

U.S. Insourcing Investment Climate

A CFO-Level Survey of U.S. Subsidiaries of Foreign Companies

July 27, 2010



Prepared for the Organization for
International Investment

Background

- The 2010 survey of U.S. subsidiaries is the first survey of CFO's
- Purpose of the CFO survey:
 - The CFO survey assesses how top executives of U.S. subsidiaries of foreign companies perceive the U.S. as a location for business investment
 - Top executives of U.S. subsidiaries have a unique perspective as they must justify to parent companies why their firms should increase U.S. investment

Survey Design

- On-line survey administered by PwC.
- Questions developed jointly by OFII and PwC
 - 10 topical questions plus company name, size, and industry
- All OFII member companies invited to participate
 - Unique log-in ID numbers were not created so companies can only be identified if company name is supplied
 - Allows companies to respond anonymously, although almost all self-identified.
- Disclosure policy:
 - No company names will be disclosed.
 - Only aggregated results presented: 6 or more responses required for presentation of results.

Executive Summary

The Organization for International Investment (OFII) commissioned PricewaterhouseCoopers to survey senior executives of U.S. subsidiaries of foreign companies regarding their views on doing business in the United States. These top executives play an important role in determining whether their global parent company should increase U.S. investment and employment. As such, the OFII survey represents a "customer satisfaction" assessment of doing business in the United States.

The 2010 OFII survey results are based on responses from 90 CFOs at U.S. subsidiaries of foreign companies.

Key Findings:

Plans for Investment & Employment Over the Next 12-18 months:

- **53%** of U.S. subsidiaries plan to increase U.S. investment – compared to **10%** who plan to decrease U.S. investment
- **49%** of U.S. subsidiaries plan to increase U.S. employment – compared to **22%** who plan to decrease U.S. employment
- U.S. subsidiaries rank China, U.S., India, Germany, and Brazil as their top priorities for investment (in that order)

U.S. Business Climate for U.S. Subsidiaries of Foreign Companies:

- **39%** of U.S. subsidiaries view the U.S. as having a strong competitive business environment for foreign companies compared to other countries – while **28%** say the U.S. business environment is weaker for foreign companies compared to other countries.
- **72%** of U.S. subsidiaries believe the U.S. business climate for foreign companies has deteriorated over the last year - compared to **13%** who believe the U.S. business climate for foreign companies is getting better

Executive Summary (cont.)

Factors Influencing Investment Decisions:

- U.S. subsidiaries view a **skilled workforce as the most important influencing factor** for choosing where to invest, followed by:
 - Political environment for foreign companies
 - Corporate tax system
- The U.S. ranks high, compared to other countries, on quality of workforce;
 - Ranks the U.S. very low on corporate tax policy

Policy Issues of Concern for U.S. subsidiaries:

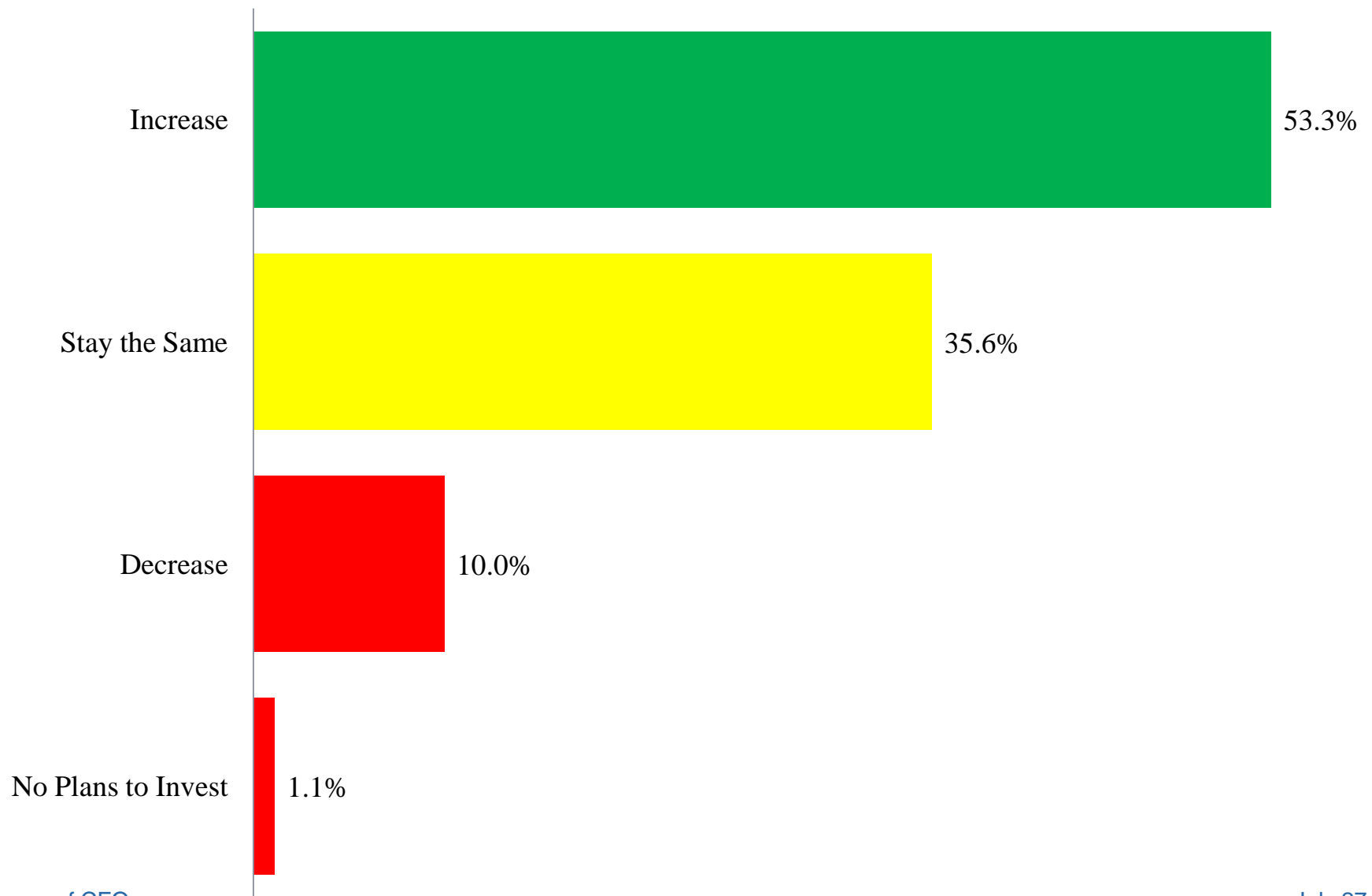
- U.S. subsidiaries believe that **tax is the most important policy area** that will impact their companies' decision to invest in the United States;
 - Open trade ranks as the second most important policy area
- Narrowing in on changes to tax policy, **lowering the corporate tax rate** ranks as the most important;
 - transfer pricing rules rank as the second most important tax policy area that can impact their companies' decisions to invest in the United States

Key Findings

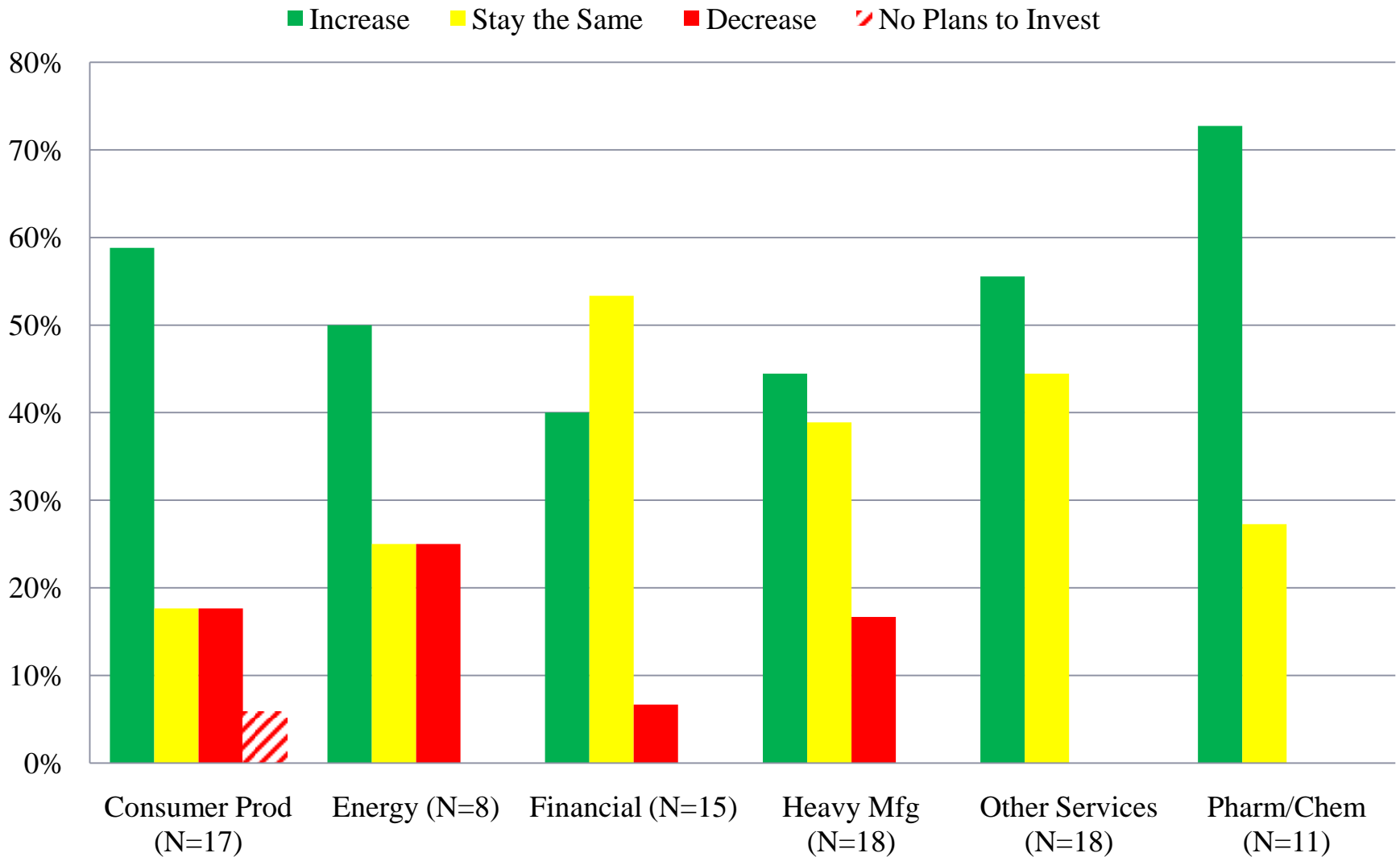
U.S. investment over next 12-18 months (Slides 7&8)

