Brandenburg
in Comparison with
Other Business Locations

— 6th revised edition —

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Introduction

A few years ago, an entrepreneur described Brandenburg as a "secret jewel". Today, investment is booming in the German Capital Region—the "secret jewel" is no longer an insiders' secret! Since the recent enlargement of the EU, Brandenburg is no longer at the periphery but at the very centre of Europe. The economy is growing, exports enjoy two-digit growth rates, and the renowned Prognos institute predicts the best development opportunities for the region in a recent study (*Zukunftsatlas 2007*). Brandenburg is on the move.

Under such conditions, it is no surprise that more and more companies are considering investing in Brandenburg. Are the human resources sufficient? Is the workforce qualified? How flexible and productive are the employees in the region? Is there an innovative environment? Is the infrastructure up to date? What about the cost-benefit ratio? Last but not least, what kind of living environment can our staff expect if we decide to invest in Berlin-Brandenburg?

We answer such questions in this compendium based on studies by renowned economic research institutes, business associations, and government agencies. The objective of their work is precisely to present the assets of Brandenburg for investors, especially for high value-added operations.

Many companies are still interested in current studies of the region's advantages. We are very pleased to be able to offer you a fifth, revised edition of the compendium. Do not hesitate to evaluate Brandenburg on the basis of facts and figures: a comparison is rewarding.

Potsdam, June 2009

Prof. Dr. Detlef Stronk
Chairman of the Board

Dr. Steffen Kammradt
Managing Director

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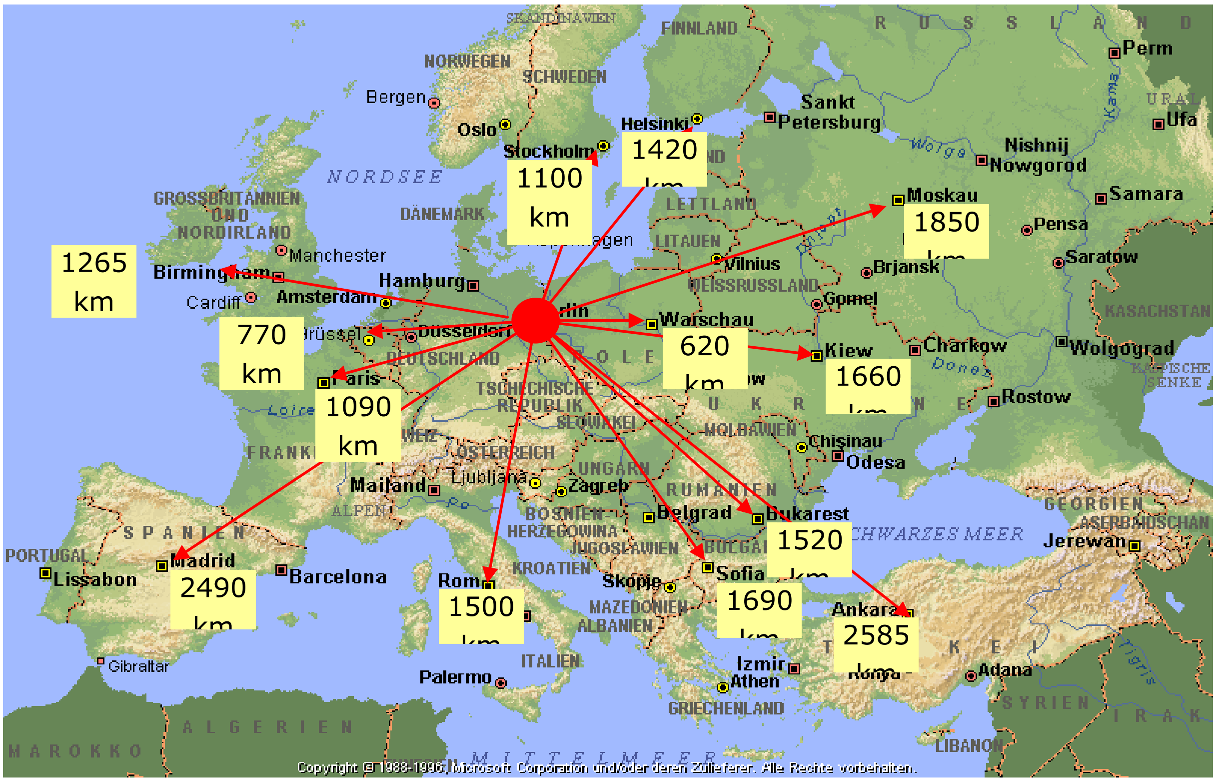
I. Investment Location Brandenburg

1. The Location at a Glance

Brandenburg and Berlin compose the German Capital Region. About six million people live here—more than in Denmark, Norway or Finland—on a territory that extends over 30,000 square kilometres—almost as large as Belgium.

Berlin-Brandenburg is an attractive market located right in the middle of Europe: companies based here can deliver products to 200 million customers within one day's transport. The region acts as a stepping stone between Western Europe and the emerging markets in Central and Eastern Europe. From here, companies can serve many of the new EU markets rationally and cost-efficiently. Brandenburg boasts the longest border with Poland (252 kilometres) and many crossing points with this EU neighbour region.



The German Capital Region is an ideal location for contacts with the rest of Europe: the main trans-European road—E30 autobahn—which runs west-east from The Hague, through Warsaw and Minsk, and on to Russia, passes through Berlin-Brandenburg. Industrial locations, trading estates and freight villages are dotted along this road like pearls on a necklace. Prestigious companies, including DaimlerChrysler, Goodyear-Dunlop, MTU, Rolls-Royce, and VW Logistik, as well as various solar factories in Brandenburg/Havel and Frankfurt/Oder, have settled here.

The region is also ideally located for connections to the north towards Szczecin, Scandinavia and Hamburg, and to the south in the Lausitz industrial region. Moreover, a ring road guarantees rapid access to the city of Berlin, the German capital situated at the heart of the region.

The expansion of Schönefeld Airport to form Berlin-Brandenburg International (BBI) by 2011 means that the region's infrastructure will receive an additional boost. This in turn will benefit the economy as the new airport will be only one hour's drive from Poland, forty minutes from the media and scientific hub Potsdam, half an hour from Berlin's new central station, and fifteen to twenty minutes from over half a dozen large, well-developed trading estates, not to mention the central freight village Berlin-Süd. The surroundings of the airport are already attracting ever more companies.

Research and development are particularly important in Berlin-Brandenburg. Nowhere else in Germany is the concentration of R&D institutes as high as it is here—one more reason to invest in the German Capital Region. Take Rolls-Royce, for example. The company has just decided to construct its new turbine test centre in Dahlewitz, south of Berlin. The German Capital Region is a quality location.

Moreover, Brandenburg's economy is booming. With a growth of 2.8%, the gross domestic product rocketed in the first half of 2007. Brandenburg's manufacturing industry is growing even more rapidly. Here, the gross value added increased by 9.4% in the first half-year, thus propelling Brandenburg into fourth place for industrial growth in Germany (*Amt für Statistik Berlin-Brandenburg*, 2007[a]). In the first nine months of 2007, sales figures in the manufacturing industry increased by a remarkable 13.2%, most notably including rises of 20.6% in the automotive industry and 22.1% in the chemical industry (*Amt für Statistik Berlin-Brandenburg*, 2007[c]).

Brandenburg's exports are also flourishing. In 2006, they achieved a yield of €8.8 billion—the best result since 1990. And it did not stop there: between January and September 2007 alone, the export volume was 25% above that of the previous year (*Amt für Statistik Berlin-Brandenburg*, 2007[d]).

Parallel to this economic boom, Brandenburg is also attracting ever more investments from outside the region. In 2006 alone, ZAB (*ZukunftsAgentur Brandenburg*, the one-stop state agency for investor support) supervised forty-seven direct investment projects, thus taking the total to 345 since the agency's foundation in 2001.

Recent investors and traditional Brandenburg companies who initiated expansion processes are creating new jobs. Brandenburg is the leader in Germany as concerns the increasing number of employees liable for national health insurance. Nevertheless, the job market continues to have a great potential for a motivated and highly skilled workforce.

Last but not least, people enjoy living in Brandenburg. Here, they can easily combine working in a growth region, living in green surroundings and experiencing the vibrancy of a capital city. The 2007 compendium published by the Prognos institute and the Federal Ministry for Family ("2007 Family Atlas") pays testimony to the state of Brandenburg: Potsdam is a front runner among German municipalities for being family-friendly, and fourteen of Brandenburg's eighteen cities and rural districts rank amongst the top third in Germany (Prognos, 2007[a]).

This comes as no surprise: Brandenburg features not only an excellent range of childcare facilities, a pleasant living environment and good educational opportunities, but also ideal conditions for active leisure-time activities, as people find here Europe's largest interconnected lake ensemble, an extensive network of cycle paths, several golf courses, and numerous riding stables, adventure pools, wellness and sports facilities. Moreover, Berlin and its globally renowned cultural landscape is only a stone's throw away—and easily accessible thanks to the largest integrated transport system in Germany.

2. "Strengthening Strengths": Brandenburg's New Economic Policy

Brandenburg's regional government has declared economic growth and job creation as priorities for its economic policy, and has therefore reoriented its business incentive policy. The principle of regional disadvantage compensation, which originated in the 1990s, was replaced by a **growth and quality strategy**. Since 2005, Brandenburg's Department of Trade and Industry has gradually been reorienting the promotion of the economy in accordance with a new principle: "Strengthening Strengths".

The new business incentive policy focuses on sixteen above-average industries with particular authority in the region (so-called "key technologies"), as well as on SMEs and booming locations.

Within these growth industries, investment projects demonstrating a high degree of excellence—for example in the qualification of employees, the projected R &D programmes, or the efficiency of the incentives—are particularly favoured (see chapter "Investment Incentives"). The aim is to continue developing the German Capital Region as a location for competent services and modern industries.

Brandenburg's business incentive policy considers the following sectors as **growth industries**:

- Automotive industry
- Aerospace engineering
- Biotechnology/Life sciences
- Media/Information and communication technology
- Energy technology
- Metal production/Metal processing/Mechatronics
- Food industry
- Petrochemical/Bio-fuels industry
- Surveying
- Optics
- Wood industry
- Paper industry
- Synthetics/Chemistry
- Rail transport technology
- Logistics
- Tourism

and microelectronics as a cross-section industry.

II. Comparison of Significant Investment Factors

Summary

It is worth comparing the assets of Brandenburg with those of other investment locations.

Ten good reasons to invest in Brandenburg

1. A trained workforce is available in a sufficient quantity.

2. Companies who already invested in Brandenburg assess the productivity as particularly high.

3. The working hours are considerably more flexible than in Western Germany and many European countries.

4. Brandenburg offers a highly developed, modern transport and communications infrastructure.

5. The German Capital Region boasts the highest concentration of R&D institutes in the country.

6. Brandenburg offers not only a high location quality, but also an attractive cost-benefit ratio as a result of favourable labour costs.

7. The total tax burden for companies is more favourable in Brandenburg than in most other German regions on account of the lower municipal tax.

8. Brandenburg has a large number of business parks and office centres. Rent and property prices are thereby considerably lower than in the Western Germany and many locations in Central and Eastern Europe.

9. As one of the EU's Objective-1 areas, Brandenburg offers Europe's best investment incentives. The reorientation of the promotion of trade and industry in Brandenburg has improved the basic conditions for investors even further.

10. The German Capital Region offers a high quality of life. This makes Berlin-Brandenburg particularly appealing to the staff of companies that have settled there.

1. Workforce Training and Availability

Training

In this day and age of knowledge-based society, the educational level of the working population plays a significant role in the economy's competitiveness and innovative ability, and is thus a decisive factor for investment.

The German population is highly skilled, and 58% of those between 25 and 64 have A-levels or a vocational qualification (ISCED 3)[1]. Moreover, 25% of Germans have a polytechnic or university degree (ISCED 5 and 6, OECD 2007[a]).

In Brandenburg, the qualification level is even higher: at 32%, the proportion of highly skilled people is clearly above the national average. Moreover, 61% of the working population has a vocational school qualification or an *Abitur* (German secondary school leaving examination). At 7%, the proportion of less skilled people (ISCED 2 or below) is decidedly below that in Western Germany (*Statistische Ämter des Bundes und der Länder*, 2007).

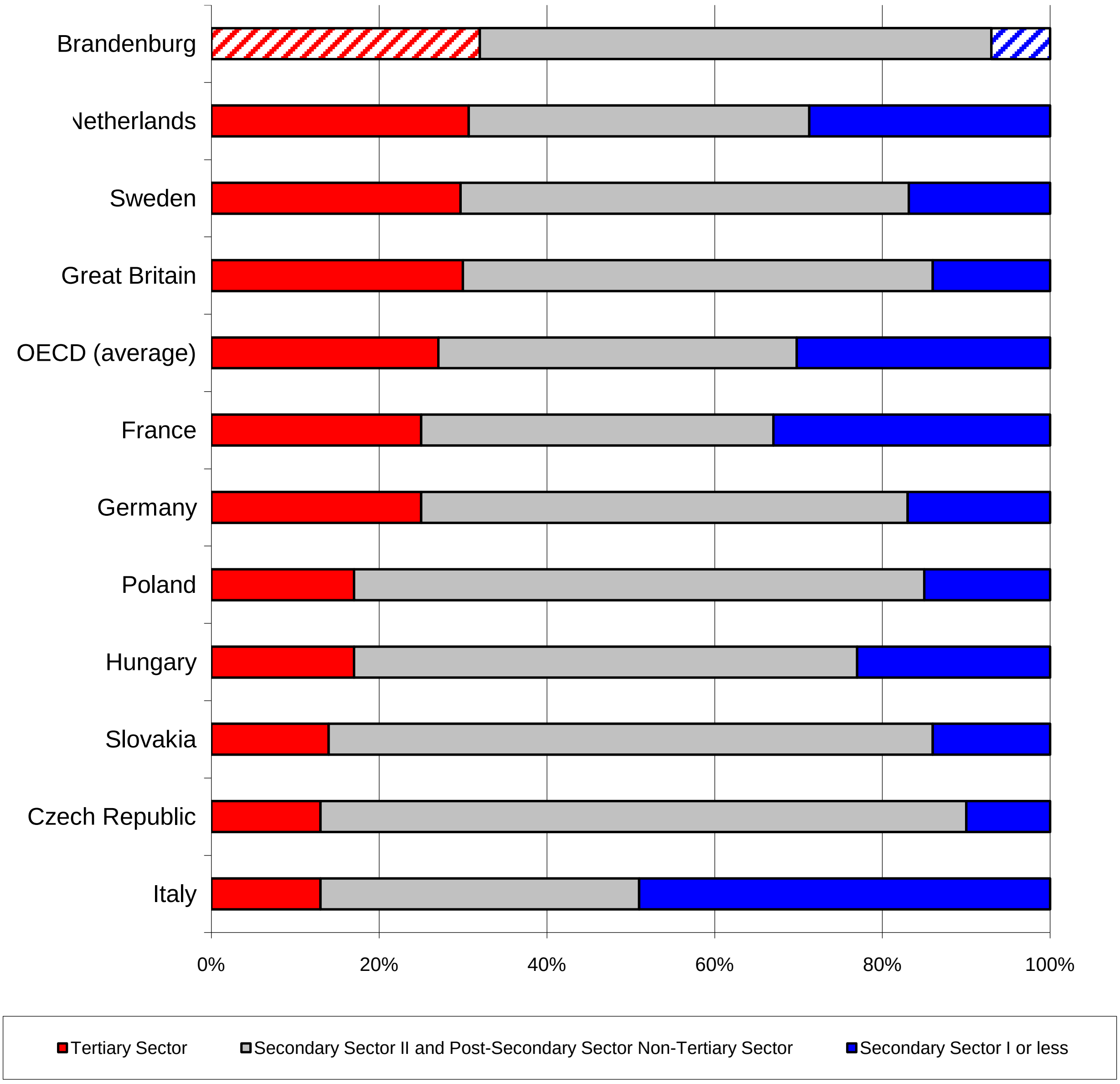
Brandenburg fares equally well by international comparison (see Chart 1). For example, the proportion of highly skilled people in the region lies 6% above the OECD average of 26% and is higher than in countries such as the Netherlands, Sweden, Great Britain, or France. The proportion of less skilled people in Brandenburg, on the other hand, lies 22% below the OECD average of 29%.

The lesson is clear: Brandenburg is better than average in terms of human capital and can thus offer companies highly skilled personnel.

