Appendices

Barriers to Trade in Business Services

European Commission

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Centre for
Strategy & Evaluation
Services

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Below we provide a list of the organisations that were interviewed for this study in the EU Member States (excluding those interviewed for the business service provider case studies).

Austria	
Ms Julia Stiefelmeyer	Austrian Federal Ministry for Economic Affairs
Joseph Freitag	Austrian Federal Ministry for Economic Affairs
Christian Forster	Austrian Federal Ministry for Economic Affairs
Ulrike Ledochowski	ACA-BDI-Austrian Consultants Assoc./Bundessektion Inginieurkonsulenten
Heinz Kogler	Federation of Austrian Industry/Euro Info Centre
Giesela Nagy	Kammer der Wirtschaftstreuhaendler
Gerald Klement	Kammer der Wirtschaftstreuhaendler
Belgium	
Ms Ane Merckx	INSEA
Mr Paul Carlier	ORI-Organisation des Ingenieurs-Conseils
M. R. Wagner	Min. des Classes Moyennes
Mr Guy Jacques	AIB-Vincotte
Denmark	
Annette Dragsdhaal	Confederation of Danish Industries - DI
Niels Hamber	Danish Employers' Confederation DA
Mr. Niels Friis Pedersen	Danske Finansieringsselskabers Forening
Mr Keld Dybjaer	Danske Ministry of Trade & Industry
Ms. Camilla Hersom	Danske Ministry of Trade & Industry
Mr. Claus Jensen	Danske Ministry of Trade & Industry
Mr Klaus Kristiansen	Danske Ministry of Trade & Industry
Mr Klaus Steensen	Danish Chamber of Commerce
Mr Olsten Jurgensen	Danske Institute of Certified & Public Accountants
Mr Katzen Hillstrom	Danske Management Council
Mr Johan Sederberg	Danske Association of Consulting Engineers
Mr Niels Rankering	Danish Commerce and Companies Agency
Finland	
Mr Simo Hassi	Inspecta Oy
Mr. Juuso JOKELA	Finnish Finance Houses Association
Mr Douglas Nielson	Finnpro (Export Promotion Agency)
Mr Petra Kuurma	Min. Trade & Industry
Mr Kimmo Sinivuori	Min. Trade & Industry

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Mr Hannu Lipponen	Min. Trade & Industry
Mr Eero Mantere	Min. Trade & Industry
Mr Matti Pietarinen	Min. Trade & Industry
Ms. Taru Rastas	Min. Trade & Industry
Mr Petri Leato	Min. Trade & Industry
Ms Minna Niemivirta	Confederation of Finnish Industry and Employers (TT)
Ms Marja-Liise Peltola	Central Ch. of Commerce of Finland
France	
Mr Jean Paul Eybert	SYNTEC-Informatique
Mr Jean-Piere Nieres	SYNTEC-Informatique
Ms Sophie Galey-Leruste	Sous-Direction Europe, DGiTiP, Ministere de l’Economie, des Finances et de l’Industrie.
Mr Laurent Catenos	Unite Union Europ., (DREE), Min. de l’Econ., des Finances et de l’Industrie.
Mr Jean-Pierre Le Pesteur	Sous-Directeur, Equipements, Machines et Services Industriels, DGiTiP , Ministere de l’Economie, des Finances et de l’Industrie.
Mr Michel Ferrandery	Direction Equipements, Machines et Services Industriels, DGiTiP , Ministere de l’Economie, des Finances et de l’Industrie.
Mr Henri Breuil	Services des Technologies et de la Societe de l’Information(DGiTiP), Ministere de l'Economie, des Finances et de l’Industrie.
Mr Benoit Formery	Electronique Profes. et Informatique, Services des Technologies et de la Societe de l’Info.(DGiTiP), Min. de l'Economie, des Finances et de l’Industrie
Ms Lise Deguen	Chef du Bureau des Affaires Bilaterates Europeennes, DGiTiP, Ministere de l’Economie, des Finances et de l’Industrie.
Ms Marie-Noelle Berbille	Delegue Adjoint, Bureau de la Politique Industrielle et Concurrence, DGiTiP, Ministere de l’Economie, des Finances et de l’Industrie.
Mr Michel Lepareur	Conseiller, Reseau CTI (Centres Techniques de l’Innovation)
Mr Nicolas Mordaunt-Crook	Responsable de Secteur, Association Francaise des Societes Financieres
Mr Nanno Mulder	CEPII
Germany	
Mr Wolfgang Arnold	Bundesministerium fur Wirtschaft und Technologie (BMWI)
Dr Silvia Dannenbring	Bundesministerium fur Wirtschaft und Technologie (BMWI)
Dr Astrid Klesse	Bundesministerium fur Wirtschaft und Technologie (BMWI)
Mr Berhard Welschke	Bundesverband der Deutschen Industrie e.V. - BDI
Mr Klaus Rollenhagen	Verband Beratender Ingenieure (VBI)
Mr Dr Reinhard Honert	Verband Beratender Ingenieure (VBI)
Mr Klaus-Martin Bauer	Verband Beratender Ingenieure (VBI)

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Dr Monika Muller	Deutscher Industrie und Handelstag (DIHT)
Dr Detlef Boehle	Deutscher Industrie und Handelstag (DIHT)
Ms Malaika Ahlers	Bundesverband der Freien Berufe (BFB)
Dr Christoph Manzer	Bundesarchitecktenkammer
Ireland	
Mr Michael Greene	Market Access Unit, Dept. Enterprise, Trade & Employment
Mr Donal Denham	Enterprise Competitiveness Division, Dept. Enterprise,Trade & Employment
Ms Katherine Lucey	Irish Software Association, Irish Business & Employers Confed. (IBEC)
Mr Pat Delaney	Small Firms Association
Mr Declan Murphy	National Software Directorate, Enterprise Ireland
Mr Enda McDonnell	National Standards Authority
Ms Patricia McLister	Enterprise Ireland
Mr. Seamus O'Tighearnaigh	Irish Finance Houses Association Ltd.
Italy	
Mr Marco Marafini	Confed. Generale dell'Industria Italiana - CONFINDUSTRIA
Dttr. Ajello	OICI-Assoc. delle Org.di Ingegneria e di Consulenza Tec. Econ.
Mr Ugo Poli	ISPEL
Mr. Fabrizio MARAFINI	ASSILEA
Mr Antonello Lapalorcia	Ministero dell'Industria, del Commercio e dell'Artigianato
Dttr. Spagnoli	Unioncamere
Dottr. Guacci	della FITA (l'Associazione delle Società di servizi avanzati
	UNI (responsible for technical standards)
Roberto Ciarlone	CONFINDUSTRIA
Netherlands	
Ms Hanneke Boerma	Internal Market Division, Ministry for Economic Affairs
Mr Wienand Quaedvlieg	Vereniging VNO-NCW
Ms Henny Sevink	ONRI-Organisatie van Ned. Raadgevende Ingeniuersbureaus
	Stoomwezen BV
Mr Soren Prahl	AKBORES/ ONRI (Dutch Engineering consultancy federation
Mr Marco Braeken	Ministry for Economic Affairs
Portugal	
Ms Patricia Goncalves	Econ. & Information Directorate, Assoc. of Portuguese Industry (AIP)
Ms Teresa Moura	Ministry of Economy
Dr Jorge Castelo Branco	Ministry of Economy

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Mr Manuel Batista	APPC-Assoc. Portuguesa de Projectistas E Consultores
Ms Ana Cristina Guimares	ICEP (Institute for External Trade Promotion & Foreign Investment)
Spain	
Ms Blas Vicente	Ministry of Economy
Ms Ana Tardon	FEDIT (Federacion Espanola de Entitades de Innovacion y Tecnologia)
Mr Lopez Nava	ASINCE-Assoc. Espanola de Consultores en Ingeneria
Mr Jorge Mora	Tecnoiberia Civil
Mr Roby Said	ATISAE
Ms Elisa Sainz	Ministeria de Economia, Dir Gen PYME
Mr Pedro Gutierrez de Cos	SEDISI
Ms Maria-Jose Gimenes	Min. de Asuntos Exterios, Secret. De Estado de Asuntos Europeos
Mr Angel Lopez Munoz	Instiuto de Auditores-Censores Jurados de Cuentas de Espana (IACJCE)
Ms Fabia Buenaventura	ICEX
Sweden	
Mr Nils Gunnar Forsbergor	Internal Market Division, Foreign Ministry
Mr Thomas Dahlman	Ministry of Trade (EU Co-ordination)
Mr Christer Arvius	National Board of Trade (Kommerskollegium)
Mr Lars Ettarp	SWEDAC (Standardisation Board)
Mr Lennart Alfredsson	SWEDAC (Standardisation Board)
Mr Tom Ekelund	Finansbolagens Forening
Ms Charlotte Nyberg	Federation of Swedish Industries (Industriforbundet)
Mr Hans Ekdahl	Federation of Swedish Industries (Industriforbundet)
Ms Marie Tornell	Federation of Swedish Industries (Industriforbundet)
Sarah Backlund	National Board of Trade (Kommerskollegium)
Ralph Eliasson	National Board of Trade (Kommerskollegium)
Lina Wirkalla	Ministry of Industry, Employment and Communications
Bengt Agild	National Board of Trade (Kommerskollegium)
Lars-Olof Eklof	Svensk Handel (Swedish Trade Federation)
Borje Risinggard	Svensk Handel (Swedish Trade Federation)
Robert Limmergard	IT-Foretagen (The Association of the Swedish IT & Telecom Industry)
Agneta Andre	Swedish Employers Confederation
Mr Tobjorn Rindas	SPUR (Swedish Association of Temporary Work Businesses and Staffing)
United Kingdom	

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Mr Robert J Dowding	DERA
Karen Clements	European Affairs Group, Confed.eration of British Industry
Mr Nicholas Bennett	ACE-Assoc. Of Consulting Engineers
Mr Bruce Petter	Management Consultancies Association (MCA)
Mr Will White	Management Consultancies Association (MCA)
Mr Jonathan Denison-Cross	Single Market Unit, Dept. Trade & Industry
European Associations	
Jan Van der Putten	European Federation of Engineering Consultancy Association (ECFA)
Henri Olivier	Federation Europeen des Experts Comptables (FEE)
Giovanni Caprioglio	European Association of Research & Technology Organisations (EARTO)
Else Groen	European Federation of Managment Consultancy Organisations (FEACO)
Marc Baert	European Association of Leasing Organisations (EUROLEASE)
Michael Volzow	European Confederation of Organisations for Testing, Insepction, Certification & Prevention(CEOC)
Danielle Overath	European Car & Truck Rental Association (ECATRA)

SURVEY SAMPLE ANALYSIS 2

A total of 511 completed questionnaires were obtained from business service providers and users. After eliminating invalid responses (one questionnaire was returned by an organisation based in Norway and there were several duplicates), this total was reduced to 508. An analysis of the sample is provided below.

Overall

Table 2.1 provides an overall breakdown of the sample used for the analysis, comparing this with the total number of business service providers and users that were contacted and the target response rates.

Table 2.1: Sample Analysis – Overall

	Providers		**Users**		**Overall**	
	No	%	No	%	No	%
Number of companies contacted	3,377	53.3	2,950	46.7	6,327	100.0
Number of responses received	307	60.8	198	39.2	505	100.0
Response rates	9.1%		6.7%		7.9%	

Source: CSES Analysis of survey data. Note: number of questionnaires mailed does not take into account the second mailing when copies of the questionnaires were sent to 2,877 non-respondents to the first mailing. A total of 9,204 questionnaires were mailed to 6,327 companies.

Despite three mailings and other efforts to encourage companies to make an input, the overall response rate of 7.9% was slightly below the rate that might be expected from a postal survey (generally around 10%).[1] There are several possible explanations for this:

- The questionnaires were quite long – in the case of business service providers, it ran to seven pages – and this may have deterred some companies from responding;
- The fact that the survey work was carried out during the summer months of 2000 means that the response rate will have been affected by holidays;
- Experience suggests that in some EU Member States it is particularly difficult to achieve a good response rate from postal surveys of any type.

As can be seen from Table 2.1, a slightly higher response rate was obtained from providers (9.1%) than users (6.7%). The explanation for this difference probably lies in the fact that the survey was of more direct relevance to business service providers.

[1] These efforts included translating the questionnaires into the various national languages, addressing the Commission's covering letter to specific individuals in companies, enclosing a business reply envelope and carrying out three mailings.

SURVEY SAMPLE ANALYSIS 2

Sectoral Characteristics

It was important to achieve a spread of the survey responses across provider and user sectors. Table 2.2 analyses provider sectoral characteristics.

Table 2.2: Sample Analysis – Provider Sectoral Characteristics

Business Service Sectors	No Responses	%
IT Consultancy	69	22.5
Leasing and Renting	44	14.3
Personnel Recruitment	42	13.7
Accountancy and Audit	29	9.4
Tax Services	10	3.3
Contract R & D	38	12.4
Technical Testing	13	4.2
Engineering Related Consultancy	62	20.2
TOTAL	307	100.0

Source: CSES Analysis of survey data

A particularly good response was received from business service providers in the IT Consultancy, Leasing & Renting, Personnel Recruitment, and Engineering-Related Consultancy sectors. In the case of Tax Services and Contract R&D, identifying appropriate companies to survey based on SICs (Standard Industrial Classifications) – the system used by Dun & Bradstreet from whom the sampling frame was obtained – proved difficult and this may help explain the lower response levels.

Table 2.3 provides a breakdown of the user sample by sector. The split between manufacturing and services (36%/64%) broadly reflects the structure of European economy as a whole.

Table 2.3: Sample Analysis – User Sectoral Characteristics

Industrial Sectors	Sample	
	No	%
Manufacturing	72	36.4
Distribution	6	3.0
Services	84	42.4
Energy and Utilities	4	2.0
Construction	9	4.5
Other	23	11.7
TOTAL	198	100.0

Source: CSES Analysis of survey data

SURVEY SAMPLE ANALYSIS 2

In Table 2.3, the category 'Other' includes a variety of activities such as educational establishments and other public sector bodies that do not fall obviously into one of the other categories. Beyond setting quotas for the six categories and EU Member States, business service users were generated at random and no attempt was made to structure the sample.

Firm Size – Employees and Turnover.

An effort was also made to ensure that there was a split between small and large firms that broadly reflects the structure of the European economy as a whole in terms of the distribution of employment. The Commission defines an SME as a firm employing less than 250 people. On this basis, the sample structure with 65.7% of providers and users classified as employing less than 250 people is very close to the reality. This is shown in Table 2.4 while Table 2.5 provides a breakdown of the sample by turnover bands.

Table 2.4: Sample Analysis – Breakdown by Company Size

Size Bands	Providers		Users		Total	
	No	%	No	%	No	%
Less than 10	10	3.3	8	4.0	18	3.6
10 to 50	42	13.7	23	11.6	65	12.9
50 to 250	155	50.5	94	47.5	249	49.3
250 to 500	49	16.0	40	20.2	89	17.6
500 to 1,000	21	6.8	18	9.1	39	7.7
Over 1,000	30	9.8	14	7.1	44	8.7
Non responses	0	0.0	1	0.5	1	0.2
TOTAL	307	100.0	198	100.0	505	100.0

Source: CSES Analysis of survey data

Table 2.5: Sample Analysis – Breakdown by Turnover Band

Turnover Bands	Providers		Users		Total	
	No	%	No	%	No	%
Below €1m	20	6.5	9	4.5	29	5.7
Between €1 and €10m	114	37.1	60	30.3	174	34.4
Between €10 and €50m	98	31.9	73	36.9	171	33.9
Between €50 and €100m	26	8.5	19	9.6	45	8.9
Between €100 and €500m	27	8.8	14	7.1	41	8.1
Over €500m	19	6.2	17	8.6	36	7.2
Non responses	3	1.0	6	3.0	9	1.8
TOTAL	307	100.0	198	100.0	505	100.0

Source: CSES Analysis of survey data

SURVEY SAMPLE ANALYSIS 2

Firm Status and Age.

Although not one of the variables that was controlled, it was clearly desirable to capture a mix of independent companies and subsidiaries in the provider and user samples. Table 2.6 shows that this was achieved with just over a third of the respondent being subsidiaries and most of the remainder independent firms.

Table 2.6: Sample Analysis – Breakdown by Company Status

Firm Status	**Providers**		**Users**		**Total**	
	No	%	No	%	No	%
Subsidiaries	121	39.4	51	25.8	172	34.0
Independent	175	57.0	146	73.7	321	63.6
Non responses	11	3.6	1	0.5	12	2.4
Total	307	100.0	198	100.0	505	100.0

Source: CSES Analysis of survey data

Table 2.7 shows a breakdown of the sample by age, i.e. number of years companies have been operating. Again, this variable was not controlled.