- Most CFO's (53%) plan to increase U.S. investment; only 10% plan decreases
 - Industry
 - “Increase” response percentage highest for **Chemicals** (73%), **Consumer Products** (59%), and **Other Services** (56%)
 - Despite health care reform which affects Pharma sector in Chemicals
 - “Decrease” response percentage highest for **Energy** (25%)
 - **Energy** also had the highest variability of responses

How will the level of your company's investment in the U.S. change over the next 12-18 months?



How will the level of your company's investment in the U.S. change over the next 12-18 months? -- By Industry

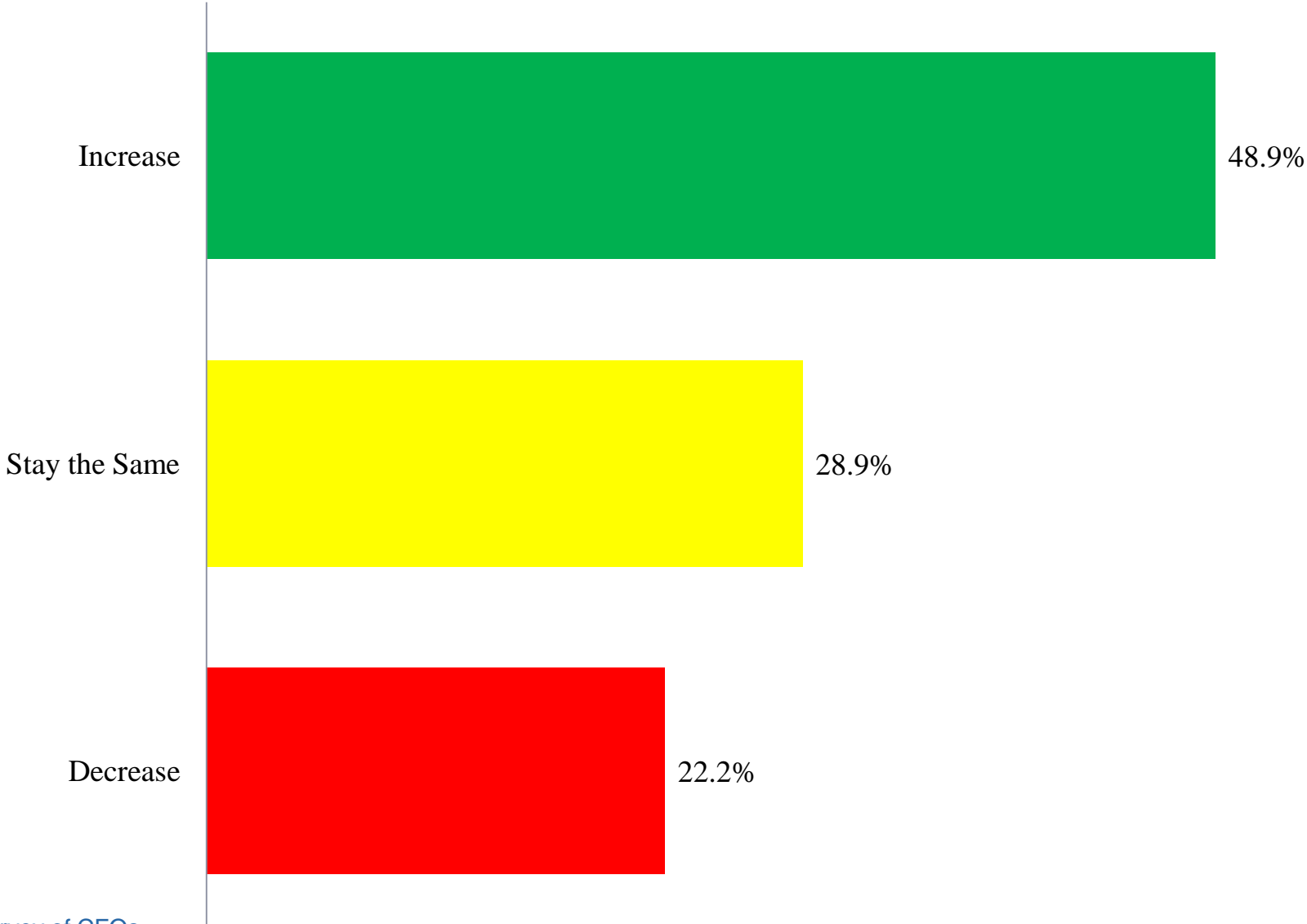


Key Findings

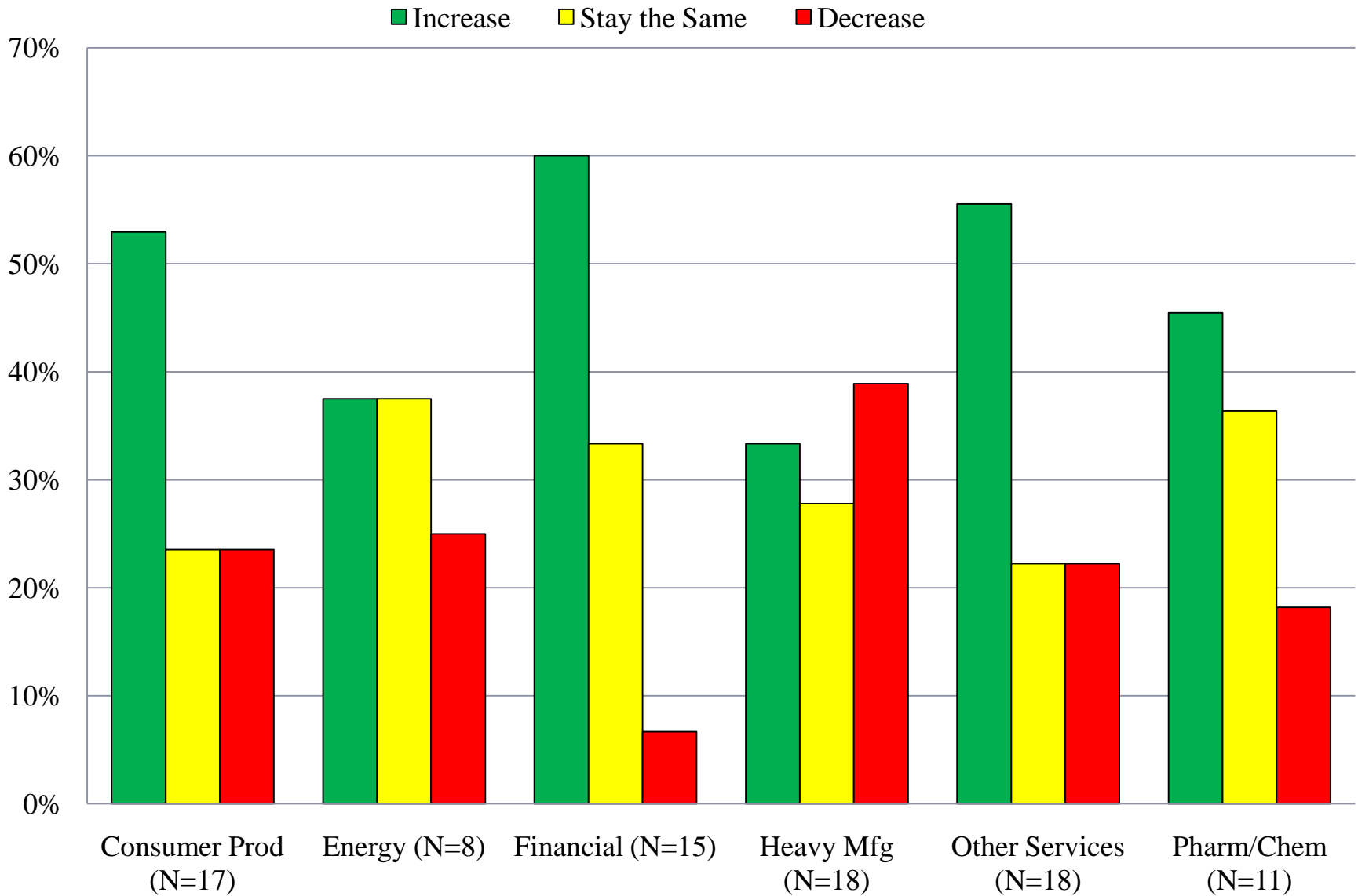
U.S. employment over next 12-18 months (Slides 10&11)

- 49% of CFOs plan to increase U.S. employment; 22% plan to decrease
- Industry
 - “Increase” response percentage highest for **Financial Services** (60%), **Other Services** (56%) and **Consumer Products** (53%)
 - “Decrease” response percentage highest for **Heavy Manufacturing** (39%)
 - Greatest variability within **Energy** and **Consumer Products**

How will the level of your company's employment in the U.S. change over next 12-18 months?