[1] International Standard Classification of Education, ISCED 1997. The ISCED is a tool for international education statistics and comparisons. It considers seven different education levels, numbered 0 to 6:

- Level 3: Upper secondary education
- Level 4: Post-secondary education and vocational training
- Level 5: First stage of tertiary education
- Level 6: Second stage of tertiary education

Chart 1: Qualification of the working population (24 to 64) (in%, 2005 data)



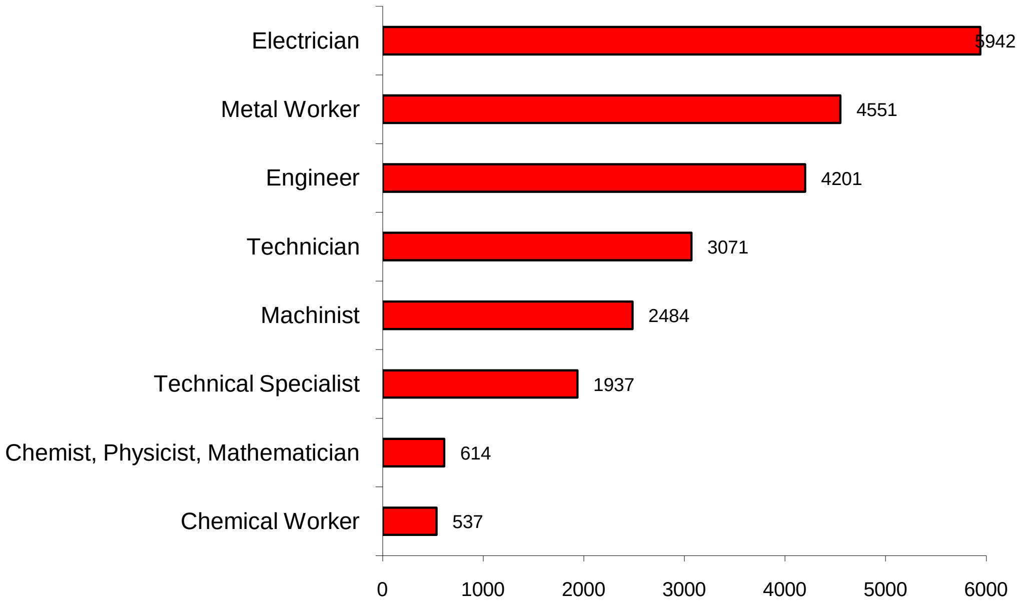
Sources: OECD, 2007; Statistische Ämter des Bundes und der Länder, 2007

Availability

The economic upward trend in Germany has led to an increased workforce demand. However, there is no evidence to suggest a general lack of skilled workforce in the country (IAB, 2007[a, c]), even if the situation remains somewhat fraught on certain sub-operation markets (DIHK, 2007[a, b]).

In Berlin-Brandenburg, investors can find employees with the necessary skills more easily than in other German regions (see Chart 2 and Table 1).

Chart 2: Availability of skilled workers in Berlin-Brandenburg (August 2007)*



Source: Statistik der Bundesagentur für Arbeit, August 2007

Table 1: Availability of skilled workers in Germany (index 100 in Berlin-Brandenburg in August 2007)*

	Berlin-Brandenburg	Baden-Württemberg	Bavaria	Rhineland-Palatinate	Saxony	Saxony-Anhalt
Electrician	100	44,1	59,9	23,9	49,2	27
Metal Worker	100	46,6	52,6	28,3	72,1	55,3
Engineer	100	46,8	50	16,7	61,7	26,8
Machinist	100	70,5	72,7	34,8	81,9	55,7
Technical Specialist	100	75,6	81,5	32,7	99,2	55,1
Chemist, Physicist, Mathematician	100	77,9	79	25,6	48,7	24,4
Technician	100	79,5	94,9	32,4	75	38,4
Chemical Worker	100	92	95,1	80,4	54,9	92,9

* Data from the approved municipal agencies not included

Source: Statistik der Bundesagentur für Arbeit, August 2007

The lack of skilled workers has worsened considerably in the EU member states in Central and Eastern Europe. Foreign investors and local corporations face acute problems here in finding sufficient skilled workers for new settlements or expansion investments (DBHK; DUIHK, 2007; DTIHK, 2007[a, b]).

The situation in Poland is particularly dramatic and, even in the new EU member countries Bulgaria and Romania, it is becoming increasingly difficult for foreign investors to find skilled workers on the local job market (DPIHK, 2007; bfai, 2007 and 2006[b]).

This tense situation leads to an increase in competition for the available skilled workforce and, at the same time, to a radical increase in personnel costs (Dow Jones News, 2007).

2. Productivity

In 2006, the labour productivity[2] in Eastern Germany amounted to 78.6% of the average in Western Germany (BMWi, 2007[b]; *Statistische Ämter der Länder*, 2007). Closer analysis, however, reveals that this average figure paints a distorted picture and does not fully acknowledge the actual economic potential of individual companies in Eastern Germany in general and Brandenburg in particular. For example, the productivity in Brandenburg's manufacturing industry (except construction) lies at 86.3% of the average value in Western Germany and that of the processing industry (81%) is clearly above the macroeconomic average in Eastern Germany (BMWi, 2007[b]).

Moreover, several important industries (measurement/control technology, chemical industry, wood industry) even boast productivity rates above the West German level (IWH, 2005[a]).

In Eastern Germany, sales productivity[3] in the processing industry thus differs considerably subject to the property relations (IWH, 2005[a], p. 14):

> "[…] Productivity in the subsidiaries of West German companies [lies] 12% above the West German average [...], and in the subsidiaries of foreign companies the figure is even as high as 40%."

In Brandenburg, the average sales productivity per employee amounts to €286,000 in companies under foreign ownership, to € 147,000 in businesses under West German ownership, but only to €90,000 in businesses under East German ownership (MASGF, 2007).

Furthermore, important structural differences determine the macroeconomic productivity lag in Eastern Germany in general and Brandenburg in particular. The repartition of the businesses in the various industries and the scale of the companies are considerably different in Eastern and Western Germany: Eastern Germany has a considerably higher proportion of SMEs, which often achieve lower productivity (IAB, 2007[a]; MASGF, 2007).

[2] Labour productivity can be defined as the gross value added in relation to the number of employees—gross value added per employee in current prices (data from the new federal states with Berlin, data from the old federal states without Berlin).

[3] Sales productivity can be defined as sales per employee.

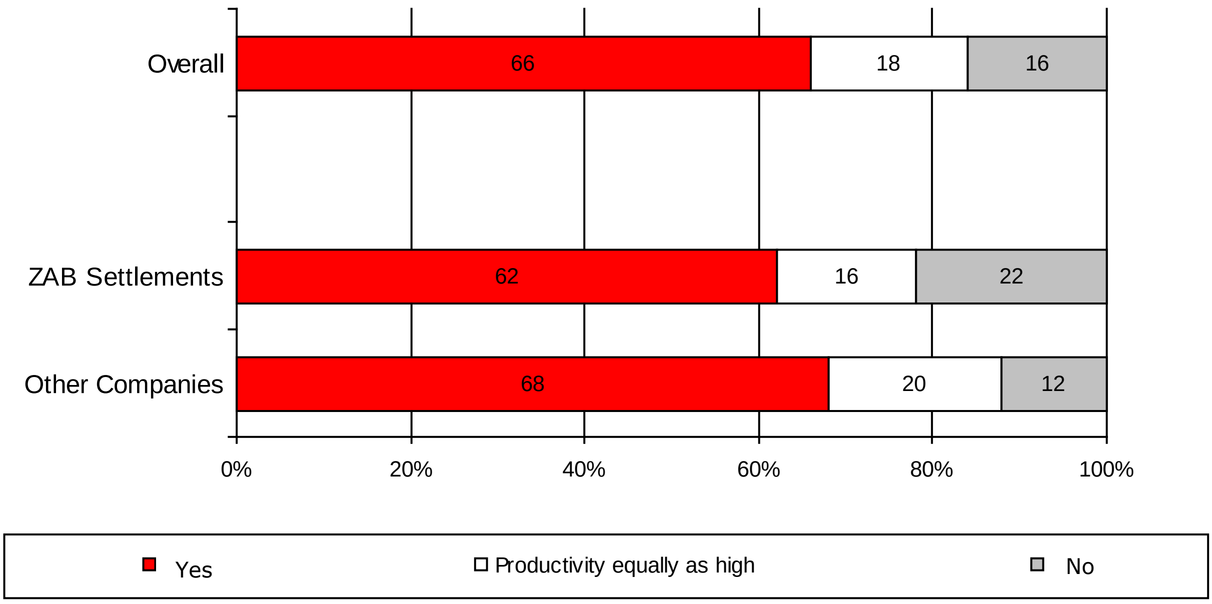
The Halle-based Institute for Economic Research accordingly states:

> "At least in the processing industry, the scale of the companies can explain the productivity lag almost entirely." (IWH, 2007[c], p. 180)

Consequently, it is evident that an investment decision cannot be the result of the sole consideration of the average productivity. Far more interesting is the self-evaluation of corporations operating in Brandenburg as regards their productivity.

In 2006, the independent polling institute Info Berlin conducted a survey among companies that have already operated at other locations: two thirds of the businesses polled consider that productivity is higher in Brandenburg than at the previous location (see Chart 3). The main reasons for the rise in productivity are the new, improved technological and production facilities (44%), the optimisation of in-house processes, and the qualification and availability of personnel (17%).

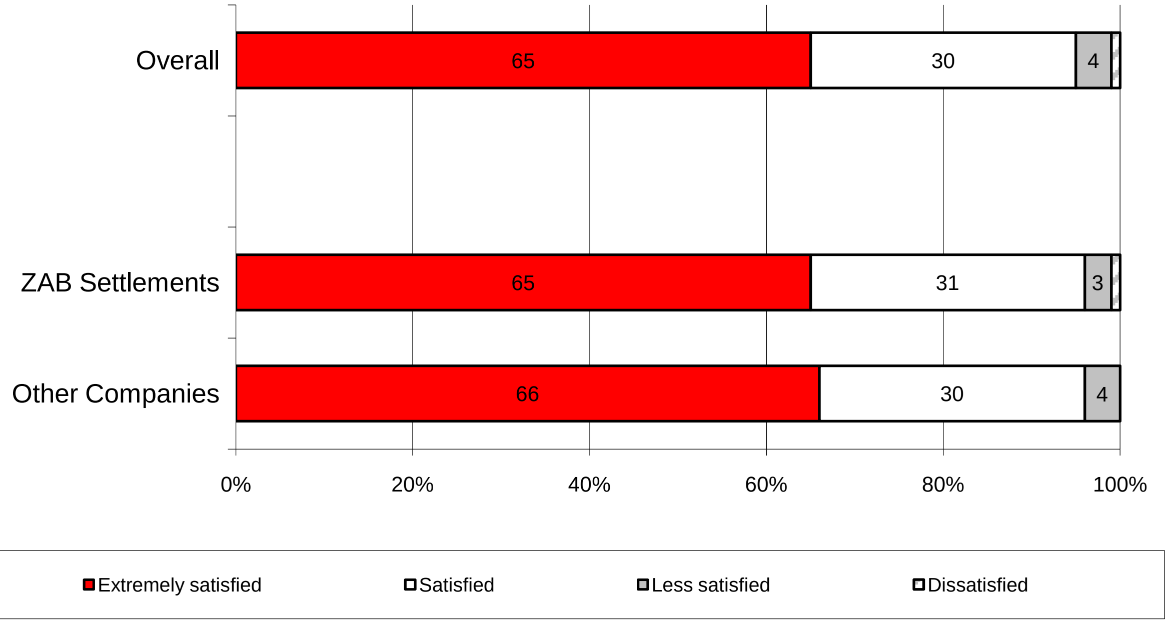
Chart 3: "Is productivity higher in Brandenburg than at the company headquarters or at a previous location?"



Source: INFO GmbH Berlin, 2006

Under such conditions, it is no surprise that 65% of the companies polled are extremely satisfied with the productivity of their business in the German Capital Region (see Chart 4).

Chart 4: Satisfaction with the productivity of the Brandenburg branch (%)



Source: INFO GmbH Berlin, 2006

This illustrates that high productivity is a crucial factor for investment in Brandenburg.

3. Working Hours

In 2006, the standard weekly working time averaged 37.4 hours in Western Germany, but 38.9 hours in Eastern Germany (WSI, 2007). Still in 2006, over 45% of workers in Eastern Germany had a weekly working time of 40 hours or more (see Chart 5).

Chart 5: Standard weekly hours in Eastern Germany (% of the employees, reference date 31 December 2006)

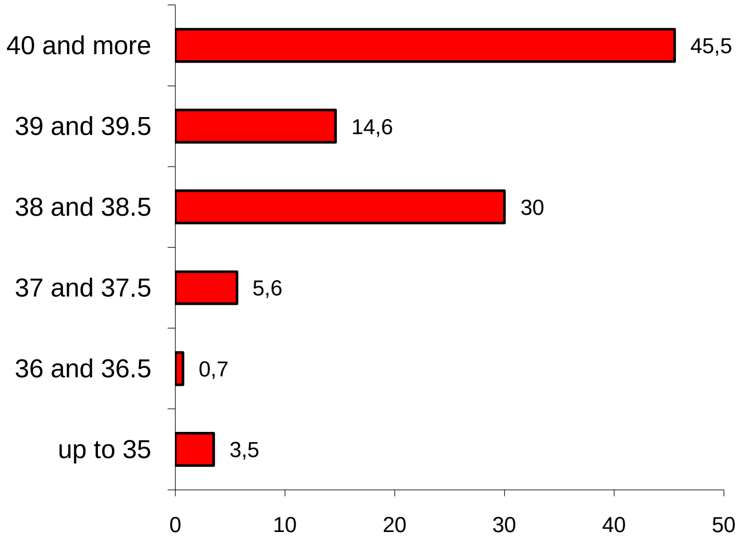
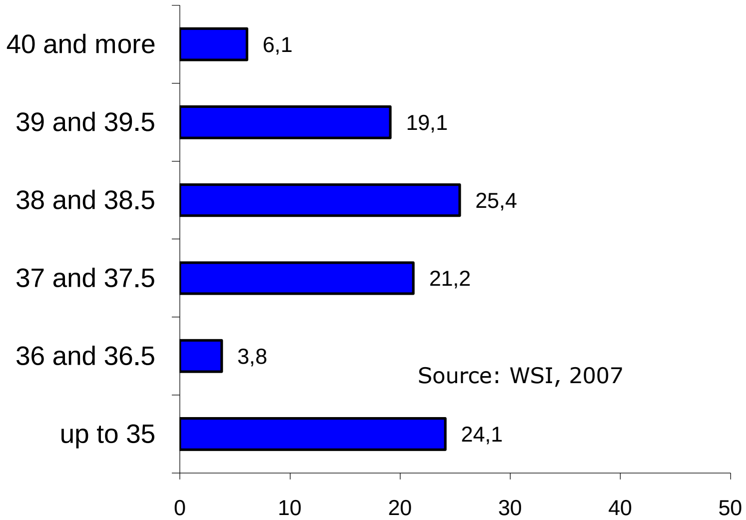


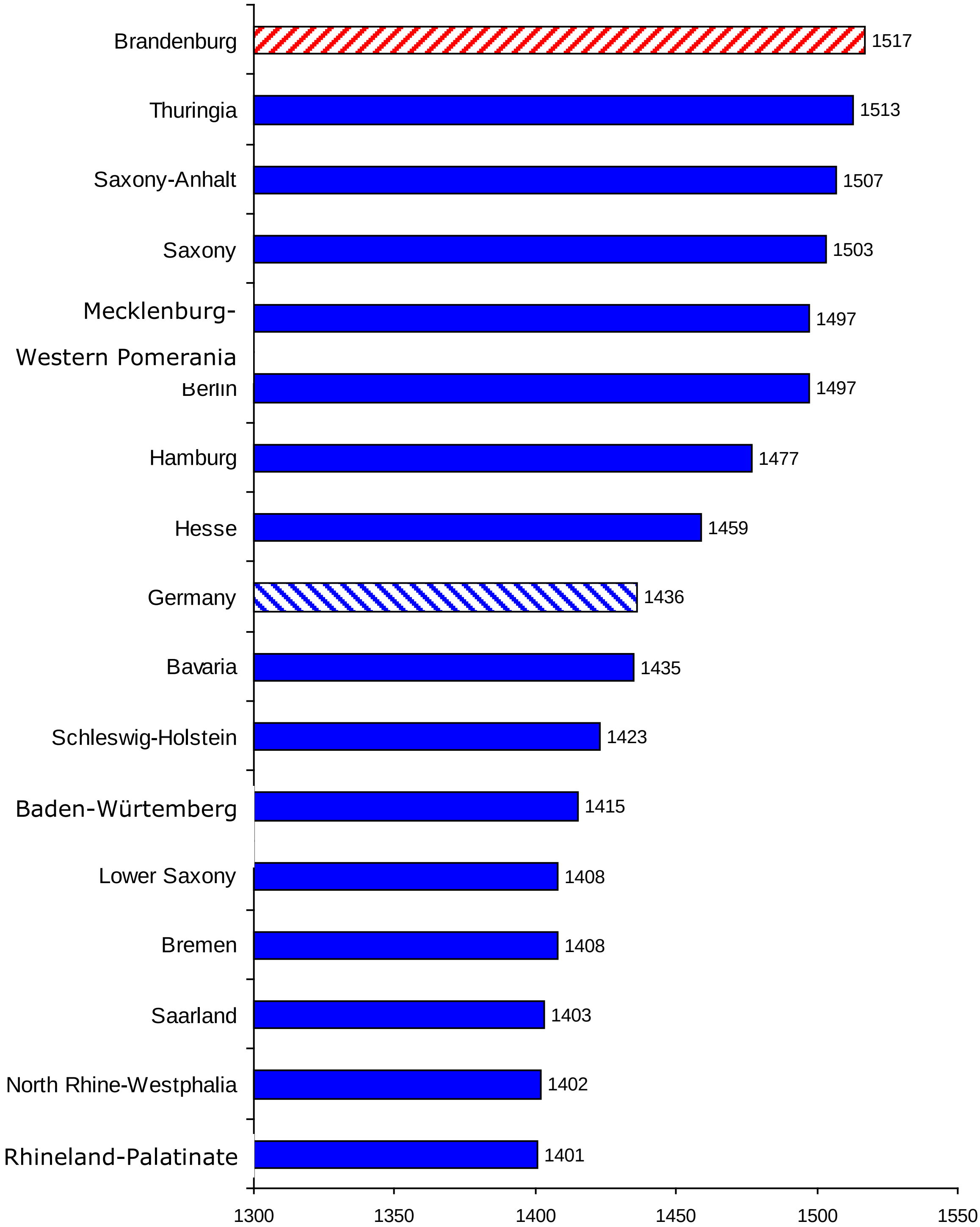
Chart 6: Standard weekly hours in Western Germany (% of the employees, reference date 31 December 2006)



Source: WSI, 2007

In Brandenburg, people work annually over eighty hours more than the national average. In no other German region is the workload higher (see Chart 7).

