Strengthening the knowledge society – further developing the business location
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A competitive and performance-oriented economy forms the basis of growth, value creation, jobs and prosperity in Austria. The key to economic and business location policies that are successful in the long term lies in promoting good framework conditions for enterprises, ensuring well-functioning competition and providing the right incentives for work and performance, production research, education and innovation. A strong economy requires that enterprises and citizens can fully exploit their potentials in a sound competitive framework. The global competition between regions changes structures, mobilises growth drivers and offers new opportunities for sustainable growth. In this spirit, education and knowledge are the most important raw material for the high-grade business location of Austria as well as for a high level of competitiveness in an international context.

Economic development

In a persistently difficult environment, the international outlook improved in comparison with the previous years: After two years of downturns, for example, the euro area will again grow in 2014. Austria’s economy developed better than the euro area also in a long-term comparison. After an increase of the gross domestic product (GDP) by 0.3 percent last year, growth is expected to pick...
up markedly in 2014 and 2015. Overall, the economic outlook is better although Austria, being a small, open economy, cannot escape trends in the world-wide development. For 2014, the Austrian Institute of Economic Research (WIFO) forecasts growth by 1.4 percent and the Institute for Advanced Studies (IHS) an increase by 1.5 percent. With growth rates of 1.7 percent (WIFO) and 1.9 percent (IHS), the two institutes are more optimistic for 2015.

The competitiveness of Austria as a business location will be enhanced by a high number of concrete actions and initiatives:

**Encouraging entrepreneurship, facilitating finance, cutting red tape**

The start-up and finance policies for enterprises will be re-designed. The objective is to cut red tape and raise flexibility in line with the individual needs of enterprises. Moreover, deregulation measures that do not give rise to budgetary costs significantly contribute to strengthening growth. Simplifications for enterprises result, for example, from the elimination of the mandatory requirement for certain officers in companies, e.g. lift maintainers and persons responsible for the operation of electrical installations. Another measure is the introduction of one-stop shopping in trade licensing procedures in 2015 by establishing a centralised electronic trade register instead of 14 decentralised registers. Registrations related to the start-up of companies will be substantially speeded up in the company register. The reform of limited liability companies further offers incentives for setting up an enterprise by favouring firms in the first ten years after their establishment while avoiding any loss of tax revenues due to changes in the legal form of existing companies. Promotion guidelines will also be adjusted so that business failures no longer are an exclusion criterion for receiving support and entrepreneurs are given a second chance. Enterprise finance will gradually switch to guarantees and liabilities and thus turn away from non-repayable grants. This is more budget-friendly as future return flows can be re-used. Crowdfunding is to be strengthened as a new financing option for enterprises by establishing it as a complement to traditional credit financing. It offers the advantage that enterprises already get feedback on their product idea directly from the market at a very early stage. Based on the pillars of debureaucratisation, start-ups and finance, business is increasingly supported as a partner and the competitiveness of Austrian enterprises can be improved by international standards.

**Stimulating the economy by initiatives resulting in a multiplier effect**

In addition to supply-side measures, demand-side measures boosting economic activities are also needed that have a positive economic policy steering effect: Current examples are the craftspeople bonus that reduces undeclared work and provides additional incentives for orders in the regional construction sector and related trades as well as the re-launch of the thermal insulation cheque that is a prime example of a classic double dividend: it stimulates the economy and in parallel improves the environmental situation through CO₂-reducing investments. Across all projects, the investment leverage is 1:6.4 – i.e. one euro of grants results in 6.4 euro of investments. At present, the budgetary room for manoeuvre is limited for economic policy measures because sound public finances are an indispensable prerequisite for successfully shaping the future. This makes it all the more essential to launch initiatives with a multiplier effect and structural reforms that open up new opportunities and provide more flexibility.
Promoting tourism through internationalisation and re-orientation of funding guidelines

Domestic tourism is an important pillar of the economy supporting growth and employment, which is again highlighted by the record figures registered in 2013. The number of overnight stays increased by 1.2 percent to 132.6 million and arrivals by 1.8 percent to 36.8 million. To succeed in the increasingly stiffer competition between destinations also in future, measures have to address several levels. To this effect, high-quality tourism is to be promoted and, based on the Tourism Strategy, new markets of origin are to be developed. Adapted funding guidelines also allow for more loans and guarantees instead of non-repayable grants as well as targeted support focusing, for example, on the optimisation of enterprise sizes, re-positioning and start-ups. Due to the re-orientation of the guarantee facility of Österreichische Hotel- und Tourismusbank (ÖHT) in the amount of EUR 250 million, another EUR 38 million in low-interest loans are made available through the EIB.

