Transatlantic Business & Investment Council (TBIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

1st Quarter 2024

[Data for Q3 2023]

The Transatlantic Business & Investment Council (TBIC) is the official European representative for selected counties, cities, and corporations from over 30 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, TBIC bridges the gap between U.S. Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

This latest issue of our quarterly features an analysis of the newly published data for Q3 2023 and revised data for the previous quarters, as recently released by the U.S. Bureau of Economic Analysis (BEA). With $67.8 billion worth of investment, third quarter FDI inflows decreased from inflows in Q2 2023, which were revised to a little higher amount of $78.5 billion. Of this $67.8 billion in Q3 2023 FDI inflows, approximately $26.0 billion were in the manufacturing sector, or roughly, 33.2%.

Within manufacturing, noticeable decreases in FDI inflows were observed from Q2 2023 to Q3 2023 in the food, machinery, and transportation equipment sectors. The machinery sector experienced a noticeable decrease in investment from $2.9 billion in Q2 2023 to $1.5 billion in Q3 2023. Meanwhile, investments in the food and transportation equipment sectors decreased by approximately $1.1 billion and $4.0 billion, respectively, in Q3 2023.

This issue includes a time series focusing on Austrian foreign direct investment into the United States. Austria's stock of FDI in the United States amounted to a total of $17.6 billion up until the third quarter of 2023, with the inflow being $297 million, $972 million, and $377 million in Q1, Q2, and Q3, respectively. In the wake of the COVID-19 pandemic, global supply chain issues, and a heating crisis, the Austrian economy has proven itself as particularly resilient, having a 4.6% GDP growth in 2021 and 2022. The unemployment rate is also exemplary, with 4.6% as well. Austria is an important center for technology, particularly in the automotive industry, with additional standout firms in e.g., the sustainable energy sector. Exports have long accounted for approximately half of the Austrian GDP, which nonetheless only comprises 1.2% of Europe's FDI into the U.S. in 2023. This investment was largely in the automotive, machinery, electrical and pharmaceutical industries, meaning that Austria's FDI activities are often horizontal, but exceedingly advanced and future-proof. Its GDP is the 10th highest amongst EU countries, but its GDP per capita ranks 6th. Vienna is the 5th richest region in all of Europe, only being beaten by such places as Luxembourg, and Inner London. The U.S. is Austria's biggest non-EU trading partner. Some iconic companies also belong to Austria. One such is the arms manufacturer GLOCK. Austrian handgun exports amounted to $451 million in 2023, largely due to such

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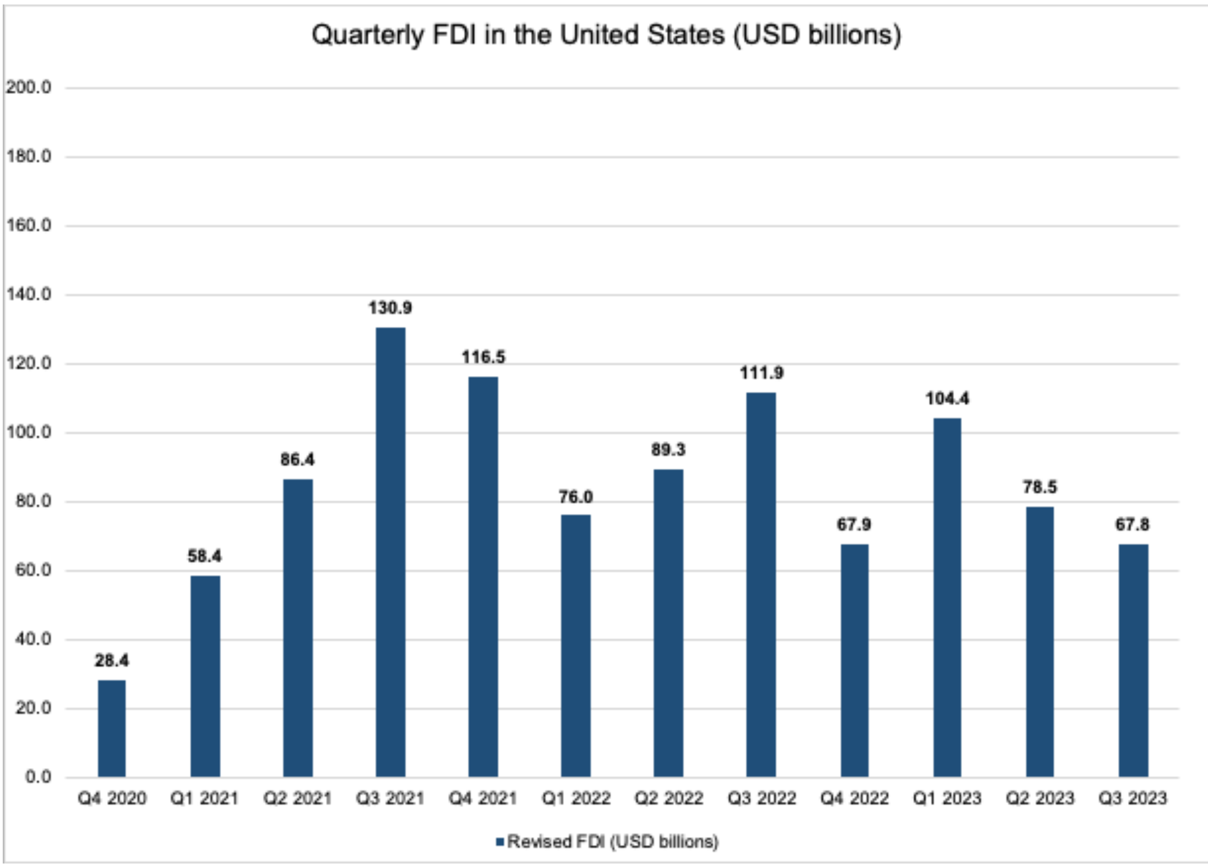
firms as GLOCK. This places it as the world's leading exporter of handguns, with an export approximately three times as large as that of the U.S. Moreover, the destination for $408 million thereof, was in fact the U.S. market. The Austrian economy is highly developed, leveraging the highly skilled workforce it possesses, and the quality of its exports and outward FDI reflects this.