Table 2.7: Sample Analysis – Breakdown by Age of Companies

Age Bands	**Providers**		**Users**		**Total**	
	No	%	No	%	No	%
Less than 5 years	23	7.5	23	11.6	46	9.1
Between 5 and 10 years	32	10.4	14	7.1	46	9.1
Between 10 and 15 years	50	16.3	15	7.6	65	12.9
Between 15 and 20 years	35	11.4	19	9.6	54	10.7
Between 20 and 25 years	32	10.4	22	11.1	54	10.7
Over 25 years	125	40.7	95	47.9	220	43.6
Non responses	10	3.3	10	5.1	20	3.9
TOTAL	307	100.0	198	100.0	505	100.0

Source: CSES Analysis of survey data

Spread Across EU Member States

Table 2.8 on the next page provides a breakdown of the provider and user sample by EU Member State. It was agreed with the Commission that the combined sample of business service providers and users should broadly reflect the size of national economies in the EU as measured in terms of the size of their workforces.

SURVEY SAMPLE ANALYSIS 2

Table 2.8: Sample Analysis – Breakdown by Country

Country	Provider Sample		User Sample		Total	
	No	%	No	%	No	%
Austria	6	2.0	2	1.0	8	1.6
Belgium	8	2.6	2	1.0	10	2.0
Denmark	10	3.3	3	1.5	13	2.6
Germany	40	13.0	54	27.3	94	18.6
Greece	4	1.3	15	7.6	19	3.8
Spain	59	19.2	11	5.6	70	13.9
Finland	2	0.7	6	3.0	8	1.6
France	35	11.4	26	13.1	61	12.1
Ireland	5	1.6	3	1.5	8	1.6
Italy	45	14.7	27	13.6	72	14.3
Luxembourg	1	0.3	1	0.5	2	0.4
Netherlands	6	2.0	8	4.0	14	2.8
Portugal	4	1.3	4	2.0	8	1.6
Sweden	26	8.5	5	2.5	31	6.1
United Kingdom	56	18.2	31	15.7	87	17.2
TOTAL	307	100.0	198	100.0	505	100.0

Source: CSES Analysis of survey data.

Particularly good overall response rates were obtained from Germany, Greece, Spain, and Sweden although in these and some other countries, there was a considerable difference between the response rates for providers and users.

Finally, Tables 2.9(a) and 2.9(b) on the next page provide an analysis of the provider and user samples combining country and sector variables. In the case of business service providers, it was agreed at the outset of the study that the survey work would focus on certain sectors in certain countries and for this reason there is not an even spread of responses.

Overall, the conclusion to be drawn from the analysis of the sample is that there is a good overall balance between providers and users, and in terms of company size and the sectoral characteristics of business service users.

SURVEY SAMPLE ANALYSIS 2

Table 2.9(a): Provider Sample Analysis – Breakdown by Sector and Country

	Business Service Provider Sectors								Total
	IT Cons	Lab Rec	Leasing	Con R&D	Account	Tax	Eng Cons	Tech	
A	1	0	4	1	0	0	0	0	6
B	0	2	1	0	1	0	3	1	8
D	3	5	12	8	3	2	7	0	40
DK	2	2	0	1	0	0	4	1	10
E	16	2	5	12	1	0	20	3	59
F	9	6	9	0	8	1	2	0	35
FIN	0	0	0	0	1	0	0	1	2
GR	0	0	1	1	0	0	2	0	4
I	22	3	1	2	4	7	6	0	45
IRL	3	0	0	1	0	0	0	1	5
L	0	0	1	0	0	0	0	0	1
NL	0	4	2	0	0	0	0	0	6
P	2	0	0	0	2	0	0	0	4
SW	3	0	4	4	1	0	10	4	26
UK	8	18	4	8	8	0	8	2	56
TOTAL	69	42	44	38	29	10	62	13	307

Table 2.9(b): User Sample Analysis – Breakdown by Sector and Country

	Business Service User Sectors						Total
	Manufacture	Distribution	Services	Energy	Construction	Other	
A	0	0	2	0	0	0	2
B	0	0	2	0	0	0	2
D	13	1	33	0	2	5	54
DK	0	0	2	0	0	1	3
E	3	1	5	1	1	0	11
F	16	1	5	0	1	3	26
FIN	3	0	1	1	1	0	6
GR	9	0	4	0	0	2	15
I	13	2	8	0	1	3	27
IRL	3	0	0	0	0	0	3
L	1	0	0	0	0	0	1
NL	3	1	4	0	0	0	8
P	1	0	2	0	0	1	4
SW	1	0	2	1	0	1	5
UK	7	0	13	1	3	7	31
TOTAL	73	6	84	4	9	23	198

Source: CSES Analysis of survey data.

Inevitably, there are some inconsistencies in the data. For example, although some companies stated that were not involved in cross-border trade, they nevertheless answered

SURVEY SAMPLE ANALYSIS 2

sections of the survey questionnaires relating to barriers. Likewise, 12 of the 186 providers who stated that they had exported business services in the past or were doing so now did not identify the type of method(s) used to deliver services. Checks back to the original questionnaires indicate, however, that these and other inconsistencies lie in the information provided by companies rather than failings with regard to the transfer of information to the databases. To overcome this problem, we have where possible applied additional filters in analysing the survey responses.

SURVEY QUESTIONAIRES 3

Card 1

PART 1: COMPANY DETAILS

We start by asking for some basic information on your company. This information will remain confidential.

1.1 What is the name of your company? ……………………………………………………………………………….

1.2 Please name the principal country where your company is based (abbreviation) ☐ 13

1.3 Is the company a subsidiary of another organisation? Yes ☐ 1 No ☐ 2 14

1.4 How long has your company been operating? Years ☐ 15-16

1.5 How many people does your company employ?

Less than 10 people	☐ 1	Between 10 and 50	☐ 3	Between 50 and 250	☐ 5 17
From 250 and 500	☐ 2	From 500 and 1000	☐ 4	More than 1000 people	☐ 6

1.6 What was your company's turnover for the last financial year? Please express the turnover in euros (see the footnote for approximate national equivalents):

Below EUR 1m	☐ 1	EUR 1m to 10m	☐ 3	EUR 10m to 50m	☐ 5 18
EUR 50m to 100m	☐ 2	EUR 100m to 500m	☐ 4	More than EUR 500m	☐ 6

1.7 What is the *main* business service your company provides? Please tick one box only:

Information Technology Consultancy	☐ 1	Accountancy or Audit	☐ 5 18
Labour Recruitment	☐ 2	Tax Services	☐ 6
Leasing and Renting of Equipment	☐ 3	Engineering Related Consultancy	☐ 7
Contract R & D	☐ 4	Technical Testing	☐ 8

Please note: the rest of this questionnaire relates only to your main business service.

PART 2: COMPETITIVE SITUATION IN YOUR MARKET

How competitive are your domestic and export markets? Please answer the following questions about your markets and the types of competitors:

2.1 How would you describe competition in your **domestic market**? Please tick the appropriate box:

(1) Not very competitive - one or two firms dominate the market ☐ 1 20

(2) Quite competitive - there is fair competition but not very intense ☐ 2

(3) Very competitive - many firms have entered/may enter the market ☐ 3

Note: approximate conversion rates for the euro are:

EUR	1m	10m	50m	100m	500m
= GBP	0.6m	6m	30m	60m	300m
= IEP	0.8m	8m	40m	80m	400m

SURVEY QUESTIONAIRES 3

2.2 What type of competitors does your company face in its **domestic market**? Please tick the appropriate box:

(1) Most or all competitors are domestic ☐ 1 21
(2) The market is open with both domestic and firms from other EU countries competing ☐ 2
(3) The market is open with both domestic and non EU country firms competing ☐ 3
(4) The market is open with domestic, European and non EU country firms competing ☐ 4
(5) Most competitors or the most important are European ☐ 5
(6) Most competitors or the most important are non-European ☐ 6

2.3 If you deliver services to **other EU markets**, please indicate how competitive your main markets in other EU countries are compared with your home market:

Less ☐ 1 Similar ☐ 2 More ☐ 3 22

Don't know/not relevant ☐ 24-25

2.4 If you deliver services to other EU markets, please indicate how prices in your home market for the type of service you provide differ from **typical prices** for the same type of services in your main market(s) elsewhere in the EU. Please consider the prices before value added tax:

Prices are generally higher in home market: Up to 10% ☐ 1 10 to 20% ☐ 3 Over 20% ☐ 5 26
Prices are generally lower in home market: Up to 10% ☐ 2 10 to 20% ☐ 4 Over 20% ☐ 6

No difference ☐ Don't know/not relevant ☐ 8

2.5 What has the **impact of the Single European Market** been on competitive conditions? Please tick the appropriate boxes for (a) your home market and (b) your export market (if appropriate):

	Home	Export	
(1) Many firms have entered the market from other EU countries	☐ 1	☐ 2	27
(2) Price competition has become more intense	☐ 1	☐ 2	28
(3) We have expanded our range of services	☐ 1	☐ 2	29
(4) We have improved the quality of our services	☐ 1	☐ 2	30
(5) We have been able to reduce our costs by buying inputs at a lower price	☐ 1	☐ 2	31
(6) We have been able to reduce our costs by increasing sales	☐ 1	☐ 2	32
(7) We have had to modify our structures to adapt to new competitive conditions	☐ 1	☐ 2	33
(8) The Single European Market has had no significant impact on competition	☐ 1	☐ 2	34

PART 3: BUSINESS SERVICES IN OTHER COUNTRIES

In Part 3 of the questionnaire we ask you to provide information on your business in other EU countries and how you deliver services to clients in these markets - directly or by sending a team from your home base, or via a subsidiary or local agent in other EU markets.

3.1 To what extent is your company involved in **exporting business services** to clients in other EU countries? Please tick the box that best describes your company's activities:

- We have never tried to sell services to clients in other EU countries ☐ 1 35
- We considered selling services in other EU countries but after investigation did not go ahead ☐ 2
- We have sold services to clients in other EU countries in the past but do not do so now ☐ 3
- We have sold services to clients in other EU countries in the past and continue to do so now ☐ 4

If you are not currently exporting business services to another EU country, please go to Section 4.

SURVEY QUESTIONAIRES

3

3.2 At the moment, which method(s) does your company use to deliver services to other EU countries:

- Delivers services directly from your home country (A)
- Delivers services locally by sending a team from your home country (B)
- Delivers services through a subsidiary, sister company or local agent (C)

Please identify the **three** EU countries where your company has the most or most important clients, indicating in each case how services are delivered using the above code:

	A	B	C			A	B	C	
Austria	1	2	3	35-36	Ireland	1	2	3	57-59
Belgium/Luxembourg	1	2	3	39-41	Italy	1	2	3	60-62
Denmark	1	2	3	42-44	Netherlands	1	2	3	63-65
Finland	1	2	3	45-47	Portugal	1	2	3	66-68
France	1	2	3	48-50	Spain	1	2	3	69-71
Germany	1	2	3	51-53	Sweden	1	2	3	72-74
Greece	1	2	3	54-56	UK	1	2	3	75-77

3.3 What was the **value of sales** in the past year by your company (including sales by subsidiaries or local intermediaries) to clients in other EU countries as a percentage of the company's overall turnover?

Between 1 to 10%	1	10 to 25%	2	25 and 50%	3	Over 50%	4	78
Don't know	5							

PART 4: BARRIERS TO TRADE IN BUSINESS SERVICES

In this section we ask you to identify barriers to either carrying out normal business or expanding your business in other EU countries. We have classified the actual/potential barriers as follows:

- Barriers to selling services from your home base (section 4.1)
- Barriers to setting up a local operation in another EU country (section 4.2)
- Barriers of a 'horizontal' i.e. market or socio-cultural nature (section 4.3)
- Any other barriers (section 4.4)

4.1 What sort of barriers does your company face in **delivering services directly from the home base** or by using a team sent from there? Please rank each of the following factors on a scale where 1 = Very Important and 3 = Not Important (leave the box(es) empty if not relevant).

(1)	Requirement to obtain local registration with a professional body		79
(2)	Requirement to have a specific legal form		80
(3)	Requirement to meet specific financial criteria		13
(4)	Not possible to supply services without being represented by a local agent		14
(5)	Lack of mutual recognition of national professional qualifications		15
(6)	Requirement to meet restrictive local labour employment regulations		16
(7)	Requirement to have a local presence in order to provide after-care services		17
(8)	Difficulty in supplying services because of distance-related costs		18
(9)	Discriminatory tax on services delivered across borders		19
	Don't know/Question 4.1 not applicable		20

SURVEY QUESTIONAIRES 3

4.2 How important are barriers to **setting up a local operation to deliver services in other EU countries?** Please rank each of the following factors on a scale where 1 = Very Important and 3 = Not Important (leave the box(es) empty if not relevant).

(1)	Inability to practice locally unless a licence is obtained from a professional body	21
(2)	More stringent regulations on the minimum capital requirements for local operations	22
(3)	Stringent regulations on branch operations as distinct from setting up a local company	23
(4)	Excessive costs relating to setting up a company in the country	24
(5)	Stringent administrative/legal regulations on setting up a partnership in the country	25
(6)	Lack of mutual recognition of national professional qualifications	26
(7)	Requirement to meet restrictive local labour employment regulations	27
(8)	Restricted access to finance for foreign-owned firms	28
(9)	Inadequate infrastructures (telecoms, transport, etc) to support a local operation	29
(10)	Lack of necessary skills and/or costly training of workers	30
	Don't know/Question 4.2 not applicable	31

4.3 How important are **market-related and cultural barriers** to selling business services in other EU countries? Please rank the following factors on a scale where 1 = Very Important and 3 = Not important (leave the box(es) empty if not relevant).
In ranking the importance of these barriers, please distinguish between (A) delivering services directly from your home base or sending a team from there, and (B) setting up a local operation in another EU country.

		A	B
	Socio-Cultural Factors:		
(1)	Differences in local traditions make it difficult to sell appropriate services	32	48
(2)	Differences in commercial practices, e.g. need to pay commission to local agents	33	49
(3)	Need to work in local language makes it difficult to do business	34	50
(4)	Planning and zoning restrictions making it difficult to enter established market	35	51
	Market Related Factors:		
(5)	Requirement to have a local track record to compete with local suppliers	36	52
(6)	Subsidised local providers put non-national providers at a disadvantage	37	53
(7)	Unacceptable delays in payment e.g. because of regulations, banking practices	38	54
(8)	Complexity of dealing with foreign legal systems and contracting procedures	39	55
(9)	Restrictions on cross-border marketing and the use of international brand names	40	56
(10)	Inadequate protection of intellectual property rights	41	57
	Administrative Barriers		
(11)	Absence of transparency, inconsistencies and/or confusion in regulations	42	58
(12)	Absence of transparency, inconsistencies and/or confusion in their implementation	43	59
(13)	Imposition of national standards, testing and certification rules	44	60
	Barriers to Procurement (including Public Procurement)		
(14)	Difficulty in obtaining information on tendering opportunities/restrictive procedures	45	61
(15)	Exemption clauses in public procurement procedures	46	62
(16)	High administrative costs of bidding	47	63
	Don't know/Question 4.3 not applicable		64

SURVEY QUESTIONAIRES 3

4.4 Please use the space below to describe any **other barriers** to selling your services abroad including any barriers specific to your type of business services:

…… 65-67

……

……

4.5 Which countries, in your opinion, present the most severe barriers to trade in services? Please rank the extent of these difficulties for each country where 1 = severe barriers and 3 = few barriers:

Austria	68	Germany	73	Netherlands	78
Belgium	69	Greece	74	Portugal	79
Denmark	70	Ireland	75	Spain	80
Finland	71	Italy	76	Sweden	81
France	72	Luxembourg	77	UK	82

4.6 Will the development of e-commerce help to reduce barriers in the EU to trade in services?

Yes 1 No 2 Don't know 3 13

4.7 Will the introduction of the euro help to reduce barriers in the EU to trade in services?

Yes 1 No 2 Don't know 3 14

4.8 In your view, are new barriers to trade in services developing and adding to/replacing old ones?

Yes 1 No 2 Don't know 3 15

4.9 Overall, do you think barriers in the EU to trade in services have been increasing or decreasing over the past 5 to 10 years?

Decreasing 1 No change 2 Increasing 3 16

PART 5: COST OF BARRIERS TO TRADE IN SERVICES

In the final section of this questionnaire, we ask you to provide information that will help us to estimate the cost to the business services sector of remaining barriers to trade in the EU, and the degree of competition in the market.

5.1 If all barriers to trade in business services were removed, what would be the impact on **competition in your home market**?

	Increase	No Change	Decrease	
(a) Number of competitors	1	2	3	17
(b) Competition on the basis of price	1	2	3	18
(c) Competition on the basis of quality	1	2	3	19
(d) Competition on the range of services offered	1	2	3	20
Don't know				21

5.2 If all barriers to trade in business services were removed, what would be the impact on **competition in your export market(s)**?

	Increase	No Change	Decrease	
(a) Number of competitors	1	2	3	22
(b) Competition on the basis of price	1	2	3	23
(c) Competition on the basis of quality	1	2	3	24
(d) Competition on the range of services offered	1	2	3	25
Don't know				26

SURVEY QUESTIONAIRES 3

5.3 What would be the overall effect of removing barriers on your **company's sales**?

	Substantial Increase	Modest Increase	No Effect	Some Decrease	
(a) In your home market	1	2	3	4	27
(b) In your export market	1	2	3	4	28
			Don't know		29

5.4 What **other effects** might the removal of remaining barriers to trade in services have on your company? Please rank each of the following possibilities on a scale of 1=Very likely to 3=Not likely.

