includes information on knowledge in languages, information systems and relevant extracurricular activities.

Companies must assume their share of the responsibility in training and developing talent, engaging proactively with local public and private partners to lobby for their specific requirements and share costs on cooperative efforts. In their assessment of new locations, companies should factor in the advantages of second-tier cities, notably in reduced costs, reduced competition, added support from local authorities and increased quality of life.
4. Surf the digital wave

Supporting high-tech industry and innovation comes in first place in investors’ recommendations. This highlights the importance of Portugal being prepared to transition to the digital era and of communicating that readiness effectively. **Policymakers** must do much more to enhance the startup environment. Areas for action include:

- Communicating effectively the improvements and advantages of Portugal in the digital revolution by showing real cases of successful innovative companies
- Creating awareness in companies and management about the importance and impact of the new digital revolution
- Overhauling labor codes, to ensure workers have appropriate protections in the gig economy, bridging the gap between those with long-term security and the chronically insecure
- Overhauling tax regimes to encourage innovation and not penalize companies that do not turn an early profit, to ensure entrepreneurs are appropriately incentivized, to rationalize VAT rules to avoid unnecessary burdens on small cross-border traders and unequal liabilities between business models offering similar services in different ways
- Modernizing the regulation of financial institutions to facilitate innovation in funding models, via peer-to-peer lending, venture capital, and traditional grants and lending, so as to ensure appropriate funding is available to develop ideas that can change society for the better
- Deepening the capital markets union, so that startups gain independence from big companies, as the funding capacity of big companies is critical to the health of the entire European economy

**Educators** should prepare students for the digital revolution, both in core competences and in the enablement of entrepreneurial spirit.

**Companies** must constantly scan for opportunities and potential impacts of digital technologies in their activities. They must reorganize their business models to profit from new ways of working, while adopting intrapreneurship and empowering employees. They must identify and partner with external innovators, and develop an open innovation mindset.

Companies should also reflect if they have all the management aligned and prepared, as well as all the support they will need in order to overcome and succeed in the digital revolution that we live in.

Europe’s complex economy and extensive physical infrastructure offer vast potential for efficiency gains and for new services to be developed on the back of data capture and analysis.
Portugal's brand is evolving fast, as investors become aware of the quality and availability of infrastructure, international accessibility, competitive costs and quality of life.
5. Benchmarking against competitors

FDI promotion is a fast-moving and competitive business. The social and economic impact of FDI drive countries, regions and cities to continuously improve their value proposition.

**Policymakers** should ensure a continuous benchmark of Portugal’s competitive position (e.g., using the Doing Business report), identifying opportunities to differentiate and bridging the gap in areas where its business environment lags behind that of competing locations.

It is important for public policies to be agile in reaction to new business models driven by digital and associated technologies.

Investment promotion agencies should be given the necessary manpower and competences to effectively develop aftercare activities, and to coordinate the preparation and dissemination of national and regional promotion materials.

*From the discussions we had, some practical examples that can be followed upon include the following areas:*

- Within Portugal 2020, the launching of SI Inovação program that expressly foresees the eligibility for services and innovation projects
- Simplify access to incentives for vocational training for startups or a significant expansion in the volume of operations
- Clarify and extend the tax benefit scheme to the net creation of jobs, eliminating or increasing the limitation of support per job
- Ensure continuity of SIFIDE as a reference incentive system in support of R&D projects, promoting the continuous benchmark with the practice of competing markets
- Promotion of more initiatives and urban services to support communities of migrants and non-local investors.

6. Simplify and make it last

Regulation and tax in Portugal are perceived as complex. The investors interviewed did not complain as much on the tax rates as they did about tax complexity.

**Policymakers** must address regulation and fiscal complexity, clearly defining the medium-term plan and effectively communicating the milestones achieved, making sure investors have a clear visibility on the current standing.

- Definition of a stable tax framework for business taxation, with a minimum horizon of five years
- Equalization of the current tax regime to non-habitual residents, to be applied in the same way to those who relocate to low density regions, so that they can benefit from the same fiscal regime
- Continuation of the process of simplification of the reporting obligations of companies, aiming at reducing the administrative cost of compliance
- Adoption of a clear cost model for transfer pricing (e.g., cost-plus 5%)
- Creation of the investor’s facilitator, managing a reporting mechanism of non-compliance with deadlines or non-response, with monthly and public reports on the main areas of difficulty and with the ultimate goal of improving the relationship between investors and the state

*These measures should be subject to a political consensus, enabling stability of the resulting regulations.*
The “real” attractiveness of Europe for foreign investors

Our evaluation of the reality of FDI in Europe is based on the EY EIM, EY’s proprietary database that tracks those FDI projects that have resulted in the creation of new facilities and new jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

Data is widely available on FDI. An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company’s equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intra-company loans.