How will the level of your company's employment in the U.S. change over next 12-18 months?-- By Industry

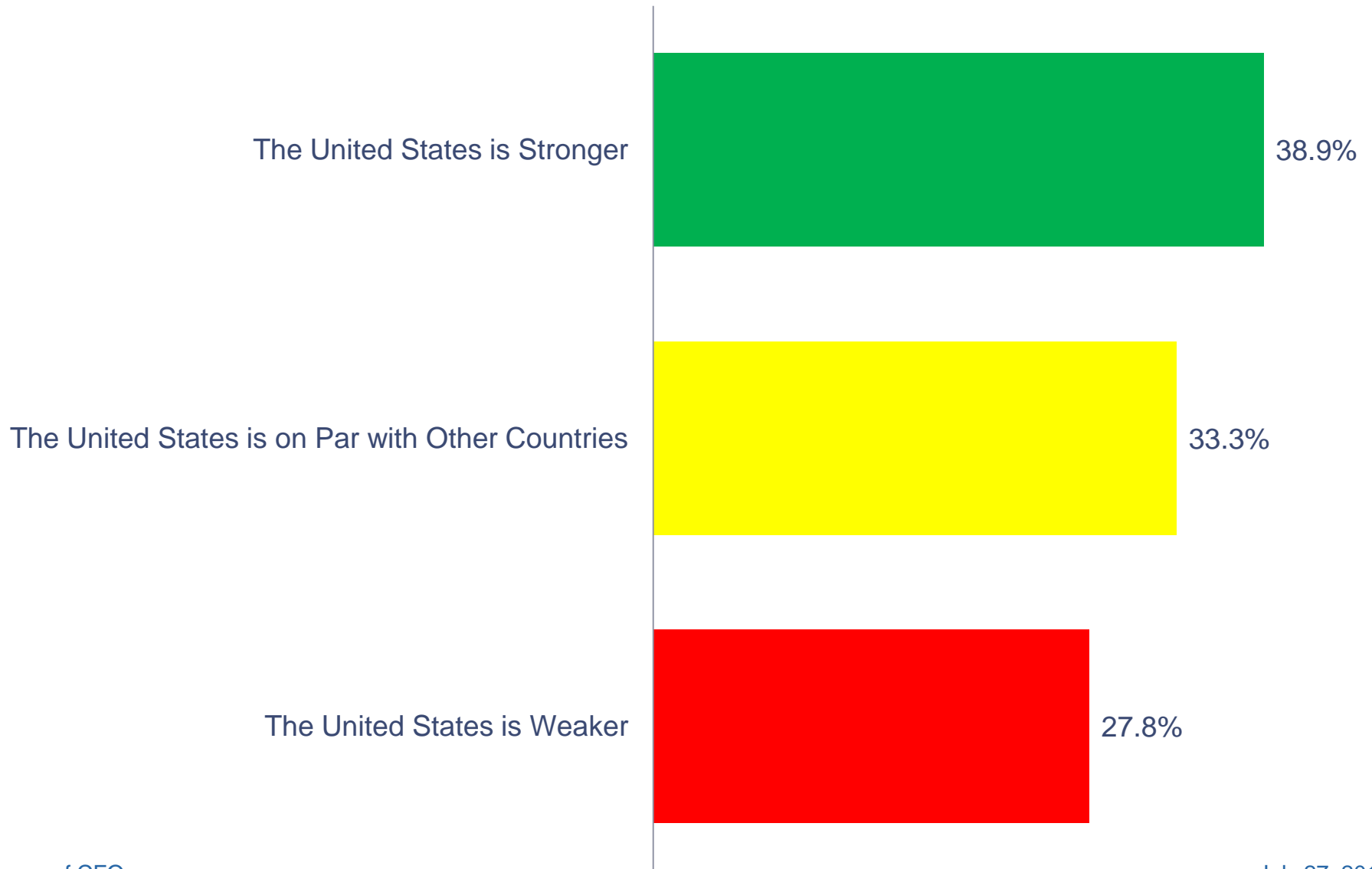


Key Findings

U.S. business climate relative to other countries (Slides 13&14)

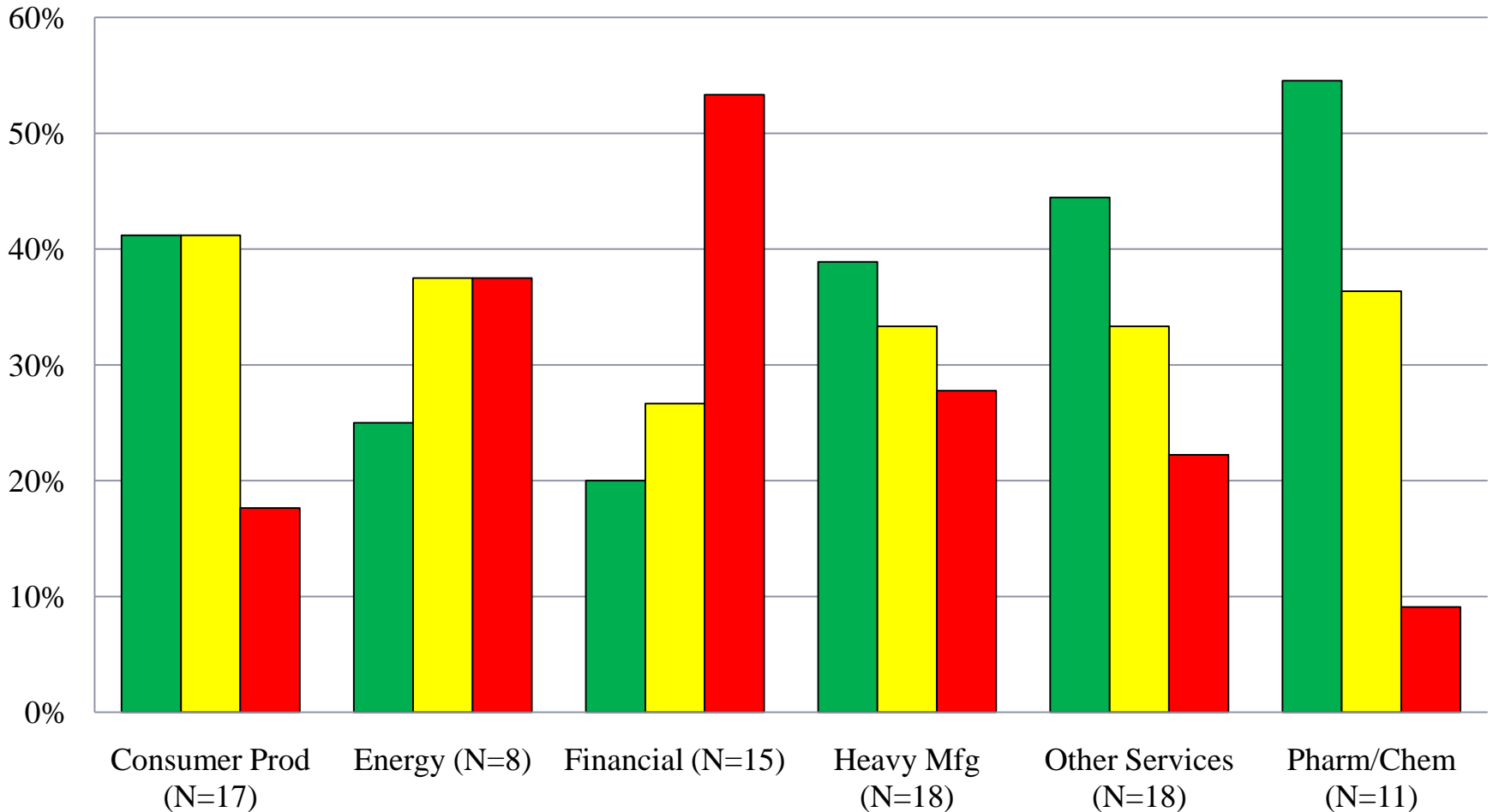
- Although the majority of respondents plan U.S. investment increases, less than half (39%) view the U.S. as having a better investment climate than other countries
 - Industry
 - “Weakest” response percentage highest for **Financial services** (53%) and **Energy** (38%)

In 2010, how would you compare the U.S. to other countries in terms of business environment, specifically for foreign companies?