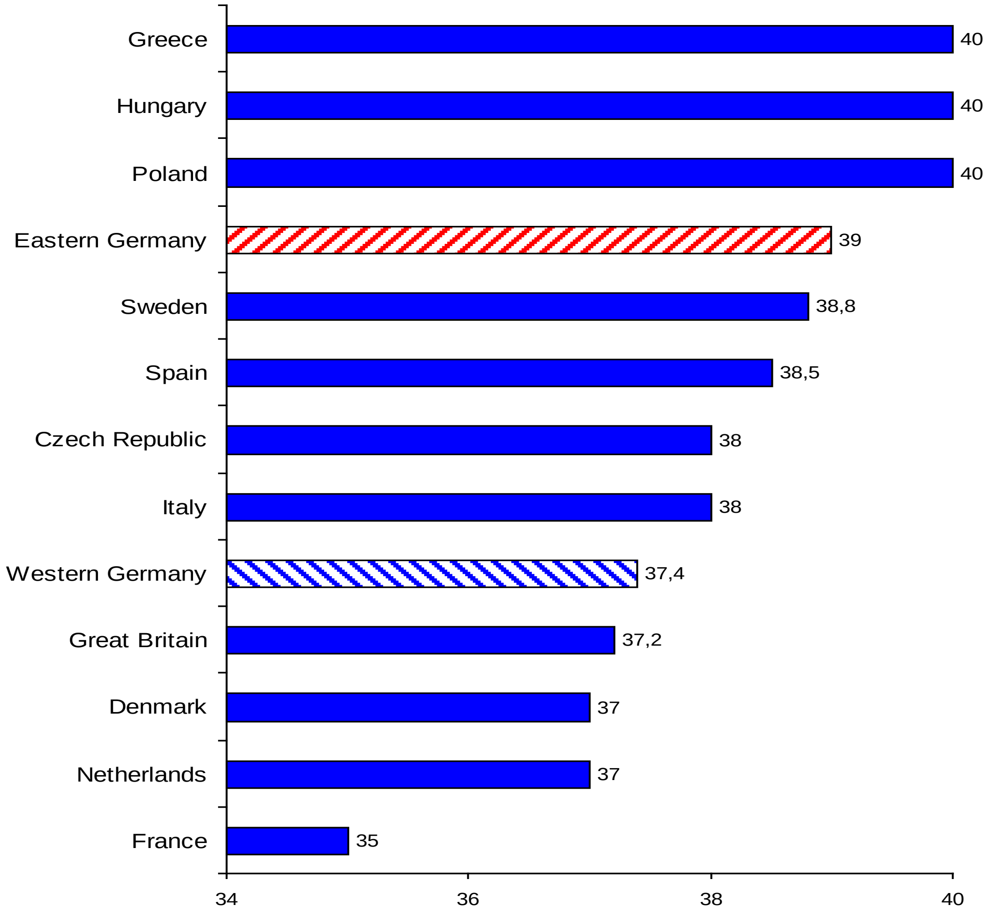
Chart 7: Annual working hours in Germany in 2006



Source: Amt für Statistik Berlin-Brandenburg, 2007

Eastern Germany also has relatively long working hours compared with other European countries (see Chart 8).

Chart 8: International comparison of standard weekly hours (2005 data)

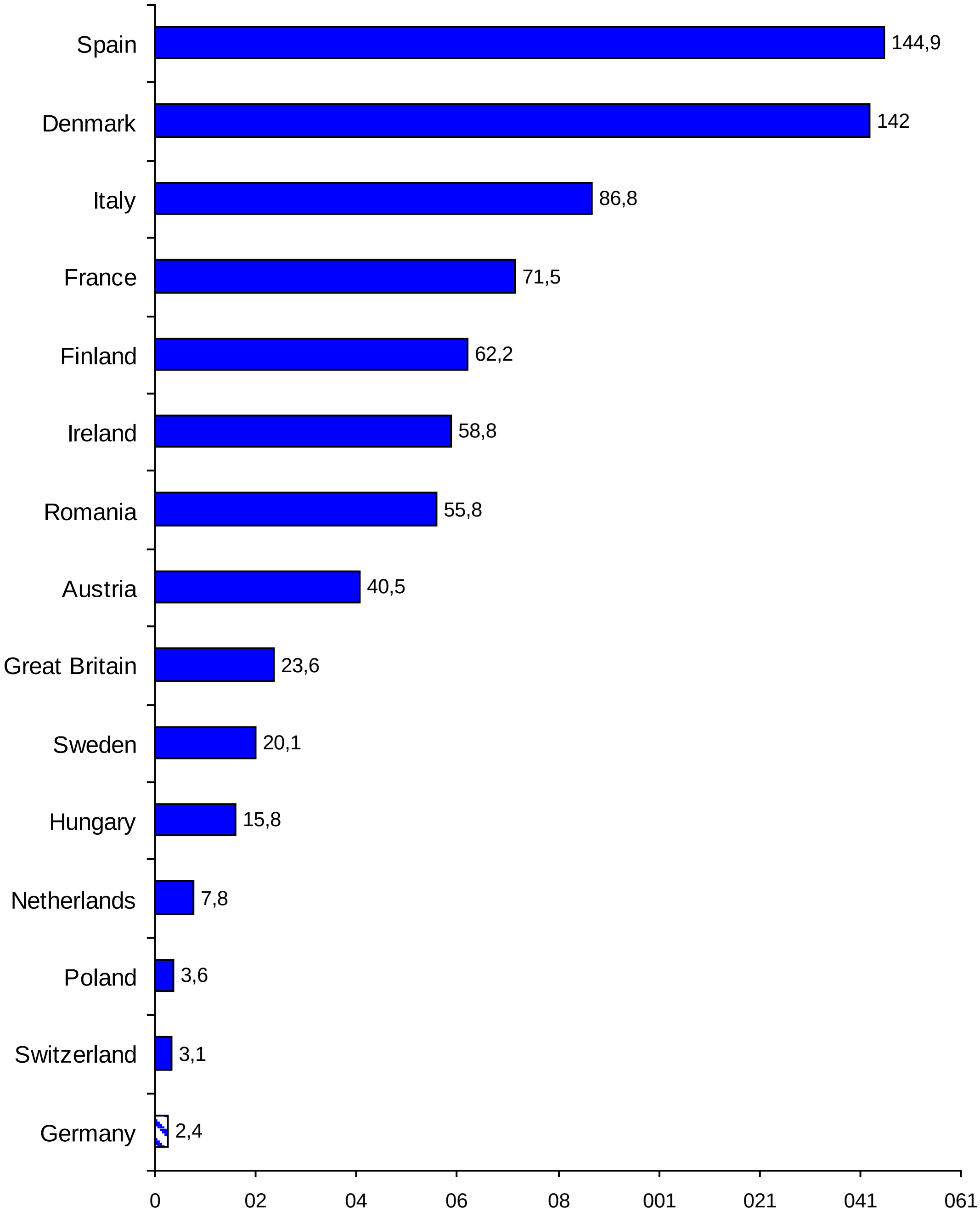


Source: Statistisches Bundesamt, 2007

The weekly working hours are nominally lower in Germany than in certain "old" EU countries and in the new EU member states in Central and Eastern Europe (Eurostat, 2007). However, the number of strike days is higher in those countries (see Chart 9). From 1996 to 2005, for example, Hungary recorded an annual average of 15.8 days lost to strikes for every 1,000 employees; Romania lost 55.8 days, whilst Spain and Denmark even lost over 140 days.

In Germany, the number of working days lost to strikes during the same period averaged only 2.4 days annually—even less than in Switzerland (*Hans-Böckler-Stiftung*, 2007). This underscores Germany's sound social environment.

Chart 9: International comparison of the annual strike and lockout days (per 1,000 employees, 1996 to 2005 data)



Sources: Hans-Böckler-Stiftung, 2007; Wirtschaftskammern Österreichs, 2007

4. Infrastructure

The reliability of delivery to customers and suppliers, i.e. the quality of logistics and distribution, is highly dependent on the development level of the transport and communications infrastructure. The quality of this infrastructure and the presence of a fully developed supply network are crucial investment factors.

Germany and Western Europe have a high-quality transport infrastructure, and businesses benefit from the modernisation works performed in Eastern Germany since the German reunification. Eastern Germany now boasts a state-of-the-art transport infrastructure.

Since 1990, around €7.0 billion have been invested in the road infrastructure in Brandenburg alone. Over 11,000 kilometres of road, a large portion of the rail network, and important sections of the inland waterways and harbours have also been renewed. Today, the region has almost 900 kilometres of autobahn, 1,500 kilometres of railroads and around 900 kilometres of waterways that are largely significant for freight transport (*Ministerium für Infrastruktur und Raumordnung*, 2007).

The existing transport infrastructure guarantees decent rail and autobahn access to virtually all industry locations in Brandenburg. Other infrastructure elements include freight villages that facilitate connection between the traffic carriers, intermodal transport facilities and docks, and various logistics services made available to international haulers. Brandenburg is thus well integrated in the international logistics network. Moreover, the need-based expansion and modernisation of the transport infrastructure is proceeding rapidly.

Brandenburg-based companies also benefit from good rail connections with the North and Baltic Sea ports, from inexpensive cargo rates for corresponding transports, and from a high security and reliability level as regards logistics.

The heavy investments performed since the German reunification in the Berlin-Brandenburg transport infrastructure are now paying off. Hamburg harbour is a mere three hours away by rail and road. Berlin-Brandenburg is thus becoming a logistics hub for the hinterland of the German seaports.

By 2020, the German Capital Region will belong to the Champions League of logistics locations. The freight villages around Berlin, meanwhile, are working up to 80% of their capacity and have become a success story. Grossbeeren (Berlin Süd) and Wustermark (Berlin West), for example, are currently third and fourth in the national rankings.

As a result of these considerable efforts, Berlin-Brandenburg can now offer a quantitatively and qualitatively valuable road and train infrastructure, an extremely efficient short-range public transport network, and—upon completion of the Berlin-

Brandenburg International Airport—extremely efficient and attractive access to air traffic.

The region's exceptionally good accessibility and situation at the heart of a unified Europe offers strategic advantages to investors. New or previously underused development axes and transport corridors are becoming ever more important. Around 200 million consumers throughout Europe can be reached from the German Capital Region within twenty-four hours using rail or road—a performance that is hard for any other location to beat.

Berlin-Brandenburg's proximity to Eastern Europe and comparatively moderate rent and real-estate prices are further assets of the region for the logistics industry. With a turnover of approx. €165 million (around 7.5% of the GNP), logistics currently constitutes Germany's third largest industry with an annual growth rate of 6%. The German Capital Region benefits substantially from this situation with more settlements and an increase in goods handling.

Moreover, the region also has a particular knowledge potential thanks to the proximity of various universities and R&D institutes dedicated to transport and mobility research. In virtue of its infrastructure and market, the German Capital Region opens extremely interesting perspectives for R&D, marketing and innovations in the logistics industry for the years to come.

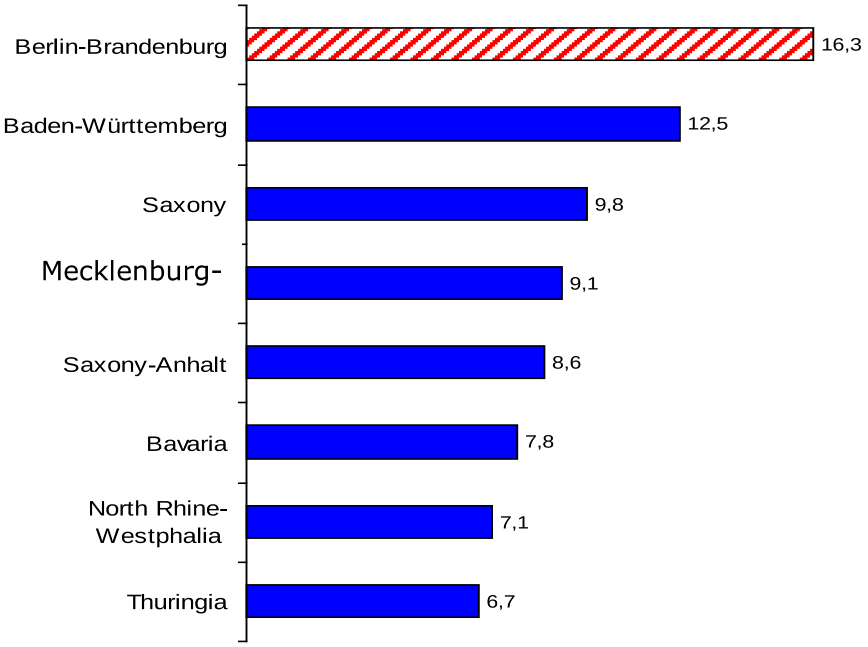
5. Research and Development

The R&D landscape is primarily a significant location asset for companies in the high-tech sector. Such businesses that invest in Berlin-Brandenburg enjoy particularly favourable conditions as the German Capital Region features one of Europe's highest concentration of research institutes.

Highest Concentration of Research Institutes

Berlin-Brandenburg boasts seven universities, twenty-one polytechnics, 250 private R&D institutes (twenty-one of which are on the WGL "Blue List"), nine Fraunhofer institutes, eight Max-Planck institutes, seven HGF institutes (*Herrmann von Helmholtz-Gemeinschaft Deutscher Forschungszentren*), and more than a dozen federal research institutes. R&D is thus one of the region's strengths and ranks amongst its most important growth factors.

Chart 10: Concentration of R&D institutes in selected regions (scientific establishments per 1 million inhabitants)



Source: BMBF, 2004

Berlin-Brandenburg is backed with a long scientific tradition, as twenty-nine Nobel Prize winners were members of the Berlin universities (eleven for chemistry, ten for physics, seven for medicine, and one for literature).

The region features a great scientific potential. Some 50,000 scientists work in Berlin-Brandenburg, around 23,000 of whom at universities and polytechnics

(*Statistisches Bundesamt*, 2005). Highly specialised scientific and research institutes are available to companies and young entrepreneurs as cooperative partners: according to a recent study, Potsdam University and BTU Cottbus come second and tenth out of sixty-five German universities for their support to start-ups (*Universität Regensburg*, 2007).

With approx. 180,000 students, the region's universities and polytechnics cater for skilled junior employees in virtually all industries, and some 19,000 graduates arrive on the job market each year.

Brandenburg is becoming increasingly popular as a place to study. The region's polytechnics and three universities (Potsdam, Cottbus and Frankfurt/Oder) record a real boom in demand and student numbers are at their peak (*Amt für Statistik Berlin-Brandenburg*, 2007[e]).

Berlin and Brandenburg collaborate closely on their innovation policy and have decided to focus their strategy on the following fields: Biotechnology/Medical technology/Pharmaceutics, Media/Information and communication technology, transportation technology (automotive, aerospace, rail, logistics, telematic industries), Optics, Power engineering (see also Chapter III. 2).

A Winner in the "Zukunftsatlas 2007" Study

The favourable macroeconomic environment contributes to the good position of Brandenburg in the "Zukunftsatlas 2007" study recently performed by the Prognos institute. The prospects of the German Capital Region considerably improved in recent years: in 2007, the situation was significantly better in ten of its eighteen districts if compared to 2004. Brandenburg is thus becoming a winner in Eastern Germany and already ranks second for its economic prospects behind Saxony. Moreover, it is a front-runner for the parameter "social status and prosperity" amongst the East German regions.

The Prognos institute examined the liveliness, assets, demography, competition advantages, job market and readiness for innovation in Germany's 439 districts and cities. The result for Brandenburg is impressive: Potsdam leapt 133 places into the Top 20. Cottbus and Brandenburg/Havel were also amongst the ten strongest climbers.

Innovative Networks

The innovation-friendly environment that investors are expecting requires not only universities and R&D institutes, but also appropriate networks. Such structures facilitate a variety of cooperative opportunities between companies, as well as between business and R&D institutes. Moreover, they are a prerequisite for further growth. Links between companies from a given industry, between them and their suppliers, as well as with R&D institutes, characterise innovative networks.

The key technologies mentioned above are continuing to develop. This includes in particular the increasing networking of companies that find a favourable environment in the German Capital Region:

- Great number of innovative companies

  Approx. 1,500 innovative companies are operating in the region, more than 100 of which with peak international output.

- Network links between R&D and business, as well as between R&D institutes

  Currently, eleven networks supported according to the EU "Joint task for the improvement of regional economic structures" exist in Brandenburg's key technologies, and a further five networks are in preparation. The members are SMEs, major enterprises, universities, polytechnics, private R&D institutes and economic institutions.

- Technology centres and business incubators with a full range of services

  A total of forty-three technology centres and business incubators operate in Berlin-Brandenburg. No other German region features so many centres of this kind. Some 550 companies with over 3,000 employees are operating in Brandenburg's twenty-one technology centres and business incubators (www.tgbev.de).

Brandenburg successfully promotes innovation: between 2001 and 2006, the ZAB agency supervised and supported 1,363 innovation projects. Consequently, innovative products and procedures have been developed and improved, and almost 2,400 jobs created.

Entrepreneurs in Brandenburg appreciate not only the technological support by the regional authorities, but also the availability of "innovation assistants". Since the launch of the programme in 1992, over 1,000 such assistants had already been promoted by 2007. A survey conducted by the ZAB agency revealed that 89% of the businesses polled retained their innovation assistants after termination of the state support, and that 43% even hired a second one.