But our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

• How FDI projects are undertaken
• What activities are invested in
• Where projects are located
• Who is carrying out these projects

The EIM is a leading online information provider, tracking inward investment across Europe. This flagship business information tool from EY is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 new sources.

To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments.

The following categories of investment projects are excluded from the EIM:

• M&A and JVs (unless these result in new facilities or new jobs being created)
• License agreements
• Retail and leisure facilities, hotels and real estate*
• Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
• Extraction activities (ores, minerals and fuels)*
• Portfolio investments (pensions, insurance and financial funds)
• Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
• Not-for-profit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances. For example, details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

The “perceived” attractiveness of Europe and its competitors for foreign investors

We define the attractiveness of a country or area as the combination of its image, investor’s level of confidence in it as an investment destination and the perception of its ability to provide the most competitive benefits for FDI.

The research was conducted by the CSA Institute in April 2017, via telephone interviews with a representative group of 203 international decision-makers.

Overall, 49% of the 203 companies surveyed have presence in Portugal.

Methodology: how EY designed the report
How EY can help

Options for investors

With offices in Lisbon and Porto, Ernst & Young, SA offers the broad scope of EY’s services in all its service lines: Assurance, Tax, Advisory and Transaction Advisory Services. Our teams work closely with the financial system, private equities, venture capitalists and privately owned businesses. This in-depth knowledge of the local market enables us to offer a set of services that covers all stages of the investment process:

Identification of acquisition opportunities
- Support on the decision-making process concerning new investments either related to new geographies, products or markets
- Identification of a list of potential targets, based on the investor’s requirements
- Development of initial contacts, with non-disclosure agreements, leading to detailed negotiations with selected targets

Validation of acquisition opportunities
- Financial, tax, commercial, environmental and regulatory due diligence
- Asset valuation
- Business model validation
- Assessment of tax implications

Acquisition and integration support
- Technical support to acquisition negotiations
- Identification of local funding opportunities

Working with the public sector

EY’s Investment Location Advisory Services provides our teams with knowledge of the investor’s requirements when approaching an investment location decision. This enables us to assist governments, investment promotion agencies, regions, municipalities and public companies in improving the way they attract, receive and provide aftercare services to foreign investors.

EY can support public entities in FDI-related matters through:

Attractiveness assessment
- Identification of existing attractiveness facts, bottlenecks for FDI and exports promotion
- Assessment of investment locations

Investment promotion
- Identification and validation of targets for FDI promotion
- Compilation of Doing Business in Portugal, or regional sector-specific or investor-specific investment brochures
- Preparation of regional business model templates for specific sectors
- Initial setup and definition of procedures for the updating of data sets typically required by investors
- Setting up and facilitation of road shows and one-to-one meetings with potential investors
Identification of tax and EU-funded financial incentives
Design and execution of transformation programs to support a swift and smooth integration process
Value chain assessment, and identification of logistical and tax improvement opportunities
Operations assessment and identification of performance improvement opportunities
Assessment of internal control procedures, including IT
Assessment of the existing compensation policy and design of the compensation packages matching compliance with local regulations and the investor’s own policies

Tax compliance support to expatriates
Accounting and reporting

Assessment of greenfield opportunities
Site selection based on location requirements
Initial business model preparation, reflecting investment, financial and operational costs based on local conditions
Initial contacts with national and local stakeholders and identification of funding opportunities, including tax and EU-funded financial incentives

Preparation and assistance to in-site visits and formal contacts with national and local stakeholders
Identification and selection of local suppliers based on sourcing requirements

Ongoing support
Accounting compliance and reporting
External audit services
Tax compliance and reporting

Training and governance
Training of teams on lead generation, handling of requests, meeting preparation, field trip organization and overall management of investment projects
Advisory on the setting up and management of investor support services (investment decision and aftercare)
Advisory on the setting up and management of local investment boards, with key stakeholders for FDI-related issues

Investment intention’s assessment
Validation of business models
Investor due diligence
Assessment of regional impacts
Sustainability

Ongoing support
Facilitation of focus groups with existing investors to assess satisfaction, identify relocation risks and expansion opportunities
Facilitation of investment board meetings
Create investment attractiveness dashboards to measure results
About the Attractiveness Program

**EY Attractiveness Surveys and Program around the world**

*EY Attractiveness Surveys* are widely recognized by our clients, media, governments and major public stakeholders as a key source of insight into FDI.

Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth.

A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 16-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean regions, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit: [ey.com/attractiveness](http://ey.com/attractiveness)

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---|---|---|---|---
The Netherlands | Nordics | Poland | Portugal | Russia
Scotland | Switzerland | United Kingdom
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About EY
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