

The EU accession states: an investment opportunity

A Guest Article by Mark Gaskell
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EU funding for the accession states

As part of the EU budget planning cycle for the period 2007–2013, the EU Commission has now finalised its European Structural Fund budget allocations to all member states for this period.

The accession states are countries that joined the EU after 2000, and comprise states that were previously part of the Soviet Bloc. These states have been deemed to be most in need of financial support to develop their economies, and have been allocated significant amounts of EU funding for this purpose.

To put this into perspective, Lithuania, which has a population of approximately 3.5 million, has been allocated a budget of 7 billion euros for the period, for the purposes of developing its economy.

Significant benefits

The opportunities presented by these allocations are significant in terms of foreign investment opportunities for UK based companies that are growing and seeking expansion opportunities, as availability of these grants and economic incentives are complemented by:

- the accession states' significantly lower cost base
- their proximity to the UK (compared with the Far East, for example)
- the broad range of developed technical and service capabilities in their industries.

The Irish model

In terms of parallels, one should consider the benefits that were reaped by the Irish economy during the 1990s. Ireland was in the position being a major beneficiary of EU aid over two EU budget cycles. The country was so effective at using this funding that its economy grew to the point where it was dubbed the "Celtic Tiger".

The Irish grew their economic base by using the EU funding to attract foreign companies into Ireland for production and manufacturing purposes, and it is clear that the accession states are planning to follow the Irish model. This is evidenced by GDP growth in the accession states of between 6% and 10% since 2004, when most of the states became full members of the EU.

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National funding priorities

Each state decides how to prioritise its allocation of funding and then publishes this within a document known as the National Plan. The approved National Plans that have been prepared by the accession states all have a common theme of providing grant aid to foreign companies that set up in-state operations.

This aid typically takes the form of capital expenditure, wage and training support grants at levels of around 50% of expenditure under these headings. In addition, there is also assistance for companies seeking to undertake R&D activities.

The precise levels of support vary a little across the states. Some of the older accession states such as the Czech Republic offer slightly lower rates of support to foreign direct investment (FDI) companies. This is a result of their success to date in attracting foreign companies and foreign investment. That aside, some states have currently underspent their allocations for 2007 and are now becoming more aggressive in promoting themselves and what they can offer to overseas companies for the remainder of the budget period.

Additional support

In addition, there are a number of Special Economic Zones that have been established in areas of particular economic deprivation. These zones can offer additional levels of support at rates of up to 65%, as well as tax and real estate concessions. These zones exist across the accession states and number approximately 114 at present.

These grant support packages offer a very real mechanism for reducing investment costs for a company that needs to expand its operating base. It must also be remembered that many of these states have high indigenous skill bases, and for many years produced high technology goods for the old Soviet Union. This factor, coupled with a wage base of between 30% and 40% of that in the UK, means that any company that is looking to grow its operations should actively consider the opportunities offered during the current EU budget cycle.

New markets for UK companies

Some companies should also consider the vast potential markets opening up in the region. With eight to ten economies growing at up to 10% per annum and emerging from post World War II centralised socialist states to 21st century market economies in a decade or less, the region represents an excellent potential market for many UK business sectors, from technology to retail.

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SMEs and technology

In terms of focus, some of the states such as Poland and the Czech Republic have sought to attract large multinational companies. However, this focus is changing as all the states realise the potential downsides of this policy. For the period 2007–2013 the National Plans all seek to attract small to medium sized companies as FDI investors. In real terms this means that any project that will create more than 25 jobs is likely to be attractive to the states in question.

In terms of sectoral priorities, the states are all seeking “added value” type companies. The following sectors are particularly attractive in terms of meeting their priorities:

- nanotechnology
- medical technology and biotechnology
- IT and software
- added value engineering
- high tech electronics.

Each state will of course still seek to attract any project that provides a reasonable number of local jobs, regardless of the sector in which it is based. To give an example, in 2006/2007 Latvia approved 80% of applications made by FDI companies for grant aid in FDI projects. The largest UK FDI company to benefit from this support in Latvia was a greetings card company.

Location, location, location

With ten different states all seeking to attract FDI companies, the most difficult part of the equation is perhaps identifying the best location for FDI investment and to prepare for and submit a bid for EU grant support. In order to achieve a suitable outcome it is usually necessary to commission a location study from a specialist company, which considers the suitability of:

- sector partners
- size of the project against in-state priorities
- availability of EU funding against the project type
- availability of workforce
- tax regime and other in-state metrics.

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Strategic advantages

From a strategic point of view, the accession states are only two hours away by plane from the UK and they operate within a common EU legal framework that protects intellectual property rights, patents and copyright.

These considerations, coupled with a skilled and educated workforce and lower wage costs than the UK, plus the potential for grant support, mean that any UK company requiring to grow should seriously review the options open to them in the EU accession states as part of any growth and investment strategy.

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.