2006 Innovation Concept

In 2006, the systematic support of innovative processes and products in Brandenburg received an additional boost with the launch of the LIZ programme

(*Landesinnovationskonzept*). The new programme focuses on the cross-linkage of R&D and business in the region, and includes concrete measures for the development of technology transfer. The LIZ programme also aims to canvass for investors and develop business cooperation in the German Capital Region (MW, 2006).

Ultimately, the LIZ programme takes over the objectives of the region's economic policy and articulates its strategy according to the following six axes:

1) **Profiling in Innovative Industries.** Just like Brandenburg's new economic policy, the region's innovation policy focuses on sixteen key technologies. In accordance with the reorientation, the entrepreneurial existence is to the fore.

2) **Technology Transfer.** Brandenburg attaches considerable importance to the expansion of technology transfer between R&D and business. Networks that include companies, universities and private R&D institutes should be developed in the key technologies. Moreover, the networks and the university advisory bodies should contribute to bridge the gap between R&D and business.

3) **German Capital Region.** The States of Berlin and Brandenburg are pooling their efforts for a cooperative innovation policy in order to promote the economy in the German Capital Region even further.

4) **Support to Innovative Start-ups.** Improved basic conditions should prompt graduates from regional universities and R&D institutes to found more innovative start-ups in Berlin-Brandenburg.

5) **Innovation-oriented Settlement Strategy.** As a location's R&D environment is becoming a key investment factor, the region's innovation policy should aim to promote innovation in order to attract more investors. In this context, innovative value added chains and supply relationships are of particular importance.

6) **Innovative Financial Tools.** Berlin-Brandenburg further develops financial tools to support technology projects according to the demand.

6. Labour Costs and Unit Labour Costs

Labour Costs

The proportion of the labour costs in the entire production costs varies depending on the branch and the labour intensity of production. For this reason, the labour costs are a crucial factor prior to any investment decision at a particular location.

In international comparisons, Germany has the image of a country with high labour costs. But a closer analysis will reveal that this image is not regular (see Chart 11).

In Eastern Germany, the labour costs[4] in the manufacturing industry amounted to an average of €19.76 per working hour in 2006. This cost level is comparable with that in Spain and Japan. In Western Germany, however, the average labour costs in the manufacturing industry amounted to €33.59 per working hour in the same year, and thus ranged in the peak group together with Sweden, Switzerland, Belgium and Norway (IW, 2007[d]).

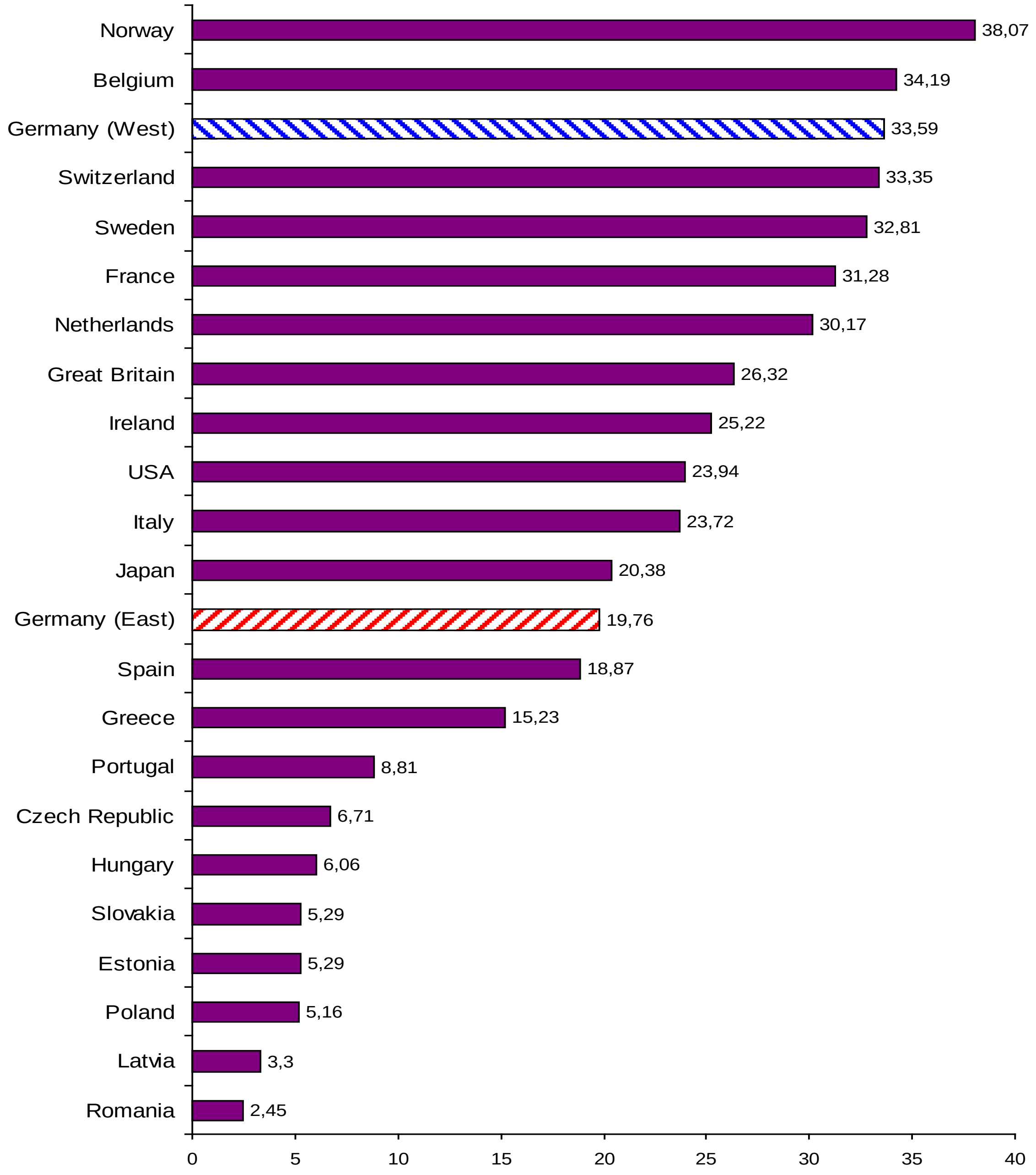
From a mere statistical point of view, Central and Eastern European countries such as Poland and the Czech Republic seem to have distinctly lower costs of labour than Western European locations. However, this does not describe the reality for foreign investors, since the real labour costs of subsidiaries are distinctly higher in Central and Eastern Europe than at the home production facilities.

Capgemini maintains: "In some industries, the new EU members (Czech Republic, Hungary, Poland, Slovakia and Slovenia) already have wage structures that almost correspond to the Western European level" (Capgemini, 2005).

[4] The term "cost of labour" is used in keeping with the definition set up by Eurostat:

- "Cost of labour" refers to all expenditure of a company for the employment of workforce. This includes remuneration of the staff, gross salaries and wages (money and payment in kind), social contributions to be paid by the employer, costs for professional training, and other expenditure, such as for staff recruitment, work clothes and taxes minus allowances.
- The comparison of international costs of labour presented here refers to the labour costs for each employee (worker and salaried employee) for each hour worked in the manufacturing industry. Data for Western Germany including Berlin, data for Eastern Germany without Berlin.

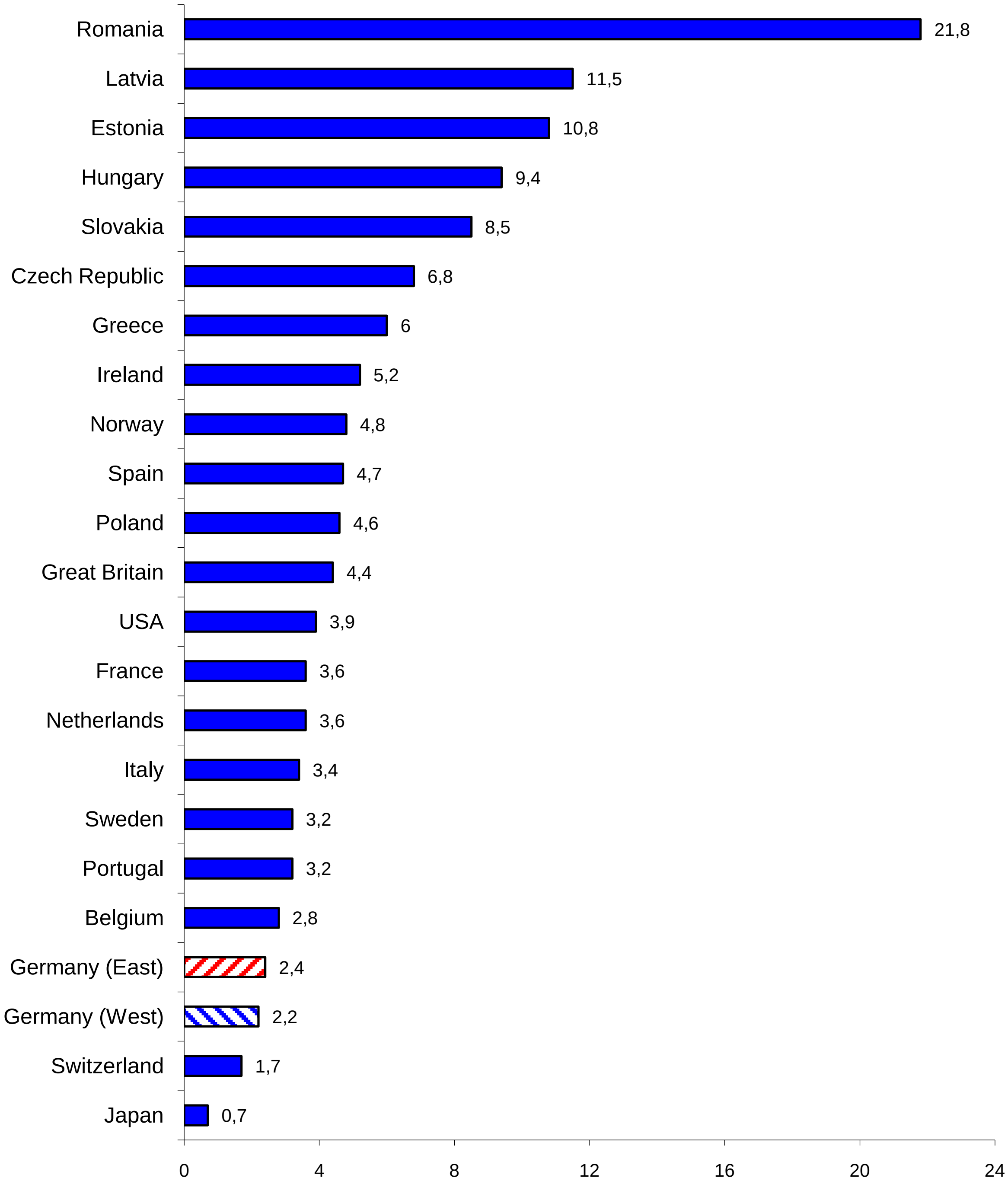
Chart 11: Comparison of average labour costs in the manufacturing industry (in €/hour, 2006 data)



Source: IW, 2007

The development of the labour costs is another significant factor. Between 2000 and 2006, this economic indicator increased considerably slower in Germany than in various European countries, in particular the new EU members in Central and Eastern Europe (see Chart 12).

Chart 12: Annual growth of labour costs in the manufacturing industry (average value in % and national currencies, 2000 to 2006 data)



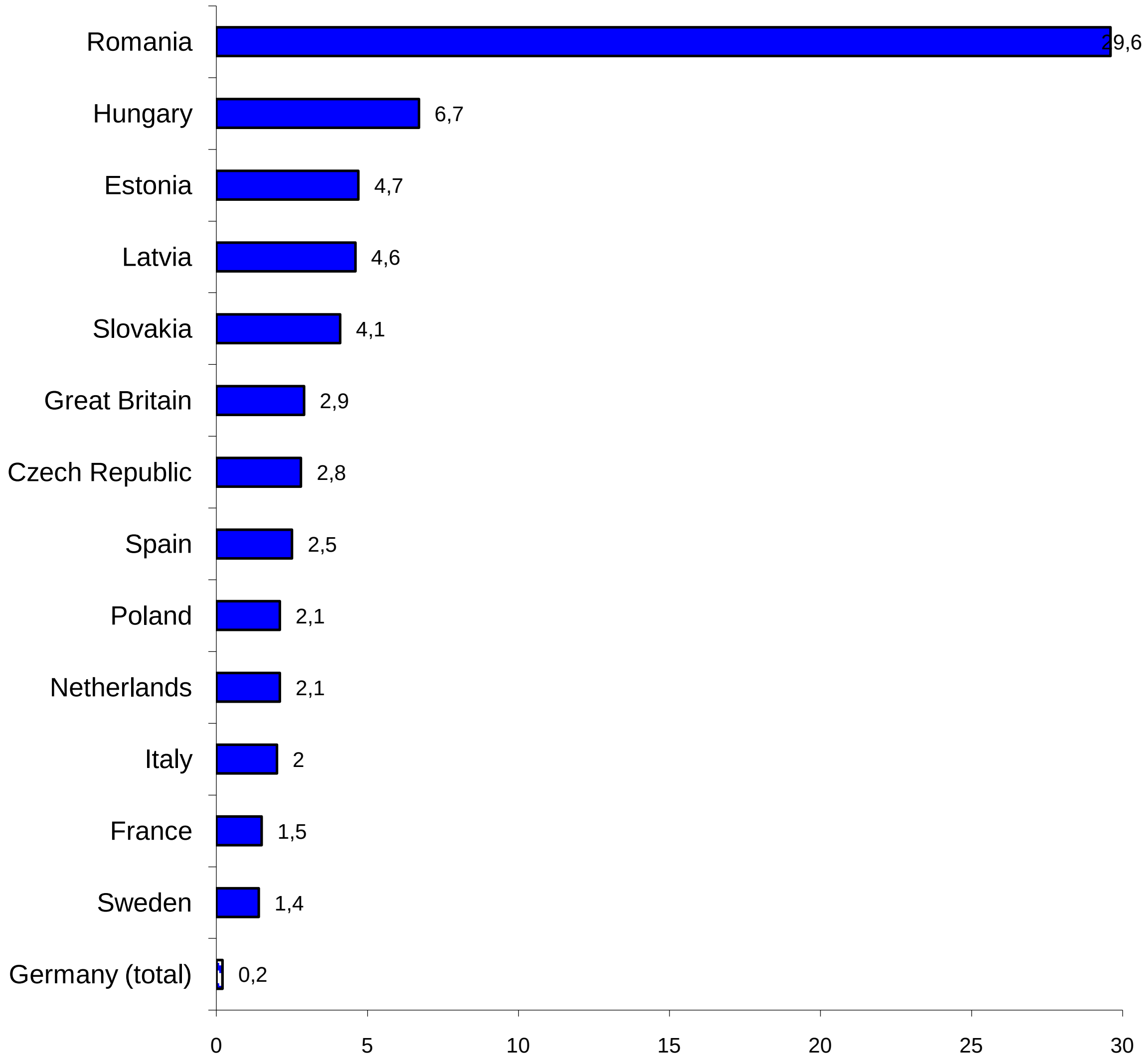
Source: IW, 2007

Unit Labour Costs

The sole consideration of the labour costs does not render the whole picture, as the ratio of labour cost and productivity is another crucial factor for investors. The unit labour costs[5] provide a "price-to-performance ratio" of the labour cost and are an indicator for the competitiveness of a company, a branch or national economy.

In the last ten years, the unit labour costs developed considerably more slowly in Germany than in most similar countries (BMF, 2006). Since 2004, they have decreased slightly even (*Statistisches Bundesamt*, 2007[f]), which has lead to a continuous improvement of the competitive situation in the country (see Chart 13).

