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### COMMISSION ISSUE PAPER ON REINFORCING SUPPORT TO EU SMALL AND MEDIUM-SIZED ENTERPRISES IN MARKETS OUTSIDE THE EU

BUSINESSEUROPE appreciates the publication of the “issue paper” and the active involvement of business organisations in the Commission’s reflection process on the future strategy regarding EU business support centres in third countries.

To ensure cost-effectiveness, realism and above all a demand-driven approach that avoids duplication of existing structures and services, we consider regular consultation of business organisations to be essential.

#### I. Why and how do companies decide to go abroad?

BUSINESSEUROPE conducted a brief survey among its members which allows a clear understanding about the reasons for and the approach taken by companies to establish business activities abroad.

##### a) **Reasons** for companies to “go abroad” can be classified into four categories:

- Access to new markets and better adjustment to their specificities, contact to new clients  
Producing locally is the best option to overcome high duty rates and other type of import barriers. For SMEs the success of this strategy often depends on good cooperation with local partners.
- Cost Constraints  
A considerable number of companies decide to delocalize production in order to reduce costs and ensure its competitiveness, especially for those products whose demand is highly sensitive to price fluctuations. Delocalization of production is often done in cooperation with a local partner, but not necessarily.
- Clients’ demands  
Companies take the decision to establish activities in a specific market to ensure the same level of service and product quality for major customers that already operate there. This is for example the case for many suppliers in the automotive sector.
- Improve quality control  
A local presence might help improving quality standards for companies that receive a considerable quantity of inputs from suppliers abroad.

##### b) **Factors determining the success** of starting business activities in third countries and potential **services to be provided** to companies by business support centres



- localising customers
- facilitating access to potential local partners and officials (networking facilitation)
- access to financing (local and/or foreign)
- availability of trained staff
- information on and assistance with the local legal system (rule of law / protection of intellectual property, investment protection, tax system)
- visa facilitation and other technical support
- information on available infrastructures, e.g. distribution channels
- access to raw materials and semi-products;
- supporting successful integration with the local culture and business environment
  - permits and registration problems
  - domestic monopolies or quotas
  - local labour regulations
  - non-discriminatory treatment vis-à-vis local business

### **c) Service providers used by companies**

Companies distinguish between broad / general information needs and specific details when establishing business activities in third countries.

For general information they usually turn to

- organisations at national level (Trade Associations, Export Promotion Organizations)
- business acquaintances/partners (Customers/Suppliers)
- representation of a national Chamber of Commerce or EBO in the country of destination (in a second stage only)

In most cases detailed information is obtained by

- business consultants
- lawyers
- banks

*Quantifiable survey results (2005) exist for example for Finland. Although over half of Finnish companies utilise public and semi-public services and subsidies as a first starting point for starting their international activities (Finnish internationalisation promotion agency and regional company support offices in Finland), still up to 20 per cent of companies still depend on advice from private consultants.*

## **II. Findings do not match with current strategy**

After having reviewed the Commission paper and annex of existing projects, BUSINESSEUROPE denotes the absence of a coherent strategy to support the internationalisation of business. Several key problems arise from this review.

First, there is no assessment in the paper of the effectiveness of projects to support business, e.g. the European Business and Technology Centre in India.



- To what extent do these projects actually lead to new business opportunities?
- How many European companies (and from how many countries) are actually taking advantage of these projects? Are they satisfied with the results?
- What is the link between these projects, the needs of businesses and the trade and enterprise policies pursued by the EU in third country markets?
- What is driving these projects? Demands from companies, business organisation, European chambers (EBOs), member states? And to what extent do the projects meet those demands?
- Are these projects cost-effective? The sums involved are considerable (some projects are multiples of the entire BUSINESSEUROPE annual budget!).
- Do these projects build on the already existing network of business organisations (European or national chambers and associations) that provide a number of services to assist with the internationalisation of business?