(1) Internal restructuring to make the firm more competitive 30
(2) Networking/combining with similar firms from home base to improve competitiveness 31
(3) Linking up with other local firms providing different services to improve competitiveness 32
(4) Cross-border links with service providers from other EU countries to improve competitiveness 33
(5) Investment in developing new services, markets, and/or delivery methods 34
(6) More emphasis on technology in services and the way they are delivered to clients 35
(7) Improved service quality and more innovation 36

The next questions relate to the costs of starting business in other EU countries.

5.5 How significant are **set up costs** in making it more difficult to sell your services in new markets in other EU countries? Please think of entry costs that might be associated with barriers to trade which could be removed.

Not significant 1 Significant 2 Very significant 3 37
Don't know 38

5.6 If appropriate, please provide a rough estimate of these **entry costs** as a proportion of the sales you might expect in a new EU market in the first year. Please show these entry costs as a number of months sales.

Don't know 1 0 or 1 month 2 2 or 3 months 4 39
3 to 6 months 3 Over 6 months 5

5.7 If all **regulatory barriers** to entering new EU markets were removed, would you try to sell more services in other EU countries?

Yes 1 No 2 Don't know 3 40

5.8 If the answer is yes, what effect would this have on the level of your company's **sales** in other EU countries? Please provide a rough estimate of the percentage increase in sales you would expect over this year's trading volumes by ticking the appropriate box:

Up to 10% more 1 10% to 20% more 2 More than 20% 3 41
Don't know 4

The next questions relate to the costs of continuing business in other EU countries.

5.9 If all barriers to trade in services were removed, what effect would this have on continuing **operating costs** associated with selling services in other EU countries? Please tick the appropriate box:

No change 1 Decrease by up to 5% 3 Decrease by 5% to 10% 5 42
Don't know 2 Decrease by 10% to 20% 4 Decrease by over 20% 6

Would there be any **additional costs** your company might incur in selling services to other EU countries?

Yes 1 No 2 Don't know 3 43

If yes, please use the space at the end of this questionnaire to provide details. 44-50

SURVEY QUESTIONAIRES 3

5.10 If all barriers to trade in services were removed, what effect would this have on the **prices** your company charges for your services in other EU countries? Please tick the appropriate box:

No change ☐ 1 Decrease by up to 10% ☐ 2 Decrease by over 10% ☐ 3 51

Don't know ☐ 4

Thank you for answering this questionnaire. Please sign the questionnaire below and indicate whether you would be willing to be contacted by CSES to make a further input to the research.

Signature ………………………………………………………………………… 2000 52-59

Position ………………………………………………………………………… 60-62

I would be willing to be contacted by CSES to make a further input to the research Yes ☐ 63

If yes, please provide your contact details:

Tel: ………………………………… Fax: …………………………… E-mail: ……………………51

Please use the space below for any additional comments:

………52-56

………..

………..

………..

………..

………..

SURVEY QUESTIONNAIRES 3

PART 1: COMPANY DETAILS

We start by asking for some basic information on your company. This information will remain confidential.

1.1 What is the name of your company? ……………………………………………………………………………….

1.2 Please name the principal country where your company is based (abbreviation) [ ] 1 13

1.3 Is the company a subsidiary of another organisation? Yes [ ] 1 No [ ] 2 14

1.4 What is your company's main business activity? Please tick the appropriate box and briefly describe the activities:

Manufacturing	[ ] 1	Services	[ ] 3	Construction	[ ] 5 15
Distribution	[ ] 2	Energy & Utilities	[ ] 4	Other	[ ] 6

……… 16-18
………

1.5 How long has your company been operating? Years [ ] 19-20

1.6 How many people does your company employ?

Less than 10	[ ] 1	From 10 to 50	[ ] 3	From 50 to 250	[ ] 5 21
From 250 to 500	[ ] 2	From 500 to 1000	[ ] 4	More than 1000	[ ] 6

1.7 What was your company's turnover for the last financial year? Please express the turnover in euros (see the footnote for approximate national equivalents):

Below EUR 1m	[ ] 1	EUR 1m to 10m	[ ] 3	EUR 10m to 50m	[ ] 5 22
EUR 50m to 100m	[ ] 2	EUR 100m to 500m	[ ] 4	More than EUR 500m	[ ] 6

PART 2: PURCHASE OF BUSINESS SERVICES FROM OTHER COUNTRIES

Part 2 of the questionnaire examines where your company purchases business services from and the factors determining the use of suppliers from other EU countries.

2.1 Please indicate the main **criteria** you use in selecting business service providers. Please rank each of the following factors from 1=Very Important to 3=Not important.

	Ranking
(a) Quality of service being offered	[ ] 23
(b) Expertise of the provider	[ ] 24
(c) Local presence of the provider	[ ] 25
(d) Confidence in the ability of the provider	[ ] 26
(e) Provider abides by a technical/quality standard	[ ] 27
(f) Price	[ ] 28

Note: approximate conversion rates for the euro are:

EUR	1m	10m	50m	100m	500m
= GBP	0.6m	6m	30m	60m	300m
= IEP	0.8m	8m	40m	80m	400m

SURVEY QUESTIONNAIRES 3

2.2 In the past 12 months, have any of the following **types of services** been bought by your company from sources in (A) your own country, and (B) another EU country? Please tick the appropriate boxes:

Business Services:	A	B
(1) Information Technology Consulting	29	37
(2) Labour Recruitment	30	38
(3) Leasing and Renting of Equipment	31	39
(4) Tax Services	32	40
(5) Accountancy and Audit	33	41
(6) Contract R & D	34	42
(7) Technical Testing	35	43
(8) Engineering Related Consultancy	36	44

If you have not purchased services from another EU country, please go to Question 3.1.

If you have purchased services from another EU country, where were the providers based? Please tick the **main source countries**:

Austria	45	Germany	50	Netherlands	55
Belgium	46	Greece	51	Portugal	56
Denmark	47	Ireland	52	Spain	57
Finland	48	Italy	53	Sweden	58
France	49	Luxembourg	54	UK	59

2.3 What was the approximate **proportion that** purchases from sources in other EU countries accounted for in the past 12 months as a % of all the company's business services purchases?

Nil	1	Less than 5%	3	5% to 10%	5 60
10% to 20%	2	20% to 40%	4	Over 40%	6
				Don't know	7

2.4 How do the services bought from domestic business providers compare with those available from suppliers based in other EU countries in terms of **availability, price and quality**? Please tick the relevant boxes using the following key for different business services:

(1) Information Technology Consulting	(5) Accountancy and Audit
(2) Labour Recruitment	(6) Contract R & D
(3) Leasing and renting of equipment	(7) Technical Testing
(4) Taxation services	(8) Engineering Related Consultancy

Types of Business Services (see key)

Domestic suppliers have:	1	2	3	4	5	6	7	8
- A wider range of services available	13	16	19	22	25	28	31	34
- Generally cheaper business services	14	17	20	23	26	29	32	35
- Generally higher quality business services	15	18	21	24	27	30	33	36

SURVEY QUESTIONNAIRES 3

2.5 Apart from availability, price and quality are there any **other factors** that explain the difficulties your company may have in buying business services from other EU countries? Please tick the appropriate box(es) using the following key for different business services:

(1) Information Technology Consulting	(5) Accountancy and Audit
(2) Labour Recruitment	(6) Contract R & D
(3) Leasing and renting of equipment	(7) Technical Testing
(4) Taxation services	(8) Engineering Related Consultancy

Types of Business Services (see key)

Other Factors:	1	2	3	4	5	6	7	8
Language complications			Card 3					
Different commercial practices and traditions								
Planning and zoning restrictions on foreign suppliers								
Difficulty identifying suitable foreign suppliers								
Difficulty getting information on track record of foreign suppliers								
Need for close interaction with suppliers								
Uncertainty about after-care services from abroad								
Uncertainty about legal contracts with foreign suppliers								
Procedures for cross-border payments are more complex								
Use of domestic suppliers encouraged by national incentives								
Tax on foreign suppliers makes them more expensive								
	37-47	48-58	59-69	13-23	24-34	35-45	46-56	57-67

2.6 Please use the space below to describe any other barriers to purchasing services from abroad:

…… 68-73

…….

…….

PART 3: COST OF BARRIERS TO TRADE IN BUSINESS SERVICES

In the final section of this questionnaire, we ask you to provide information that will enable us to estimate the cost of barriers to trade in services.

3.1 Please indicate how **prices** in your home market for the type of services you purchase differ from typical prices for the same type of services from other EU countries:

No difference ☐ 13

Prices are generally higher in home market Up to 10% ☐ 1 10 to 20% ☐ 3 Over 20% ☐ 5 14

Prices are generally lower in home market Up to 10% ☐ 2 10 to 20% ☐ 4 Over 20% ☐ 6

Don't know ☐ 7

3.2 If barriers to trade in business services were removed, would your company increase its **use of business service providers from other EU countries**?

Yes ☐ 1 No ☐ 2 Don't know ☐ 3 15

3.3 If the answer is yes, please provide a rough estimate of the percentage **increase in purchases** you would expect to make from suppliers abroad compared with last year's figure for purchases of services from all sources:

Up to 10% ☐ 1 10 to 20% ☐ 2 Over 20% ☐ 3 16

Don't know/not relevant ☐ 4

SURVEY QUESTIONNAIRES 3

3.4 Do you think your **company's performance** would be improved if greater cross-border competition in business services were to prevail in the EU?

No effect ☐ 1 Some effect ☐ 2 Major effect ☐ 3 17

Don't know/not relevant ☐ 4

3.5 If you think that there would be some effect, what would the benefits to your company be?

	Yes	No	Don't know	
(1) We would be able to reduce the cost of projects	☐ 1	☐ 2	☐ 3	18
(2) We would be able to improve the way the company is managed	☐ 1	☐ 2	☐ 3	19
(3) We would be able to increase the level of R&D activity	☐ 1	☐ 2	☐ 3	20
(4) We would be able to recruit additional personnel more easily	☐ 1	☐ 2	☐ 3	21
(5) We would be able to help subsidiaries abroad more efficiently	☐ 1	☐ 2	☐ 3	22
(6) We would be able to increase productivity	☐ 1	☐ 2	☐ 3	23
(7) We would be able to increase the level of exports	☐ 1	☐ 2	☐ 3	24

Please use the space below to describe any other benefits:

……………………………………………………………………………………………… 25-30

………………………………………………………………………………………………

………………………………………………………………………………………………

3.6 Is the development of **e-commerce** likely to result in your company increasing its purchase of business services from other EU countries?

Yes ☐ 1 No ☐ 2 Don't know ☐ 3 31

3.7 Is the introduction of the **euro** likely to lead to your company increasing its purchase of business services from other EU countries?

Yes ☐ 1 No ☐ 2 Don't know ☐ 3 32

3.8 In your view, are **new barriers to trade** in services developing and adding to/replacing old ones?

Yes ☐ 1 No ☐ 2 Don't know ☐ 3 33

3.9 **Overall**, do you think barriers in the EU to trade in business services have been increasing or decreasing over the past 5 to 10 years?

Decreasing ☐ 1 No change ☐ 2 Increasing ☐ 3 34

Thank you for answering this questionnaire. Please sign the questionnaire below and indicate whether you would be willing to be contacted by CSES to make a further input to the research.

Signature ………………………………………………………… 2000
35-42

Position …………………………………………………………

I would be willing to be contacted by CSES to make a further input to the research Yes ☐
43-50

If yes, please provide your contact details:

Tel: ………………………… Fax: ……………………… E-mail ……………………… 51

Please use the space below for any additional comments:

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

SURVEY DATA – BUSINESS SERVICE MARKETS 4

Overview

This appendix provides an analysis of the survey feedback relating to structural characteristics of the internal market for business services. The analysis is structured as follows:

- *Section 4.1* – examines the extent and nature of competition in domestic business service markets and draws out comparisons with export markets;
- *Section 4.*2 – investigates market dynamics including the factors influencing the decision by companies to purchase business services from domestic/non-domestic sources and the extent to which they purchase from abroad;
- *Section 4.*3 – analyses survey feedback on the level of cross-border trade in business services, the types of delivery methods used, and factors influencing export activity.

Each sub-section provides an analysis of the survey responses at an aggregate level and then examines the extent to which the findings are influenced by key variables – sector, firm size and country. The analysis contained in this section is based on the responses given by 307 providers and 198 users who participated in the research. However, as explained in the text, the denominators used vary according to the argument being developed.

4.1 Competitiveness of Business Service Markets

We begin by examining the survey feedback on the competitiveness of domestic markets. In the provider survey, a number of questions were asked concerning the competitiveness of business services markets distinguishing between domestic and export spheres. As Table 4.1 shows, domestic markets are generally perceived as being very competitive:

Table 4.1: Competitiveness of Domestic Markets – Overall

Provider Views	No.	%
1. Not very competitive – one or two firms dominate the market	21	6.8
2. Quite competitive – there is fair competition but not very intense	73	23.8
3. Very competitive – many firms have entered/may enter the market	210	68.4
Non responses	3	1.0
TOTAL	307	100.0

Source: CSES Analysis of survey data.

SURVEY DATA – BUSINESS SERVICE MARKETS

4

Over two-thirds (68.4%) of the surveyed business service providers stated that they considered their domestic markets to be ‘very competitive’ with many firms providing the same sorts of business services as themselves.

It is clearly of interest to examine views on the competitiveness of domestic markets from the perspective of different EU Member States. Table 4.2 provides an analysis of the survey feedback.

Table 4.2: Competitiveness of Domestic Markets – By Country

Country	Very Competitive		Quite Competitive		Not Competitive		Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
Austria	3	50.0	3	50.0	0	0.0	0	0.0	6	100.0
Belgium	5	62.5	2	25.0	1	12.5	0	0.0	8	100.0
Germany	32	80.0	5	12.5	2	5.0	1	2.5	40	100.0
Denmark	4	40.0	5	50.0	1	10.0	0	0.0	10	100.0
Spain	38	64.4	19	32.2	2	3.4	0	0.0	59	100.0
Finland	1	50.0	1	50.0	0	0.0	0	0.0	2	100.0
France	20	57.1	10	28.6	5	14.3	0	0.0	35	100.0
Greece	4	100.0	0	0.0	0	0.0	0	0.0	4	100.0
Ireland	2	40.0	2	40.0	1	20.0	0	0.0	5	100.0
Italy	34	75.6	7	15.6	3	6.7	1	2.2	45	100.0
Luxembourg	1	100.0	0	0.0	0	0.0	0	0.0	1	100.0
Netherlands	5	83.3	1	16.7	0	0.0	0	0.0	6	100.0
Portugal	3	75.0	1	25.0	0	0.0	0	0.0	4	100.0
Sweden	16	61.5	6	23.1	4	15.4	0	0.0	26	100.0
UK	42	75.0	11	19.6	2	3.6	1	1.8	56	100.0
TOTAL	210	68.4	73	23.8	21	6.8	3	1.0	307	100.0

Source: CSES Analysis of survey data.

Although again not clear-cut, Table 4.3 suggests – as might be expected - that larger business service providers tend to regard their domestic markets as more competitive than smaller providers.

SURVEY DATA – BUSINESS SERVICE MARKETS 4

Table 4.3: Competitiveness of Domestic Markets – By Firm Size

Size Bands	Very Competitive		Quite Competitive		Not Competitive		Non Responses		Total	
Employees	No	%	No	%	No	%	No	%	No	%
Below 10	6	60.0	4	40.0	0	0.0	0	0.0	10	100.0
10 to 50	24	57.1	15	35.7	2	4.8	1	2.4	42	100.0
50 to 250	106	68.4	36	23.2	12	7.7	1	0.6	155	100.0
250 to 500	35	71.4	7	14.3	6	12.2	1	2.0	49	100.0
500 to 1000	14	66.7	7	33.3	0	0.0	0	0.0	21	100.0
Over 1000	25	83.3	4	13.3	1	3.3	0	0.0	30	100.0
TOTAL	210	68.4	73	23.8	21	6.8	3	1.0	307	100.0

Source: CSES Analysis of survey data.

It is also clearly of interest to analyse the survey responses to this question from a sectoral perspective. Table 4.4 presents a breakdown of the responses concerning the competitiveness of domestic markets by different types of business service providers. Again, there are considerable variations in the survey responses.

Table 4.4: Competitiveness of Domestic Markets – By Sector

Country	Very Competitive		Quite Competitive		Not Competitive		Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	52	75.4	13	18.8	2	2.9	2	2.9	69	100.0
Personnel Recruitment	32	76.2	8	19.0	2	4.8	0	0.0	42	100.0
Leasing & Renting	34	77.3	7	15.9	3	6.8	0	0.0	44	100.0
Contract R & D	16	42.1	15	39.5	6	15.8	1	2.6	38	100.0
Technical Testing	4	30.8	8	61.5	1	7.7	0	0.0	13	100.0
Accountancy & Audit	18	62.1	8	27.6	3	10.3	0	0.0	29	100.0
Tax Services	9	90.0	1	10.0	0	0.0	0	0.0	10	100.0
Engineering Related	45	72.6	13	21.0	4	6.5	0	0.0	62	100.0
TOTAL	210	68.4	73	23.8	21	6.8	3	1.0	307	100.0

Source: CSES Analysis of survey data.