In 2010, how would you compare the U.S. to other countries in terms of business environment? -- By Industry

- The United States is Stronger
- The United States is on Par with Other Countries
- The United States is Weaker

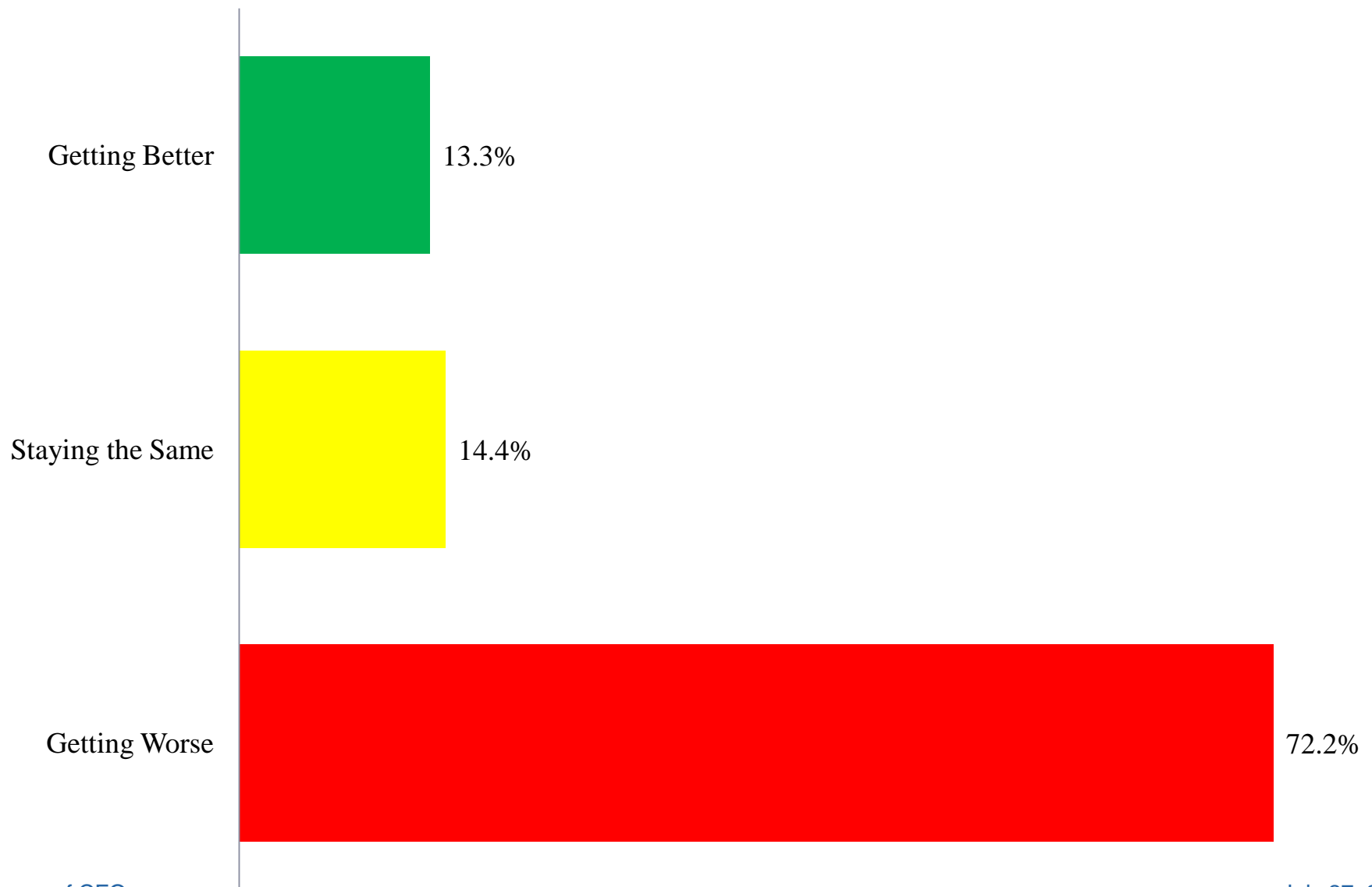


Key Findings

Change in U.S. business climate in last year (Slides 16&17)

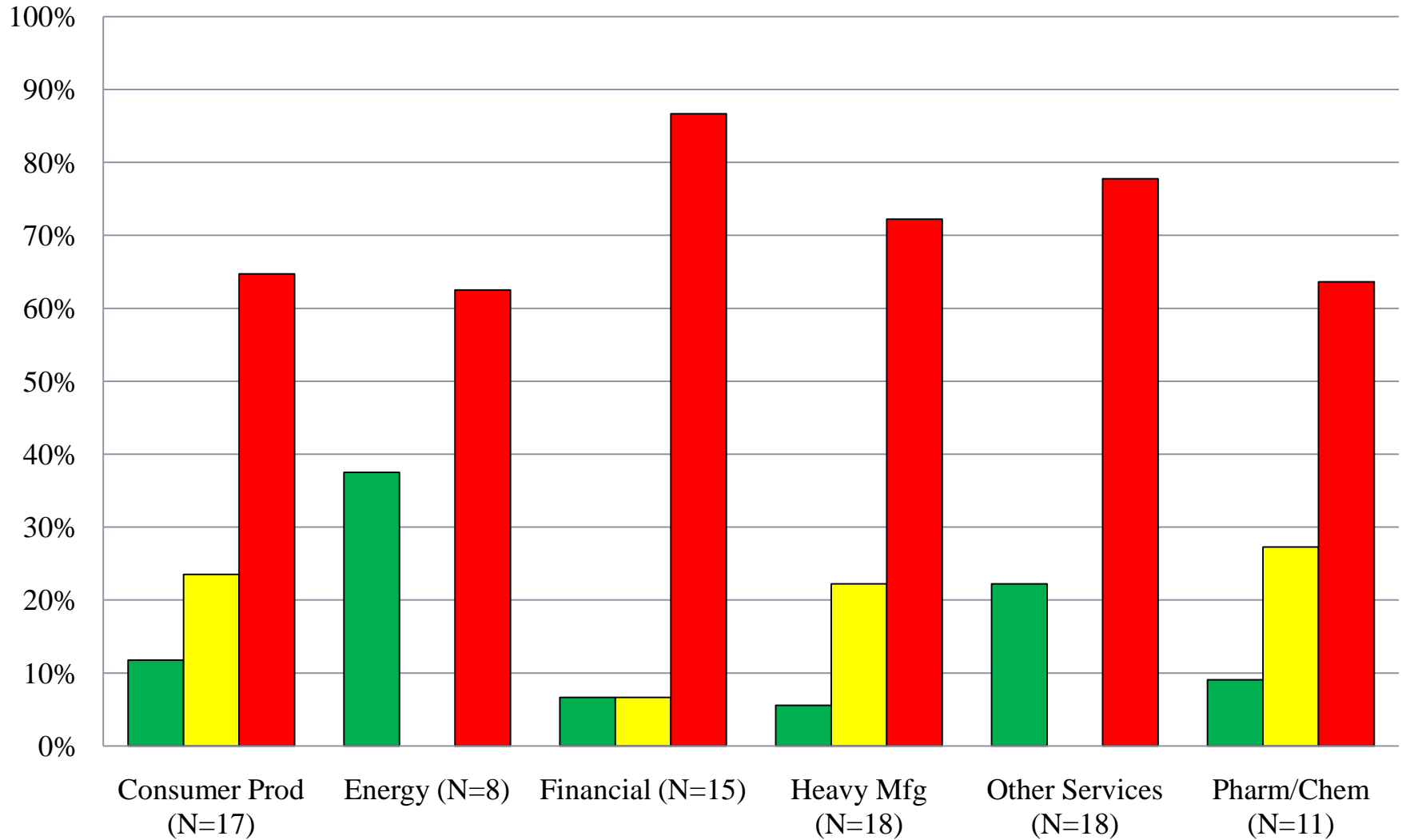
- **72%** of CFOs report the U.S. business climate deteriorated over the last year; only **13%** say it improved
 - Industry
 - “Stronger” response percentage highest in **Energy** (38%) and **Other Services** (22%)
 - “Worse” response percentage highest in Financial Services

How has the U.S. business climate for foreign companies changed in the last year?



How has the U.S. business climate for foreign companies changed in the last year?-- By Industry

■ Getting Better ■ Staying the Same ■ Getting Worse



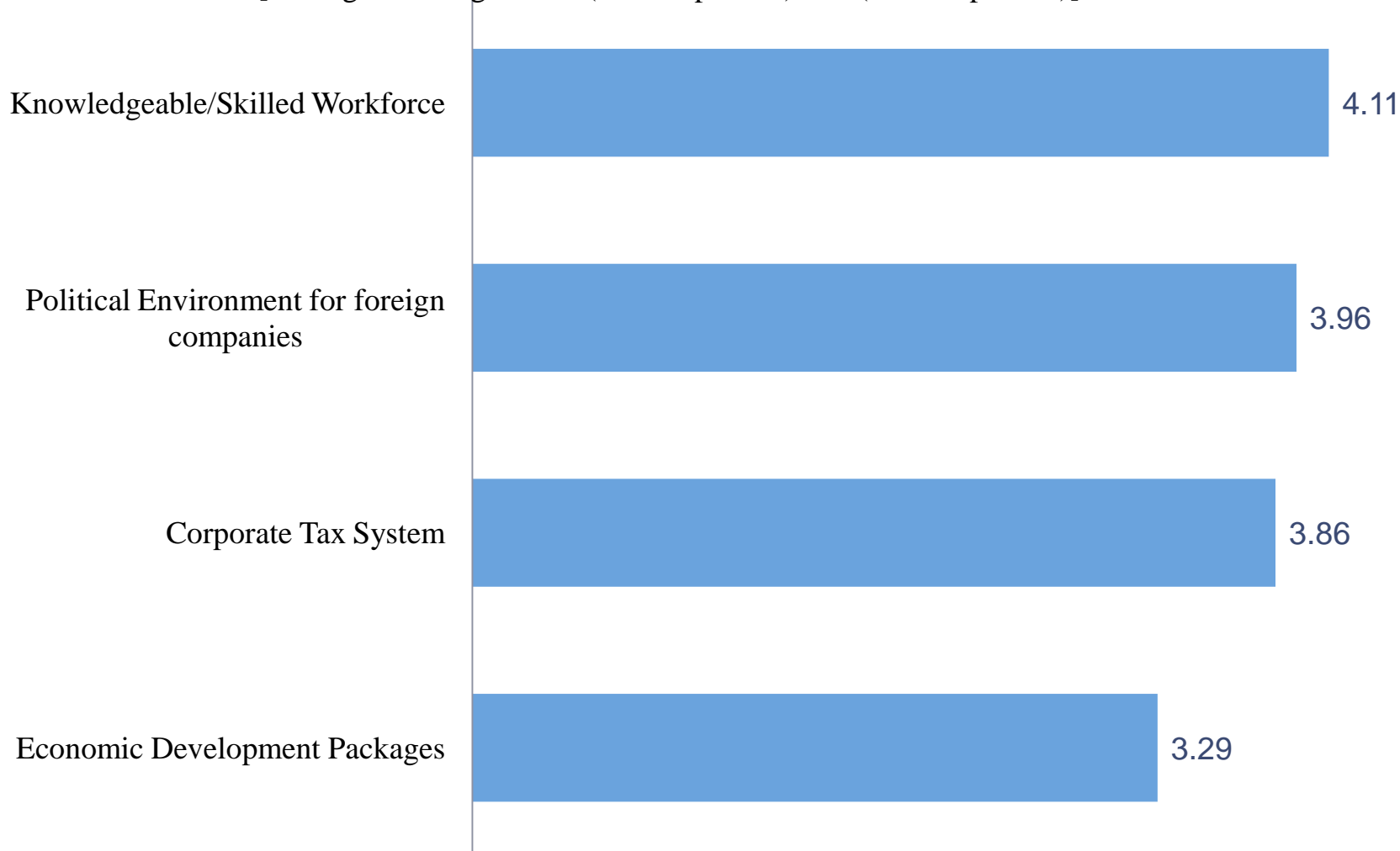
Key Findings

Factors important to major investment decisions (Slides 19&20)

- The most important factor for investment location is a skilled workforce followed closely by a favorable political environment and corporate tax system
 - Industry
 - Workforce quality is the most important factor for **Financial Services**, **Heavy Manufacturing**, and **Chemicals**
 - Political environment is the most important factor for **Energy**
 - Economic development packages is the least important factor in all industries.