In addition to the focus on the Austrian industry, this issue's focuses on the transportation industry in the U.S. A well-functioning transportation and logistics system is a prerequisite for economic growth, and its highs and lows have major implications for the entirety of the world economy – as was evident in the wake of the supply chain issues of 2021 and 2022. This spotlight article, however, focuses on the reforms and reasons for optimism moving forward, as well as the initiatives and reforms to reinforce the robustness of the transportation system. To witness the transportation industry's future in Europe first-hand, please feel free to reach out for future visits to IZB Wolfsburg and IAA Transportation.

Foreign Direct Investment in the United States: Key Figures



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions, Third Quarter 2023, February 2024.

In the recently published data from the Bureau of Economic Analysis, the FDI inflows for the second quarter of 2023 were revised upward from $75.5 to $78.5 billion.

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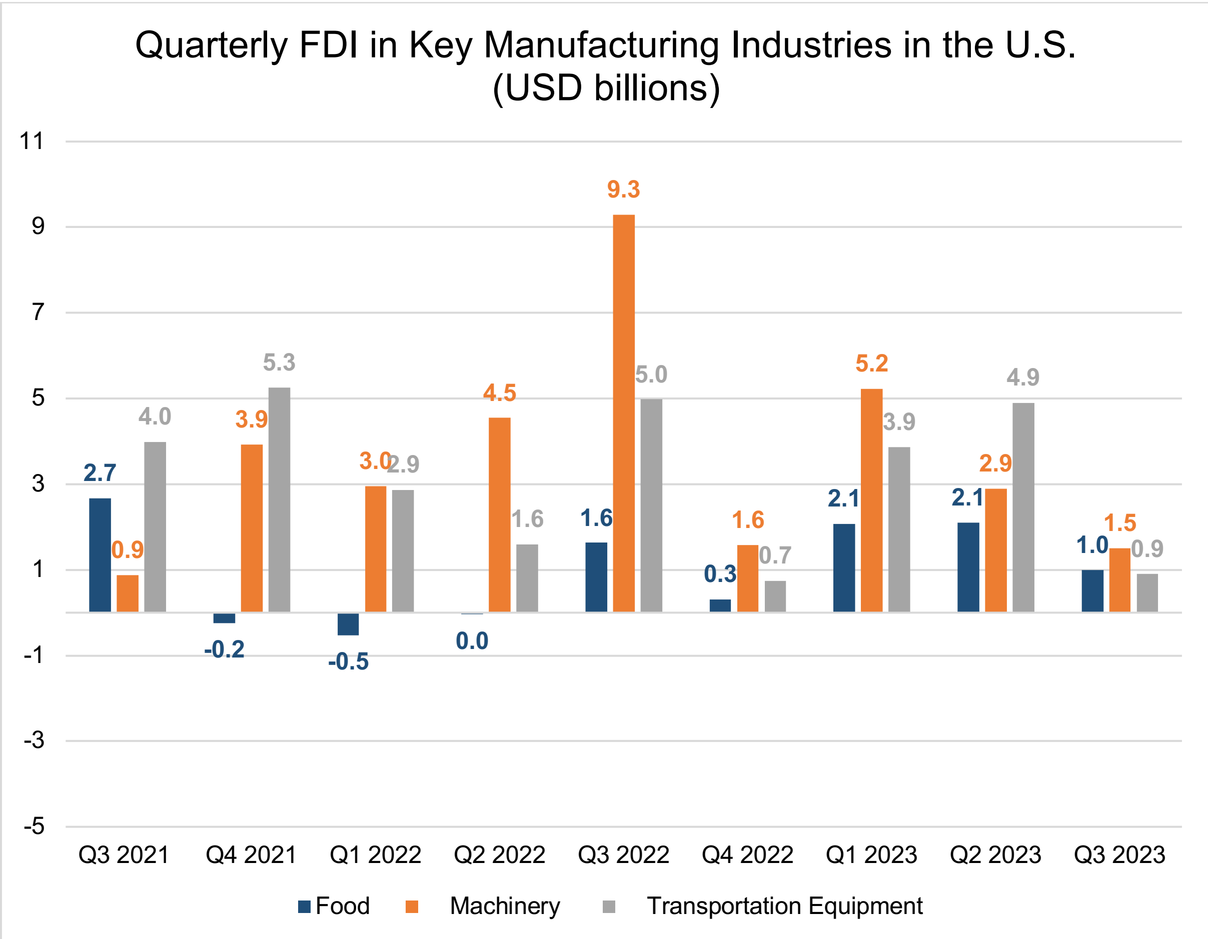
FDI data for the third quarter of 2023 indicate an inward investment volume of $67.8 billion, a decrease of $10.7 billion, which is somewhat below the average quarterly figures since Q4 of 2020 and Q1 of 2021. These figures reflect a slow end to the calendar year 2023, nonetheless exceeding figures of the in 2020, COVID-stricken economy. The continuing solid performance reflects a robust optimism in the prospects for growth in the U.S. Moreover, by nature of the business opportunities spurred by the Inflation Reduction Act (IRA) and the CHIPS and Science Act, these investments are longer-term prospects with fluctuating investment schedules. Regardless, the $67.8 billion is a solid figure, with an outlook for an upward growth trajectory.

U.S. FDI Flows by Key Industry Sector



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, February 2024.

The newly released BEA data for Q3 2023 shows a decrease in net FDI flows in the food, machinery, and transportation equipment sectors, compared to Q2 2023. In Q3 2023, investment flows in the food sector fell by roughly $1.1 billion from the previous quarter. This pattern can also be seen as a more moderate decrease in investment flows in the