Chart 13: Annual increase of unit labour costs in selected EU countries (average in nominal %, data 1997 to 2007*)



*Values for 2007 are forecasts

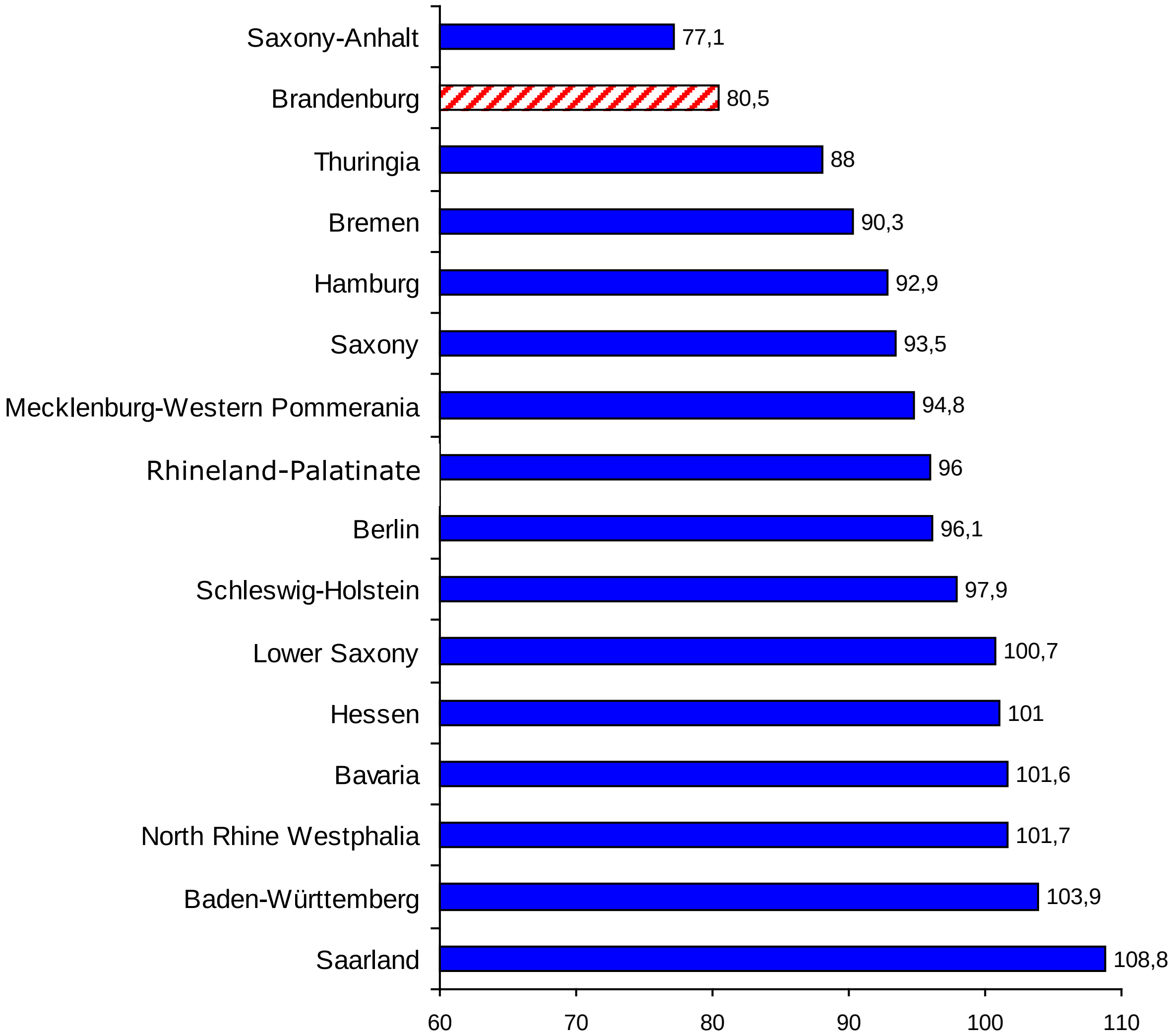
Source: WKO, 2007

[5] Unit labour costs defined as per capita income of an employee relative to the overall economic productivity (GDP per employee) on the basis of the respective national currency.

In the last few years, the unit labour costs[6] in Eastern Germany have decreased continuously in the manufacturing industry in particular (by -8.4% in 2006; IWH, 2007[b]). Thus, companies in Eastern Germany have distinct advantages over those in Western Germany with respect to unit labour costs (IWH, 2007[b]; IG Metall, 2007; IAB, 2006). In the manufacturing industry, the unit labour costs were 10.4% lower in Eastern than in Western Germany in 2006 (BMWi, 2007; BMVBS, 2007).

In Brandenburg, the unit labour costs in the manufacturing industry are lower than in most other German regions (see Chart 14). Thus, Brandenburg offers investors an excellent "price-to-performance ratio" with respect to labour costs and productivity.

Chart 14: Unit labour costs in the manufacturing industry (without building trade, Germany = 100, 2004 data)



Source: Statistisches Landesamt Baden-Württemberg, 2006

[6] Unit labour costs defined as a per capita income of a German employee relative to the real gross creation of value per employee.

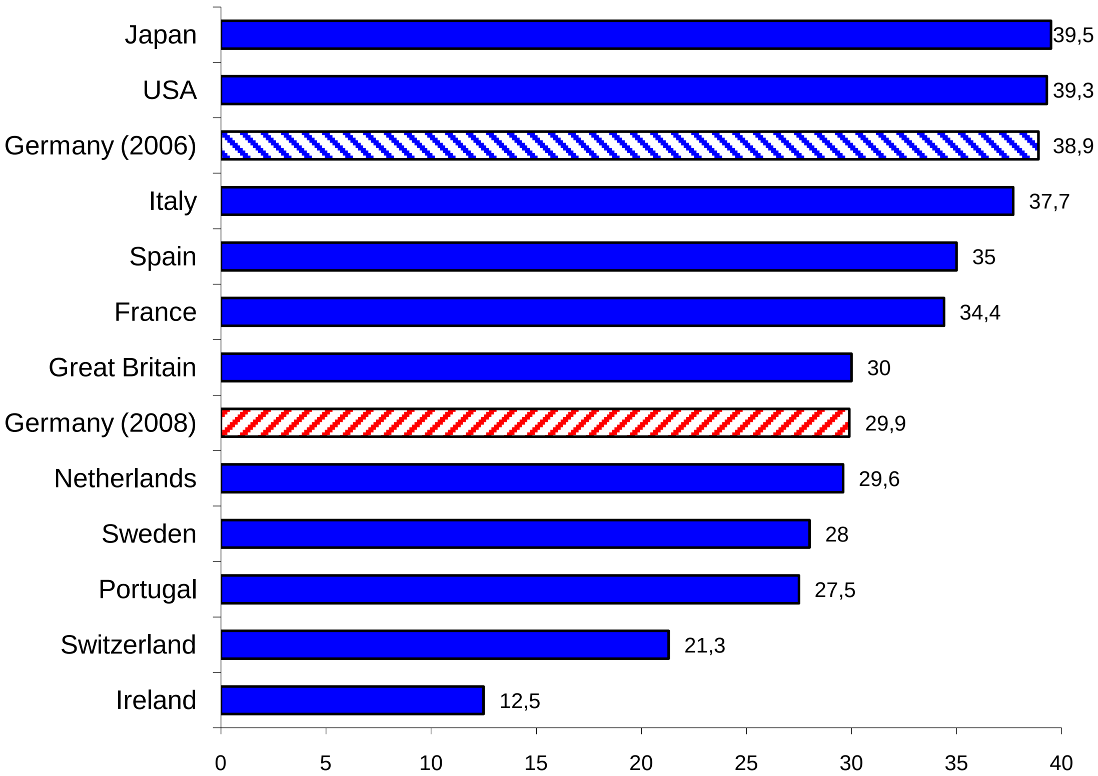
7. Taxes

Germany has considerably improved its tax framework in the past few years. The reform of the corporate tax that came into effect on 1st January 2008 further improved the attractiveness of the country for international investors.

2008 Corporate Tax Reform

The central point of the reform is the decrease of the tariff-based tax burden (corporate tax, trade tax, solidarity levy) of public limited companies by almost one quarter from about 39% to below 30%. For this purpose, the government lowered the corporate tax rate by 10% from 25% to 15%. At the same time, it lowered the trade tax measurement rate from 5% to 3.5% (BMJ, 2007). Assuming a trade tax rate of 400%, the profit tax burden of a public limited company drops to below 30% (KPMG, 2007[b]). After the 2008 reform, Germany's tax burden now corresponds to the European average (see Chart 15).

Chart 15: Nominal tax rates on corporate profits (in %, federal and regional corporate tax rate, 2006 data)



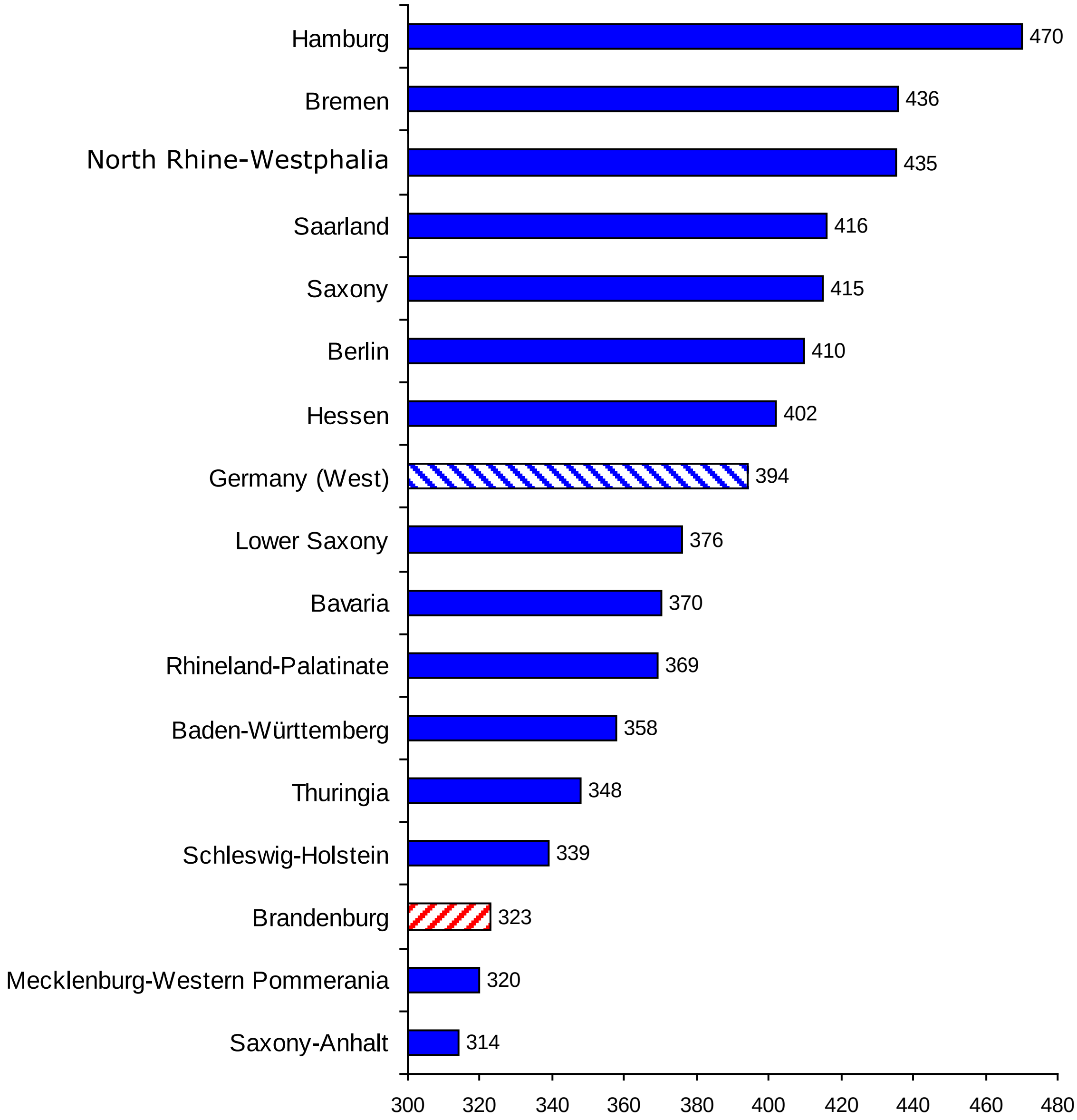
Source: DIW, 2007

Consequently, the fiscal advantages of the new EU members in Central and Eastern Europe on Germany as regards the tax rate on corporate profits are decreasing distinctly.

Trade Tax

The trade tax paid to local authorities also influences a location's attractiveness considerably. Brandenburg is one of the regions with the lowest trade tax rates in Germany—about 20% below the average in Western Germany (see Chart 16).

Chart 16: Average trade tax rate in Germany (in %, 2006 data)



Source: German Federal Statistical Office, 2007

Real Estate Tax

In Brandenburg, the rates for the A and B real estate taxes are also below the average in Eastern and Western Germany (Table 2).

Table 2: Average rates for the A and B real estate taxes (in %, 2006 data)

	Brandenburg	Western Germany	Eastern Germany
Real estate tax A	256	302	266
Real estate tax B	369	411	391

Source: German Federal Statistical Office, 2007

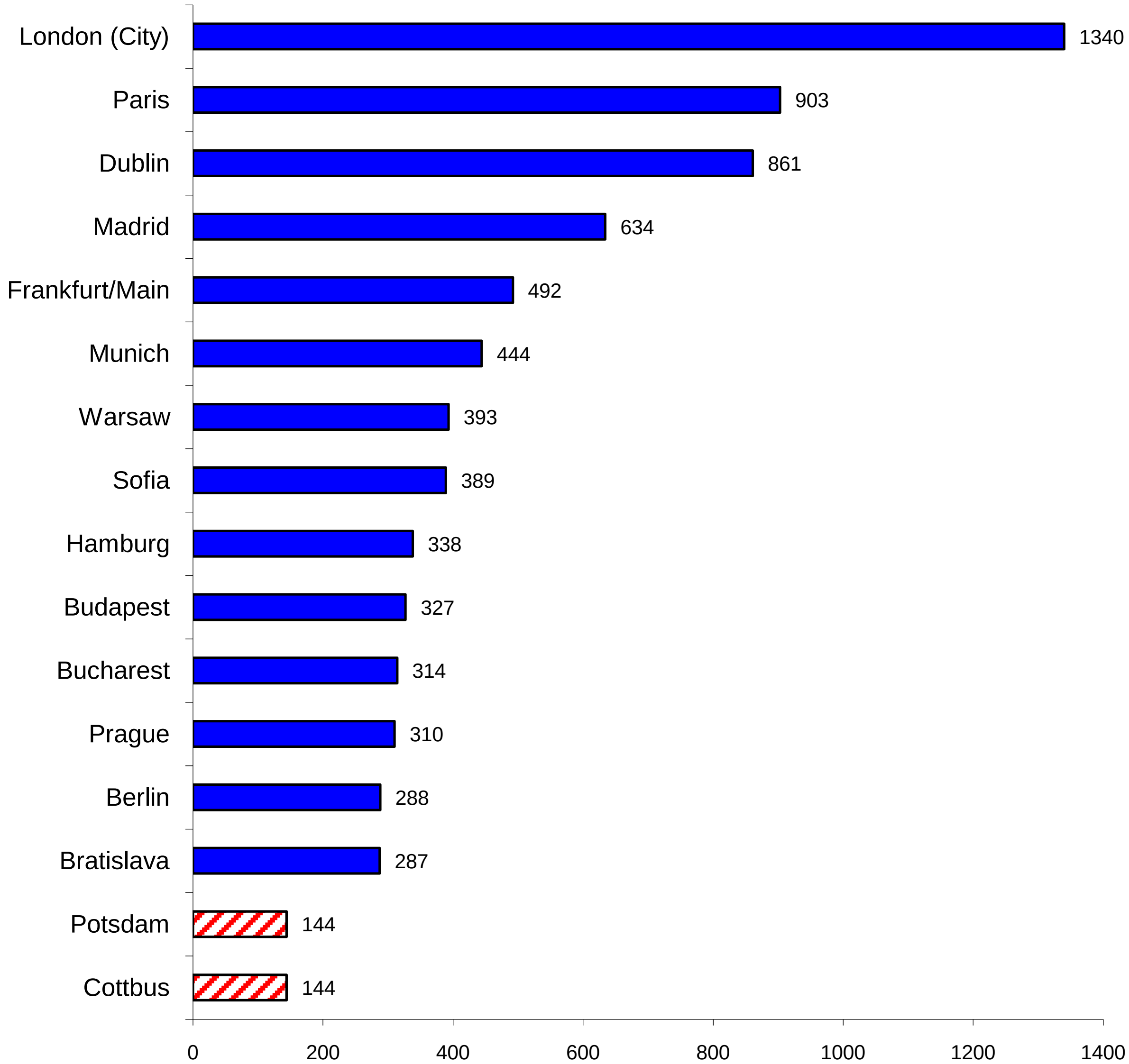
8. Real Estate Market

In Berlin-Brandenburg, companies will find more than seven hundred commercial, industrial and office locations—in a variety of environments and at favourable prices.

Office Renting Costs

The average rent costs for offices in good and prestigious locations in the German Capital Region are well below the average in Western Germany as well as in Eastern and Western European capitals (see Chart 17).

