

The Luxembourg blend



Luxembourg offers an attractive mix for international firms seeking a European base, attracting major players from every direction. Although lacking the resources of a larger country, it uses its small size to its advantage by offering tailor-made options. The strategy is working and the message is spreading, but how does this promotion effort compare it to its rivals?

Competition to attract global companies' European bases has never been so strong. Most jurisdictions have their clear advantages for certain operations but there is a battle at the margin. The Grand Duchy benefits from short lines of communication, with businesses gaining quick access to regulators, officials and law makers. "Government contact is informal here and one can arrange a meeting and have a very frank conversation within a week. That makes a big difference." So says the Luxembourg-based Chuck Stoops, currently the head of finance, Europe at US e-commerce Netflix. He was previously with online payments firm PayPal and played a key role in its decision to move to Luxembourg.

Not right for all

However, the country cannot (or doesn't want to) compete to attract large, highly technical operations. For example, Switzerland has the talent pool and the academic infrastructure to attract large pharmaceutical or chemical companies. Ireland can offer an English speaking workforce and eurozone membership to IT firms seeking a large customer and data support base.

"If you are a headcount-light organisation, like many of the Silicon Valley organisations and you have a lot of remote processes - then Luxembourg makes a lot of sense," Stoops said. "If you require expansive technical operations but not necessarily within the EU, then perhaps you will choose Switzerland." A central location, languages, skills, infrastructure, stability and the euro all feed into Luxembourg's offering. Given the salary levels, high value-adding is key, so this makes the country's business model a harder sell to most manufacturing operations.

The tax battle

Tax competition is, of course, a central battleground. While Luxembourg's headline business tax rates are not the lowest in the region, when the whole package of labour taxes, social security, indirect taxes are taken together, they are at the low end of the scale. The World Bank puts the "total tax rate"* here at 21.1% compared to 26.5% in Ireland and 30.1% in Switzerland. Similarly, personal taxes are at the low end when benefits and write-offs are considered.

*"Paying Taxes 2011", WorldBank, International Finance Corporation, PwC.

Companies find it relatively easy to sit down with the tax administrations and work out a solution. Overt state aid is forbidden in the EU, but research and development can be funded and discussions had with the National Credit and Investment Corporation (SNCI). All this benefits from easy contact and quick decision making. What is more, the tax code changes little from year to year, allowing firms to plan. Hence the need for the country to put its public finances in order.

How to make a name

Luxembourg has had some notable successes. There has been a steady flow of Silicon Valley e-commerce firms, major Chinese banks are building their EU bases and the Qatari sovereign wealth fund is embracing finance and air cargo. This is to name just the high profile growth sectors. On a smaller level, it is not uncommon for companies to set up in Luxembourg with Switzerland as the end goal but they end up staying when they realise what is on offer.

Getting this message out is the challenge. This self-promotion task was traditionally organised on an ad hoc basis within government but has since become more systematic. This was capped with the creation of the Luxembourg for Finance and Luxembourg for Business agencies in 2008, supporting the respective efforts of the Ministries of Finance and Economy and Foreign Trade. This is backed by ten trade and investment offices, as well as diplomatic support.

What promotion resources?

It is hard to compare the resources available with those in other countries. Fernand Grulms, CEO of Luxembourg for Finance heads a team of 14, but he thinks the set-up works well. "Switzerland envies our set up" he comments, saying there is no clear equivalent in that federal country. The Irish development authority has around 300 staff, a legacy of the country's past economic weakness.

Much of this promotion is undertaken by professional services advising clients on their foreign destination options. Grulms points out that Switzerland's big international banks perform this role, too, but that such a model would work less well here. "We work well with the ABBL and they are not opposed to attracting potential competitors but they could potentially be less pro-active and urgent than we are," he noted.

Economic missions are of particular importance. Many of these trips are targeted to encourage a specific group of companies following extensive groundwork. Intelligence comes from embassies and trade offices, but also private services firms. Other missions are of a more speculative nature.