The analysis shown in Table 4.4 suggests that whereas domestic markets for IT Consultancy, Personnel Recruitment, Leasing and Renting, and Engineering Related Consultancy are all regarded as 'very competitive', this is less so with the other sectors covered by the study. A caution does, however, need to be added that in several cases (Technical Testing, Tax Services) the sample is not big enough to arrive at definitive conclusions.

SURVEY DATA – BUSINESS SERVICE MARKETS

Types of Competition in Domestic Markets

The survey also asked providers to describe the nature of the competition they faced in their domestic markets. Table 4.5 provides an overall analysis of the survey responses.

Table 4.5: Type of Competition in Domestic Markets - Overall

Response	**No**	**%**
(1) Most or all competitors are domestic	143	46.6
(2) The market is open with both domestic and firms from other EU countries competing	57	18.6
(3) The market is open with both domestic and non-EU country firms competing	9	2.9
(4) The market is open with domestic, EU and non-EU firms competing	78	25.4
(5) Most or the most important competitors are European	11	3.6
(6) Most or the most important competitors are non-European	4	1.3
Non responses	5	1.6
TOTAL	307	100.0

Source: CSES Analysis of survey data.

As can be seen, almost half (46.6%) the business service providers surveyed responded by saying that most or all of their competitors are domestic although a high proportion of firms (25.4%) indicated that competitors also came from EU and non-EU sources.

Table 4.6 on the next page breaks down the same data by country where business service providers are based. The analysis is limited to the three situations accounting for the bulk (278 or 90.6%) of the responses (see Table 4.5 – Rows 1, 2 and 4).

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Table 4.6: Type of Competition in Domestic Markets – By Country

Country	Most or all competitors are domestic		Domestic and other EU firms competing		Domestic, EU and non-EU firms competing		Other/Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
Austria	1	16.7	3	50.0	2	33.3	0	0.0	6	100.0
Belgium	4	50.0	2	25.0	2	25.0	0	0.0	8	100.0
Germany	19	47.5	9	22.5	5	12.5	7	17.5	40	100.0
Denmark	7	70.0	1	10.0	1	10.0	1	10.0	10	100.0
Spain	21	35.6	13	22.0	19	32.2	6	10.2	59	100.0
Finland	1	50.0	0	0.0	0	0.0	1	50.0	2	100.0
France	20	57.1	5	14.3	9	25.7	1	2.9	35	100.0
Greece	2	50.0	0	0.0	2	50.0	0	0.0	4	100.0
Ireland	0	0.0	2	40.0	3	60.0	0	0.0	5	100.0
Italy	20	44.4	10	22.2	10	22.2	5	11.1	45	100.0
Luxembourg	0	0.0	0	0.0	1	100.0	0	0.0	1	100.0
Netherlands	3	50.0	1	16.7	2	33.3	0	0.0	6	100.0
Portugal	1	25.0	1	25.0	2	50.0	0	0.0	4	100.0
Sweden	12	46.2	6	23.1	6	23.1	2	7.7	26	100.0
UK	32	57.1	4	7.1	14	25.0	6	10.7	56	100.0
TOTAL	143	46.6	57	18.6	78	25.4	29	9.4	307	100.0

Source: CSES Analysis of survey data.

It is difficult to detect any clear patterns in Table 4.6. Thus, EU Member States where competition in domestic markets comes primarily from other domestic firms include a mix of small/large countries, countries with relatively well-developed/less developed business services sectors, and countries that are relatively significant/less significant export markets. Certainly (and as might be expected), several countries - Ireland and Luxembourg in particular – stand out as having heavily internationalised domestic markets. Conversely, in Denmark, France and the UK, competition in domestic markets would appear to come primarily from domestic sources. Given the relatively small numbers we have not weighted the survey results to reflect the importance of different export markets. A larger sample would have made this possible and might have pointed to clearer patterns.

Table 4.7 analyses the data on domestic competition from a sectoral perspective. The analysis is limited to the three situations accounting for the bulk (278 or 90.6%) of the responses (see Table 4.5 – Rows 1, 2 and 4).

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Table 4.7: Type of Competition in Domestic Markets – By Sector

Country	Most or all competitors are domestic		Domestic and other EU firms competing		Domestic, EU and non-EU firms competing		Other/Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	20	29.0	10	14.5	32	46.4	7	10.1	69	100.0
Personnel Recruitment	25	59.5	5	11.9	11	26.2	1	2.4	42	100.0
Leasing & Renting	16	36.4	8	18.2	14	31.8	6	13.6	44	100.0
Contract R & D	13	34.2	12	31.6	6	15.8	7	18.4	38	100.0
Technical Testing	4	30.8	4	30.8	2	15.4	3	23.0	13	100.0
Accountancy & Audit	20	69.0	3	10.3	2	6.9	4	13.8	29	100.0
Tax Services	8	80.0	1	10.0	1	10.0	0	0.0	10	100.0
Engineering Related	37	59.7	14	22.6	10	16.1	1	1.6	62	100.0
TOTAL	143	46.6	57	18.6	78	25.4	29	9.4	307	100.0

Source: CSES Analysis of survey data.

The above analysis highlights quite pronounced differences between the business service sectors to the question of domestic market competitiveness. Thus, whereas in the case of the IT Consultancy, almost half the firms (46.4%) stated that their markets were open with providers from domestic, EU and non-EU sources competing with each other, the extent of international competition is far less pronounced with the other sectors. The extent of international competition appears to be less in the Accountancy and Audit, and Tax Services, fields.

Table 4.8: Type of Competition in Domestic Markets – Firm Size

Size Bands	Most or all competitors are domestic		Domestic and other EU firms competing		Domestic, EU and non-EU firms competing		Other/Non Responses		Total	
Employees	No	%	No	%	No	%	No	%	No	%
Below 10	3	30.0	2	20.0	4	40.0	1	10.0	10	100.0
10 to 50	21	50.0	11	26.2	6	14.3	4	9.5	42	100.0
50 to 250	80	51.6	29	18.7	32	20.6	14	9.0	155	100.0
250 to 500	22	44.9	6	12.2	14	28.6	7	14.3	49	100.0
500 to 1000	8	38.1	3	14.3	8	38.1	2	9.5	21	100.0
Over 1000	9	30.0	6	20.0	14	46.7	1	3.3	30	100.0
TOTAL	143	46.6	57	18.6	78	25.4	29	9.4	307	100.0

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Source: CSES Analysis of survey data.

With the exception of the very smallest firms (where the relatively small size of the sample may lead to unreliable results), there is a clear trend: the smaller the business service provider, the more likely it is that competition in domestic markets will come primarily from other local firms. Conversely, larger providers tend to compete more with rivals from other EU Member States or from outside the EU in their domestic markets. These patterns are not surprising.

Competitiveness of Domestic Markets Compared With Export Markets

Business service providers were also asked to compare the competitiveness of their domestic markets with markets in other EU Member States. A high proportion of firms (42.3%) stated that they were not in a position to judge (in most cases this was because the firms were not exporting services). However, as Table 4.9 shows, amongst the remaining replies the overwhelming view was that export markets are either similar or more competitive.

Table 4.9:Competitiveness of Domestic/Other EU Markets – Overall

Export Markets are:	**No.**	**%**
Less competitive	29	9.5
Similar competitiveness	114	37.1
More competitive	34	11.1
Don't know or non-response	130	42.3
TOTAL	307	100.0

Source: CSES Analysis of survey data.

On the question of price differentials, view are more or less evenly divided between those stating that prices were higher in their home markets than in markets elsewhere in the EU, and those expressing the opposite view. A significant proportion (14.0%) indicated that there are no differences in price levels. It should be noted that there was a high level of 'don't know' responses to this question. Table 4.10 summarises the responses.

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Table 4.10:Price Differentials - Domestic/Other EU Markets

Price Differentials	Domestic Markets		Export Markets		Total	
	No	%	No	%	No	%
Up to 10% higher	20	6.5	20	6.5	40	13.0
Between 10% and 20% higher	18	5.9	25	8.1	43	14.0
Over 20% higher	9	2.9	11	3.6	20	6.5
No difference	0	0	0	0	43	14.0
Don’t know or non response	0	0	0	0	161	52.5

Source: CSES Analysis of survey data.

Table 4.11 provides a breakdown by country where business service providers are based on their perceptions regarding the competitiveness of other EU markets.

Table 4.11: Competitiveness of Domestic/Other EU Markets – By Country

Country	Less Competitive		Similar Competitiveness		More Competitive		Don’t Know Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
Austria	0	0.0	1	16.7	2	33.3	3	50.0	6	100.0
Belgium	1	12.5	4	50.0	1	12.5	2	25.0	8	100.0
Germany	3	7.5	15	37.5	4	10.0	18	45.0	40	100.0
Denmark	0	0.0	4	40.0	3	30.0	3	30.0	10	100.0
Spain	5	8.5	19	32.2	9	15.3	26	44.1	59	100.0
Finland	0	0.0	0	0.0	1	50.0	1	50.0	2	100.0
France	6	17.1	11	31.4	6	17.1	12	34.3	35	100.0
Greece	0	0.0	1	25.0	0	0.0	3	75.0	4	100.0
Ireland	0	0.0	4	80.0	1	20.0	0	0.0	5	100.0
Italy	1	2.2	11	24.4	3	6.7	30	66.7	45	100.0
Luxembourg	0	0.0	0	0.0	0	0.0	1	100.0	1	100.0
Netherlands	2	33.3	1	16.7	0	0.0	3	50.0	6	100.0
Portugal	0	0.0	2	50.0	0	0.0	2	50.0	4	100.0
Sweden	1	3.8	16	61.6	1	3.8	8	30.8	26	100.0
UK	10	17.9	24	42.9	4	7.1	18	32.1	56	100.0
TOTAL	29	9.4	114	37.1	34	11.1	130	42.4	307	100.0

Source: CSES Analysis of survey data.

There is quite a close correlation between the survey responses shown above and those analysed earlier concerning the competitiveness of domestic markets (see Table 4.2). More

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specifically, in countries where domestic business service markets are generally perceived as being characterised by relatively low levels of competition, a comparatively high proportion of providers stated that export markets are 'more competitive (and visa-versa).

From the perspective of firm size, the earlier conclusion concerning the competitiveness of domestic markets would also appear to hold true for export markets, i.e. smaller business service providers tend to regard their markets as less competitive than larger providers. An analysis of the responses broken down by firm size is shown in Table 4.12.

Table 4.12: Competitiveness of Domestic/Other EU Markets – By Firm Size

Size Bands	Less Competitive		Same Competitiveness		More Competitive		Don't know Non Responses		Total	
Employees	No	%	No	%	No	%	No	%	No	%
Below 10	2	20.0	5	50.0	0	0.0	3	30.0	10	100.0
10 to 50	3	7.1	10	23.8	1	2.4	28	66.6	42	100.0
50 to 250	13	8.4	58	37.4	14	9.0	70	45.2	155	100.0
250 to 500	6	12.2	16	32.7	13	26.5	14	28.5	49	100.0
500 to 1000	2	9.5	10	47.6	2	9.5	7	33.3	21	100.0
Over 1000	3	10.0	15	50.0	4	13.3	8	26.7	30	100.0
TOTAL	29	9.4	114	37.1	34	11.1	130	42.3	307	100.0

Source: CSES Analysis of survey data.

To complete the analysis in this section, Table 4.13 breaks down the survey responses on the competitiveness of domestic/other EU business services markets by sector.

Table 4.13: Competitiveness of Domestic/Other EU Markets – By Sector

Country	Less Competitive		Similar Competitiveness		More Competitive		Don't know Non Responses		Total	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	7	10.1	20	29.0	6	8.7	36	52.2	69	100.0
Personnel Recruitment	8	19.0	11	26.2	4	9.5	19	45.2	42	100.0
Leasing & Renting	5	11.4	15	34.1	5	11.4	19	43.2	44	100.0
Contract R & D	1	2.6	19	50.0	8	21.1	10	26.3	38	100.0
Technical Testing	2	15.4	7	53.8	3	23.1	1	7.7	13	100.0
Accountancy & Audit	2	6.9	11	37.9	0	0.0	16	55.2	29	100.0
Tax Services	0	0.0	1	10.0	0	0.0	9	90.0	10	100.0
Engineering Related	4	6.5	30	48.4	8	12.9	20	32.2	62	100.0
TOTAL	29	9.4	114	37.1	34	11.1	130	42.3	307	100.0

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Source: CSES Analysis of survey data.

Here again the patterns detected in relation to the competitiveness of domestic business service markets are reflected in the findings for export markets. Thus, in sectors such as Contract R&D, Accountancy and Audit, and Technical Testing where a high proportion of respondents stated that their domestic markets were 'not competitive' (see Table 4.4), a relatively high proportion of firms stated that export markets were 'more competitive'.

Conclusions – Competitiveness off Business Service Markets

Overall, the conclusion to be drawn from the analysis in this sub-section is that whereas domestic markets for IT Consultancy, Personnel Recruitment, Leasing and Renting, and Engineering Related Consultancy are all regarded as 'very competitive', this is less so with the other sectors covered by the study. A caution does, however, need to be added that in several cases (Technical Testing, Tax Services) the sample is not big enough to arrive at definitive conclusions. There is a perception that most competitors are domestic (see Table 4.5, row (1) where 49.6% stated that this was the case).

There are quite pronounced differences between the business service sectors to the question of export market competitiveness. Thus, whereas in the case of the IT Consultancy, almost half the firms (46.4%) stated that their markets were open with providers from domestic, EU and non-EU sources competing with each other, the extent of international competition is far less pronounced with the other sectors. The extent of international competition appears to be less in the Accountancy and Audit, and Tax Services fields. This is perhaps unsurprising since much of the subject matter of accountants and tax advisers relates to national laws.

Finally it was clear that large providers tend to compete internationally whereas smaller providers tend to compete domestically.

4.2 Market Dynamics – Demand and Supply Side Perspectives

Having examined views on the competitiveness of domestic and export markets for business services, this section considers some of the factors that may help to explain the findings. To this end, this section considers:

- Factors influencing the way in which business service users go about identifying a suitable supplier;

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- More specifically, the decision to purchase from domestic or other EU sources and the level of purchasing from other EU sources,

- How providers deliver business services across borders and the extent to which companies export services to other EU Member States.

Factors Influencing the Choice of Business Service Providers

Before considering the factors that influence the decision to purchase business services from another EU Member State, it is helpful to take a step backwards by examining the criteria used by companies to identify suitable suppliers, whether from domestic or other EU sources. Table 4.14 identifies the relative importance of the criteria for selecting a business service provider.

Table 4.14: Factors Influencing Choice of Providers - Overall

Selection Criteria	**Very Important**		**Quite Important**		**Not Important**		**Non Responses**		**Total**	
	No	%	No	%	No	%	No	%	No	%
(1) Quality	157	79.3	15	7.6	14	7.1	12	6.0	198	100.0
(2) Expertise	121	61.1	52	26.3	9	4.5	16	8.1	198	100.0
(3) Local presence	35	17.7	87	43.9	52	26.2	24	12.2	198	100.0
(4) Confidence	114	57.6	54	27.3	13	6.5	17	8.6	198	100.0
(5) Quality standards	94	47.5	56	28.3	24	12.1	24	12.1	198	100.0
(6) Price	90	45.4	70	35.3	20	10.1	18	9.2	198	100.0

Source: CSES Analysis of survey data.

As can be seen from Table 4.14, the two factors that stand out as being most important to companies in selecting a business service provider are the quality of the service being offered and expertise of the provider. In contrast, whether or not the business service provider has a local presence is regarded as comparatively unimportant with only 35 (17.7%) of the 198 companies surveyed stating that this was a ‘very important’ criterion.

Table 4.15 analyses the same survey data from a sectoral perspective. The analysis is limited to factors influencing the choice of providers based in the home market - the sample sizes for each of the sectors are not large enough (e.g. there are only 14 instances where users purchased IT Consultancy services from a provider based in another country) to undertake a parallel analysis for providers from other EU Member States although this would undoubtedly be more relevant Likewise, the analysis shown in Table 4.15 is limited to the proportion of users stating that the various selection criteria are ‘very

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important'. In the case of the sectors, the denominators (listed in the second row of Table 4.15) are the number of instances where a user purchased the business services in question.