Understanding climate and energy policy as a locational factor

Climate and energy policy is also locational policy more than ever. Therefore, the discussion of new energy and climate objectives for 2030 also has to consider the international competitiveness of enterprises in order to secure business locations and jobs in the long term. On principle, Austria supports ambitious EU targets for the reduction of greenhouse gas emissions, the development of renewable energies and higher energy efficiency, as provided for in the Government Programme. Before specific values are laid down, however, a decision is to be taken on concrete targets to be achieved by the individual member states (»burden sharing«). International framework conditions, the issue of emission trading and measures against carbon leakage, i.e. relocation of companies to countries with less stringent climate and environmental requirements, have to be clarified in advance to ensure a viable approach. It is only in this way that the growth and employment opportunities of the energy transition can be optimally taken advantage of. In this context, the development of energy prices also has to be borne in mind. The increasing liberalisation of energy markets and the resulting competition between suppliers brought about price reductions.

The facilitation of switching to another electricity or gas supplier that was achieved step by step in previous years benefits both enterprises and households.

In its country review 2014, the International Energy Agency (IEA) praises Austria for the significant progress made since 2008. Exemplary aspects are the decrease of fossil fuel use and the expansion of renewable energies where a share of more than 32 percent in gross final energy consumption earns Austria the fourth rank in the EU. According to the IEA, one of the consequences has been a positive, downward trend for greenhouse gas emissions since 2005 that is attributable to a decline in fossil fuels. As Austria focuses on security of supply and energy efficiency and internationally plays a pioneering role in the field of renewable energies, the country is commended for its balanced energy policy. The objective is to have a sustainable, secure and competitive energy system that opens up new opportunities for growth and jobs. In this spirit, an energy strategy for 2030 will be developed as laid down in the Government Programme.

Promoting strong and innovative industry

To achieve the goal of re-industrialisation, in particular, the framework conditions for flagship enterprises have to be improved on several levels. All the relevant policies are to be reviewed as to whether they also support industrial development. With an 18.3 percent share of industry, Austria is markedly above the EU average of 15.2 percent, but still has great potentials. Especially for this reason, the Government Programme also provides for the development of a business location
strategy for (international) flagship enterprises in Austria that was started under the leadership of the Federal Ministry of Science, Research and Economy and is set in the context of the 20 percent industrialisation objective of the European Union. Strong flagship enterprises manage entire value creation chains and act together with thousands of related small and medium-sized enterprises whose number averages at 900 to 1,000 SMEs per flagship enterprise. Industry exports more than half its sales of manufactured goods and, thus, is a significant driver of the domestic economy. Moreover, according to a study of Joanneum Research, industry accounts for 70 percent of the R&D expenditure of the business sector. In Austria alone, 33 global market-leading flagship enterprises invest EUR 1.1 billion in R&D. Eighty percent of them regularly co-operate with universities and universities of applied sciences in Austria which are the most important research partners of the flagship enterprises. These companies employ 5,000 highly qualified researchers.

The objective of the business location strategy is to propose specific measures based on an analysis of the status quo in order to safeguard and raise the attractiveness of Austria as a business location. The initiative was launched together with the CEOs of leading enterprises and more than 20 CEOs are directly involved in the preparation of the strategy. The work is structured along several important priority topics: knowledge, research and innovation base; fair competitive conditions at an international level; climate, energy, environment & resources; skills and international top specialists; as well as finance and legal framework. In this context, key trends of the future and horizontal issues are addressed as well.

We are on the threshold of a fourth industrial revolution known as »Industry 4.0«. This aspect of research, technology and innovation policy covers the entire innovation cycle from basic research to applied research and on to market applications. In Austria, »Industry 4.0« is already supported within the framework of national enterprise and research promotion programmes. Horizon 2020, the new EU Framework Programme for Research and Innovation, also provides funding along the entire innovation cycle for the first time. Given the enormous importance of small and medium-sized enterprises for the domestic economy, the SME-exclusive instrument of Horizon 2020 will contribute to ensuring that Austria benefits even more from European innovation support. The aim is that Austrian institutions receive funding in the amount of at least EUR 1.5 billion under Horizon 2020 and hence, by 50 percent more than in the preceding EU Framework Programme.

**Promoting research and development, strengthening basic research, expanding co-operation between science and industry**

In 2014, Austria will invest more money in research and development than ever before. According to the most recent global estimate of Statistics Austria dating from May 2014, the expenditure on research and development prospectively totals EUR 9.32 billion this year. That is an increase by EUR 248 million or 2.73 percent (in nominal terms) over the previous year. For 2014, this results in a relative R&D ratio of 2.88 percent of GDP, which places Austria in the fifth rank of all EU member states. These investments form the basis of Austria’s future competitiveness and innovative strength. However, we definitely must not rest on these laurels, but rather have to promote consistently the strengthening of Austria as an innovation location. To secure leading-edge research, in particular at the Austrian Science Fund (FWF) and the Austrian Academy of Sciences, the funds allocated to basic research were raised. Co-operation of science and industry is also strengthened and expanded: In this vein, new Christian Doppler Laboratories, Research Studios and COMET Centres and knowledge transfer centres will be established. Apart from innovations, key outcomes of R&D are industrial property rights, such as patents and utility models. They enable innovating enterprises to commercialise their innovations in a targeted way. Moreover, patents constitute a key knowledge base. According to estimates, more than 80 percent of the entire technical
knowledge of the world is laid down in patents and therefore made accessible. In international competition, Austria has to position itself in the high-quality segment. As a result, research and innovation are key areas for safeguarding Austria’s competitiveness also in the long term. The objective is that Austria rises to the group of innovation leaders in European comparisons.