BUSINESSEUROPE would strongly advise that the Commission first undertake a thorough assessment of these projects and the situation on the ground in a few key markets (China, India, Russia) to answer the above set of questions before taking further action on this strategy. We would be prepared to assist the Commission that exercise to the extent of our possibilities.

### **III. BUSINESSEUROPE's initial views on the future strategy**

Once this assessment is conducted, the Commission could advance toward the definition of a new strategy. Our initial ideas for a future strategy of business support projects would be as follows.

1. First, any EU level support should aim **to build on existing business association structures** in Europe and in key markets. BUSINESSEUROPE and its national members would be interested in supporting such projects to the best of their abilities. However, it is also vital to ensure that the European Business Organisation Network, which brings together the leading European chambers of commerce abroad as well as the network of national chambers abroad, be fully involved in this process. These organisations already have a lot of expertise about local markets and many of them provide specific services to their members. EU support could be used to better structure the links between business organisations in Europe and abroad to improve the access to information for smaller companies.  
Moreover, policies to promote SME internationalisation and programmes that help to successfully launch business activities in third markets must start with **campaigns in the home country**, targeted to SMEs' specific information requirements. A constant flow of information with organisations in third markets will be vital to ensure that up-to-date information is provided.
2. Second, EU support should in a very **cost effective** way sponsor the **provision of existing or new services** provided by existing organisations to companies that do not have the size or ability to become direct members. Over time, the projects would then be able to create an important network of public and private actors who could cooperate in providing a well defined set of services to support the internationalisation of business in the most cost-effective manner. It is also necessary to define where and how these services can be best provided,



through business support activities in Europe or in the third country target market. Use of modern information and communication technologies (electronic consulting, video seminars, etc.) should be part of a new EU strategy in order to make it as cost effective as possible.

3. Third, EU-level support should be closely linked to the **EU's areas of competence and aim to fill current market gaps** rather than duplicate what the private sector can do on its own. The EU currently leads in a number of key policy areas for business: trade policy and trade defence, investment, market access, intellectual property protection, technical regulation, etc. A number of business services linked to these policy areas could provide value added for businesses seeking to expand internationally.
4. Fourth, the **Commission should be actively involved in projects** to facilitate understanding of business problems, to make sure projects support EU policy objectives for international business development and to increase the legitimacy of the projects for business and third country hosts. Projects should foresee strong involvement by relevant Commission directorates and External Action Service embassies to ensure close cooperation between the public and private sector. The formation of the new External Action Service could for example also serve to strengthen and reinforce the role of "commercial attachés" in EU delegations.

### **Conclusion**

BUSINESSEUROPE strongly believes that the EU should develop a coherent strategy to facilitate the internationalisation of business, especially SMEs, at the international level. However, we expect the Commission to develop and execute this strategy in a cost-effective and coherent manner with EU policy-making and that builds on and strengthens the existing network of European business representation in Europe and in third countries.

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## **Annex**

*Checklist for steps a company engaging in international endeavours needs to take (chronological order)*

- Obtain general information on the business, political, social and economic environment at national level and possibly at regional/local level
- Visit the country to have a firsthand knowledge and make a first contact with relevant authorities and legal and financial advisors
- Depending on the type of project a Market Study is normally needed
- Make a preliminary financial evaluation to assess the country and the business viability (initial Business Plan).
- Make the decision on the structure of the business and especially the type of Investment needed and if it will be done on a standalone basis or in cooperation with local or foreign partners.
- Set the business targets, evaluate the necessary resources and choose a location
- Select Project Manager + respective team (depending on the complexity of the Project)
- Make a more thorough and consistent visit of the country, contacting competent authorities to evaluate possible financial, political, social benefits depending on the location and type of business.
- Check the infrastructures in place
- Ensure availability of Human Resources, Raw Materials, Capital, etc
- Make sure the investment, any technological transfer, brands and other IPR are protected under the country's legislation.
- Draw an accurate Business Plan- basis for the Project Financing