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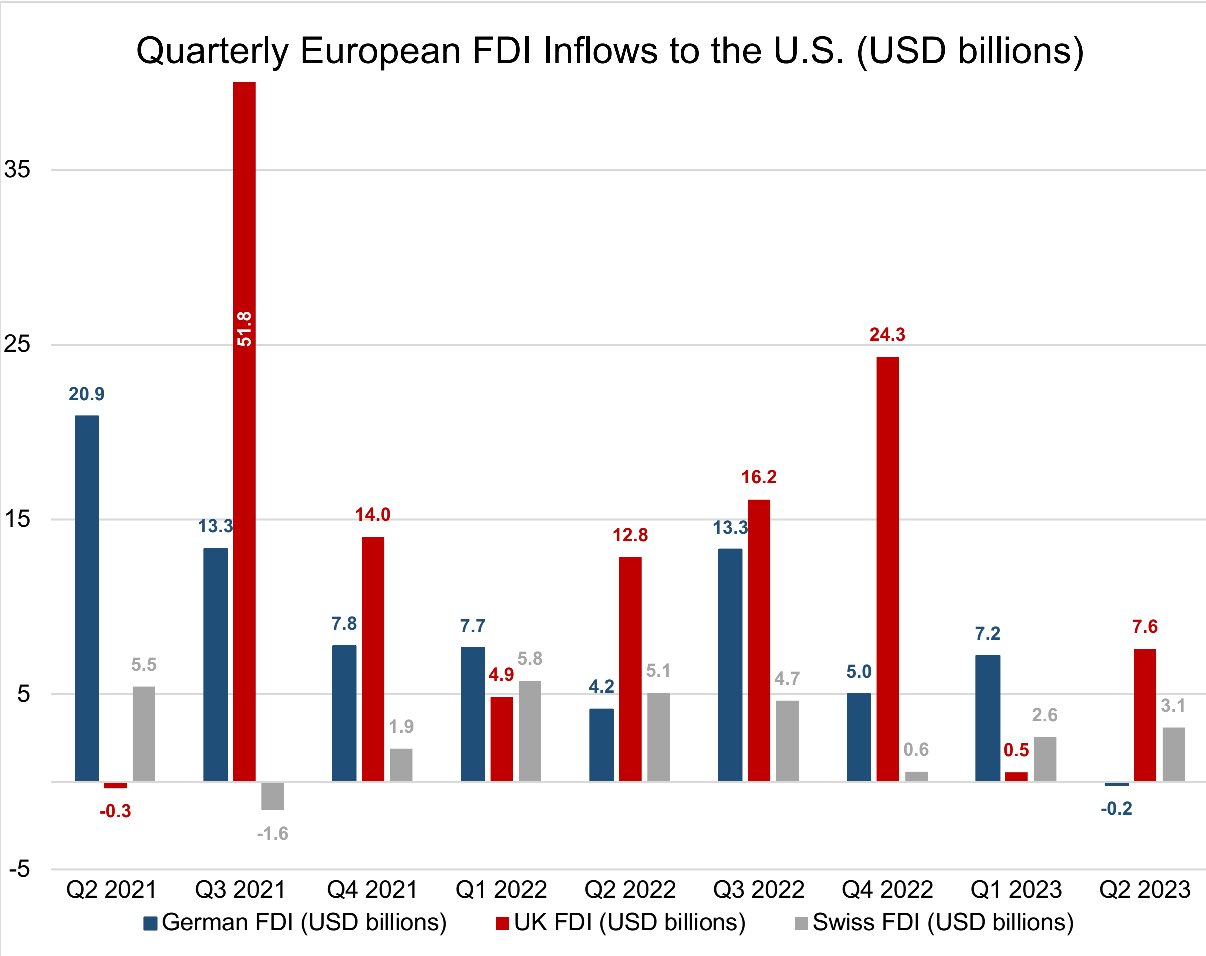
machinery sector by $1.4 billion, as well as a $4.0 billion decrease in the transportation equipment sector, when compared to Q2 2023.

The machinery sector reclaims the top spot, from the transportation sector's Q2 2023 performance, which was upwardly revised by $1.7 billion. This more than makes up for the downward revisions made to both food and machinery for the same quarter.

Global FDI figures have continued to feel the impact of supply chain issues, as inflation slowly comes under control. Regardless, domestic uneasiness has doubtlessly caused the slowdown for Q3, which still outperforms the most recent slump of Q4 2022. Moreover, investment in the food sector continues a solid performance, compared to the end of the COVID economy.

U.S. FDI Inflows by Key European Source Countries



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, February 2024.

Q3 2023 data reflects diverse results for three major European sources of FDI into the U.S., namely, Germany, the United Kingdom, and Switzerland. German FDI into the US rose

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remarkably from the slump of the negative quarter, where it reached a negative value of approximately $-200 million. This is the highest investment since Q3 of 2022, and the third highest since the beginning of 2021. FDI coming from the UK established a fourth