From China, Qatar, California

The partnership with Qatar was the country's major win last year, but was the fruit of a decade's worth of effort. Jean-Claude Knebel, Director of Foreign Trade at the Ministry of the Economy and Foreign Trade said:

"we went back regularly and that is key to demonstrating our interest in getting our names known." Although led by the Economy and Foreign Trade and Finance Ministries, this effort also received the "very precious help of the Grand Ducal family." Other successes, though, can fall from sky. "A couple of months ago an American firm contacted us via the website," he said. "We followed up with a team and now we are well advanced in this process."

A road show to California sparked PayPal's interest in the mid 2000s. So although the presentation from Switzerland is "very polished" Stoops appreciated Luxembourg's "more informal" system that allows you "to meet the key people quickly." Rather than meeting sales people, you meet decision makers. This was particularly useful for PayPal was in the unusual position of both seeking a banking licence and looking to set up as an e-commerce firm.

Grulms is particularly keen to highlight Industrial and Commercial Bank of China's move to establish its European hub here. Getting the country's largest bank to make this development involved "ICBC Luxembourg and their consultants working together on each step with Luxembourg for Finance."

You only have to ask

Knebel insists that his ministry is keen to help companies of any size and it will offer advice to anyone. However, it is wary of treading on the toes of private sector service providers. The Swiss authorities have been known to even show people around office parks, but this is not in Luxembourg's remit, other than for state-run industrial zones. Often the problem is the opposite, that "companies, especially Anglo-Saxon ones, do not have the reflex of approaching a government for help" he added.

Discussions can go a long way, such as the recent innovation to establish a free trade zone at the airport, of potential benefit to firms involved in logistics, finance, business services, security... Similarly e-businesses have a data network "as good as you are going to find in any European country at right now," Stoops notes.



Jean-Claude Knebel

Photo: Steve Eastwood





Fernand Grulms

Photo: Steve Eastwood

As to the future, Stoops said he believes that most e-commerce business will stay even when the EU VAT rules change in 2015. More significantly, though, he expressed the view that the country needs to look east. "The Chinese are amassing tremendous wealth but finding their investments in U.S. do not get the welcome as they expect. This presents a tremendous opportunity for Luxembourg to position itself as the eurozone leader for inbound investment from China."

Text: Stephen Evans

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Creating a global brand

Particularly in the financial sector, the focus is on creating a global brand, both through promotion but also dealing with negative publicity. It is tough for a small country to get itself known, but even negative messages have their up-side, in the style of "no such thing as bad publicity." Clearly, being described as the "death star" of tax evasion (as one pressure group did last year) is not comfortable and creates political difficulties, but it also helps the country raise its profile.

Stressing membership of the single currency can be double-edged at the moment. "We used to sell Luxembourg as a eurozone centre, but now we are now we are shifting towards more of a focus on being a global international centre," Grulms noted. He said this works particularly well for funds and captive reinsurance but the message needs nuancing for wealth management and trade financing.

Working on work permits

Stressing administrative efficiency can bounce back when process can take longer than expected. Grulms points to "massive" hiring at the financial regulator the CSSF in recent months, aided by new rules allowing non-Luxembourg nationals to be hired. He says a bank should not have to wait much more than six months for approval.

A running theme for many years, work permits are also still causing a problem, even following a recent

streamlining of procedures. "We are happy that people want to come to contribute to the economic development of our country," remarks Knebler. "We want to give a positive signal and we don't want them to feel like they are being treated as potential criminals." He says there are mitigating factors, particularly the diversion of resources after the mass arrival of Balkan asylum seekers over the last year or so. He anticipates this being a temporary problem but work is also on-going to fine tune work permit legislation and procedures.

However, both Knebler and Grulms point out that often the blame for administrative delays lies with the advisors falling short. "I have seen examples of potential employers panicking about a permit, but I look at the file there are documents missing or the application has been made incorrectly," Knebler noted. If the right steps are taken "there is very rarely a problem" he said. Grulms also mentioned that applications to the CSSF can be delayed due to incomplete paperwork.

The unknowns

Other factors are harder still to control. Such is the number of new arrivals that English language schools are full, a drawback that can be a deal breaker for some. Also Luxembourg will never have a major international airport, even if it does work to guarantee links to the main regional hubs. These factors feed into a general perception of quality of life, a largely subjective criteria.