Table 4.15: Factors Influencing Choice of Providers (Home Market) – By Sector

Selection Criteria	**Business Service Sectors**							
Denominators	132	115	107	128	109	36	83	83
	IT	Lab Rec	Leasing	Account	Tax	R&D	Tech	Engineer
(1) Quality	106 (80.3)	96 (83.5)	88 (82.2)	102 (79.6)	92 (84.4)	28 (77.8)	67 (80.7)	68 (81.9)
(2) Expertise	81 (61.3)	70 (60.9)	63 (58.8)	81 (63.3)	71 (65.1)	23 (63.9)	55 (66.2)	51 (61.4)
(3) Local presence	17 (12.8)	18 (15.6)	13 (12.1)	19 (14.8)	14 (12.8)	5 (13.9)	17 (20.5)	17 (20.5)
(4) Confidence	78 (59.1)	65 (56.5)	62 (57.9)	79 (61.7)	69 (63.3)	24 (66.7)	47 (56.6)	53 (63.8)
(5) Quality standards	65 (49.2)	58 (50.4)	44 (41.1)	60 (46.8)	56 (51.3)	20 (55.5)	45 (54.2)	51 (61.4)
(6) Price	67 (50.7)	54 (46.9)	50 (46.7)	60 (46.8)	53 (48.6)	15 (41.7)	40 (48.2)	38 (45.7)

Source: CSES Analysis of survey data.

Overall, and as might be expected there is very little variation in the importance of the various selection criteria from one business service sector to another. An exception is the requirement for business service providers to have a local presence in the domestic market. This, it will be recalled, is generally not considered important as a factor determining the choice of business service provider. However, in the case of Technical Testing and Engineering Related Consultancy it stands out as relatively important although even here it is far from being one of the main factors users take into account.

Below, we compare factors influencing the choice of a business service provider depending on whether the supplier is located in the same country as the buyer or another EU country. In Table 4.16 we have limited the analysis to the number of cases where a factor – quality, expertise, local presence, etc - is ranked as being 'very important' (Column 2 – Home Market/Column 5 – Other EU Markets). In relation to each of the six factors, the denominator is based on the responses to a separate question where users were asked to indicate whether or not they had purchased different types of services from suppliers in their home markets/other EU markets.

By way of example, in Table 4.16 the highest ranked factor - in the case of purchases from suppliers located in both home and other EU markets - is 'quality'. Analysis of the survey responses indicates that a total of 793 purchases were made from domestic suppliers by the 198 firms making up the sample. In 557 (70.2%) of these cases, 'quality' was ranked as a 'very important' factor determining the choice of business service

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provider. Likewise, a total of 97 purchases were made from providers based in other EU countries and in 81 (83.5%) of these cases, 'quality' was also ranked as 'very important.

Table 4.16: Factors Influencing Choice of Providers from Home/Other EU Markets

Selection Criteria	Suppliers from Home Market			Suppliers from Other EU Markets		
	No	Total	%	No	Total	%
(1) Quality	557	793	70.2	81	97	83.5
(2) Expertise	495	793	62.4	65	97	67.0
(3) Local presence	120	793	15.1	18	97	18.5
(4) Confidence	477	793	60.1	63	97	64.9
(5) Quality standards	340	793	42.8	51	97	52.5
(6) Price	377	793	47.5	44	97	45.3

Source: CSES Analysis of survey data.

The analysis suggests that 'quality', 'expertise' and 'confidence' are the main factors determining the choice of a business service supplier and that there is no significant difference in this respect in evaluating the merits of domestic as opposed to other EU providers. In both cases, these factors are ranked above 'price'. Likewise, as noted earlier, whether or not a provider has a local presence is generally regarded as unimportant.

These findings have important implications for the study in pointing to the potential to expand cross-border transactions in the business services field if remaining barriers to trade are removed.

Extent and Source of Business Service Purchases from Other EU Countries

What then does the research tell us about the actual level of cross-border trade in business services?

In the survey, we asked firms where they had bought business services from, i.e. from domestic suppliers or organisations based in other EU Member States. Table 4.17 provides an analysis of the extent to which users purchase different types of business services from domestic as opposed to other EU sources. We have taken the total sample of 198 companies as the denominator for the % columns shown in the analysis. An alternative approach would be to take the combined totals for domestic/other EU sources as a denominator, but closer analysis of the survey data suggests that this is inappropriate because some firms purchase the same type of business services from multiple sources.

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Table 4.17: Purchase of Business Services from Domestic/Other EU Sources – By Sector

Sectors	Own Country		Other Countries		Neither		Total	
	No	%	No	%	No	%	No	%
IT Consultancy	132	66.7	14	7.1	52	26.2	198	100.0
Personnel Recruitment	115	58.1	8	4.0	75	37.9	198	100.0
Leasing and Renting	107	54.0	9	4.5	82	41.4	198	100.0
Contract R & D	36	18.2	8	4.0	154	77.8	198	100.0
Technical Testing	83	41.9	20	10.1	95	48.0	198	100.0
Accountancy and Audit	128	64.6	9	4.5	61	30.8	198	100.0
Tax Services	109	55.1	8	4.0	81	40.9	198	100.0
Engineering Related Consultancy	83	41.9	21	10.6	94	47.5	198	100.0

Source: CSES Analysis of survey data

There are several observations to be made about the analysis shown in Table 4.17. First, the overwhelming majority of firms purchase business services from domestic rather than other EU sources – this applies across the full range of services. Second, the pattern shown in Table 4.17 concerning the sourcing of business services by users broadly reflects the findings analysed earlier regarding the extent to which different types of business service providers are engaged in cross-border trade: two sectors - Engineering Related Consultancy and Technical Testing stand out as more ‘Europeanised’ than others from both perspectives. Conversely, in both analyses, Accountancy and Audit, and Tax Services, appear to be the least ‘Europeanised’.

Table 4.18 identifies the countries from which business services were most frequently purchased. We have again taken the total sample of 198 users as a denominator. It should be noted that most companies indicated that they purchased services from more than one EU member state. In the table, the ‘Yes’ columns indicate the number of companies stating that they had purchased business services from the country concerned.

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Table 4.18: Source of Business Services Purchased from Other EU Countries

Country	Yes		No		Total	Country	Yes		No		Total
	No	%	No	%	No %		No	%	No	%	No %
A	9	7.3	189	92.7	198 (100.0)	I	10	8.2	188	91.8	198 (100.0)
B	5	4.1	193	95.9	198 (100.0)	IRL	4	3.3	194	96.7	198 (100.0)
D	28	22.9	170	77.1	198 (100.0)	L	0	0.0	198	100.0	198 (100.0)
DK	4	3.3	194	96.7	198 (100.0)	NL	9	7.3	189	92.7	198 (100.0)
E	4	3.3	194	96.7	198 (100.0)	P	3	2.6	195	97.4	198 (100.0)
F	14	11.5	184	88.5	198 (100.0)	SW	8	6.6	191	93.4	198 (100.0)
FIN	1	0.8	198	99.2	198 (100.0)	UK	21	17.2	177	82.8	198 (100.0)
GR	2	1.6	196	98.4	198 (100.0)						

Source: CSES analysis of survey data

Perhaps not surprisingly, the larger EU Member States (with the exception of Spain) account for the bulk of business services purchased from suppliers located in another country.

Table 4.19 analyses the proportion of total expenditure on services purchased from other EU Member States. These data provide the most obvious way of establishing what proportion of business service users from the sample of 198 firms had purchased services from suppliers based in another country.

Table 4.19: Proportion of Expenditure on Business Services Accounted for By Purchases from Other EU Member States

Proportion of Total Expenditure	Analysis of Responses	
	No	%
Nil	17	8.6
Less than 5%	34	17.2
5% to 10%	8	4.0
10% to 20%	14	7.1
20% to 40%	1	0.5
Over 40%	1	0.5
Don't know or no response	123	62.1
TOTAL	198	100.0

Source: CSES Analysis of survey data

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Based on the expenditure patterns shown above, the analysis suggests that only 58 (29.3%) of the 198 business service users had used suppliers based in another EU Member State.

Not surprisingly, the level of purchases from other countries accounts for a relatively small proportion of overall expenditure on business services for most firms. It should be noted that there were a large number of 'don't knows' and non-responses to this question. This does not of course mean that the companies concerned had not purchased business services from another EU country. It could simply be that the extent of such activities cannot be precisely quantified. There is evidence from the case studies to support this conclusion, particularly with larger companies and/or where the nationality of the supplier is not clear.

A particularly relevant consideration here is whether the level of purchasing of business services from other EU sources is related to firm size. It is perhaps to be expected that larger companies, because they usually have the expertise and easier access to information, will be more inclined to select suppliers from other countries than smaller firms. Given the level of 'don't knows' and non-responses to this part of the survey, breaking down the responses by firm size and other variables is difficult and the results shown in Tables 4.20 and 4.21 therefore need to be treated with caution.

Table 4.20: Proportion of Expenditure on Business Services Accounted for By Purchases from Other EU Member States – By User Firm Size

Purchases	**Business User Firm Size Categories (Employees)**						
	Below 10	10-50	50-250	250-500	500-1000	Over 1000	Total
Nil	1 (5.9)	4 (23.5)	7 (41.2)	4 (23.5)	1 (5.9)	0 (0.0)	17 (100.0)
Less than 5%	1 (2.9)	4 (11.7)	12 (35.3)	10 (29.4)	4 (11.7)	3 (9.0)	34 (100.0)
5% to 10%	0 (0.0)	0 (0.0)	5 (62.5)	0 (0.0)	1 (12.5)	2 (25.0)	8 (100.0)
10% to 20%	0 (0.0)	2 (14.3)	7 (50.0)	2 (14.3)	0 (0.0)	3 (21.4)	14 (100.0)
20% to 40%	0 (0.0)	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)	1 (100.0)
Over 40%	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (100.0)
Don't know/no answer	6 (4.8)	13 (10.5)	62 (50.4)	23 (18.7)	12 (9.7)	7 (5.9)	123 (100.0)
TOTAL	8 (4.0)	23 (11.6)	94 (47.5)	40 (20.2)	18 (9.1)	15 (7.6)	198 (100.0)

Source: CSES Analysis of survey data

Table 4.20 suggests that contrary to expectations, medium-sized companies employing between 50 and 250 people – rather than the largest firms - account for a disproportionate

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share of the survey respondents indicating that their purchases from other EU Member States accounted for 5% or more of total spending on business services. The explanation for this may be that larger companies with sites in different countries are more likely to source their business services from local providers whereas small and medium-sized companies are not usually in a position to do this.

Table 4.21 analyses the survey data on the purchasing of business services from other EU Member States by the industrial sector classification of the users.

Table 4.21: Proportion of Expenditure on Business Services Accounted for By Purchases from Other EU Member States – By User Sector

Purchases	**Business User Sectors**						
	Manuf	Distribution	Services	Energy	Construct	Other	Total
Nil	6 (35.3)	1 (5.9)	8 (47.0)	0 (0.0)	0 (0.0)	2 (11.8)	17 (100.0)
Less than 5%	12 (35.3)	0 (0.0)	17 (50.0)	1 (2.9)	2 (5.9)	2 (5.9)	34 (100.0)
5% to 10%	4 (50.0)	1 (12.5)	1 (12.5)	1 (12.5)	0 (0.0)	1 (12.5)	8 (100.0)
10% to 20%	6 (42.8)	0 (0.0)	5 (35.7)	0 (0.0)	1 (7.1)	2 14.4)	14 (100.0)
20% to 40%	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (100.0)
Over 40%	0 (0.0)	0 (0.0)	1 (100.0)	0 (0.0)	0 (0.0)	0 (0.0)	1 (100.0)
Don't know/no answer	44 (35.7)	4 (3.2)	51 (41.4)	2 (1.6)	6 (4.9)	16 (13.2)	123 (100.0)
TOTAL	72 (37.5)	6 (3.0)	84 (42.4)	4 (2.0)	9 (4.5)	23 (10.6)	198 (100.0)

Source: CSES Analysis of survey data

Compared with the relative size of the different sub-samples, manufacturing companies would appear to spend a relatively high proportion of their expenditure on business services on purchases from other EU Member States (in particular, 50% of the respondents stating that these purchases accounted for between 5 and 10% of total expenditure are manufacturing companies although they represent 37% of the sample). Otherwise, the relatively small size of the different sector samples makes it difficult to arrive at definitive conclusions.

Comparison - Domestic and Other EU Business Service Providers

To help explain the findings reported above, it is helpful to examine the research findings on how, from a user perspective, domestic business service providers compare with those based in other EU Member States.

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As a starting point, Table 4.22 provides an analysis of how domestic business service providers compare with those based in other countries from the point of view of price and the range and quality of services.

Table 4.22: Domestic/Other EU Providers - Price, Range of Services and Quality – Overall

Domestic suppliers have:	Agree		Disagree/Non Resp		Total	
	No	%	No	%	No	%
(1) Wider range of services	79	39.9	119	60.1	198	100.0
(2) Generally cheaper services	89	44.9	109	55.1	198	100.0
(3) Generally higher quality services	76	38.3	119	61.7	198	100.0

Source: CSES Analysis of survey data

The analysis shown above suggests that, overall, domestic business service providers are not seen as having a clear advantage over those from other EU Member States in terms of price, the range of services offered, or quality. These findings should, however, be treated with some caution. In particular, fact that some companies have from the sample had not used services from abroad could be interpreted as meaning that they do not consider them competitive on these key factors. If this interpretation is accepted as valid, then the proportion of companies considering that domestic suppliers compare more favourably than suppliers from other countries would be higher.

Table 4.23 analyses the same data from a sectoral perspective, i.e. highlighting the proportion of business service users who agreed with the proposition that domestic suppliers offer better services than those from other EU Member States in terms of price, the range of services offered, and quality. The denominator (shown in Column 2 of the table) used is the number of users who stated that they had used a particular type of business service.

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Table 4.23: Comparison Between Domestic/Other EU Providers on Price, Range of Services and Quality – By Sector

Sectors	Den	Range		Price		Quality	
	No	No	%	No	%	No	%
IT Consultancy	132	14	10.6	15	11.4	4	3.0
Personnel Recruitment	115	11	9.5	18	15.6	13	11.3
Leasing and Renting	107	14	13.1	9	8.4	11	10.3
Contract R & D	36	13	36.1	7	19.4	8	22.2
Technical Testing	83	12	14.4	6	7.2	10	12.0
Accountancy and Audit	128	6	4.7	8	6.2	8	6.2
Tax Services	109	8	7.3	14	12.8	3	2.7
Engineering Related Cons	83	1	1.2	12	14.4	19	22.9

Source: CSES Analysis of survey data

As can be seen, there is a considerable variation in the findings across different business services sectors. Thus, to a greater extent than other sectors, domestic Contract R&D suppliers are seen as comparing relatively well with suppliers from other EU countries while the opposite view applies to Accountancy and Audit and Taxation Services.

4.3 Current Level of Cross Border Trade

We now turn to the provider perspective and examine the current level of cross-border trade. Business service providers were asked for information on the extent to which they sell services in other EU markets and the way in which this is done.

We began by asking firms to indicate the extent to which they were involved in cross-border activities. Table 4.24 provides an overall analysis the responses to this question.

Table 4.24: Extent of Involvement in Cross Border Trade

Response	No	%
1. We have never tried to sell services to client in other EU countries	71	23.1
2. We considered selling services in other EU countries but did not go ahead	21	6.8
3. We have sold services to clients in other EU countries but are not doing so now	21	6.8
4. We have sold services to clients in other EU countries and continue to do so	165	53.7
5. Non responses	29	9.4
TOTAL	307	100.0

Source: CSES analysis of survey data

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As can be seen, at the time of the survey just over half the sample of business service providers – 165 (53.7%) companies - were engaged in cross-border trade within the EU. A further 21 (6.8%) had done so in the past. Twenty-nine firms (9.4% of the sample) did not respond to this question. An analysis of the non-responses suggests show that the firms concerned were spread across a wide range of sectors and countries (eight member states with France, Germany and the UK accounting for half of all non-responses). An analysis of the non-responses by sector is shown below.

Table 4.25: Cross-Border Trade - Analysis of Non Responses by Sector

Sector of Providers not Responding to Q. 3.1	No	%	Sample	%
IT Consultancy	14	48.3	69	20.3
Personnel Recruitment	3	10.3	42	7.1
Leasing and Renting	4	13.8	44	9.1
Contract R & D	2	6.9	38	5.2
Technical Testing	0	0.0	13	0.0
Accountancy and Audit	4	13.8	29	13.8
Tax Services	2	6.9	10	20.0
Engineering Related Consultancy	0	0.0	62	0.0
Total	29	100.0	307	9.4

Source: CSES analysis of survey data

As can be seen, the IT Consultancy sector accounts for almost half (48.3%) of the non-responses. There is no obvious explanation for the pattern of non-responses. At first sight it could be speculated that the firms concerned are multinationals with operations in different countries but with little cross-border trade. However, this is not borne out by an analysis of Question 3.2 concerning modes of delivery in different markets (in all cases but one, the firms concerned indicated that they were not trading with any of the other EU Member States, including not via local operations).

Table 4.26 provides an analysis by sector of the 165 business service providers who said they are currently engaged in cross-border trade. Three sectors stand out as being characterised by an especially high level of cross-border trading – Contract R&D, Engineering Related Consultancy, and Technical Testing.