Chart 17: Average yearly renting costs for offices in central locations (€/sqm, 05/2007 data, except Potsdam–06/2006–and Cottbus–2005)



Sources: CB Richard Ellis, 2007; Landeshauptstadt Potsdam, 2006; TLG, 2006

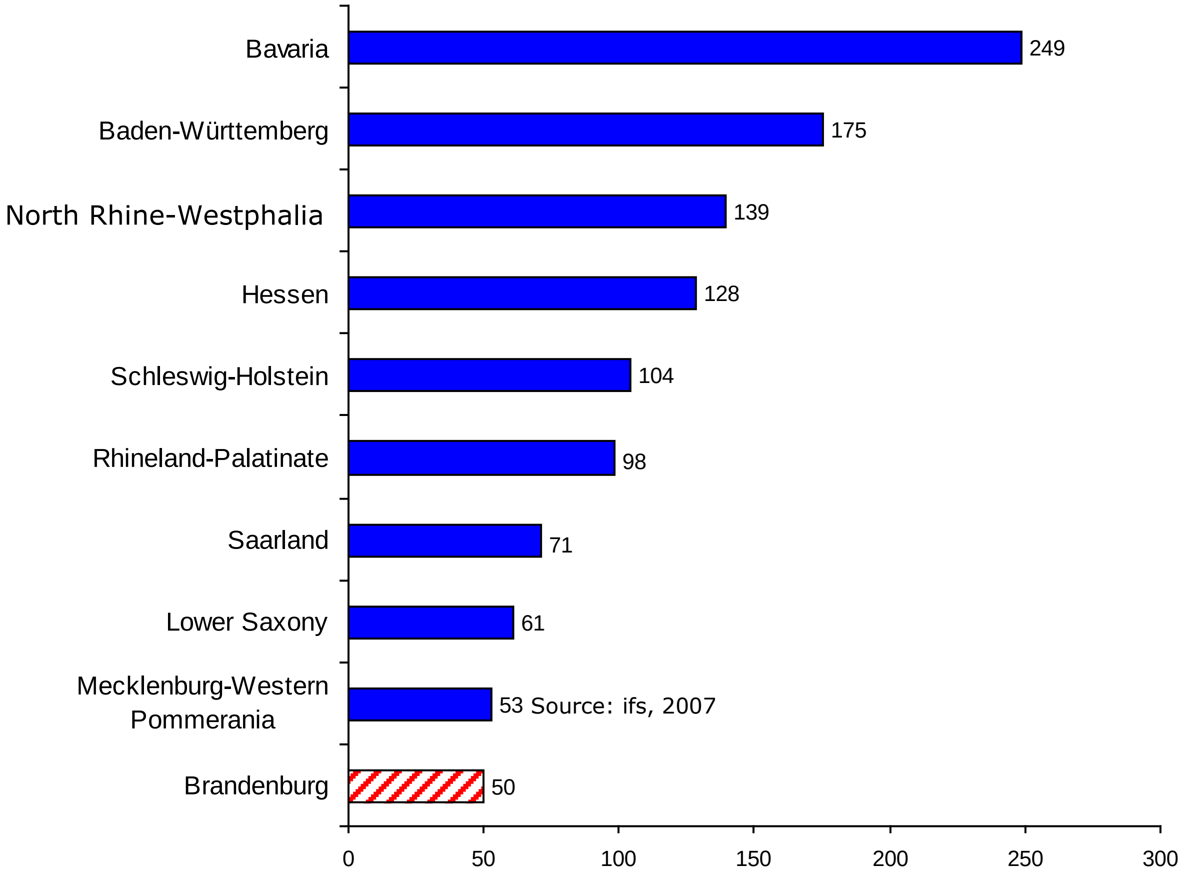
The rents for high-quality offices have rocketed in Poland, the Czech Republic, Hungary, Bulgaria and Romania in the last few years. In the meantime, they are comparable to those in Western European cities. In this respect, the Central and Eastern European countries are no cost-effective relocation alternatives any more (Jones Lang LaSalle, 2007; CB Richard Ellis, 2007).

Real-estate Costs

The availability of industrial real estate in a suitable location is a pre-requisite for the establishment or expansion of production sites. Sufficient extends of land for large industrial projects are becoming increasingly rare—or too expensive—in Western Germany and Western Europe in general.

The situation is different in Brandenburg, as undeveloped land is available here at distinctly lower prices than in Western Germany (see Chart 18). In 2006, for example, the price for undeveloped land in Brandenburg was about €50/sqare meter, i.e. clearly cheaper than in Bavaria, Baden-Württemberg or North Rhine-Westphalia (*Institut für Städtebau, Wohnungswirtschaft und Bausparwesen*, 2007).

Chart 18: Cost for undeveloped land in selected German regions (in €/sqm, 2006 data)



9. Investment Incentives

Investment incentives are another important factor for companies in search of a new location for production, R&D, or services. EU investment incentives are similar in all member countries, but differences arise among the different economic development zones within each country.

The European Union supports Brandenburg with its Structural Funds within the convergence programme. This means optimal investment incentives for companies.

Investment Incentives in Brandenburg

Brandenburg is considered a "Target 1" zone and therefore offers Europe's best investment incentives.

Subsidies for investment costs are as follows:

- Large businesses[7]: up to 30%
- Mid-sized enterprises[8]: up to 40%
- Small enterprises[9]: up to 50%

The State of Brandenburg supports investments through a variety of measures, including investment allowances, joint programmes for companies and business networks, programmes for building industry expertise, as well as R&D and market access programmes.

Moreover, several financial companies such as BC BrandenburgCapital GmbH with its subsidiaries BC Venture GmbH and Seed Capital Brandenburg GmbH provide equity capital to businesses that intend to invest in the region, while Bürgschaftsbank Brandenburg provides security for SMEs in search of credit when they cannot provide normal guarantees. Please see www.bbimweb.de for further details.

Last but not least, the Federal State and the State of Brandenburg can provide the required guarantee to secure investment credits if not other financing possibility is available. Please visit the following sites for further information and application: www.bmwi.de, www.foerderdatenbank.de.

[7] More than 250 employees, sales of more than €50 million or balance sheet total of more than €43 million.
[8] Less than 250 employees, sales up to €50 million or balance sheet total up to €43 million.
[9] Less than 50 employees, sales or balance sheet total up to €10 million.

Principal Economic Development Tools

- Investment subsidy (tax bentit) = (*Investitionszulage, IZ*)

  A simple application procedure makes the tax-free investment allowance particularly interesting, especially for investors in remote locations such as the Oder Valley. In general, companies that meet certain legal requirements (in particular manufacturing businesses, production-related service providers, and hotels) are entitled to the allowance that covers between 12.5 and 27.5% of the initial investment.

- Investment grants (state aid) in the Joint Programmes for Businesses (GA-G)

  These support programmes aim to create and secure jobs in competitive companies in the manufacturing, media and service industries. They concern mainly SMEs and key technologies, and comprise four modules:

  - Basic incentive
  - Incentive for potential development
  - Allowance for mid-sized enterprises
  - Allowance for small enterprises.

  Companies active in a key technology may apply for a **basic incentive** of investment grants to the amount of 15% of the eligible investment costs.

  Brandenburg's business promotion is geared to high-quality investments. Projects that provide beneficial structural effects and may result in a higher sustainability are eligible to an additional **incentive for potential development** of up to another 15%. Brandenburg grants such additional incentives:

  - depending on the number of created permanent jobs and/or training posts in relation to the investment volume;
  - depending on the share of new staff members with degrees from universities, polytechnics or vocational colleges;
  - depending on the amount of R&D expenditure in relation to the turnover (manufacturing companies);
  - depending on the number of permanent jobs in central functions (service providers);
  - for investments in industry concentration centres, in regional growth areas, or in the tourism infrastructure.

According to this bonus system, the investing company must achieve at least 5% to fulfil the minimum requirements for the additional incentive.

The **allowance for SMEs** depends on the size of the company. In keeping with EU guidelines, it amounts to 20% for small businesses and to 10% for mid-sized enterprises.

Brandenburg also makes **labour cost promotion** available for service providers as an alternative to the conventional investment incentives for buildings, machines, etc. In order to promote high-quality employment in the region, this incentive is granted for jobs with annual gross wages of at least €35,000.

- Joint Programmes for Business Networks and Cluster Management

In order to support supra-regional co-operation between companies, institutions and production-related service providers, Brandenburg's Ministry of Economic Affairs promotes the development of networks in the German Capital Region through a pilot project titled: "Co-operation Networks and Joint Task Cluster Management". In November 2007, eleven such networks existed in the following growth branches:

- Automotive industry
- Biotechnology/Life sciences
- Energy technology
- Surveying
- Synthetics/Chemistry
- Logistics
- Media/Information and communication technology
- Metal production/metal processing/mechatronics
- Tourism

Five other networks are in preparation, in particular in the key technologies Optics, Food Industry and Petrochemical/Bio-fuels Industry.

- Programme for Building Industry Expertise

Brandenburg has launched the "Impulse" programme to support regional networks, primarily in growth industries. It aims to promote regional networks and co-operation projects among SMEs of the manufacturing industry and its service providers for up to three years. The "Impulse" programme supports not only management activities (development, co-ordination and moderation), but also services for the design, implementation and updating of networks.

Yearly costs of up to €150,000 are eligible. The degressive incentive amounts to 90% of the eligible costs in the first year, 70% in the second year and 50% in the third year.

- R&D Promotion in Small and Mid-sized Enterprises

  In order to improve the competitiveness and innovation-friendliness of SMEs in the manufacturing and service industries, Brandenburg supports R&D projects aimed to develop new products and procedures in key technologies, in particular Biotechnology/Life sciences, Medical engineering, Media/Information and communication technology, Semi-conductors, Material technology, Optics, Transport technology, and Aerospace engineering.

  The incentive consists in financing up to 75% of the gross costs for industrial research and up to 50% of the gross costs for prototype development, with a maximum of €500,000.

- Innovation Assistant

  Employing graduates of universities and polytechnics as Innovation Assistants shall improve the competitiveness and innovation-friendliness of regional SMEs.

  The incentive consists in contributing to 50% of the wages during the first year of employment (maximum €20,000 for each graduate), and to 40% during the second year (maximum €10,000).

- Access to New Markets for SMEs

  The targets of this programme are to help SMEs accessing foreign markets, to promote sales in Germany, and to support the development of industry networks. Brandenburg therefore contributes to the costs for advice and training services by marketing consultants, and for participation in trade fairs.

  The incentive consists in a contribution of up to 50% of the eligible costs incurred by a company or group of companies within three years (maximum €50,000). Costs for stand hire, setup and operation during trade fairs, exhibitions and co-operation exchanges are eligible up to €15,000 per event and company.

- **New**: Foreign Trade Assistant

  SMEs need staff members with experience in foreign trade and knowledge of foreign languages to access international markets. Brandenburg therefore contributes for two years to the wages of university and polytechnic graduates who develop foreign marketing concepts, canvass for contacts abroad, and help SMEs to access foreign markets in general. The incentive covers 50% of the wages of each graduate in the first year (maximum €20,000) and 40% in the second year (maximum €10,000).

Note

The data related to the incentive programmes were valid as of December 2007 and are subject to change.

Please visit www.ilb.de or www.zab-brandenburg.de for the latest information.

Investment Incentives of the Federal Government

Apart from the incentives specific to Brandenburg, the German Federal Government offers various investment incentives aimed in particular to promote co-operations, R&D projects and industry networks in Eastern Germany. This includes the following programmes: "InnoRegio", "Innovative Wachstumskerne", "Zentren für Innovationskompetenz", "Innovationsforen", "NEMO", and "INNO-WATT". In addition, investors can benefit from various financing schemes provided by KfW Mittelstandsbank at favourable interest rates.

Additional Information

The brochure titled: *Wirtschaftsförderung in Brandenburg* ("Economic Promotion in Brandenburg") provides a comprehensive overview of the incentives available for investors in the region. You can download it from the following site:

www.wirtschaft.brandenburg.de

Moreover, you can download the latest information on guidelines, application rules and forms from www.ilb.de (ILB Bank) and www.zab-brandenburg.de (ZAB Agency).

10. Quality of Life

Company managers should not undervalue the importance of quality of life as they consider investing at a given location. The German Capital Region offers excellent conditions not only for working, but also for enjoying life.

In Brandenburg, forests cover 1.1 million hectares, i.e. 37% of the surface area, more than any other region in Germany. Moreover, Brandenburg features 3,000 lakes and 30,000 kilometres of rivers and canals—Europe's largest network of waterways. Living in green surroundings, by the water or in an historic building—Every dream can become true in Brandenburg!

Brandenburg offers a wide range of **leisure-time activities** to sportsmen, families and all active persons:

- Unparalleled watersport facilities
- 2,000 kilometres of bicycle tracks
- 2,000 kilometres of hiking trails
- 22 golf courses
- More than 100 equestrian centres
- Many tennis clubs
- 11 adventure pools
- Numerous wellness facilities
- A large number of very good restaurants
- Europe's longest inline skating track.

Please visit www.reiseland-brandenburg.de for detailed information on sports and leisure-time activities in the German Capital Region.

Brandenburg also offers an excellent environment to art lovers and culture aficionados. Apart from Potsdam's Sans-Souci Palace, that is part of the World Heritage List, the region offers an exceptional **cultural landscape** composed of more than five hundred palaces, parks and old churches.

Last but not least, the German Capital Region features three opera houses, 130 theatres, 220 museums, several world-famous symphony orchestras, a large number of renowned choirs, and a multifaceted club and music scene.

Located in the middle of the German Capital Region, **Berlin** offers worldwide renowned cultural landmarks. Strolling along Unter den Linden Boulevard, you can appreciate major historic buildings such as the Brandenburg Gate, the Berlin Cathedral and the Gendarmenmarkt Square with the German and French cathedrals.

Modern architecture is equally fascinating in Berlin. Discovering the buildings erected in the last decades is like reading a Who's Who of world architecture, as the architects were Ludwig Mies van der Rohe, Max Taut, Alvar Aalto, Walter Gropius, Hans Sharoun, Le Corbusier, Sir Norman Foster, Helmut Jahn, Renzo Piano, Daniel Libeskind, to mention only a few.

Well-developed road and rail networks rapidly connect Berlin to the rest of the world. Moreover, **Germany's largest public transport network** ensures perfect mobility for about six million people.

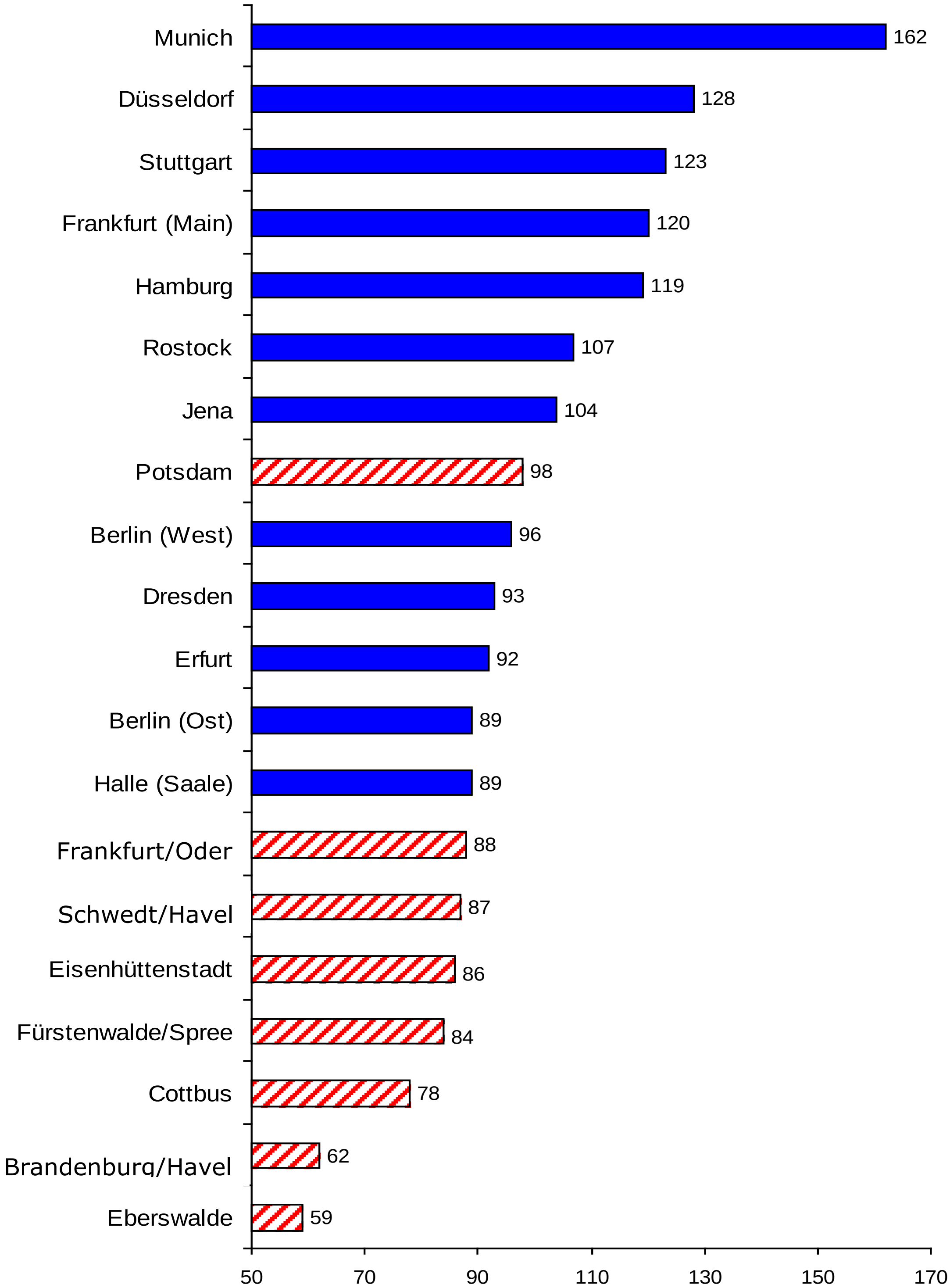
Berlin-Brandenburg is an **international region**. Families from all over the world can take advantage of a very good educational environment with eight international schools (including a Japanese school) and internationally geared courses of study.

The German Capital Region can well compete against other German conurbations. In a location ranking, five towns from four different districts in Brandenburg rank among the **Top 35** out of 310. After Munich, Brandenburg and Hesse take the lead in the comparison (*Immobilienwirtschaft*, Special 10/2006).

As evidenced in the 2007 Family Atlas published by the Federal Ministry for Family in co-operation with Prognos AG, Brandenburg's **family friendliness** is another asset of the region. The study refers Potsdam as the number one town in Germany with respect to family friendliness, and Brandenburg as one of the "top regions for families". The Brandenburg districts also excel at family friendliness: eleven out of fourteen districts and all four towns in the region take the top third places in the overall evaluation of 439 German districts and towns. Reasons for the good ranking are the family friendliness, the possibility to combine family life and working, the good educational environment, and the multifaceted leisure-time facilities for children and young adults (BMFSFJ, 2007).

The high quality of life in Brandenburg has a **reasonable price.** In the 2007 rent level index of the Hamburg-based research enterprise F+B, the towns of Eberswalde and Brandenburg/Havel achieve the best results among 327 German towns with more then 20,000 inhabitants—with about a third of the rent that has to be paid in cost-leader Munich. The rent prices in Cottbus and Frankfurt/Oder are distinctly lower than the national average, and even Potsdam remains below the average (see Chart 19).