consecutive quarter of massive fluctuations, decreasing by $5.6 billion, to an absolute value of $500 million. Finally, Swiss FDI remained relatively consistent from an upwardly revised figure of $8.8 billion to $5.8 billion, according to the most recent figures, tied for the second strongest figure since mid-2021.

Q3 2023 highlights a shift back to Germany as the largest source of FDI observed of these three countries. The UK took back its position as the smallest source of FDI for the quarter. Though the previous quarter's German FDI was negative, the recovery has been significant. Meanwhile, Switzerland's FDI inflow of $58.1 billion, is above the levels observed throughout most of 2021 and 2022.

Overall, the figures from Q3 2023 reflect a strong level of FDI from Germany, the UK and Switzerland, as compared to previous quarters; in fact, the strongest in aggregate value of all of 2023. In the context of continued German struggle with its domestic economy, the rebound is more significant.

Historical Series – U.S. FDI Inflows from Austria

Official Austro-American bilateral relations recently celebrated their 185th anniversary, but "unofficial" economic relations harken back much further. In 1838, the U.S. and Austria inaugurated embassies in Vienna and Washington, D.C. respectively. By 1850, 11 honorary Austrian Consular Offices existed, mostly dealing with trade of cotton and tobacco. Since then, the economic relations have only deepened.