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Table 4.26: Extent of Involvement in Cross Border Trade – By Sector

Sectors	Yes		No		No Response		Total	
	No	%	No	%	No	%	No	%
IT Consultancy	32	46.4	23	33.3	14	20.3	69	100.0
Personnel Recruitment	19	45.2	20	47.7	3	7.1	42	100.0
Leasing & Renting	20	45.5	20	45.4	4	9.1	44	100.0
Contract R & D	30	78.9	6	15.8	2	5.3	38	100.0
Accountancy & Audit	12	41.4	13	44.8	4	13.8	29	100.0
Tax Services	2	20.0	6	60.0	2	20.0	10	100.0
Engineering Related	38	61.3	24	38.7	0	0.0	62	100.0
Technical Testing	12	92.3	1	7.7	0	0.0	13	100.0
TOTAL	165	53.7	113	36.9	29	9.4	307	100.0

Source: CSES analysis of survey data

Table 4.27 provides an analysis of the same data by firm size. Perhaps not surprisingly, larger business service providers are more likely to be engaged in cross-border trade than smaller companies: taking the category of SMEs (1-250 employees) as a whole, a total of 96 providers (46.4% of the total classified as SMEs) indicated that they were currently selling services to clients located in other EU Member States. This compares with 69 (69.0%) of the 307 business service providers classified as large companies.

Table 4.27: Extent of Involvement in Cross Border Trade – By Firm Size

Size Bands	Yes		No		Non Response		Total	
Employees	No	%	No	%	No	%	No	%
Below 10	6	60.0	4	40.0	0	0.0	10	100.0
10 to 50	16	38.1	21	50.0	5	11.9	42	100.0
50 to 250	74	47.7	64	41.3	17	11.0	155	100.0
250 to 500	32	65.3	14	28.6	3	6.1	49	100.0
500 to 1000	15	71.4	4	19.1	2	9.5	21	100.0
Over 1000	22	73.3	6	20.0	2	6.7	30	100.0
TOTAL	165	53.7	113	36.9	29	9.4	307	100.0

Source: CSES Analysis of survey data.

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To complete the analysis, below we break down the data on selling business services to clients in other EU Member States by country – indicating in Table 4.28(a) where the companies concerned said they are based and showing in Table 4.28(b) where they are exporting to.

Table 4.28(a): Extent of Involvement in Cross Border Trade – By Country of Origin

Countries	Extent of Exporting to Other EU Member States										Total	
	Never Exported		Considered But Did Not Go Ahead		Exported in Past But Not Now		Currently Exporting		Non Responses			
	No	%	No	%	No	%	No	%	No	%	No	%
Austria	3	50.0	0	0.0	1	16.7	2	33.3	0	0.0	6	100.0
Belgium	0	0.0	1	12.5	0	0.0	5	62.5	2	25.0	8	100.0
Denmark	1	10.0	0	0.0	0	0.0	8	80.0	1	10.0	10	100.0
Germany	11	27.5	6	15.0	5	12.5	16	40.0	2	5.0	40	100.0
Greece	1	25.0	1	25.0	0	0.0	2	50.0	0	0.0	4	100.0
Spain	11	18.6	3	5.1	6	10.2	32	54.2	7	11.9	59	100.0
Finland	0	0.0	0	0.0	0	0.0	2	100.0	0	0.0	2	100.0
France	2	5.7	2	5.7	3	8.6	20	57.1	8	22.9	35	100.0
Ireland	0	0.0	0	0.0	1	20.0	4	80.0	0	0.0	5	100.0
Italy	21	46.7	5	11.1	2	4.4	10	22.2	7	15.6	45	100.0
Netherlands	2	33.3	1	16.7	0	0.0	3	50.0	0	0.0	6	100.0
Portugal	1	25.0	0	0.0	0	0.0	2	50.0	1	25.0	4	100.0
Sweden	6	23.1	0	0.0	0	0.0	20	76.9	0	0.0	26	100.0
United Kingdom	12	21.4	2	3.6	2	3.6	39	69.6	1	1.8	56	100.0
TOTAL	71	23.1	21	6.8	21	6.8	165	53.7	29	9.4	307	100.0

Source: CSES Analysis of survey data.

Taking the column 'Currently Exporting', whilst not clear-cut, in smaller countries – Belgium, Denmark, Finland, Ireland, and Sweden – a relatively high proportion of business service providers are presently selling services to clients in other EU Member States. The explanation for this could be that because of the comparatively small size of their domestic markets, exporting is an obvious way of generating new business. Conversely, several larger EU Member States – Germany and Italy in particular – rank towards the bottom of the table.

Table 4.28(b) on the destination of business service exports is based on the survey feedback from the 186 companies that have either exported in the past an/or who are doing so now (Rows 3 and 4 of Table 4.24). The analysis shows how many companies have exported/are exporting to clients in the various countries.

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Table 4.28(b): Extent of Involvement in Cross Border Trade – By Destination of Exports

Destination of Exports	Number/% of Companies	
	No	%
Austria	24	3.4
Belgium/Lux	65	9.3
Denmark	32	4.6
Germany	95	13.6
Greece	23	3.3
Spain	59	8.4
Finland	25	3.6
France	87	12.4
Ireland	29	4.1
Italy	48	6.9
Netherlands	60	8.6
Portugal	38	5.4
Sweden	34	4.9
United Kingdom	80	11.4
TOTAL	699	100.0

Source: CSES Analysis of survey data.

Further analysis of the survey data indicates that at the time of the survey, the 186 providers that had exported in the past or were doing so at the time of the were each selling services to an average of just over four other EU markets. Table 4.29(a) provides a breakdown of the survey showing the number/percentage of firms selling to one or more export markets – one indicator if the extent to which business service providers are taking advantage of opportunities presented by the Internal Market. It should be noted that only 166 of the 186 firms provided the required information.

Table 4.29(a): Cross-Border Trade – Number of Export Markets

Firms	Number of Export Markets													
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Total

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Number	18	15	71	19	9	8	5	2	4	5	1	2	2	5	166
Percentage	10.8	9.0	42.8	11.4	10.2	4.8	3.0	1.2	2.4	3.0	0.6	1.2	1.2	3.0	100.0

Source: CSES analysis of survey data

Not surprisingly, the analysis shows that the majority of firms focus on a relatively small number of export markets elsewhere in the EU with far fewer companies selling to clients in more than half the countries. Again not surprisingly, this pattern is even more pronounced with firms that exported in the past but no longer do so now. Later in this section we further analyse these data to examine whether the number of export markets has an influence on the type of methods used by firms to deliver business services.

An obvious question to ask is whether the size of business service firms influences the extent to which they are entering other EU markets. A cross-tabulation between the number of export markets and size of firms is shown in Table 4.29(b).

Table 4.29(b): Cross-tabulation Between Size of Firms and Number of Export Markets

Key: 'No' = number of firms exporting; % = percentage breakdown where total number of firms exporting is 100%; 'Sample' = structure of whole sample broken down by firm size; 'Variance' = difference between distribution of firms exporting by size/distribution of firms in whole sample.

Number of Employees	Exporting to 4 or Fewer EU Markets				Exporting to Over 4 EU Markets			
	No	%	Sample	Variance	No	%	Sample	Variance
Less than 10	6	4.9	3.3	1.6	1	2.3	3.3	1.0
10 to 50	24	19.6	13.7	5.9	3	7.0	13.7	(6.7)
50 to 250	53	43.1	50.5	(7.4)	23	53.4	50.5	2.9
250 to 500	27	21.9	16.0	5.9	3	7.0	16.0	(9.0)
500 to 1000	0	0.0	6.8	(6.8)	5	11.6	6.8	4.8
Over 1000	13	10.5	9.8	0.7	8	18.7	9.8	8.9
TOTAL	123	100.0	100.0	n/a	43	100.0	100.0	n/a

Source: CSES Analysis of survey data.

Although not clear-cut, compared with the profile of the sample as a whole, firms with less than 50 employees are more represented in the category 'exporting to 4 of fewer markets' whereas this is less evident in the category 'exporting to over 4 EU markets'. Likewise, in this latter category, larger firms employing over 500 people account for a disproportionate number of the companies.

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Methods of Delivering Business Services to Other EU Markets

Earlier in this report, it was suggested that there are three main methods of delivering business services across borders – delivering services directly from the home base, by sending a team out from the home base or, thirdly, via a local subsidiary, sister company or agent.

In analysing the survey data, it is important to bear in mind that some companies use more than one method to sell their services – not only in relation to one particular export market but also in relation to different markets. Table 4.30(a) considers the first of these perspectives and indicates the number of companies that have used the different delivery methods in relation to at least one export market. The denominator is the sub-sample of 186 business service providers who stated that they had exported/were currently exporting services to other EU Member States. [2] Because some firms used more than one method, the total shown in Table 4.30(a) is higher than 186.

Table 4.30(a): Methods of Delivering Business Services

Methods of Delivering Business Services	No	%
1. Delivery of services from home country	124	52.3
2. Delivery by sending a team from the home base	47	19.8
3. Delivery of services via a local subsidiary, sister company or agent.	66	27.9
TOTAL	237	100.0

Source: CSES analysis of survey data

A similar picture exists if the question of delivery methods is viewed from the perspective of export markets. Table 4.30(b) provides an analysis of the number of instances where the various methods were used by firms making up the sample.

[2] The denominator of 186 providers is arrived at by adding the 21 who said they had exported in the past and 165 who said they are doing so now - see Table 4.24, rows 3 and 4).

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Table 4.30(b): Methods of Delivering Business Services – Overall

Methods of Delivering Business Services	No	%
1. Delivery of services from home country	358	48.3
2. Delivery by sending a team from the home base	128	17.3
3. Delivery of services via a local subsidiary, sister company or agent.	255	34.4
TOTAL	741	100.0

Source: CSES analysis of survey data

Firms were asked to limit their response to their three main export markets but some gave information on other countries as well. For this reason the total number of responses shown in Table 4.29 - (358+128+255=741) - is higher than it would have been if respondents had complied with instructions (at the most, 186 x 3 = 558). Also some firms may use different modes of delivery (A,B,C) in relation to a particular country (the extent to which multiple delivery mechanisms are used is examined later in this sub-section).

Table 4.31 presents an analysis of the same data broken down by the destination of exports.

Table 4.31: Main EU Markets and Methods of Delivering Business Services

Note: in Table 17, A = delivery of services from home country, B = delivery by sending a team from the home base, and C = delivery of services via a local subsidiary, sister company or agent.

	A	B	C	Total		A	B	C	Total
	No/%	No/%	No/%	No/%		No/%	No/%	No/%	No/%
A	12 (46.1)	5 (19.2)	9 (34.7)	26 (100.0)	I	20 (40.0)	9 (18.0)	21 (42.0)	50 (100.0)
B/L	39 (57.3)	13 (19.1)	16 (23.6)	68 (100.0)	IRL	17 (53.1)	2 (6.2)	13 (40.7)	32 (100.0)
D	51 (52.0)	11 (11.1)	36 (39.6)	98 (100.0)	NL	32 (50.0)	8 (12.5)	24 (37.5)	64 (100.0)
DK	10 (29.4)	12 (35.3)	12 (35.3)	34 (100.0)	P	15 (36.7)	10 (24.4)	16 (38.9)	41 (100.0)
E	26 (42.6)	11 (18.0)	24 (39.4)	61 (100.0)	SW	19 (54.3)	6 (17.1)	10 (28.6)	35 (100.0)
F	47 (51.1)	13 (14.1)	32 (34.8)	92 (100.0)	UK	50 (56.2)	12 (13.5)	27 (30.3)	89 (100.0)
FIN	9 (34.6)	7 (26.9)	10 (38.5)	26 (100.0)	Total	358	128	255	741
GR	11 (44.0)	9 (36.0)	5 (20.0)	25 (100.0)	%	48.3	17.3	34.4	100.0

Source: CSES analysis of survey data

There are several observations that can be made about the findings reported in Table 4.31. First, and perhaps not surprisingly, at an aggregate level 'delivery of services from home country' represents the most common method of selling business services to clients in other EU Member States (accounting for 48.3% of responses – see 'Total' in second to last row). The main alternative – 'delivery of services via a local subsidiary, sister company or agent' (shown as column C in Table 4.31) is, however, commonly used in relation to certain export markets – Spain, France, Finland, Italy, and Portugal stand out in this respect. There are several ways of interpreting this. It could mean that in some areas of the EU – especially southern Europe – business service providers consider it important to have a local presence because of the complications of establishing a close relationship with actual or potential clients from a distance. Alternatively, it could be argued that these markets are more open from the point of view of regulations and procedures for establishing local operations.

Table 4.32 provides an analysis of modes of delivering business services by sector. As with Table 4.31, we have shown a straight frequency count, i.e. number of times companies indicated a particular mode of delivery for each of the 15 EU countries.

Table 4.32: Methods of Delivering Business Services – By Sector

Note: in Table 17, A = delivery of services from home country, B = delivery by sending a team from the home base, and C = delivery of services via a local subsidiary, sister company or agent.

Sectors	**A**		**B**		**C**		**Total**	
	No	%	No	%	No	%	No	%
IT Consultancy	57	34.8	39	23.8	68	41.5	164	100.0
Personnel Recruitment	33	42.9	11	14.3	33	42.9	77	100.0
Leasing & Renting	33	34.4	9	9.4	54	56.3	96	100.0
Contract R & D	108	78.3	10	7.2	20	14.5	138	100.0
Accountancy & Audit	8	14.3	7	12.5	41	73.2	56	100.0
Tax Services	4	57.1	0	0.0	3	42.9	7	100.0
Engineering Related	83	50.9	45	27.6	35	21.5	163	100.0
Technical Testing	32	80.0	7	17.5	1	2.5	40	100.0
TOTAL	358	48.3	128	17.3	255	34.4	741	100.0

Source: CSES analysis of survey data

There are some quite pronounced differences shown in Table 4.32. Thus, whereas IT Consultancy and Labour Recruitment demonstrate very similar characteristics as far as the way in which services are delivered (with a broadly even split between selling from the home base and via local operations), in the case of Leasing and Renting - but particularly with Accountancy and Audit - the use of local operations is much more common while in the case of Engineering Related Consultancy and Technical Testing delivering services from the home base stands out as the main delivery method.

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Table 4.33 provides an analysis of the survey data on how business service providers in different size bands deliver services to other EU markets. The analysis is based on the 165 firms from the sample who said that they are currently selling services abroad.

Table 4.33: Modes of Delivery – By Firm Size

Note: in Table 17, A = delivery of services from home country, B = delivery by sending a team from the home base, and C = delivery of services via a local subsidiary, sister company or agent.

Firm Size Bands	**A**		**B**		**C**		**Total**	
Employees	No	%	No	%	No	%	No	%
1 to 10	12	38.7	0	0.0	19	61.3	31	100.0
10 to 50	36	45.5	21	26.6	22	27.9	79	100.0
50 to 250	194	59.8	60	18.5	70	21.7	324	100.0
250 to 500	65	58.0	16	14.3	31	27.7	112	100.0
500 to 1000	30	36.1	14	16.8	39	47.1	83	100.0
Over 1000	21	18.7	17	15.2	74	66.1	112	100.0
TOTAL	358	48.3	128	17.3	255	34.4	741	100.0

Source: CSES analysis of survey data

The above analysis suggests an overall pattern, namely that the larger the provider, the more likely it is to deliver business services in other EU markets via a local subsidiary, sister company or agent. The explanation for this almost certainly lies in the fact that only larger companies are able to bear the cost of setting up and operating local operations. However, interestingly, the very smallest firms – those employing less than 10 people, also rely on local operations to sell services to clients in other countries. As first sight, this might seem to invalidate the above assertion. But another interpretation is that the smallest providers have of necessity to rely on local outlets – in this case most probably agents rather than sister companies or subsidiaries – to sell their services in other EU markets.

Use of Multiple Delivery Methods to Export Business Services

In reality, it is quite likely that in some cases a mix of methods is used on particular projects or transactions. For example, a local operation of a multinational business service provider selling into its domestic market may call upon the support of experts from another part of the same firm located in a different country to help carry out a particular aspect of a project. Thus, in the case of IT Consultancy, experts from a company's home base may be involved in providing advice on installing a new system for a client located in another EU Member State but a local operation might then be used to provide after-

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care services. As a result, there is bound to be some overlap in the three different methods used to deliver services that are being studied in this research.

Of the 186 business service providers we surveyed who stated that they had exported or were currently exporting to other EU Member States[3], 167 indicated the methods they used to do so. Analysis of this information indicates that:

- 109 of the 167 providers (65.3%) indicated that they used only one method to sell services to clients in other EU countries;
- 46 of the providers (27.5%) stated that they used two methods to sell services to clients in other EU countries;
- 12 of the providers (7.2%) indicated that they used all three methods to sell services to clients in other EU countries.

It should be noted that the survey data does not allow the number of different methods used by business service providers in relation to one particular export market to be calculated. Instead, the analysis indicates the number of a company's export markets where different methods were used.

From a different perspective, it is pertinent to investigate whether the use of different methods to export business services is related to the number of different export markets. For example, it could be argued that it will not worth a company investing resources in establishing a local branch network if it is only selling services to a very small number of other EU markets (this will certainly be the case if a company is 'testing' the potential to export in a few markets before deciding to develop a fully-fledged EU export strategy).