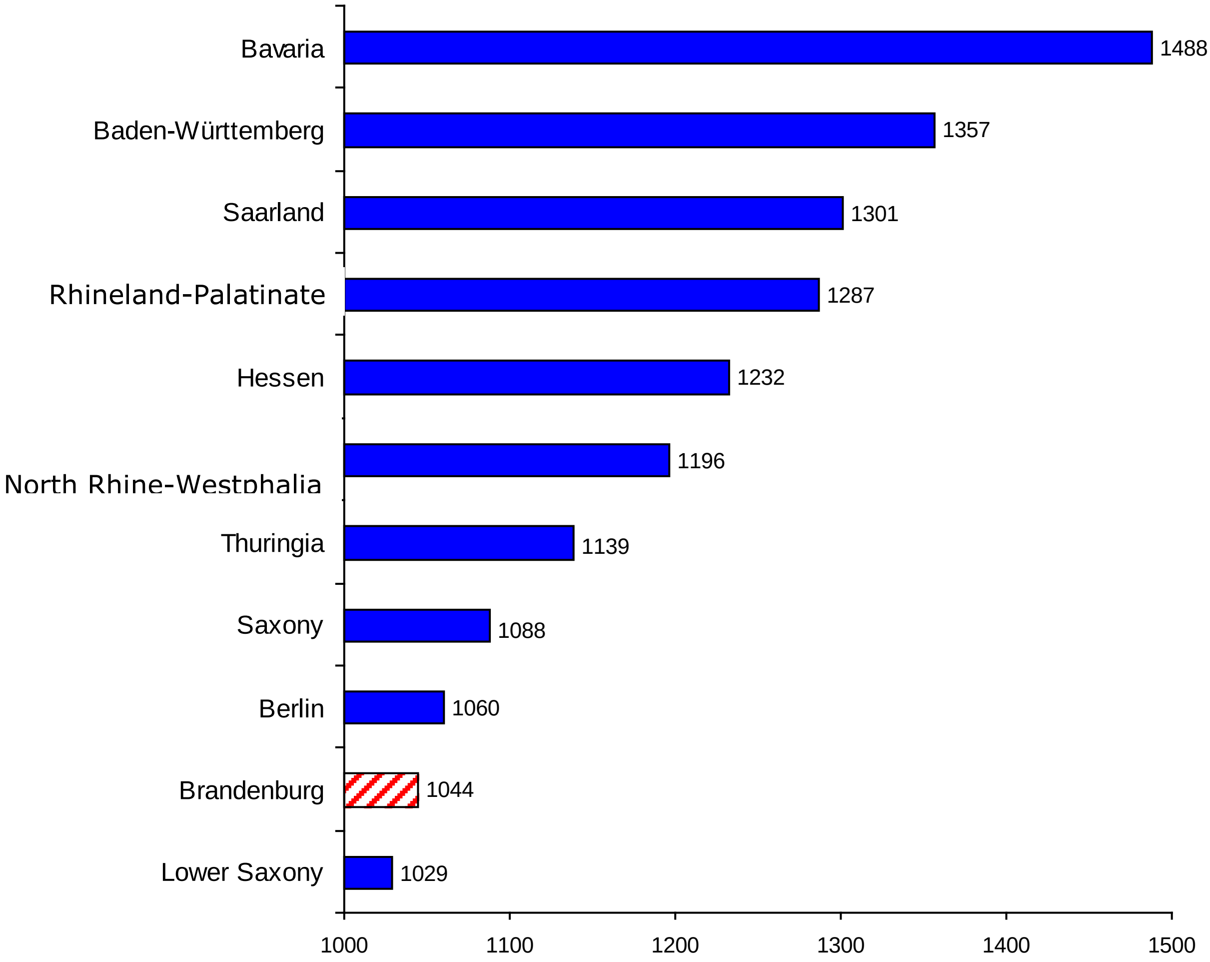
Chart 19: Comparison of the rent index in selected locations (≥20,000 inhabitants, index Germany = 100)



Source: F+B Forschung und Beratung für Wohnen, Immobilien und Umwelt GmbH, 2007

Moreover, the building costs per square metre for a detached house in Brandenburg belong to the lowest in Germany (see Chart 20).

Chart 20: Building costs for detached houses (in €/sqm, 2006 data)



Source: LBS, 2007

III. The Advantages of Brandenburg for Investors

1. Investor Service

ZAB ZukunftsAgentur Brandenburg—The "One-Stop Agency" for Investors

In 2001, Brandenburg was the first German State to set up a "one-stop agency" aimed to promote and supervise investment projects. The ZAB agency (*Zukunfts-Agentur Brandenburg GmbH*) offers a full range of business promotion services:

- Supervision of settlement
- Support for the foundation/development of innovative SMEs
- Support for the foundation of technology-oriented businesses
- Export promotion
- Energy supervision
- Location marketing.

ZAB supervises and assists investment projects from one single source in all development phases—from first information, search for an appropriate location, analysis of skilled workforce availability, information on incentives to assistance in authority approval procedures.

ZAB operates local Service Centres in all important towns of the region. On account of its branch-oriented positioning and in-depth knowledge of the region, the Agency has a perfect overview of the regional industry and can identify suitable offers from a wide range of trade and office locations using a comprehensive database.

With the Service Package for Investors developed in co-operation with LASA and *Agentur für Arbeit*, ZAB offers new companies a full service for the recruiting of a skilled staff right from the start of production. The package includes the following services:

- Analysis of the qualification need
- Organisation and setup of assessment centres
- Assessment of the existing workforce potential
- Applicant pre-selection
- Publication of tenders.

Incentives are available for the improvement of the professional training of staff members in the case of new settlement or expansion investments.

ZAB co-operates closely with regional industry networks that interlink universities, polytechnics, independent R&D institutes, near-business institutions, and companies. For this reason, the Agency can establish contacts to regional suppliers and co-operation partners quickly.

ZAB remains at the side of the investors after they performed the investment. The Agency supervises expansion investments, supports technology and innovation projects, and assists the companies who want to boost their exports. ZAB's range of services also includes energy consultations and organisation of joint trade-fair stands.

Investors in the region appreciate the Agency's full range of services, as evidenced by a survey carried out in 2005 by the University of Potsdam. Moreover, the survey underscores that almost 80% of the businesses polled were satisfied with Brandenburg as an investment location, and that 87.5% of them would chose Brandenburg again for investment.

ZAB can look back on positive results. Within six years, the Agency successfully supported more than 600 investment projects that led to the creation of more than 20,000 jobs in Brandenburg. ZAB also supported more than 1,500 innovation projects and supervised more than sixty technology-oriented start-ups.

The Agency co-operates closely with the political and administrative bodies in the region—ministries, regional and district authorities, municipalities. Within the *Partner für die Zukunft* programme ("Partners for the Future"), ZAB also closely co-operates with ILB InvestitionsBank and BC Brandenburg Capital GmbH (SC/KBB Venture Funds).

Please visit www.zab-brandenburg.de for more information on ZAB's full range of services.

2. Assets of the German Capital Region

The States of Berlin and Brandenburg together form the German Capital Region, one of Europe's metropolis areas. Investors in Berlin-Brandenburg benefit from the advantages of both a capital city and a lively economic region. The differences between the two States make them complementary and thus particularly attractive for businesses: room for large-scale production facilities, an important potential of skilled workforce, flexible working-time arrangements, an extensive network of service providers, proximity to the political decision-makers, the highest R&D density in Germany, and a favourable cost-benefit ratio are among Berlin-Brandenburg's main assets.

Investment sites are available close to the German capital, midway between Berlin and Hamburg, in the Lausitz industrial area, and at the border to Poland and the Central European growth markets. Whether close to an airport or an autobahn, with connection to waterways or the rail network, in urban surroundings or in low-conflict areas—there is hardly a requirement that the German Capital Region cannot fulfil.

Moreover, the symbiosis of the German capital and its hinterland contributes to expand the offer of skilled workforce in the region. Every day, about 160,000 people commute from Brandenburg to Berlin, while about 60,000 other people commute in the reverse direction (IAB, 2007[d]).

Businesses in the region benefit from the locational advantages of Berlin-Brandenburg: 80% of the companies in a growth industry in one of both States have business relationships (sales, concessions, co-operations) with companies located in the other State, and more than one third of the companies hold permanent co-operations with partners in the neighbouring State.

These co-operations penetrate the whole German Capital Region: according to a study performed in 2007 by DIW on behalf of Brandenburg's Ministry of Economic Affairs and Berlin's Senate Administration for Economics, Technology and Women, 25% of the companies located far away from the German capital hold permanent co-operations with businesses in Berlin-Brandenburg. The study also evidences that Berlin and Brandenburg form one single, homogeneous economic region. This applies in particular for the domains of competence of the regional authorities, which are highly intertwined—especially those integrated in supraregional networks.

Industry networks in key technologies such as Biotechnology, Logistics, Automotive industry, Aerospace engineering, Rail transport technology, and Media/Information operate on a supraregional level. Moreover, the supraregional activities of trade organisations also document the homogeneity of the economic region.

A clear division of labour exists within the German Capital Region: Berlin enterprises co-operate with hinterland firms mainly in industrial branches, while Brandenburg enterprises are seeking co-operation with Berlin-based partners mainly in technology-oriented areas and the logistics industry. Corporate co-operations exist mainly in manufacturing, R&D projects and utilisation of technical plants. Almost all companies polled in the above-mentioned study intend to continue, expand or establish new co-operations.

Berlin and Brandenburg developed matched economic policies aimed to support this positive development and to reinforce the competitiveness of the German Capital Region in the European context. The ZAB and Berlin Partner agencies have concluded a co-operation agreement and work together closely. They offer companies a wide range of services under the following business slogan: "The German Capital Region—more value for your investment". In addition, both state agencies represent the German Capital Region in the "Business Location Center Berlin-Brandenburg" project (www.businesslocationcenter.de) and operate a joint business office in Brussels.

Berlin and Brandenburg also closely co-operate to promote innovation. In late 2007, Ulrich Junghanns (Brandenburg's Minister of Economic Affairs) and Harald Wolf (Berlin's Senator for Economics, Technology and Women) agreed on the development of a joint innovation strategy focusing on five key technologies:

- Biotechnology/Medical technology/Pharmaceutics
- Media/Information and communication technology
- Transport technology
- Optics
- Power engineering.

Moreover, ZAB and Technologiestiftung Berlin GmbH have concluded a co-operation agreement to further develop these key technologies in dialogue with regional businesses and R&D institutes.

3. Advantages Over Central and Eastern Europe

Brandenburg has more in common with the countries of Central and Eastern Europe than just a border of 252 kilometres in length. The region enjoys a number of economic advantages thanks to its central position on the trans-European road Paris-Berlin-Warsaw-Minsk-Moscow.

Proximity and Good Connections to Central and Eastern Europe

A modern, well-developed traffic infrastructure makes **rapid connections** between Berlin-Brandenburg and the main industrial centres in Central and Eastern Europe possible. Cities in the west of Poland, such as Poznan, can be reached in three hours by car from Frankfurt/Oder, while Warsaw is only five hours away by train. Moreover, Schönefeld airport—the future BBI airport—offers connections to many destinations in Central and Eastern Europe. The Polish market, in particular, that is the largest among the new EU member countries, is right on the doorstep.

The markets in Central and Eastern Europe offer special opportunities on account of their high growth rates. In 2006, GNP grow rates of 6.1% (Poland) to 11.9% (Lithuania) evidenced an upward trend and mirrored a growing purchasing power that becomes ever more comparable to that of Western European consumers (bfai, 2007[b,c]). Moreover, the UEFA Euro 2012 in Poland and the Ukraine is also to boost the infrastructure in both countries.

Suppliers

As suppliers in Central and Eastern Europe have lower labour and transport costs, their offer cost advantages to not only to an increasing number of leading Brandenburg-based businesses, but also to investors outside the region. Such companies combine the cost and locational advantages of Brandenburg with those of the Central and Eastern Europe—and are entitled to market products "Made in Germany".

Traditional Business Relations with Central and Eastern Europe

Brandenburg's position on the main trans-European east-west road determines the region's economic orientation. Poland, for example, is Brandenburg's first trading partner for exports and second partner for imports (*Amt für Statistik Berlin-Brandenburg*, 2006). Such business relations are ideal prerequisites for developing co-operations with companies and R&D institutes in Central and Eastern Europe.

Language Skills

Brandenburg offers lessons in Polish as an optional subject in all types of schools. Therefore, ever more people in the region are fluent in Polish, which facilitates the recruiting of staff members with the corresponding skills.

Like the other countries of Central and Eastern Europe, Poland has a demographic structure characterised by a high number of young university graduates. The gathering of Polish and German students at the Viadrina European University in Frankfurt/Oder is especially interesting as it meets the new challenges of the Central and Eastern European markets with special offers.

The German Federal legislation still restricts the employment of foreign skilled staff from Poland and other Central and Eastern European countries. These limitations, however, will progressively disappear in the next years and should no longer exist by 2011. Already today, entrepreneurs in Brandenburg can employ people from Central and Eastern Europe if special company requirements require doing so. In addition, commuters from the border zone can work in Brandenburg and enjoy the lower costs of living in Poland. Another possibility is to employ students from Central and Eastern Europe—in particular Poland—who can work in companies for up to one year within the framework of their practical training and with the financial support of the Leonardo/Erasmus EU programmes.

Proximity to Educational Facilities in Poland

The proximity to the most important universities and polytechnics in Western Poland (Szczecin, Poznan, Wroclaw, Zielona Gora) provides a good access to scientific expertise and to highly skilled workforce.

Consulting Expertise for Central and Eastern Europe

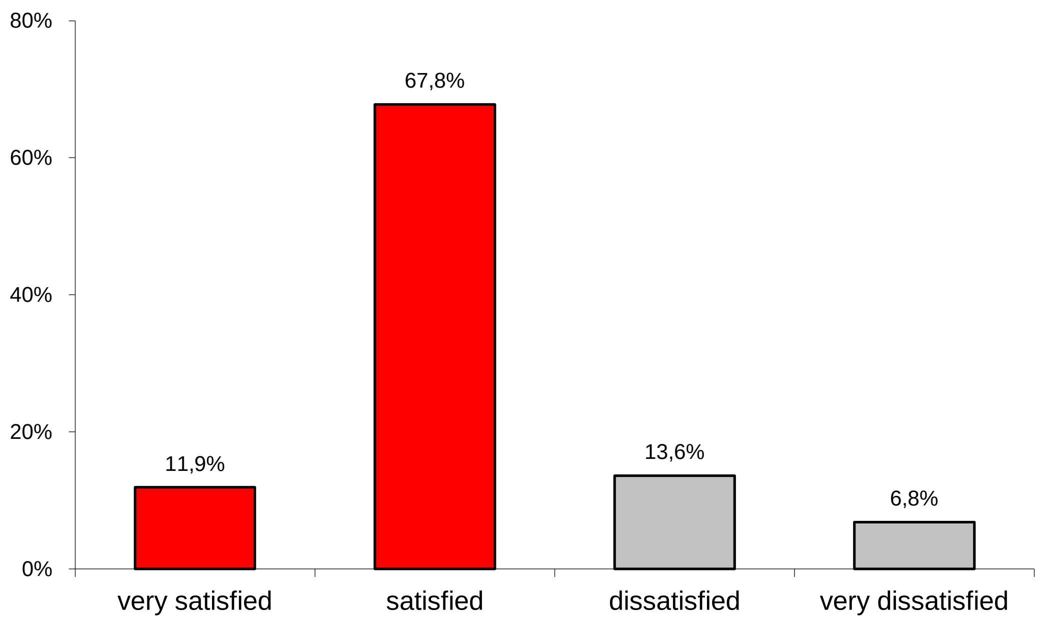
Brandenburg's business consulting agencies have extensive experience in opening up markets and in using co-operation potentials with companies and institutions in Central and Eastern Europe. This expertise also includes the use of incentives for such co-operations.

4. Experience of Investors in Brandenburg

Brandenburg provides an extensive range of services to investors. The ZAB agency assists them over a period of several years from the first informative talks to completion of the project and beginning of production.

A survey performed in 2005 among investors supported by ZAB revealed that nearly 80% of the companies polled were satisfied or even very satisfied with Brandenburg as an investment location, and that 87.5% of them would invest again in Brandenburg (University of Potsdam, 2005, see Chart 21).

Chart 21: General satisfaction with an investment in Brandenburg



Source: University of Potsdam, 2005

The degree of satisfaction is distinctly higher in Brandenburg than in competitive locations.

IV. Expertise in Growth Industries

Key Technologies

Brandenburg is backed with expertise in a variety of key technologies. The State Government's growth-oriented business policy focuses on the following theme: "Strengthening strengths". This policy includes economic development measures targeted on the following key technologies (in alphabetical order)[10]:

Aerospace Engineering

More than 150 aerospace companies, including global players such as MTU, Rolls-Royce and Bombardier, operate plants in Berlin-Brandenburg. This industry employs 3,500 people directly, and as many as 15,000 counting staff at the various airports. The region is thus on its way to becoming Germany's third centre for aerospace engineering. Some sixty businesses and R&D institutes are members of the Berlin-Brandenburg Aerospace Alliance (BBAA).

The main characteristics of the region's aerospace engineering are high productivity, a two-digit growth rate, and substantial R&D budgets. Core activities include jet propulsion technology and aircraft maintenance and repair. Companies in the region also manufacture and market small aircraft.

Global players collaborate with noted R&D institutes including TU Berlin (aeronautics and space technology), BTU Cottbus (jet propulsion technology) and TFH Wildau (aeronautics and logistics).