How important are each of the following factors in deciding a location for your company's major investments?*

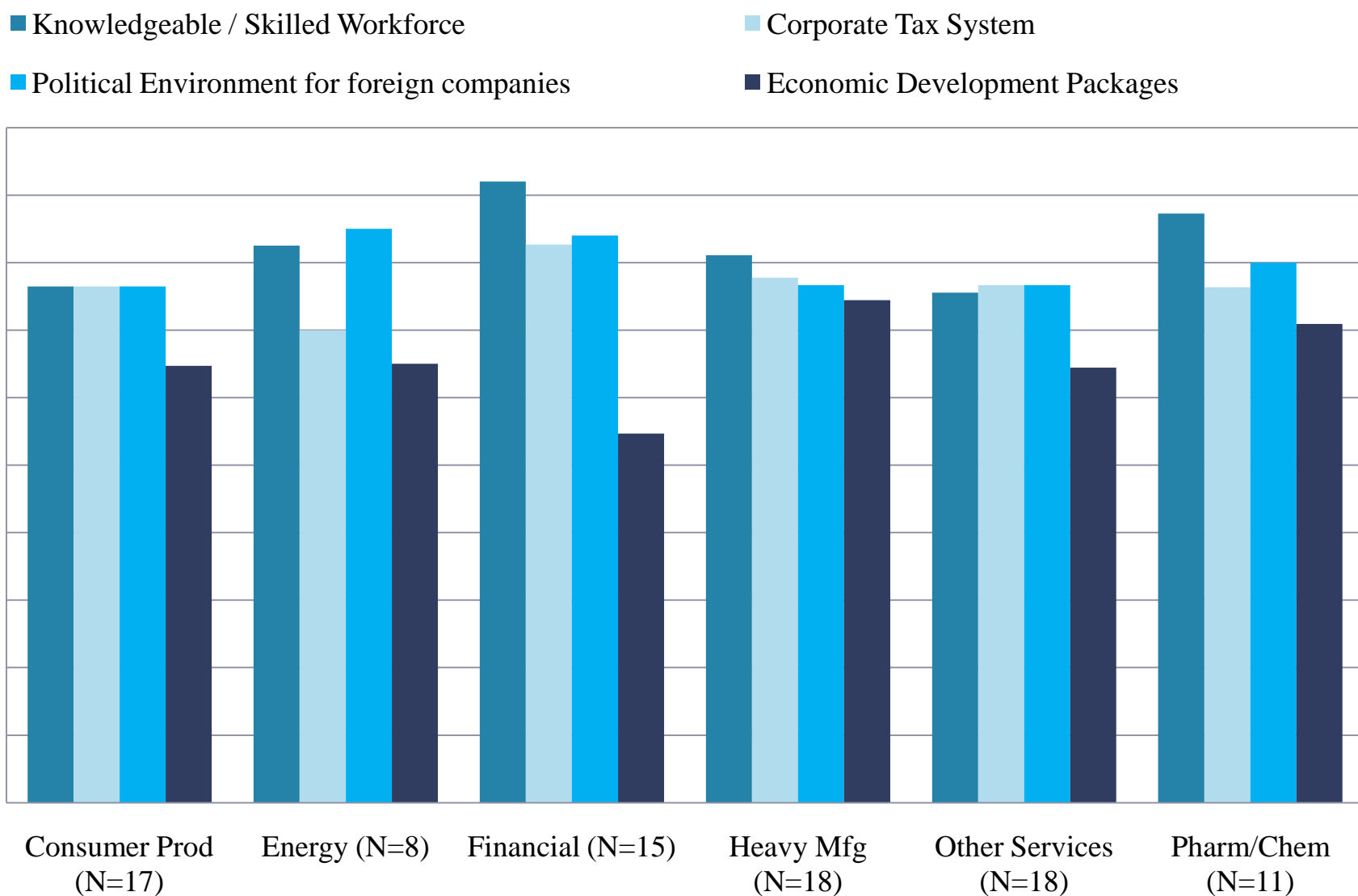
[Average Ranking from 1 (least important) to 5 (most important)]



**Other factors written in were: markets, GDP growth prospects, stable regulation, cost of labor & materials, tax burden, regulatory environment.*

How important are each of the following factors in deciding a location for your company's major investments?-- By Industry

[Average Ranking from 1 (least important) to 5 (most important)]



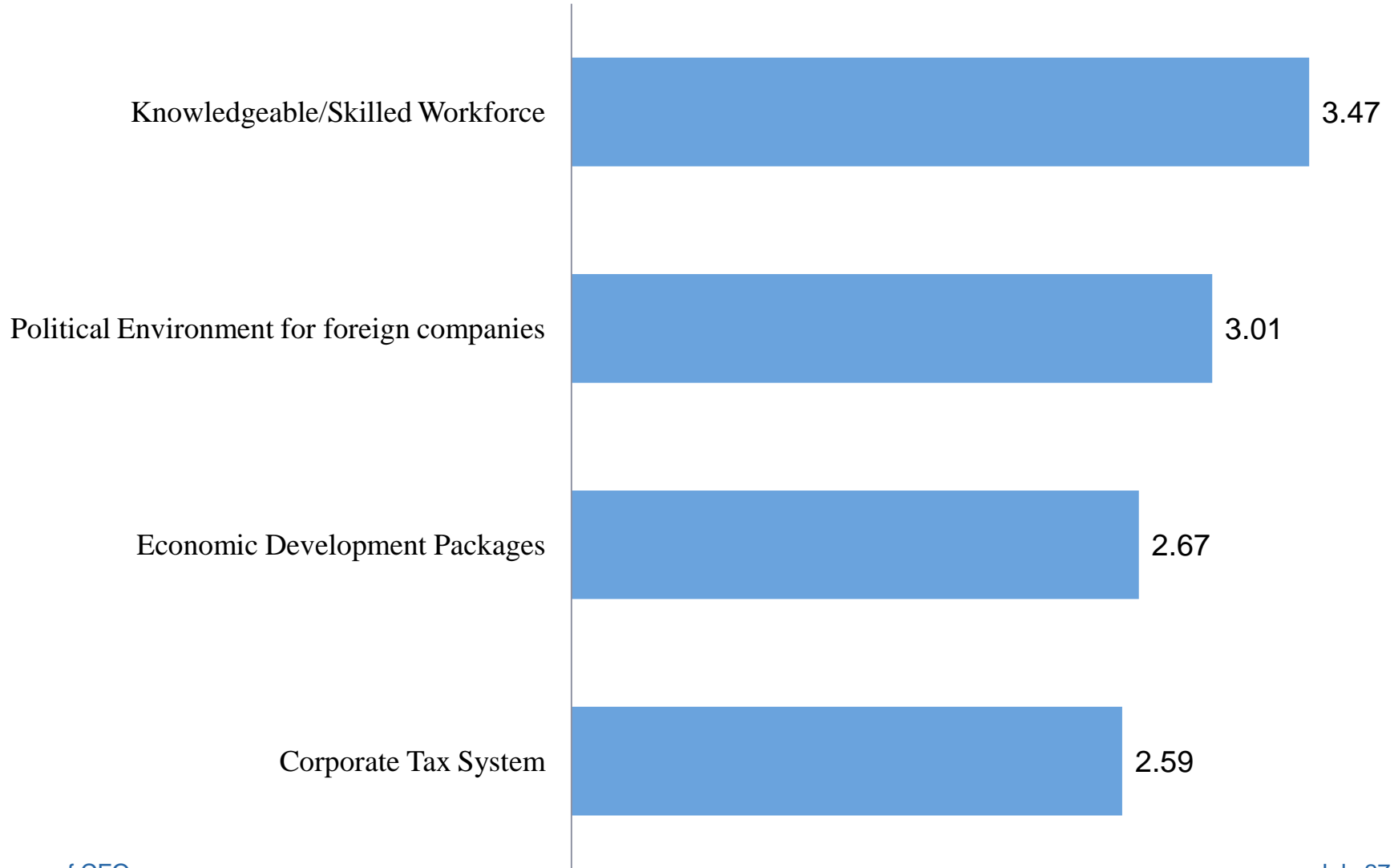
Key Findings

How U.S. ranks on factors important for investment (Slides 22&23)