International economic relations are particularly important to Austria; more than half of its GDP is derived from exports – in fact, this figure reached an astonishing 62.1% in 2022. Austrian investors are drawn to the U.S. market for its skilled labor force, great business environment, and, especially in the post-COVID era, its great economic performance. The economic upswing has been exemplary and focused on a sustainable and future-proof development of e.g., climate objectives and a digital transition. Among the notable Austrian investments in the U.S. are those made by companies such as Red Bull, Swarovski, Voestalpine, and GLOCK. Red Bull, pioneer of the energy drink, comprehensive fusing of sports and marketing, as well as their Formula 1 team. Its 2019, it committed itself to a $250 million investment in a production plant in Glendale, Arizona – the first production plant outside of Europe. Swarovski, known for its crystal jewelry and accessories, has also established a U.S. presence, both in retail stores, but also through collaborations with American brands. Voestalpine is a leading steel and technology company, which has invested in manufacturing facilities and research centers in the U.S., particularly in the automotive and aerospace sectors. GLOCK, is an arms manufacturer with production facilities in Austria, Slovakia, and Georgia, in the Smyrna, GA, and is largely responsible for an exceedingly high handgun export value, for Austria – approximately three times that of the U.S. Glock established its North American headquarters in Smyrna in 1986, and expanded their production capacity in 2010.

The U.S. is an important trading partner for Austria, and Austria, for its size, is a comparatively important trading partner of the U.S., with industries including technology, automotive, and machinery. Austrian companies have displayed an interest in investing in

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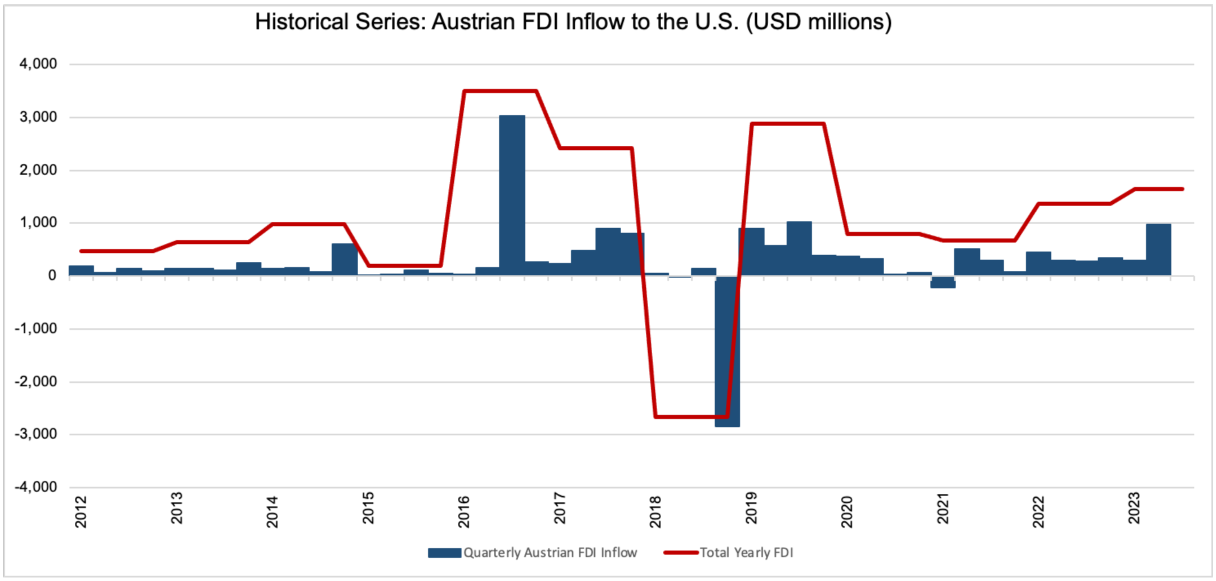
R&D activities, in the U.S., leveraging the country's innovative ecosystem and skilled workforce. According to BEA figures, majority Austrian-owned firms in 2021, spent a total of $317.0 million on R&D in the U.S. Many Austrian firms have established partnerships with U.S. counterparts to drive innovation and develop new products and technologies, but these also require a steady availability of skilled workforce, as upwards of 38,000 individuals in the U.S. are currently employed by said Austrian-owned firms.

Geographically, Austrian trade with the U.S. is spread across America., with a focus on regions housing industries and sectors like those, in which the most important Austrian companies operate. The most important ones are the Midwest and the West Coast, where technology, renewable energy, and manufacturing sectors have attracted Austrian investment.