Agriculture Industry

With 10,737 jobs in 151 firms, and with total revenues of about €2.585 billion, the agriculture is Brandenburg's second largest industry. It includes nine large companies (in particular Vion, Campina, and Mineralquellen Bad Libenwerda), several industrial bakeries and a number of SMEs.

More than 70% of the businesses belong to one of the following categories: bakeries, dairies, abattoirs/meat-processing, fruit/vegetable processing. Such businesses provide more than 75% of the jobs in Brandenburg's agriculture industry, and achieve about two thirds of the total turnover. Most of them process agricultural products grown in the region.

[10] The facts and figures in this chapter are based on data collected by ZAB and on other data from the 2007 report compiled by Brandenburg's Ministry of Economic Affairs.

Meat processing contributes to 31% to the revenue of Brandenburg's agriculture industry. Drink manufacturing and diaries rank second and third with 14 and 13%, respectively.

The BEN network (*Brandenburger ErnährungsNetzwerk*) enables regional businesses to optimise their R&D activities, and to qualify and market their products. More than one hundred Brandenburg food companies are members of the *pro agro* network, developed by Brandenburg's Association for Food Product Marketing. Network members can market regional specialities under two special labels: *Von Hier* and *Natürlich Brandenburg*.

Berlin-Brandenburg features Germany's highest concentration of university and non-university R&D institutes for agriculture and food-processing. These include Potsdam University, TU Berlin, TFH Berlin, *Deutsches Institut für Ernährungsforschung*, *Institut für Getreideverarbeitung*, *Institut für Gemüse- und Zierpflanzenbau* and *Milchwirtschaftliche Lehr- und Untersuchungsanstalt*.

Automotive Industry

Berlin-Brandenburg's automotive industry includes more than 160 businesses with more than 9,000 jobs. The industry's turnover, productivity and exports have increased considerably in recent years. Major production facilities are in Ludwigsfelde, Fürstenwalde, and Brandenburg/Havel.

Good teamwork among all players is crucial, since car manufacturers are increasingly outsourcing not only the production of components and entire systems, but also their R&D activities. For this reason, the Berlin and Brandenburg regional authorities have founded the ABB industry association (*Automotive Berlin-Brandenburg*). Moreover, Brandenburg joined the ACOD association (*Automotive Cluster Ostdeutschland*) in 2004. Both associations collaborate with other industry networks in Eastern Germany.

Some one hundred R&D institutes co-operate with Berlin-Brandenburg's automotive industry, including TU Berlin, TU Cottbus, the Max Planck and Fraunhofer Institutes, and the Cottbus, Wildau, Senftenberg and Brandenburg/Havel polytechnics.

Biotechnology and Life Sciences

With 174 biotech businesses employing 3,427 people, 240 medical companies employing some 7,800 people and a number of pharmaceutical businesses employing some 4,000 people, Berlin-Brandenburg is among Europe's leaders in the life sciences industry. Moreover, the region employs more than 7,000 people in R&D companies, and 465 professors of medicine and biology work in state research institutes. In this context, the Charité Hospital—Europe's largest university medical centre—is particularly worth a mention.

These key technologies bring with them powerful R&D capabilities, and a strong network that binds together all those involved. Products of the biotechnology and life sciences industry include drugs, tissue engineering, in-vivo and in-vitro diagnostic procedures, medical equipment (in particular for telemedicine), technology platforms, and a full spectrum of development services for drugs, diagnostic procedures and medical devices.

Energy Technology

With some 15,000 jobs, energy technology is among Brandenburg's principal industries. The region is Germany's second lignite mining area. It also makes extensive use of renewable energy sources, which supply 40% of the region's electricity needs.

Some 350 businesses with about 1,600 jobs are active in the energy sector. In 2002, the regional authorities launched a programme called "Energy Strategy 2010" to boost the energy sector. It was recently prolonged and renamed "Energy Strategy 2020". The programme's mains goals are to develop climate-friendly lignite-fuelled power plants, to exploit renewable energy sources (especially biomass), to support energy research, and to develop and apply new technologies.

The R&D facilities of BTU Cottbus, CEBRA (*Centrum für Energietechnologie*) and ETI (*Energie Technologie Initiative*) actively support Brandenburg's energy industry.

Logistics

With a collective workforce of over 150,000 employees, logistics in the broader sense ranks amongst the most important industries in Berlin-Brandenburg. In the strictest sense, the regional logistics industry includes 2,471 businesses with roughly 33,400 employees.

Over 10% of Germany's turnover in goods transport by road and forwarding agencies are achieved in Brandenburg. Large companies such as Dachser, Deutsche Bahn, Deutsche Post, Fiege, Rhenus, and Kühne & Nagel operate in the region and serve a population of six million.

As mentioned above, Berlin-Brandenburg is situated at the heart of Europe, near the booming Central and Eastern European markets, and at the strategically crucial core of an expanding European Union. The trans-European north-south and east-west roads cross the region, which provides Berlin-Brandenburg with a good opportunity to establish itself as a transport hub.

The region features not only development sites for facilities that meet all the industry's requirements, but also a splendid infrastructure. Efficient transport and logistics centres on the autobahns, the railway, the waterways, and at the future BBI airport provide ideal accessibility for the region. Moreover, Brandenburg has efficient "freight villages": Berlin Süd currently ranks third and Berlin West fourth out of Germany's thirty freight villages.

The German Capital Region also boasts a high level of scientific expertise in logistics. The quality of the educational and R&D institutions in the region—TU Berlin, BTU Cottbus, TFH Wildau, and Cottbus Fraunhofer Institute—guarantees an excellent training environment and a perfect technology transfer from R&D to business.

Berlin-Brandenburg's logistics network (*Logistiknetz Berlin-Brandenburg*) bundles the effectiveness of companies, R&D institutes and political authorities as regards logistics issues in the region.

Media / Information and Communication

Brandenburg's media, information and communication industry employs some 163,000 people in about 15,000 businesses and earns revenue of about €20 billion annually.

The film industry concentrates mainly in Potsdam's Babelsberg district, which is home to fifteen film studios and a number of affiliated businesses, including production companies, animation and special-effects studios, talent agencies, and post-production businesses for copying, media conversion, and dubbing.

This key technology also includes broadcasters, software developers, media publishers, telephone service providers, and several national and European telecommunications operators. Moreover, customer service centres are on the rise in the region: in Brandenburg alone, sixty such centres employ some 7,000 people.

Media specialists are studying at TFH Wildau, Potsdam Film and Television College, the German Film and Television Academy, and the German Film School for Digital Production. Last but not least, international market leaders such as eBay, Microsoft, Oracle, SAP and T-Systems have recently launched subsidiaries in Brandenburg.

Metalworking

With 165 companies, 13,852 jobs and revenues of €3.034 billion, Brandenburg's metalworking industry is among the region's most important economic sectors. Three major companies—Eko-Stahl, Riva Stahl, and Walzwerk Finow—have between 500 and 1,000 employees.

The industry's wide range of products includes cast iron and crude steel, semi-finished goods, and supplier-finished goods. In 2006, revenue improved by 16.2% and exports by 24.3% (metal production and processing) and 53.4% (metallic products).

SMEs are developing competitive products in their own R&D programmes, and with the support of specialists trained at the region's universities and polytechnics.

Two intertwined networks are available for Brandenburg's metalworking industry: "profil-metall" and "Metall- und Elektroindustrie (M+E)".

Optics

Some 270 businesses and thirty R&D companies employ about 12,000 people and earn €2.00 billion annually in Berlin-Brandenburg's optics industry. Principal products include optical telecommunications equipment, lamps and lighting tubes, UV and X-ray equipment, optical technology for the transport and aerospace industries, medical optical instruments, and conventional optical products.

Brandenburg's optics industry includes fifty-six companies with 2,937 jobs and revenues of € 340.7 billion. Most of the businesses concentrate in and around Rathenow, and provide jobs to some 1,300 people. They include global players such as Fielmann and Essilor and two dozen SMEs.

Twelve companies supplying innovative laser, medical and optical communication equipment have created some 200 jobs in and around Teltow. In Hennigsdorf, a business employs 145 people. Another company located in Lenzen employs fifty people, and another fourteen businesses at various locations provide some 400 jobs.

Optics R&D facilities with international renowned expertise concentrate in Potsdam and Teltow. Moreover, Brandenburg's optical firms are members of the supraregional Optical Industry Association (*OpTec Berlin-Brandenburg e. V.*, OpTecBB) that integrates the experience of the regional KOR expertise centre. Another industry network is being developed to promote the marketing of laser devices and applications.

Paper Industry

Brandenburg's paper industry includes twenty-three businesses with 3,181 jobs and a turnover of € 1,044 million. The growth rates (jobs: 9 %; turnover: 18%) are considerable if compared with other industries.

Major companies include Herlitz (Falkensee), W. Hamburger (Spremberg), Falken (Peitz), Wepoba Wellpappenfabrik (Wustermark), as well as Hartmann, Leipa Georg Leinefelder and UPM Kymmene (Schwedt/Oder).

Paper production occurs for 57% of the revenue and corrugated processing for almost 25% with an upward trend. The paper industry's export rate is above average for the region at 39%.

Petrochemical/Bio-fuels Industry

Schwedt/Oder is the centre of the regional petrochemical industry. The PCK oil refinery (1,300 jobs) ranks among Europe's most efficient petrochemical plants. More than seventy businesses with 3,000 jobs exist in the direct vicinity of the refinery. Brandenburg's chemical industry is enjoying substantial growth, and earned about €1.9 billion in 2006.

Seven producers of bio-diesel and one producer of bio-ethanol operate plants in the region. One third of Germany's bio-fuel production comes from Brandenburg and the regional authorities make intensive efforts to attract ever more plants for the production of second generation bio-fuel.

Furthermore, this key technology includes the preparation of biogas to form CH_4 for natural gas vehicles (Alensys, EMB and GASAG are currently embarking on their first CH_4 projects.) Recycled hydrogen complements the range of future-oriented fuel products. Due to the extensive agricultural areas available in Brandenburg, the amount of raw material supplied to the regional production plants is significant.

Some 3,000 people are currently studying chemistry at the region's universities and polytechnics, and several R&D institutes have developed an expertise tailored to the needs of the petrochemical and bio-fuels industry.

Plastics and Chemical Industries

In 2006, some one hundred businesses in the plastics industry employed 3,500 people, while the chemical industry employed 4,800 and the petrochemical industry another 1,650. The total number of jobs in Berlin-Brandenburg's plastics, chemical and petrochemical industries thus exceeded 8,000.

This sector enjoys an upward trend, as it doubled its revenues in just three years.

Brandenburg's plastics industry includes both SMEs and global players such as BASF. The region's twenty-six leading companies deliver a wide range of products, from synthetic fibres to pharmaceuticals.

Eighty-five businesses and organisations concentrate in the Schwarzheide Expertise Centre, and are developing strong supplier and co-operation networks aimed to improve the marketing of synthetics "Made in Brandenburg."

Rail Engineering

Thirteen Brandenburg businesses with 4,260 jobs and revenues of €407,5 million in 2006 work in the railway industry. Another sixty suppliers make railway engineering one of Brandenburg's main industries.

Railway manufacturers have an above-average export rate of about 45%. Major plants that deliver rolling stock, fixed stock and services are located at expertise centres in Brandenburg-Kirchmöser and Hennigsdorf-Velten.

Leading manufacturers and system developers—including BWG, Stadler, Bombardier Transportation, and Gleisbaumechanik—operate plants in the region. In addition, the rolling stock maintenance works in Cottbus, Eberswalde and Wittenberge are also significant in terms of jobs.

The region is becoming a leader in rail engineering innovation. The Hennigsdorf plant has a significant R&D department and co-operation with various universities and polytechnics—BTU Cottbus, TU Berlin, FH Brandenburg—contributes to technology transfer and safeguards the region's engineering expertise.

Surveying

Berlin-Brandenburg's surveying industry currently includes 1,600 SMEs with 5,700 jobs and a turnover of about €300 million. It mainly supplies surveying instruments and related services. Companies in this industry include surveyors and Internet-based geodetic data providers.

Berlin-Brandenburg's surveying industry benefits from an excellent R&D environment developed around the Potsdam Geodetic Research Centre. Moreover, the region features Germany's highest concentration of geodetic departments, university chairs and R&D institutes.

Tourism

Some 1,500 hotels and B&Bs exist in Brandenburg. Alongside with restaurants, the tourism industry includes some 5,000 businesses, provides more than 50,000 jobs, and earns about €3.3 billion.

Brandenburg has been attracting more and more German and foreign tourists in recent years. Three million visitors came to the region in 2006, accounting for 8.8 million overnight stays in hotels and B&Bs, and more than 750,000 overnight stays in campgrounds, thus breaking the 2001 record. Tourists stayed 2.7 days in average, which corresponds to the German average.

There are currently eight state-recognized health spas and fourteen recognized convalescent resorts in Brandenburg. They account for nearly 20% of the region's hotel accommodation.

Brandenburg further intends to improve the quality of its tourism infrastructure. Since the introduction of quality management in the sector in 2003, almost 700 quality coaches have been trained and 120 businesses awarded a quality label developed by the regional authorities.

The number of foreign visitors to the region has notably increased in recent years. In 2006, for example, the figure rose by 15%. Nonetheless, Brandenburg authorities intend to develop a stronger profile for the tourism industry to consolidate the region's position on the international market even further. The focal points will be cycling, water tourism, culture/nature, and wellness/health tourism.

About 120 companies and institutions participate in the Active in Nature network—Germany's first tourist network supported according to the EU "Joint task for the improvement of regional economic structures". Additional networks are also scheduled.

The 2006–2010 Tourism Concept developed by the regional authorities serves as the basis for the continuing efforts. It focuses on three main goals: promotion of short trips, development of thematic tourism, and attraction of foreign visitors.

In late 2007, the selection of the Havel region as the venue for the 2015 National Flower and Garden Show (BUGA) boosted the development of Brandenburg's tourism. The concept, that includes the towns of Brandenburg/Havel, Premnitz, Rathenow, Havelberg and Rhinow, as well as extensive areas in West Brandenburg and Saxony-Anhalt, reveals a new dimension for horticultural shows in Germany: they should no longer be limited to the transformation of urban parks, but present a region's culture and landscapes.

Wood Industry

Forests covering more than a million hectares provide considerable resources for Brandenburg's wood industry, whose operations include lumber sawing, wood impregnation, manufacturing of wood veneers, fibreboard, plywood, chipboard, and various wood building materials, as well as manufacturing of packaging, storage and other wood products.

In Brandenburg, thirty-eight wood-processing businesses with more than twenty employees provide 3,565 jobs. The sector includes several large businesses (Classen Industries, Glunz AG/Sonae Industria, Klenk Holz AG, Kronotex Group and Kunz Faserplattenwerk) and a number of SMEs. Some of the mid-sized enterprises, for example Robeta, SIK and Templiner Holzindustrie, recently made considerable investments in innovative technology.

In 2006, Brandenburg's wood industry achieved a turnover of €1.305 billion with an increase by 16.2% if compared with the previous year. The number of jobs also increased by 10.5%, and exports amounted to 35% of the turnover.

The total number of jobs in Brandenburg's wood industry amounts to 15,000. Numerous lumber businesses using state-of-the-art technology deliver raw material to the processing companies. The centres of Brandenburg's wood industry are Baruth (with several sawmills as well as fibreboard and laminate flooring production facilities), and Heiligengrabe (with a plant for large-scale production of fibreboard and derivate products).

V. What Investors Think of Brandenburg

This compendium not only presents facts and figures, but also gives investors an opportunity to formulate statements.

"*We came to Brandenburg with great expectations. All of them were fulfilled and surpassed*."

Michael J. Ahearn, Chairman of the Board, First Solar LLC

"*The collaboration with the regional authorities is excellent. We can always find a sympathetic ear for our concerns and we all pull together.*"

Dr. Michael Haidinger, CEO Rolls-Royce Deutschland

"*Frankfurt/Oder, that is situated at the heart of Europe, has good connections to Eastern Europe and is therefore an ideal location and a springboard for our business*."

Shinochiro Koga, Chairman Yamaichi Electronics

"*Eberswalde is an excellent location for metalworking. The real-estate prices and other basic conditions—including the city's traditionally well-trained labour at Kranbau Eberswalde and other businesses—make it an ideal investment place.*"

Markus Schulze, managing partner Schulze Präzisionsteilefabrik GmbH

"*Our decision in favour of Schwarzheide in Brandenburg was spot-on. We have never looked back*."

Otto Kirchner, managing partner Fränkische Rohrwerke

"*For us, Fürstenwalde has proved to be more or less the ideal logistics location. We appreciate the rapid work as regards promotion of trade and industry by the local and regional authorities. The decision makers are highly motivated, approachable and helpful in opening up new opportunities*."

Jürgen Kreis, CEO KiV-Kreis GmbH

"*The co-operation with the authorities is first-rate here!*"

Dr. Ralf Borghardt, CEO BKB Premnitz GmbH

"*What Brandenburg does for companies is unique*."

Thomas Kalkbrenner, spokesman for BWG GmbH & Co. KG

"*The Lauchhammer plant is among the best within the Vestas Group*."

Frank Weise, CEO Vestas Blades Deutschland GmbH

"*We feel very well looked after in Potsdam and are more than happy with our investment in Brandenburg. We would like to contribute more expertise to the German Capital Region's networks in future*."

Jürgen Busacker, CEO aibis® Informationssysteme GmbH

"*In Germany, and in particular at our Potsdam plant, we can better monitor quality*."

Heiner Wolters, spokesman for Katjes Bonbon GmbH & Co. KG

"*The workforce in Lausitz is excellent*."

Oliver Mössler, Magna Intier

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