- The United States ranks relatively high on workforce quality, but relatively low on corporate taxes
 - Industry
 - Relative U.S. workforce quality and political environment are both ranked highest by **Other services** and lowest by **Financial Services**
 - Relative corporate tax system is ranked highest by **Other Services** and lowest by **Consumer Products**
 - Relative economic development packages are ranked highest by **Energy** and **Heavy Manufacturing** and lowest by **Consumer Products**

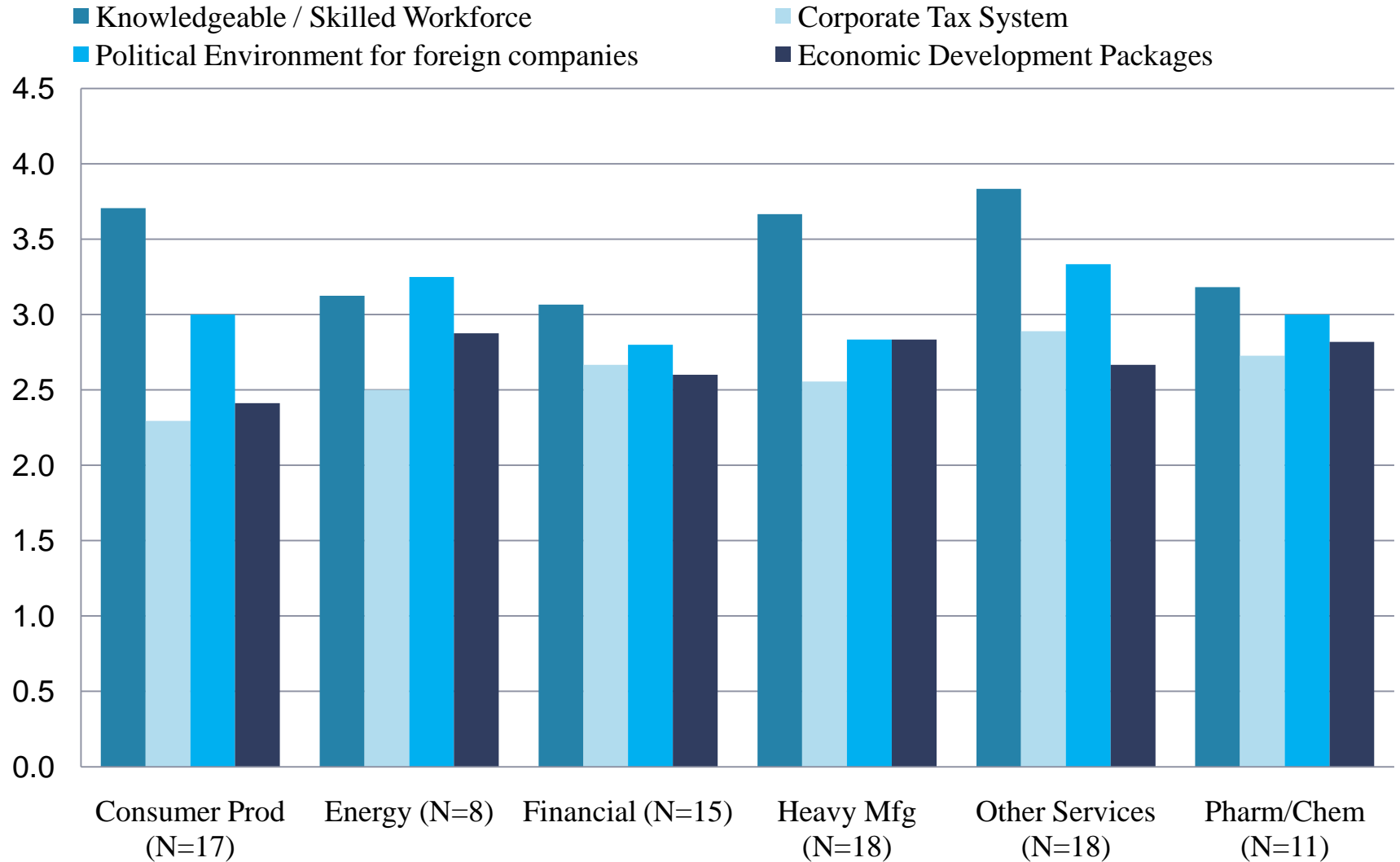
How does the U.S. rate on each of the following factors compared to other countries?

[Average ranking from 1 (weak) to 5 (strong)]



How does the U.S. rate on each of the following factors compared to other countries?-- By Industry

[Average ranking from 1 (weak) to 5 (strong)]



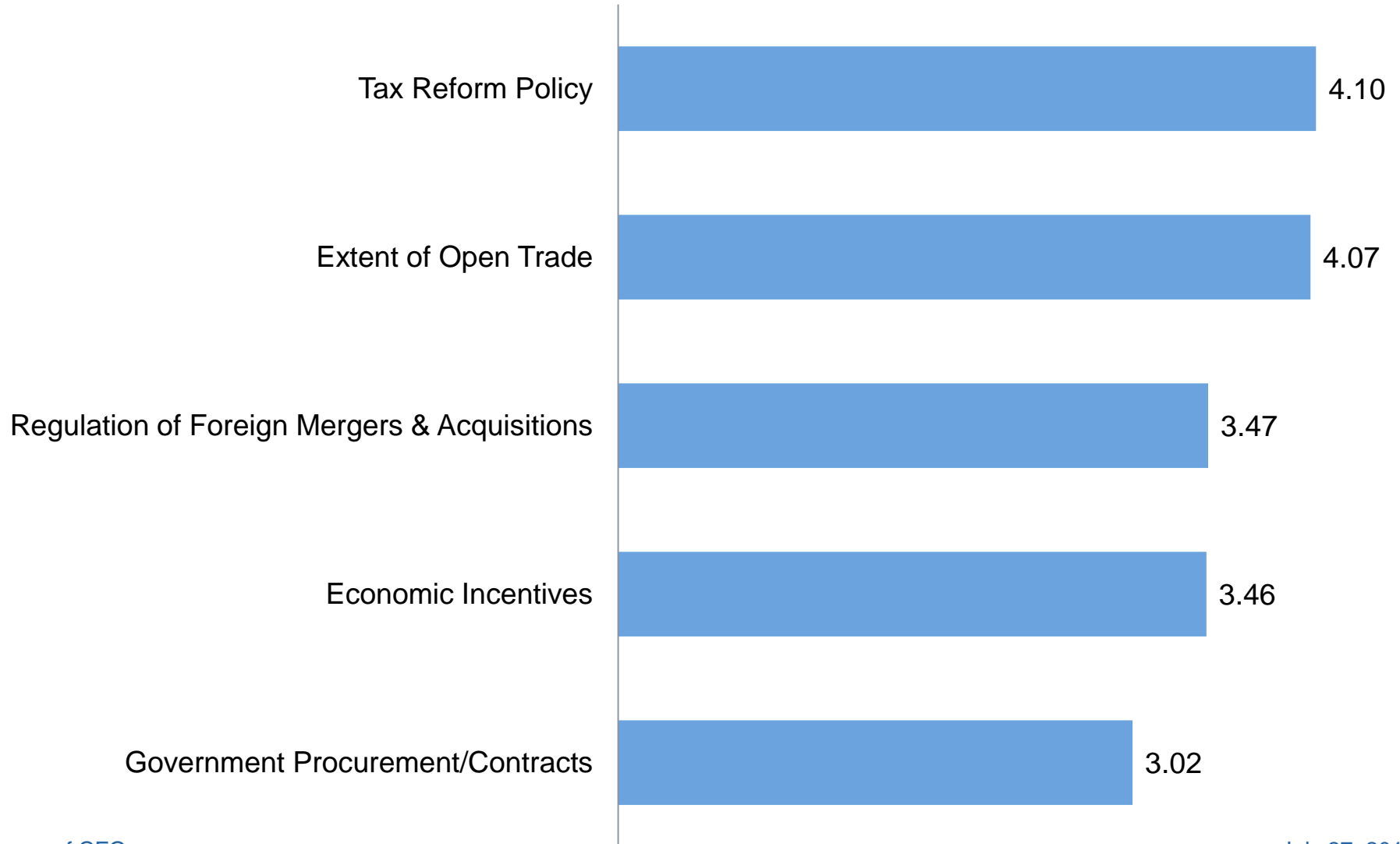
Key Findings

Policies important to U.S. investment over next 12 months (Slides 25&26)

- CFO's view tax and trade policy as the most important factors for U.S. investment
 - Industry
 - Tax policy is most important for **Financial Services** and **Consumer Products**
 - Trade policy is most important for **Energy** and **Chemicals**

Which policy area is most important to your company's U.S. investment decision over the next 12 months?