Austria has also been cited as the home of certain "hidden champions" – companies that operate in niche markets, but that contribute substantially to the economy. Some of these have also established a U.S.-presence. An example of such, is ANDRITZ AG – an Austrian company founded in 1852 – which through the gradual acquisition of American companies, has expanded its U.S.-presence. Initially starting as an iron foundry, ANDRITZ today has diversified to offering products and services for hydropower stations, the paper industry, metal working and steel industries, and more – it has a market capitalization of $6.49 billion. Another example, is of an early pioneer of solar energy, Fronius. Fronius is a family-owned company, specializing in welding, battery technology, and sustainable energy. It established and expanded its American market presence between 2002 and 2007, and now has 37 subsidiaries.

In absolute values, the Austrian economy is not the most significant. However, with its extremely well-educated, and affluent labor force, its cultural capital, and its iconic firms, it certainly punches above its weight. These industries and factors continue to catalyze technological cooperation between Austria and the U.S.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, February 2024.

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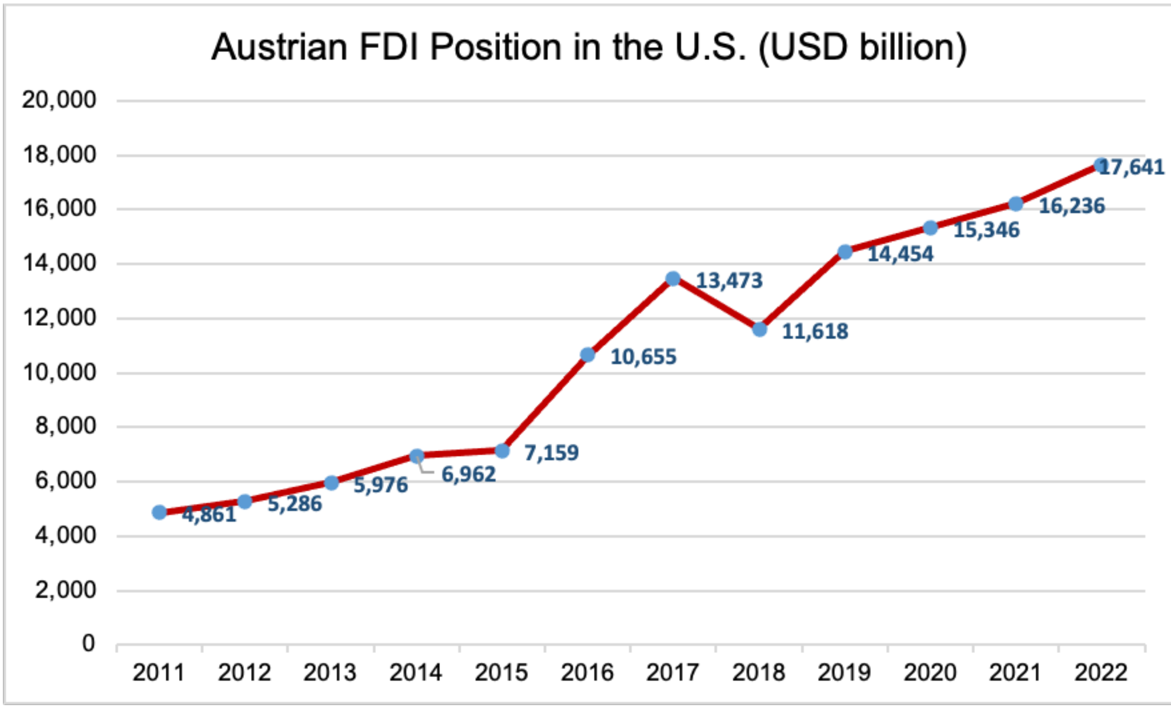

Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, February 2024.

Spotlight Article: U.S. Transportation Industry & European FDI

Overview U.S. Transportation Industry & European FDI

The transportation industry plays a crucial role in facilitating transatlantic FDI in the United States. The U.S. transportation sector is a significant contributor to the country's economy, providing essential infrastructure and services that support various industries. According to the BEA, the GDP generated from the transportation sector in the United States rose to $561.90 billion in Q1 of 2023, up from $557.30 billion in Q4 of 2022. In Q3 of 2023, it reached its all-time high of $736.1 billion. Additionally, the transportation sector employs 14.9 million people (10.2% of U.S. labor market) across the nation, further solidifying its economic importance.