Earlier (see Table 4.24), it was established that most of the 186 companies that have exported in the past or are doing so now sell to more than one other EU Member State. Above it was established that in the case of the 167 that provided information, a total of 237 different delivery mechanisms were used (109 x 1 plus 46 x 2 plus 12 x 3 = 237). In Table 4.34 we produce a correlation between the number of EU export markets that companies have/are selling to and the different types of delivery mechanisms identified in this section.

[3] As noted earlier, the denominator of 186 providers is arrived at by adding the 21 who said they had exported in the past and 165 who said they are doing so now - see Table 4.24, rows 3 and 4).

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Table 4.34: Correlation Between Delivery Mechanisms and Number of Export Markets

Providers	Number of Export Markets														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	Total
	1. Exporting from the Home Base														
Number	36	26	36	11	7	5	1	0	0	0	0	1	0	1	124
Percentage	29.0	21.0	29.0	8.9	5.6	4.0	0.8	0.0	0.0	0.0	0.0	0.8	0.0	0.8	100.0
	2. Sending a Team from the Home Base														
Number	15	11	7	4	5	3	1	0	0	0	0	0	0	0	46
Percentage	32.6	23.9	15.2	8.7	10.9	6.5	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0
	3. Selling via a Local Operation in Export Market(s)														
Number	21	11	12	2	2	2	4	6	3	2	0	0	1	1	67
Percentage	31.3	16.4	17.9	3.0	3.0	3.0	6.0	9.0	4.5	3.0	0.0	0.0	1.5	1.5	100.0

Source: CSES Analysis of survey data.

Although the analysis is not clear-cut, where companies are selling business services to a relatively small number of export markets elsewhere in the EU it would appear that there is a tendency to rely on the first two methods – exporting from the home base and/or by sending a team out from the home base. Conversely, the greater the number of export markets, the more likely it is that companies will set up a local operation.

Value of Exports

In the survey, we asked these business service providers to indicate the value of sales in the past 12 months generated by clients in other EU Member States as a percentage of their overall turnover. The second column of Table 4.35 ('Currently Exporting') analyses the responses to this question. We have then shown the survey responses for firms that had exported in the past but were not doing so at present.

Table 4.35: Value of Business Service Sales to Other EU Member States - Overall

Proportion	Currently Exporting		Exported in Past		Total	
	No	%	No	%	No	%
Below 10%	83	50.3	5	23.9	88	47.3
10% to 25%	41	24.8	1	4.7	42	22.6
25% to 50%	21	12.7	1	4.7	22	11.8
Over 50%	9	5.5	0	0.0	9	4.8
Don't know	11	6.7	14	66.7	25	13.5
TOTAL	165	100.0	21	100.0	186	100.0

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Source: CSES analysis of survey data.

Taking the final two columns of Table 4.33, it can be seen that the highest proportion - 88 (47.3%) - of respondents stated that the value of their sales to other EU Member States fell in the range of 1% to 10% of overall turnover. As might be expected, the proportion of firms replying that the export sales figure was higher than this declines steadily. Twenty-five (13.5%) of the companies gave a 'Don't Know/Non Response' to this question.

Table 4.36 provides an analysis of the same survey data from the perspective of different business service sectors. The analysis is restricted to the 165 providers who stated that they are currently exporting services (i.e. Columns 2 and 3 in Table 4.24).

Table 4.36: Value of Business Service Sales to Other EU Member States – By Sector

Sectors	**Survey Responses – Currently Exporting**											
% turnover exported	Below 10%		10 to 25%		25% to 50%		Over 50%		Don't know		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
IT Consultancy	16	50.0	7	21.9	4	12.5	2	6.3	3	9.4	32	100.0
Personnel Recruitment	6	31.6	6	31.6	5	26.3	2	10.5	0	0.0	19	100.0
Leasing & Renting	6	30.0	5	25.0	7	35.0	1	5.0	1	5.0	20	100.0
Contract R & D	15	50.0	7	23.3	4	13.3	2	6.7	2	6.7	30	100.0
Accountancy & Audit	5	41.7	4	33.3	0	0.0	0	0.0	3	25.0	12	100.0
Tax Services	1	50.0	1	50.0	0	0.0	0	0.0	0	0.0	2	100.0
Engineering Related	26	68.4	9	23.7	1	2.6	1	2.6	1	2.6	38	100.0
Technical Testing	8	66.7	2	16.7	0	0.0	1	8.3	1	8.3	12	100.0
TOTAL	83	50.3	41	24.8	21	12.7	9	5.5	11	6.7	165	100.0

Source: CSES analysis of survey data.

It will be recalled from the earlier analysis that three sectors – Contract R&D, Engineering Related Consultancy, and Technical Testing - stood out as being characterised by an especially high level of cross-border trading activity. Table 4.34 presents a slightly different picture: Personnel Recruitment, Leasing and Renting, and Accountancy and Audit are the sectors where the highest proportion of firms generate at least 10% of their turnover from exports. The conclusion to draw from this is that although relatively few firms in these sectors are engaged in export activity, the value of the services they sell to clients abroad is especially high.

Table 4.37 provides an analysis of the same survey data on the value of exported services by firm size.

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Table 4.37: Value of Business Service Sales to Other EU Member States – By Firm Size

Firm Size Bands	**Survey Responses – Currently Exporting**											
Employees	Below 10%		10 to 25%		25% to 50%		Over 50%		Don't know		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
1 to 10	2	33.3	2	33.3	1	16.7	1	16.7	0	0.0	6	100.0
10 to 50	5	31.3	8	50.0	1	6.3	1	6.3	1	6.3	16	100.0
50 to 250	41	55.4	18	24.3	7	9.5	4	5.4	4	5.4	74	100.0
250 to 500	21	65.6	6	18.8	3	9.4	1	3.1	1	3.1	32	100.0
500 to 1000	8	53.3	3	20.0	4	26.7	0	0.0	0	0.0	15	100.0
Over 1000	6	27.3	4	18.2	5	22.7	2	9.1	5	22.7	22	100.0
TOTAL	83	50.3	41	24.8	21	12.7	9	5.5	11	6.7	165	100.0

Source: CSES analysis of survey data.

The above analysis suggests that with the exception of the smallest business service providers, larger firms tend to generate the highest proportion of their turnover from the sale of services to clients in other EU countries (this trend is clearest with the 25% to 50% band – Column 5 in Table 4.35). But otherwise, the survey findings shown above do not point to any particularly clear patterns other than the general observation made earlier concerning overall trends.

SURVEY DATA – BARRIERS TO TRADE 5

Overview

This section examines survey feedback on the nature and extent of remaining barriers to trade in business services in the Internal Market. The analysis is structured as follows:

- *Section 5.1* – analyses the survey feedback on the barriers to trade from the point of view of selling directly from the home base, by sending a team from the home base, and/or by setting up a local operation in export markets(s);

- *Section 5*.2 – examines the cost of barriers to trade in business services to providers and the effect of removing them on cross-border purchasing, export activity, competition and other factors;

- *Section 5*.3 – examines the survey feedback on the impact of the Single European Market, the euro and e-commerce on cross-border trade in business services, and considers view on market trends.

As in the previous appendix, each sub-section provides an analysis of the survey responses at an aggregate level and then examines the extent to which the findings are influenced by key variables – sector, firm size and country. The analysis contained in this section is based on the responses given by 307 providers and 198 users who participated in the research. However, as explained in the text, the denominators used vary according to the argument being developed.

5.1 Barriers to Cross Border Trade in Business Services

We start by examining the survey feedback on barriers to selling services from the home base. It will be recalled from the earlier analysis that this is the most common method used by business service providers.

Table 5.1(a) analyses the survey feedback on the relative importance of different barriers to exporting from the home base from the 124 providers who stated that they had used or are currently using this method in relation to at least one other EU market (see Table 4.30(a) in the previous section). The analysis shows the number/percentage of firms indicating that the various barriers are ‘very important’.

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Table 5.1(a): Barriers to Exporting Business Services from Home Base

Barriers to selling business services from home base	No	%
1. Requirement to obtain local registration	20	16.1
2. Requirement to have a specific legal form	27	21.7
3. Requirement to meet specific financial criteria	18	14.5
4. Need to be represented by a local agent	18	14.5
5. Lack of mutual recognition of professional qualifications	13	10.5
6. Restrictive local employment regulations	11	8.9
7. Need for local presence to provide after-care services	27	21.8
8. Difficulty in supplying services because of distance factors	39	31.5
9. Discriminatory tax on cross-border services	11	8.9

Source: CSES analysis of survey data.

Difficulty in supplying services because of distance-related factors and the need for a local presence to provide after-care (two factors that are linked) stand out as two of the main barriers to exporting business services from the home base. Amongst the regulatory-type barriers, the requirement to have a specific legal form would appear to be of most concern.

There are strong grounds for broadening the analysis out to include all companies, whether exporting from the home base or not: even where firms use a different method to sell services in other countries, there is no reason why they should not have views on barriers to selling from their home base. Indeed, the perception that there are barriers to selling from the home base may well be an important reason why firm have adopted alternative methods.[4] Table 5.1(b) analyses the survey responses from all 307 firms in the sample on the barriers to exporting from the home base.

[4] In the case of the providers, 142 of the 307 firms making up the sample were not involved in cross-border trade at the time when the survey was, undertaken. Analysis of the survey data indicates that some of these firms, while stating that they were not currently exporting, nevertheless gave their views on barriers to trade). In our view it is reasonable to assume that firms that have never tried to sell services abroad, or that have considered doing so but not proceeded, or that sold services abroad in the past but stopped doing so now, may have been influenced by the perception that barriers to trade exist. An alternative argument is that only firms that have experience of cross-border trade are sufficiently well-informed to offer an opinion but this is highly questionable.

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Table 5.1(b): Barriers to Exporting Business Services from Home Base (All Firms)

Key: 1=Barriers are very important; 2=quite important; 3=not important; 0=don't know/non-response.
Note: total across rows = total sample of 307.

Barriers to selling business services from home base	1	2	3	0
	No/%	No/%	No/%	No/%
1. Requirement to obtain local registration	44 (14.3)	25 (8.1)	53 (17.3)	185 (60.3)
2. Requirement to have a specific legal form	51 (16.6)	44 (14.3)	42 (13.7)	170 (55.4)
3. Requirement to meet specific financial criteria	30 (9.8)	27 (8.8)	55 (17.9)	195 (63.5)
4. Need to be represented by a local agent	49 (16.0)	35 (11.4)	46 (15.0)	177 (57.7)
5. Lack of mutual recognition of professional qualifications	28 (9.1)	26 (8.5)	55 (17.9)	198 (64.5)
6. Restrictive local employment regulations	29 (9.4)	33 (10.7)	46 (15.0)	199 (64.8)
7. Need for local presence to provide after-care services	62 (20.2)	44 (14.3)	27 (8.8)	174 (56.7)
8. Difficulty in supplying services because of distance factors	75 (24.4)	38 (12.4)	36 (11.7)	158 (51.5)
9. Discriminatory tax on cross-border services	22 (7.2)	22 (7.2)	56 (18.2)	207 (67.4)

Source: CSES analysis of survey data

Although there are some differences in the ordering, the five highest ranked barriers in Tables 5.1(a) and 5.1(b) are the same. Factors relating to the need for physical proximity to clients would appear to be generally seen as more important than regulatory or other types of barriers. Thus, the highest-ranking barriers – based on a combination of the proportions giving 'very important' and 'quite important' responses (Columns 1 and 2) are: 'difficulty in supplying service because of distance related factors' and 'need for a local presence to provide after-care services'. There is a mixed picture as far as regulatory-type barriers are concerned: while the 'need to have a specific legal form' and 'requirement to have local registration' are quite highly ranked as barriers, the factors 'discriminatory tax on cross-border services' and 'lack of mutual recognition of professional qualifications rank toward the bottom of the list. In the case of the second of these factors – lack of mutual recognition of professional qualifications' – the relatively low ranking given to this (and some other regulatory-type barriers) as a constraint to trade may be attributable to the fact that only certain business service sectors are affected.

Table 5.2 provides an analysis of barriers to selling services from the home base by the destination of exports. The analysis is limited to showing the proportion of companies giving the 'very important' response for the five highest ranked barriers shown in the overall analysis (Column 2 of Table 5.1(a). Of the two barriers ranked equal fifth, we have selected 'need to be represented by a local agent' on the grounds that of the two, this is ranked highest in Table 5.1.(b)). The denominator used is the total number of providers

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using the method 'Delivery of Services from the Home Base' to export services to the respective EU Member States.[5]

Table 5.2: Barriers to Exporting from Home Base – By Export Market

Main Barriers to Exporting from Home Base	A	B/L	D	DK
	No/%	No/%	No/%	No/%
1. Difficulty in supplying services because of distance factors	7 (58.3)	20 (51.3)	17 (33.3)	10 (100.0)
2. Requirement to have a specific legal form	3 (25.0)	15 (38.5)	8 (15.7)	2 (20.0)
3. Need for local presence to provide after-care services	0 (0.0)	9 (23.1)	7 (13.7)	1 (10.0)
4. Requirement to obtain local registration	1 (8.3)	7 (17.9)	8 (15.7)	1 (10.0)
5. Need to be represented by a local agent	0 (0.0)	9 (23.1)	7 (13.7)	1 (10.0)
Main Barriers to Exporting from Home Base	**E**	**F**	**FIN**	**GR**
	No/%	No/%	No/%	No/%
1. Difficulty in supplying services because of distance factors	9 (34.6)	15 (31.9)	2 (22.2)	5 (45.4)
2. Requirement to have a specific legal form	10 (38.5)	10 (21.3)	3 (33.3)	2 (18.2)
3. Need for local presence to provide after-care services	5 (19.2)	7 (14.9)	2 (22.2)	0 (0.0)
4. Requirement to obtain local registration	4 (15.4)	4 (8.5)	2 (22.2)	0 (0.0)
5. Need to be represented by a local agent	5 (19.2)	7 (14.9)	2 (22.2)	0 (0.0)
Main Barriers to Exporting from Home Base	**I**	**IRL**	**NL**	**P**
	No/%	No/%	No/%	No/%
1. Difficulty in supplying services because of distance factors	9 (45.0)	5 (29.4)	16 (50.0)	4 (26.7)
2. Requirement to have a specific legal form	7 (35.0)	4 (23.5)	6 (18.7)	2 (13.3)
3. Need for local presence to provide after-care services	3 (15.0)	2 (11.8)	4 (12.5)	3 (20.0)
4. Requirement to obtain local registration	3 (15.0)	4 (23.5)	5 (15.6)	1 (6.7)
5. Need to be represented by a local agent	3 (15.0)	2 (11.8)	4 (12.5)	3 (20.0)
Main Barriers to Exporting from Home Base	**SW**	**UK**	**EU15**	
	No/%	No/%	No/%	
1. Difficulty in supplying services because of distance factors	8 (42.1)	18 (36.0)	145 (40.5)	
2. Requirement to have a specific legal form	3 (15.8)	9 (18.0)	84 (23.5)	
3. Need for local presence to provide after-care services	4 (21.0)	6 (12.0)	53 (14.8)	
4. Requirement to obtain local registration	3 (15.8)	5 (10.0)	48 (13.4)	
5. Need to be represented by a local agent	4 (21.0)	7 (14.0)	55 (15.3)	

Source: CSES analysis of survey data. Note: Strictly speaking, these data should we weighted to take into account the varying level of export activity in relation to different markets. However, given the relatively small numbers, this is not considered appropriate.

[5] The denominators for the various countries are Austria (12), Belgium/Luxembourg (39), Denmark (10), Finland (9), France (47), Germany (51), Greece (11), Ireland (17), Italy (20), Netherlands (32), Portugal (15), Spain (26), Sweden (19), UK (50).

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Although the small number of responses from some countries makes a detailed analysis difficult, it is nevertheless possible to arrive at some tentative conclusions from the above analysis:

- In all export markets, 'difficulty in supplying services because of distance factors' is the most highly ranked barrier;
- There is some variation with middle ranking barriers. Thus, in the case of Spain and Finland the 'requirement to have a specific legal form' ranks above 'difficulty in supplying services because of distance factors'. Likewise, in Portugal and Sweden the need for local presence to provide after-care services is more highly ranked compared with other barriers than in other export markets;
- In Germany, Denmark and to a lesser extent the UK, with the exception of distance-related factors, other barriers are ranked more or less equally as barriers to exporting from the home base.
- However, overall, there is little variation of the ranking of different barriers compared with the EU15 position.

The picture is clearer from a sectoral perspective. Table 5.3 shows how providers from each business service sector the five highest ranked factors at the level of the sample as a whole.