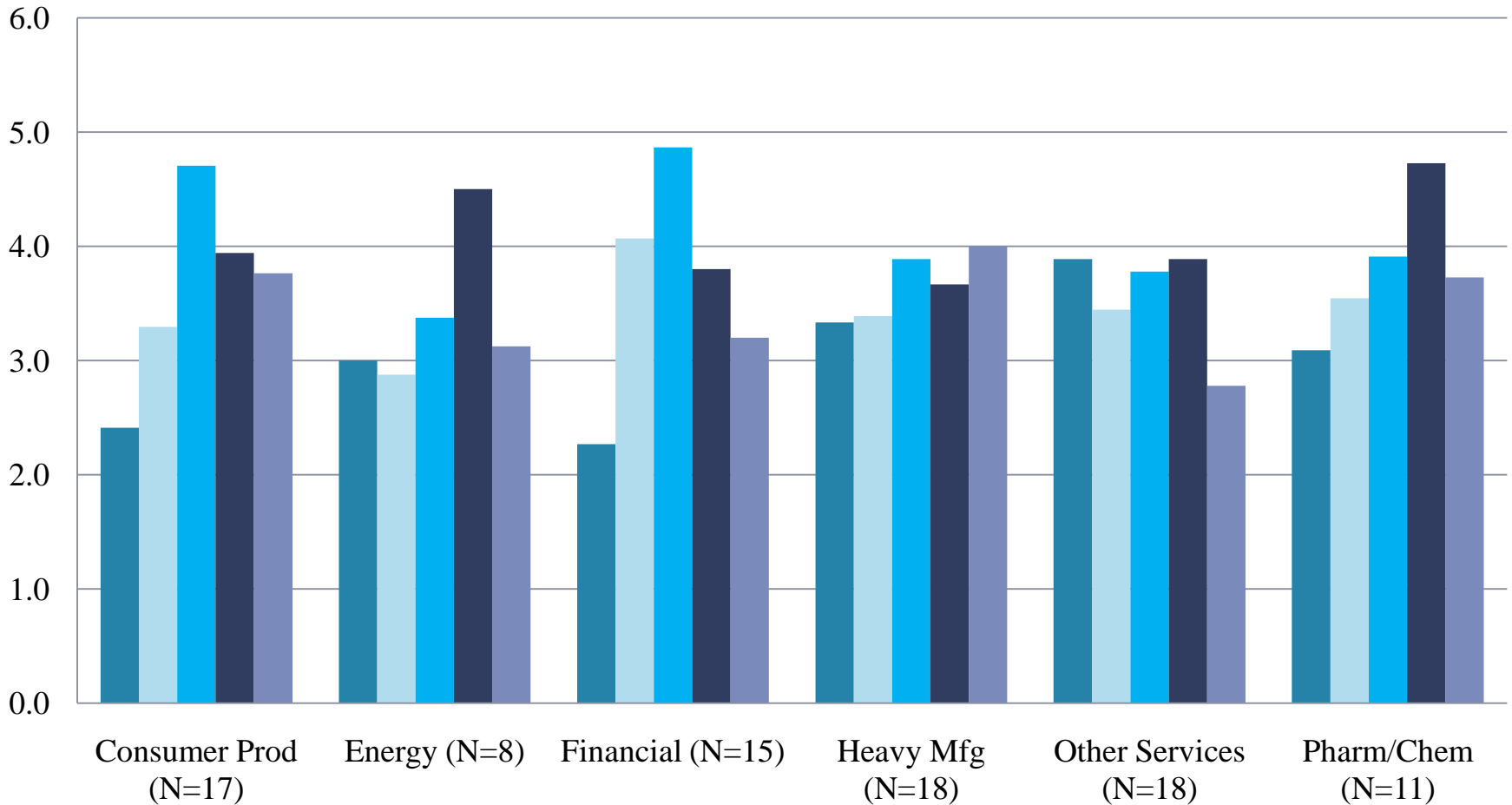
[Average ranking from 1 (least important) to 6 (most important)]



Which policy area is most important to your company's U.S. investment decision in the next 12 months? -- By Industry

[Average ranking from 1 (least important) to 6 (most important)]

- Government Procurement / Contracts
- Tax Reform Policy
- Economic Incentives
- Regulation of Foreign Mergers & Acquisitions
- Extent of Open Trade



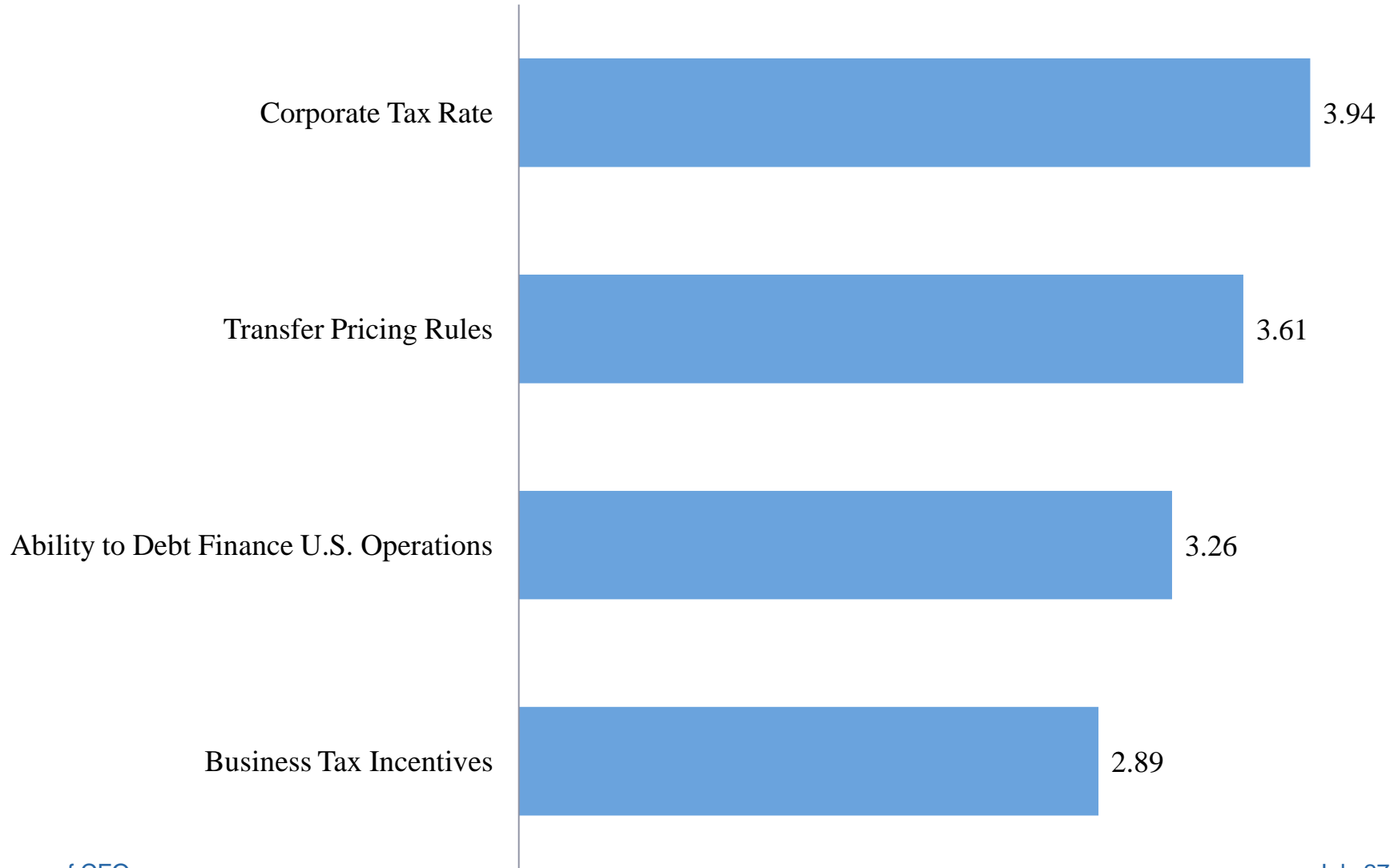
Key Findings

Tax issues most important to U.S. investment (Slides 28&29)

- CFO's report that the **corporate tax rate** is the most important U.S. tax policy issue for investment decisions
 - Industry
 - The corporate tax rate is ranked most important by all industries except **Energy**, which ranks transfer pricing rules as most important.

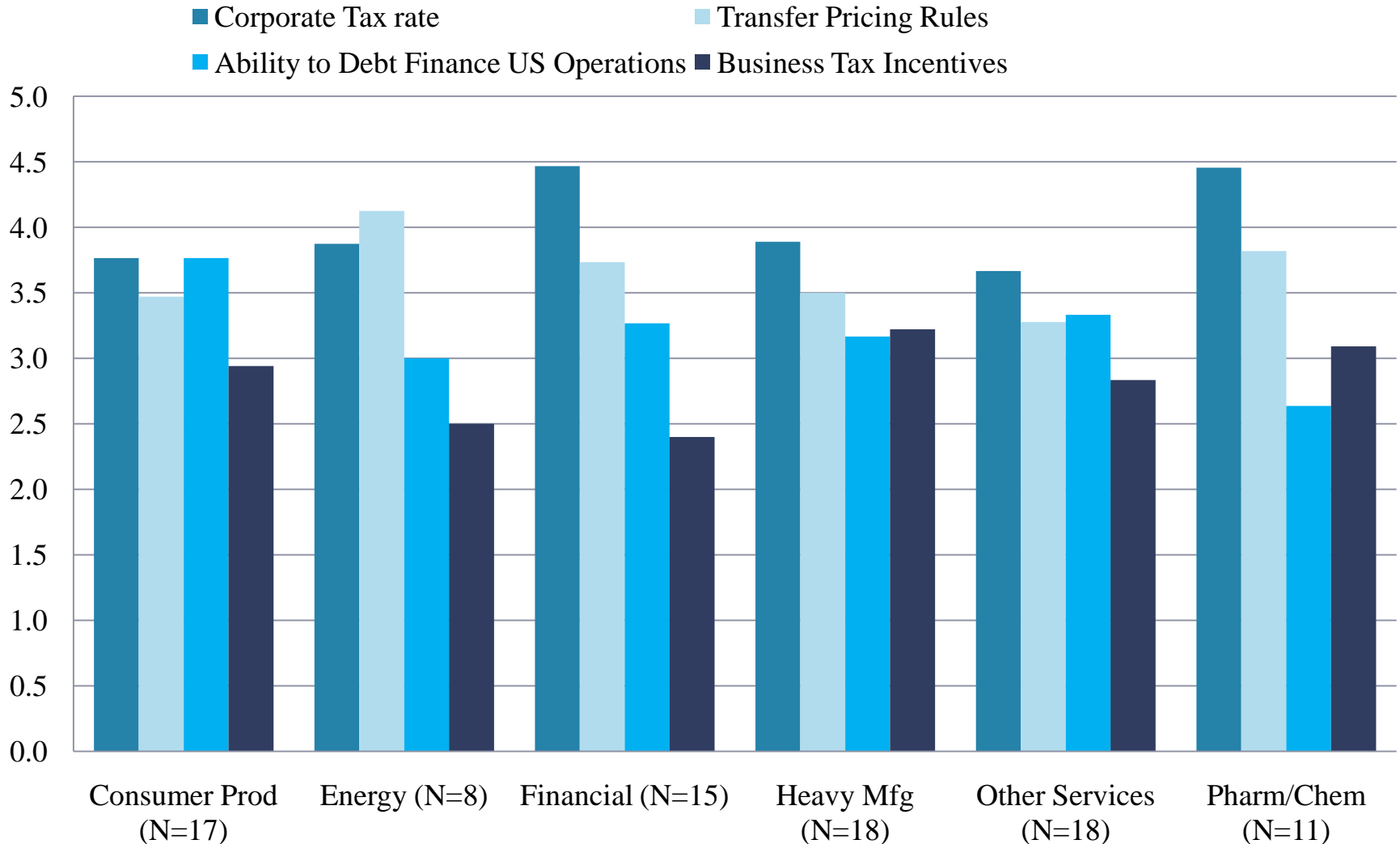
Which tax issue is most important to your company's U.S. investment decisions?