Supporting the education of a qualified workforce at all levels

One of the most important resources and locational advantages of Austria is the availability of persons with high-quality education and training. Universities, universities of applied sciences and private universities make a decisive contribution to this situation. Based on the current three-year term of the performance agreements, the funding of universities is secured up to 2015. The budget for the period 2016-2018 will be adopted by the end of the current year, which is in line with the approach taken in previous years. To further raise quality for teachers and students, additional funds are needed and existing resources have to be used efficiently. Supplementing these measures, actions have to be taken to better direct student flows already before students select their courses of study, in particular, to ease the situation in crowded disciplines. To improve the teacher-student ratio at universities, 95 additional professorships were established in courses of study that are in particularly high demand. At universities of applied sciences, around 500 additional study places were created for the winter term 2013/14 and for the next winter term 2014/15 each. This augmentation also continues in the current parliamentary term with funds of EUR 56 million being committed to related actions. To complement this expansion, appropriate education and employment policies are required. In Austria, the dual training system, which is used as a model by many European countries, prepares young people for working life in a practice- and requirements-oriented way. Sound apprenticeship training is one of the best routes to becoming a qualified skilled worker as well as a successful entrepreneur. In 2013, completed apprenticeships were the highest educational attainment of more than one-third of all self-employed persons. Within the framework of the promotion of company-based apprenticeships, the coaching of apprentices that was introduced as a pilot project in 2012 will be expanded nation-wide in order to provide customised support both to apprentices and training companies. In parallel, we foster the quality of training by means of the new initiative »Quality management in apprenticeships« (QMA) developed in co-operation with the social partners. QMA permits differentiated analyses on qualitative developments of the dual training system in individual industries and regions, which allows for responses to concrete challenges. Moreover, young people are guaranteed to receive training up to the age of 18 and the action »Youth Future« offers re-qualification services and employment support for persons aged 19 to 24 years. The success of all those measures and initiatives is evidenced by the second lowest youth unemployment rate in the EU.

Mobilising human potential

While the Austrian labour market registers record employment figures, unemployment rises, too, as more persons are available in the labour market. Nevertheless, Austria has had the lowest unemployment rate of the EU for four consecutive years.

The employment policy aims at qualifying employees and providing incentives for enterprises to create jobs and retain employees. In the current parliamentary term, the labour market policy focuses on preventive and rehabilitation measures for older employees. This group has to remain in the workforce longer, which also contributes to the consolidation of public finances as retirement is postponed. The labour market package mobilises up to EUR 370 million for the employment of older persons from the labour market budget up to 2016. The reduction of indirect labour costs for enterprises by a total of EUR 200 million is also a first step in the right direction. Furthermore,
employees and enterprises should also be able to enjoy secure and flexible framework conditions for shaping the world of work in line with their needs.

**Development of unemployment rates: Euro area average and best performers**

*Source: Eurostat*

![Graph showing unemployment rates](image)

Promoting the internationalisation of enterprises

Day by day, Austria’s exporting companies succeed in a difficult international environment and, being important pillars of the economy, sustain growth and jobs in our country. More than one out of two jobs directly or indirectly depends on exports and one out of six euros of the Austrian gross domestic product is earned through exports. According to a study of the Research Centre International Economics (FIW), exporting enterprises are more productive (+66 percent), invest more (+77 percent) and pay higher wages (+23 percent) than non-exporting companies. The new export record of EUR 125 billion achieved in 2013 bears witness to the competitiveness of Austrian firms, the right framework conditions for Austria as a business location and the right focus of the internationalisation initiative »go international«. With an increase of exports by 2.6 percent from January to March 2014, the fourth record in a row can be expected this year. The broad basis of our export trade is an important success factor and will be further expanded with the support of the internationalisation initiative. In 2015, the number of exporters could already exceed 50,000. To continue this successful development, the diversification of exports that is well under way needs to be further promoted. In this context, new promising markets located outside the European Union have to be developed with new products and services while traditionally strong fields must not be neglected.
International competition with other more rapidly growing regions of the world outside the European Union becomes more intensive, the global economic environment remains difficult. For this reason, it is even more important to improve continuously the framework conditions for Austria’s economy and to support enterprises as partners. That ensures growth, jobs and value creation in Austria. The declared objective of economic policy therefore is to strengthen the knowledge society and further raise Austria’s attractiveness as a business location on all levels. The diversity of the approaches used for this purpose is illustrated by the measures described in detail in the following chapters of the Economic Report 2014.