For European companies, the U.S. transportation industry presents attractive opportunities for growth. Specifically, European firms can leverage their expertise in innovative technologies and contribute to the development of cutting-edge mobility solutions. Further, the U.S. government continues to focus on modernizing transportation systems through policies such as the 2022 Bipartisan Infrastructure Law (BIL) or the 2021 Infrastructure Investment and Jobs Act (IIJA). The BIL is projected to support federal public transportation programs with $108 billion (FY 2022-2026), and the IIJA will provide an additional $66 billion in investments into the U.S. railway industry. Hence, there are ample opportunities for collaboration and technological exchange between European

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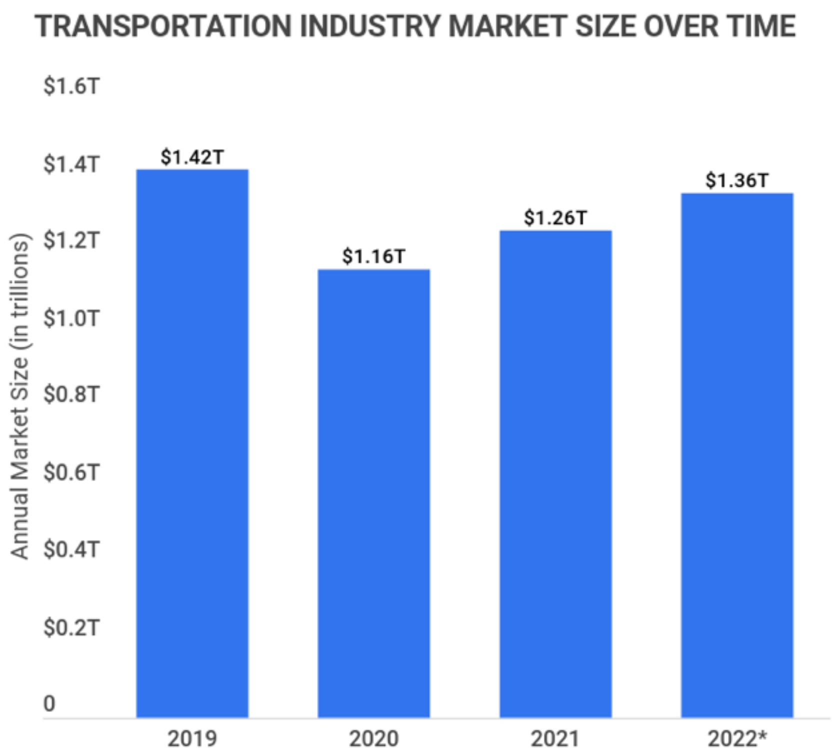
and American companies. An example thereof is Siemens Mobility's $220 million investment into a new train manufacturing facility in North Carolina, which is a direct result of the BIL and IIJA funding opportunities. This move is projected to generate over 500 jobs by 2028, with production set to commence in 2024. The estimated economic contribution to the state's growth is approximately $1.6 billion over a span of 12 years.

Nonetheless, during the COVID-19 pandemic, the transportation industry witnessed significant challenges. For instance, from 2019 to 2020, the market size of the U.S. transportation industry decreased by 18.3%, dropping from $1.42 trillion to $1.16 trillion. These figures slightly recovered but have not yet reached pre-COVID-19 levels as seen in the graph below, in which the preliminary data 2022 suggests an annual market size of $1.36 trillion. Projections indicate an annual growth rate of 7.6% between 2023 and 2030, with the policies serving as a major catalyzing factor.



Source: *Zippia, Inc.*

Overview U.S. Freight Railway Industry

The extensive freight rail network in the United States spans nearly 140,000 route miles and is recognized as the largest, safest, and most economically efficient system for transporting goods on a global scale. The freight rail industry, valued at around $80 billion, is overseen by seven Class I railway companies, which are defined as those with annual operational earnings surpassing $490 million, alongside 22 regional and 584 local or short line railroads. This network contributes over 167,000 jobs throughout the country and holds many advantages including reduced traffic congestion, highway accidents,

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fuel usage, greenhouse gas emissions, logistics expenses, and public infrastructure upkeep costs.

Freight Rail Overview

In contrast to road systems, private entities are the proprietors of the U.S. freight railroads and are accountable for maintaining and enhancing their infrastructure. In comparison to other primary transportation modes, railway proprietors allocate a significant portion of their earnings (approximately 19%) to maintain and expand their network's capacity, with an annual expenditure nearing $25 billion.

