

SNAPSHOT

High European energy costs impacting business investment

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INTRODUCTION

- New research reveals that energy costs of highest concern to UK business leaders
- Energy costs in Germany and Spain seen as least attractive to potential investors
- Poland most informed about energy sector but awareness of issues relatively low across Europe
- Likely to impact further as European efforts move towards high energy consuming re-industrialisation.

Energy costs and business

Energy costs across Europe are having a detrimental impact on business investment decisions suggests new research published today by FTI Consulting, the global business advisory firm.

Within the survey, business leaders from the UK were most concerned about energy costs in their market and the impact it had on their investment decisions and their German and Spanish counterparts felt their respective energy costs were the least attractive to international investors. Breaking awareness down to specific energy sources, Polish business leaders led the way in understanding many of the challenges and opportunities that different energy sources offer as solutions to an ever increasing demand for more affordable energy.

Speaking about the survey, Marcus Pepperell, Managing Director in the strategic communications team at FTI Consulting Brussels, said: *“We already know that European businesses are paying considerably more for their energy than their peers in comparable markets. This introductory research provides tangible evidence that it is having an impact on their investment decisions and on the potential level of inward investment that Europe subsequently attracts. Given its importance to the commercial bottom line, there is also a relative lack of understanding amongst business leaders about the challenges and opportunities that each energy source can potentially provide. As the policy debate continues across the EU and within each member state, there needs to be wider engagement with the business community and more awareness of the impact that any future decisions could have on the competitiveness of our industries.”*

Dan Healy, Managing Director of Strategy & Research at FTI Consulting London, commented: *“Affordable energy costs are crucial for energy dependent industries such as industrial and manufacturing when examining destinations for their greenfield investments. However, EU faces global competition to attract such investments from this sector, where 30% are considering investing in Asia Pacific compared to lower 19% in the EU. In an attempt to boost appeal, the European Parliament is to vote on 15 January on the reindustrialising*

Europe report, reflecting the Commission’s priority on industrial policy. Should this new initiative be voted for, it would send a clear message that the EU needs to prepare the right environment for attracting industrial investment and this includes globally competitive energy costs. We’re monitoring how the electorate’s opinions shift on key energy issues and in particular EU Ministers with their discussions at the competitiveness council this February.”

Analysing feedback from almost 350 senior decision makers from small, medium and large sized companies across a number of sectors from five European Union countries (Germany, UK, France, Spain and Poland), respondents were asked three core questions: their views on the cost of energy on their investment decisions; to rate the attractiveness of domestic energy costs to attract international investment; and finally how informed these business leaders believed they were about a broad range of energy sources. In summary, the research shows:

Energy costs and domestic investment

Asked which of 18 different investment criteria are particularly important when choosing a location for greenfield investment, 40% of European business leaders rated Government support and business running costs as the two most important issues they consider. However views on the cost of energy showed a widely disparate response. As an average the cost of energy was rated as the sixth most important consideration by European business leaders, at 29%, comparable to many other parts of the world, including Australia, Russia and North America. However, breaking this down to each of the specific countries surveyed, the UK was the highest in Europe with 39% and higher than any other market surveyed with the exception of South Africa (47%), and Poland the lowest in Europe at 19%, equal to views received in Brazil. As expected energy costs were also more of a concern for high energy using sectors such as industry and manufacturing (42%), construction (34%) and for larger businesses (31%) rather than for smaller companies (25%).

Energy cost and inward investment

High energy costs and access to affordable energy were ranked the least attractive aspect of the European market for international investors, alongside administration and public procurement. Only Australia was lower internationally at 16%. Attractive energy costs were most highly rated in South Africa (36%) and the Middle East and North Africa (MENA, 31%). Within Europe, Germany had the lowest ranking, with only 11% of respondents believing domestic energy costs were attractive to foreign investors, closely followed by Spain at 13%. Again larger companies (23%) and high energy consuming sectors such as transport and logistics (31%) believed that energy costs were more important to attracting inward investment compared to smaller ones (18%) in lower energy intensive

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industries such as the biotech, healthcare and telecommunications sectors (20%).

Energy sources

The final analysis from the survey was awareness about the opportunities, reliability, risks and costs of generating electricity using a variety of energy sources including gas, oil, coal, nuclear and renewables (wind, solar and hydro). Of the three fossil fuels, awareness was highest for oil (34%, 'very aware') with gas and coal lower at 24%. Poland was the most informed country in general, peaking with oil at 52% of business leaders claiming to be very well informed. Awareness about nuclear energy within the boardroom stood at 28% in Europe but ranged from 44% in Poland to 21% in Spain. Wind was the most informed renewable (28%), followed by solar (27%) and hydro (23%) as a European average, but again broken down by country there were differences, with Poland again the most informed country (43%) regarding renewables, whilst the UK (11%) with hydro and France with wind (17%) were the least aware within these respective sectors.

Research Methodology: This research was conducted using an online research methodology in December 2013.

A total of n=1,064 business decision makers were surveyed across 17 countries globally where n=343 were based in the EU. For more information on the research methodology: market-research@fticonsulting.com

Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%.



Dan Healy
Managing Director

FTI Consulting
Holborn Gate, 26 Southampton Buildings
London, WC2A 1PB
+ 44 (0) 207 269 9302
Dan.healy@fticonsulting.com



Marcus Peperell
Managing Director

FTI Consulting
Avenue Marnix 23
1000 Brussels
+32 (0)2 289 0930
Marcus.peperell@fticonsulting.com

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