[Average rank from 1 (least important) to 5 (most important)]



Which tax issue is most important to your company's U.S. investment decisions?-- By Industry

[Average rank from 1 (least important) to 5 (most important)]



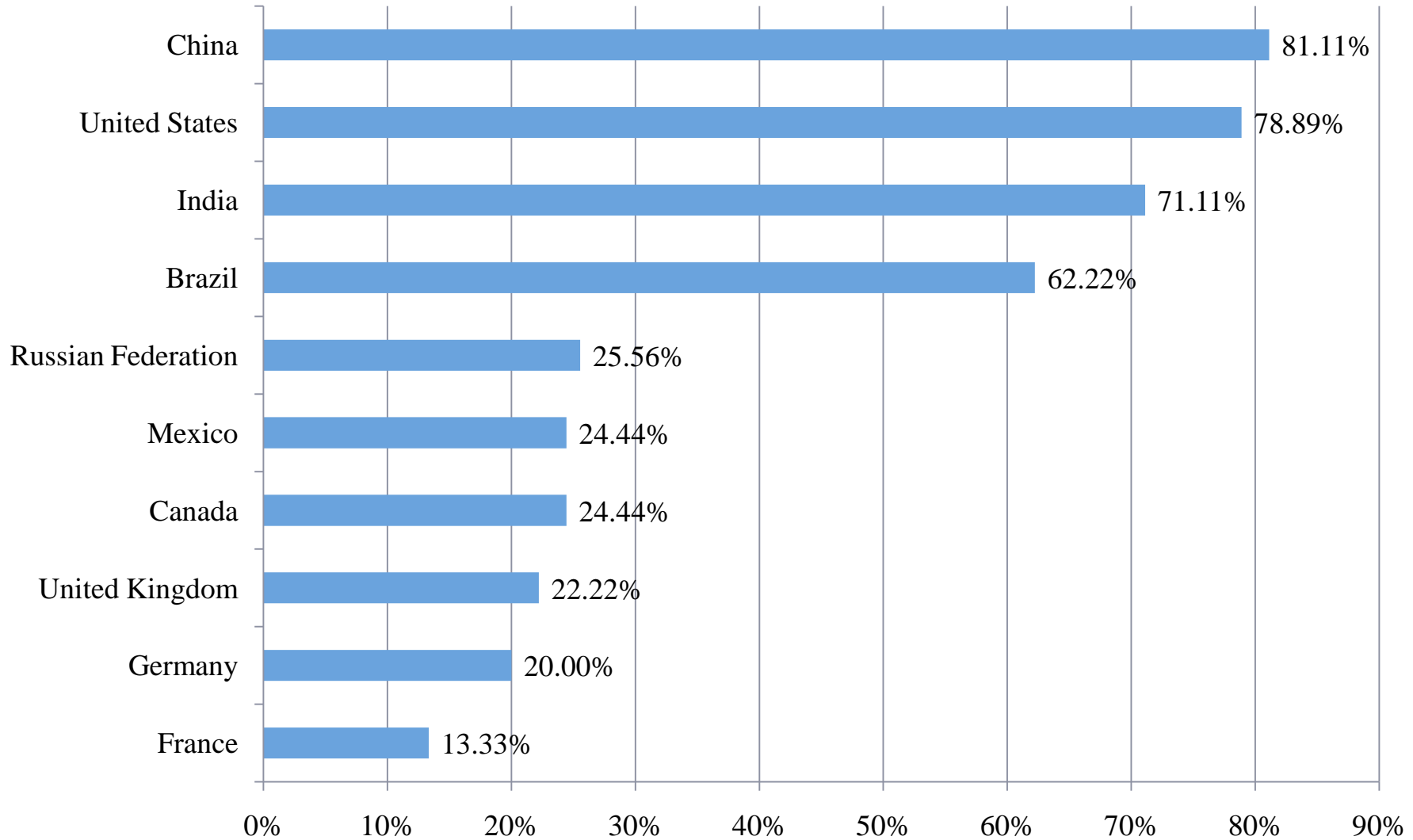
Key Findings

Priority countries for investment in next 12-18 months (Slides 31&32)

- **China** is the country most often included in CFO's list of the top 5 priority countries for future investment (16.2%), surpassing the U.S. (15.7%), India (14%), and Brazil (12%)
- Within top 5 countries, CFO's rank China as the highest investment priority, followed by the U.S., India, Germany, and Brazil

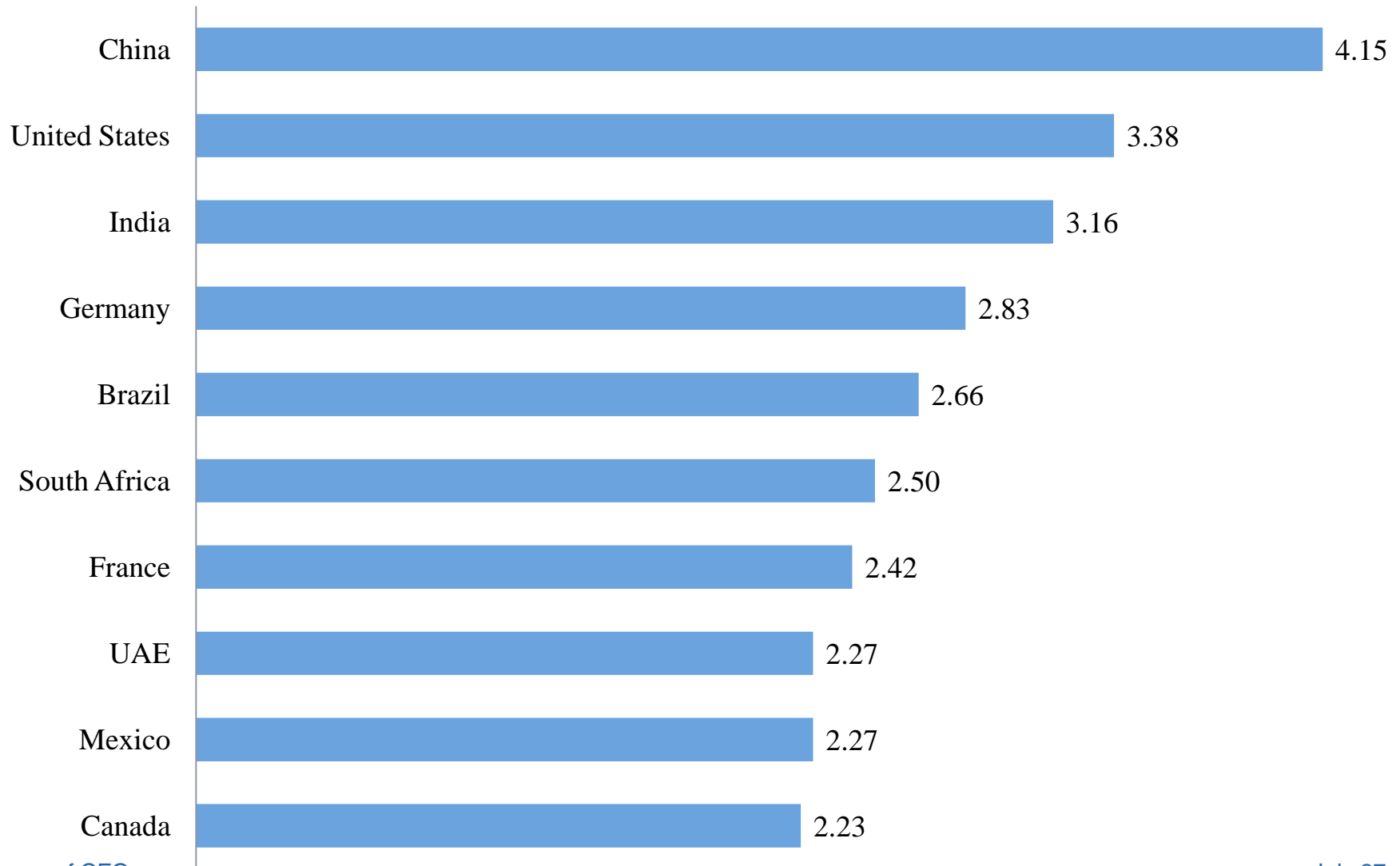
Which countries are your company's top 5 priorities for future investment over the next 12-18 months?

[Percent of respondents that included country in top 5]



Of the 5 countries previously listed, which country is the highest priority?

[Avg. country ranking from 1 (lowest priority) to 5 (highest priority)]



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