Canadian Pacific Kansas City (CPKC) and the CSX Corporation have joined forces to develop and implement hydrogen conversion kits for diesel electric locomotives. This collaboration involves CSX utilizing one of CPKC's conversion kits to transform a diesel locomotive into hydrogen powered locomotive engine. The conversion will take place at CSX's locomotive facility in Huntington, West Virginia. This endeavor aligns with the freight rail industry's broader goal of reducing greenhouse gas emissions by adopting greener locomotive technologies, including hydrogen-powered and biodiesel locomotives. CPKC initiated its plan to retrofit a diesel-electric locomotive into a hydrogen-powered one in late 2020. This retrofit integrates hydrogen fuel cells and battery technology to drive electric traction motors. CPKC's in-house prototype debuted in late 2022, marking over 1,000 miles of testing in revenue service. Funding for this initiative came from Emissions Reduction Alberta and the Government of Canada Low Carbon Economy Fund. By adopting advanced hydrogen fuel cells, the collaboration positions the industry as a leader in sustainability and technological advancement, appealing to environmentally conscious investors seeking transformative solutions in transportation.

Transportation, Infrastructure, and Geography

The U.S. boasts an extensive railway network and highway system, a well-developed air travel infrastructure system, and a robust port system. These interconnected transportation systems contribute to the ease of movement for goods and people, enabling smoother supply chain operations. The country's vast size and wide-reaching river, canal, and railway networks provide ample transportation opportunities for European companies to access a wide range of regional markets and consumers. The highway system complements these by offering last-mile connectivity and flexibility for cargo delivery.

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However, transatlantic FDI in the U.S. transportation industry is also influenced by the Jones Act of 1920, which mandates that vessels transporting goods between U.S. ports must be U.S.-built, owned, and operated. The main effect of this legislation was that industries turned to land-based transportation options, such as railroads and highways. An analysis by RSI Logistics in 2020 found that when making a comparison, rail direct costs $70.27 per net ton. By comparison, over-the-road truck expenses amount to $214.96 per net ton. Opting for a combination of multi-modal rail and truck transit, as opposed to relying solely on trucks, can result in a reduction of transportation expenses by over fifty percent. This shift had a significant impact on the logistics landscape, influencing the growth and development of alternative transportation modes.

Freight Facilities

Source: U.S. DOT (Comment period for the Interim NMFN (National Multimodal Freight Network) ended Sept 6, 2016 and comments made to the docket are currently under review).

Source: *U.S. Department of Transportation*

In addition to geographic advantages, the interconnectedness of the U.S. transportation systems plays a crucial role in supporting the federal government's supply chain realignment policies. These policies aim to enhance resilience and efficiency in supply chains, especially during times of crisis or disruptions such as COVID-19 or the war in Ukraine. The reliable railway, highway, air travel, and port systems allow for flexible supply chain adjustments and ensure smoother flows of goods across the country, aligning with the government's strategic objectives.

Relevant International Trade Shows and Announcements

Moreover, as American economic development organizations (EDOs) seek opportunities to capitalize on the geographic advantages mentioned above, attending relevant international trade shows and events can provide valuable insights. The IAA TRANSPORTATION show (September, 17th – 22nd 2023) in Germany, held biannually,

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showcases the latest trends in connected mobility, autonomous driving, and sustainable transportation. Similarly, the Transatlantic Transport and Decarbonization Summit fosters cooperation between Europe and North America in reducing transport emissions and provides valuable insights for investment decisions. The International Suppliers Fair (IZB) in Wolfsburg (22nd – 24th October 2024) and the Battery Show Europe (18th – 20th June 2024) offer unique avenues for American EDOs to explore partnerships with suppliers and manufacturers in the European automotive and battery industries.

Over the past months the following four transportation, shipping, and aviation companies have announced planned investments into the U.S.: ZIM American Integrated Shipping Services Co., a subsidiary of ZIM Integrated Shipping Services Ltd., intends to move its U.S. headquarters to Virginia Beach, Virginia, investing $30 million and creating numerous jobs. MSC Mediterranean Shipping Company is going to establish an operations center in Tempe, Arizona, leading to the creation of 170 jobs. TAT Piedmont Aviation, a subsidiary of Israel-based TAT Technologies, is planning to enhance its aviation maintenance facilities near the Piedmont Triad International Airport in Greensboro, North Carolina, with a $12.8 million investment, generating 85 new jobs in Guilford County. Finally, DHL Express, a global leader in international express shipping, headquartered in Bonn, Germany, will expand its operations at CVG Airport in Boone County, Kentucky. The $192 million project is expected to create 86 jobs.

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