Table 5.3: Barriers to Exporting Business Services from Home Base – By Sector

Sectors	**Main Barriers to Exporting from Home Base**									
	Distance factors		Need to offer after-care		Specific legal form		Need for local agent		Local registration	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	17	24.6	19	27.5	8	11.6	9	13.0	2	2.9
Personnel Recruitment	8	19.0	8	19.0	10	23.8	9	21.4	11	26.2
Leasing & Renting	9	20.4	14	31.8	10	22.7	10	22.7	5	11.3
Contract R & D	13	34.2	3	7.9	5	13.1	2	5.2	3	7.9
Accountancy & Audit	5	17.2	8	27.6	8	27.6	5	17.2	12	41.3
Tax Services	1	10.0	0	0.0	1	10.0	0	0.0	1	10.0
Engineering Related	17	27.4	9	14.5	7	11.3	12	19.3	8	12.9
Technical Testing	5	38.4	1	7.7	2	15.4	2	15.4	2	15.4
TOTAL	75	24.4	62	20.2	51	16.6	49	16.0	44	14.3

Source: CSES analysis of survey data

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As can be seen, in the case of several sectors (Personnel Recruitment, Leasing and Renting, Accountancy and Audit) distance-related factors although perceived as important are not seen as being as important as the other types of barriers shown in Table 5.3. In the case of Leasing and Renting, Accountancy and Audit, and IT Consultancy, the need for a local presence in order to provide after-care services appears to be more significant. This is likely to be because of the nature of the services they provide which are typically of an on-going nature rather than one-off or project related.

Likewise, the requirement to have a specific legal form is of particular concern to companies in the Accountancy and Audit fields where restrictions on single entities providing a combination of different professional services (e.g. audit and tax advice) apply in some EU Member States. In the case of Accountancy and Audit, it is clear that some of the sector-specific barriers tend to be obscured by the aggregate level of analysis shown in Table 5.3. Thus, although lack of mutual recognition of professional qualifications was not ranked highly overall as a barrier to selling from the home base, four (33.3%) of the 12 Accountancy and Audit companies who stated that they were currently exporting stated that this was a ‘very important’ constraint.

From the perspective of firm size, it might reasonably be supposed that some barriers – for example, distance-related factors and, linked to this, the need to be represented by a local agent - would be of particular concern to smaller business service providers. Table 5.4 gives an analysis of the data on barriers to exporting from the home base by firm size. In each case the denominator is the total number of firms surveyed in each size band.

Table 5.4: Barriers to Exporting Business Services from Home Base – By Firm Size

Firm Size Bands	**Main Barriers to Exporting from Home Base**											
Employees	1-10		10-50		50-250		250-500		500-1000		Over 1000	
	No	%	No	%	No	%	No	%	No	%	No	%
1. Distance factors	0	0.0	14	33.3	34	21.9	13	26.5	6	28.5	8	26.6
2. Need to offer after-care	0	0.0	7	16.7	37	23.9	8	16.3	5	23.8	5	16.7
3. Specific legal form	1	10.0	3	7.1	29	18.7	9	18.3	3	14.3	6	20.0
4. Need for local agent	2	20.0	6	14.3	23	14.8	11	22.4	2	9.5	5	16.7
5. Local registration	1	10.0	3	7.1	20	12.9	10	20.4	4	19.0	6	20.0

Source: CSES analysis of survey data.

The analysis suggests that with the exception of providers employing less than 10 people, distance related factors and the need to be represented by a local agent are indeed of greatest concern to smaller companies. This is consistent with the earlier analysis concerning the methods of delivery of cross-border business services showing that the

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smaller the company, the more likely it is to rely on exporting from the home base. Conversely, factors such as the need for a specific legal form and local registration requirements are of greater concern to larger business service providers.

Barriers to Establishing a Local Operation in Another EU Country

It will be recalled that setting up a local operation to sell business services to clients in other EU countries is the second most common method of delivering cross-border services.

Table 5.5(a) analyses the survey feedback on the relative importance of different barriers to setting up a local operation in an export market from the 66 providers who stated that they had used this method (see Table 4.30(a) in the previous section. The analysis shows the number/percentage of firms indicating that the various barriers are 'very important'.

Table 5.5(a): Barriers to Setting Up a Local Operation to Sell Services

Barriers to setting up a local operation	Number	%
1. Inability to practice without license from professional body	20	30.3
2. Stringent regulations on minimum capital requirements	4	6.1
3. Stringent regulations on branch operations	6	9.1
4. Excessive costs for setting up a local operation	29	43.9
5. Administrative/legal regulations on setting up locally	15	22.7
6. Lack of mutual recognition of professional qualifications	14	21.2
7. Restrictive local employment regulations	13	19.7
8. Restricted access to finance for foreign-owned firms	7	10.4
9. Inadequate infrastructure	4	6.1
10. Lack of necessary skills/costly training of workers	26	39.4

Source: CSES analysis of survey data

Three factors stand out as constituting the main barriers to establishing a local operation in another EU Member State market – the excessive cost of a local company formation, the lack of necessary skills/costly training of workers, and the inability to practice without a professional license. As noted earlier, barriers that are largely sector specific – in particular, lack of mutual recognition of professional qualifications – are not highlighted at an aggregate level of analysis although they are important to particular sectors.

As with the earlier analysis of barriers to selling from the home base, there are strong grounds for broadening the analysis out to include all companies, whether considering/involved in setting up a local operation in another EU market or not. Table

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5.5(b) analyses the survey responses from all 307 firms in the sample on barriers to setting up a local operation.

Table 5.5(b): Barriers to Setting Up a Local Operation to Sell Services – All Firms

Key: 1=Barriers are very important; 2=quite important; 3=not important; 0=don't know/non-response. Total across rows = total sample of 307.

Barriers to setting up a local operation	1	2	3	0
1. Inability to practice without license from professional body	38 (12.4)	18 (5.9)	32 (10.4)	219 (71.3)
2. Stringent regulations on minimum capital requirements	10 (3.3)	19 (6.2)	47 (15.3)	231 (75.2)
3. Stringent regulations on branch operations	13 (4.2)	25 (8.1)	34 (11.1)	235 (76.5)
4. Excessive costs for setting up a local operation	46 (15.0)	33 (10.7)	22 (7.2)	206 (67.1)
5. Administrative/legal regulations on setting up locally	30 (9.8)	36 (11.7)	22 (7.2)	219 (71.3)
6. Lack of mutual recognition of professional qualifications	16 (5.2)	23 (7.5)	38 (12.4)	230 (74.9)
7. Restrictive local employment regulations	23 (7.5)	25 (8.1)	27 (8.8)	232 (75.6)
8. Restricted access to finance for foreign-owned firms	11 (3.6)	18 (5.9)	41 (13.4)	237 (77.2)
9. Inadequate infrastructure	9 (2.9)	18 (5.9)	48 (15.6)	232 (75.6)
10. Lack of necessary skills/costly training of workers	35 (11.4)	24 (7.8)	33 (10.7)	215 (70.0)

Source: CSES analysis of survey data

Overall, there is relatively little difference in the rankings shown in Tables 5.5(a) and 5.5(b): in each case, the highest ranked factors are the cost of setting up a local operation, the requirement to have obtain a licence from a professional body, administrative/legal complications in setting up locally, and two labour market related factors - the problem of recruiting/training local workers with the required skills, and restrictive local employment regulations.

Table 5.6 provides an analysis of barriers to selling services via a local operation by the export market. The analysis is limited to showing the proportion of companies giving the 'very important' response for the five highest ranked barriers shown in the overall analysis (Column 2 of Table 5.5(a). The denominator used is the total number of providers using the method 'Delivery via a Local Operation' to export services to the respective EU Member States.[6]

Table 5.6: Barriers to Setting Up a Local Operation to Sell Services – By Export Market

[6] The denominators for the various countries are Austria (8), Belgium/Luxembourg (13), Denmark (10), Finland (9), France (29), Germany (34), Greece (4), Ireland (10), Italy (21), Netherlands (23), Portugal (15), Spain (23), Sweden (9), UK (25).

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Main Barriers to Setting Up a Local Operation	A	B/L	D	DK
	No/%	No/%	No/%	No/%
1. Excessive costs for setting up a local operation	0 (0.0)	1 (7.7)	7 (20.5)	1 (10.0)
2. Lack of necessary skills/costly training of workers	0 (0.0)	3 (23.0)	5 (14.7)	2 (20.0)
3. Inability to practice without license from professional body	0 (0.0)	2 (15.4)	1 (2.9)	1 (10.0)
4. Administrative/legal regulations on setting up locally	0 (0.0)	1 (7.7)	2 (5.9)	1 (10.0)
5. Lack of mutual recognition of qualifications	0 (0.0)	1 (7.7)	3 (8.9)	0 (0.0)
Main Barriers to Setting Up a Local Operation	**E**	**F**	**FIN**	**GR**
	No/%	No/%	No/%	No/%
1. Excessive costs for setting up a local operation	4 (17.4)	2 (7.0)	1 (11.1)	1 (25.0)
2. Lack of necessary skills/costly training of workers	3 (13.0)	3 (10.3)	2 (22.2)	0 (0.0)
3. Inability to practice without license from professional body	3 (13.0)	1 (3.4)	0 (0.0)	1 (25.0)
4. Administrative/legal regulations on setting up locally	1 (4.3)	1 (3.4)	1 (11.1)	0 (0.0)
5. Lack of mutual recognition of qualifications	2 (8.6)	0 (0.0)	0 (0.0)	0 (0.0)
Main Barriers to Setting Up a Local Operation	**I**	**IRL**	**NL**	**P**
	No/%	No/%	No/%	No/%
1. Excessive costs for setting up a local operation	5 (23.8)	3 (30.0)	6 (26.1)	2 (13.3)
2. Lack of necessary skills/costly training of workers	4 (14.3)	3 (30.0)	6 (26.1)	3(20.0)
3. Inability to practice without license from professional body	5 (23.8)	4 (40.0)	5 (21.7)	3 (20.0)
4. Administrative/legal regulations on setting up locally	3 (10.7)	3 (30.0)	2 (8.7)	2 (13.3)
5. Lack of mutual recognition of qualifications	3 (10.7)	1 (10.0)	2 (8.7)	0 (0.0)
Main Barriers to Setting Up a Local Operation	**SW**	**UK**	**EU15**	
	No/%	No/%	No/%	
1. Excessive costs for setting up a local operation	1 (11.1)	5 (20.0)	30 (12.8)	
2. Lack of necessary skills/costly training of workers	3 (33.3)	3 (12.0)	30 (12.8)	
3. Inability to practice without license from professional body	1 (11.1)	2 (8.0)	25 (10.7)	
4. Administrative/legal regulations on setting up locally	0 (0.0)	1 (4.0)	14 (6.0)	
5. Lack of mutual recognition of qualifications	1 (11.1)	0 (0.0)	9 (3.8)	

Source: CSES analysis of survey data. Note: Strictly speaking, these data should we weighted to take into account the varying level of export activity in relation to different markets. However, given the relatively small numbers, this is not considered appropriate.

As with the earlier analysis of barriers to selling from the home base, there are considerable variations from one country to another in the importance attached to the barriers ranked highest overall. Thus, Germany, Ireland, Netherlands and the UK stand out as being the countries where providers perceive the costs of setting up a company as being relatively high. Likewise the cost of recruiting and/or training workers is seens as highest in Belgium, Denmark, Finland, Ireland, Netherlands, and Sweden. Given the

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small number of responses, it is difficult to go much further than this in analysing the survey data.

From a sectoral perspective, there is a clear picture with regard to barriers to setting up a local operation.

Table 5.7: Barriers to Setting Up a Local Operation to Sell Services – By Sector

Sectors	Main Barriers to Setting Up a Local Operation									
	Costs of local operation		Need for license		Lack of skills		Administrative regulations		Employment rules	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	12	17.4	2	2.9	10	14.5	3	4.3	5	7.2
Personnel Recruitment	3	7.1	9	21.4	5	11.9	6	14.3	7	16.7
Leasing & Renting	2	4.5	8	18.2	4	9.1	6	13.6	3	6.8
Contract R & D	10	26.3	2	5.2	6	15.8	3	7.9	3	7.9
Accountancy & Audit	4	13.8	11	37.9	2	6.9	2	6.9	0	0.0
Tax Services	0	0.0	1	10.0	1	10.0	2	20.0	2	20.0
Engineering Related	13	20.9	5	8.1	5	8.1	7	11.3	2	3.2
Technical Testing	2	15.4	0	0.0	2	15.4	1	7.7	1	7.7
TOTAL	46	15.0	38	12.4	35	11.4	30	9.8	23	7.5

Source: CSES analysis of survey data

As can be seen, the cost of setting up a local operation is ranked highest (and well above the other factors shown in Table 5.7 by the Contract R&D, Engineering Related, IT Consultancy Sectors, and Technical Testing sectors. This may be because in contrast to sectors such as Personnel Recruitment, and Leasing and Renting, setting up a local operation is generally not feasible without a critical mass of human resources and skills. In some cases (e.g. Technical Testing), there may also a need to invest in equipment.

Other notable features of the above analysis are the highlighting of skills constraints by the IT Consultancy, Contract R&D and Technical Testing sectors, and view that setting up a local operation to deliver Tax Services is especially constrained by administrative/legal regulations. Likewise, as noted earlier in relation to selling from the home base, some sector specific barriers tend to be obscured by an aggregate level analysis. Thus, as Table 5.7 shows, in the case of Accountancy and Audit firm to 'inability to practice without license from professional body' stands out as a barrier to setting up a local operation but this is even more evident if the analysis is restricted to firms that are currently exporting (6 of the 12 companies concerned identifying this as a 'very important' barrier to setting up a local operation).

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Table 5.8 gives an analysis of the same data on barriers to setting up a local operation by firm size.

Table 5.8: Barriers to Setting Up a Local Operation to Sell Services – By Firm Size

Firm Size Bands	Main Barriers to Setting Up a Local Operation											
Employees	1-10		10-50		50-250		250-500		500-1000		Over 1000	
	No	%	No	%	No	%	No	%	No	%	No	%
1.Costs of local operation	2	20.0	6	14.3	26	16.8	8	16.3	3	14.3	1	3.3
2. Need for licence	1	10.0	3	7.1	14	9.0	10	20.5	4	19.0	6	20.0
3. Lack of skills	0	0.0	5	11.9	14	9.0	8	16.3	4	19.0	4	13.3
4. Administrative rules	1	10.0	1	2.4	17	10.9	6	12.2	3	14.3	2	6.7
5. Employment rules	1	10.0	2	4.8	11	7.1	6	12.2	1	4.8	2	6.7

Source: CSES analysis of survey data.

Perhaps not surprisingly, the cost of setting up a local operation is ranked by small and medium-sized business service provider as a more serious barrier than it is by the largest companies. The problems faced by smaller firms, specifically with regard to obtaining finance from local sources to set up an operation in another EU Member States, were highlighted by a Swedish company operating in the Contract R&D field that participated in the survey. For this firm, the main constraint on being able to expand into other EU markets was ‘our ability to mobilise risk capital for business outside Sweden.’ Larger companies did not raise this as a major issue. For the largest providers, factors such as ‘inability to practice without licence from professional body’, administrative/legal regulations, and labour market constraints appear to be of greater concern.

Overall, a comparison between the research data suggests that barriers to setting up a local operation in another EU country are generally seen as less significant than barriers to exporting business services from the home base.

Horizontal Barriers - Market Related and Cultural Factors

The category of ‘horizontal’ barriers, i.e. market-related and cultural factors, can affect the capacity of firms to sell business services in other countries irrespective of the delivery mechanism used to do so. In the analysis set out below, a distinction is made between socio-cultural, market-related, and administrative barriers, and barriers arising from procurement procedures.

Table 5.9(a) provides an analysis of the survey based on the 186 companies who stated that they were involved in exporting business services to other EU Member States. A

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distinction is made between barriers relating to selling services directly from the home base (Column A) and those relating to setting up a local operation (Column B). In each of these categories, the denominator that has been used is the number of companies using these respective methods to export services.[7] The analysis shows the number/proportion of providers indicating that barriers are 'very important'.

Table 5.9(a): Horizontal Barriers – Socio-Cultural Factors

Barriers	A - Home Base		B - Local Operation	
	No	%	No	%
1. Differences in local traditions	29	23.4	17	36.9
2. Differences in commercial practices	12	9.8	6	13.0
3. Need to work in local language	50	40.3	24	52.2
4. Planning and zoning restrictions	11	8.9	8	17.4
5. Need for local track record	36	29.0	35	76.1
6. Subsidised local suppliers	29	23.3	16	34.7
7. Unacceptable delays in payment	20	16.1	11	23.9
8. Complexity of foreign legal systems	31	25.0	20	43.5
9. Restrictions on cross-border marketing	10	8.1	8	17.4
10. Poor protection of intellectual property	12	9.7	7	15.2
11. Absence of transparency in regulations	26	20.9	17	36.9
12. Absence of transparency in implementation	19	15.3	13	28.3
13. Imposition of national standards, testing rules	37	29.8	21	45.6
14. Difficulty in obtaining information on tenders	28	22.6	14	30.4
15. Exemption clauses in public procurement	20	16.1	13	28.3
16. High administrative costs of bidding	28	22.6	14	30.4

Source: CSES analysis of survey data.

There are some significant differences and similarities in the survey feedback relating to exporting from the home base as opposed to via a local operation:

- Whereas the need to work in local languages is the highest ranked barrier to exporting from the home base, it ranks second in the case of setting up a local operation, after the need for a local track-record;

- National standards and problems caused by the complexity of foreign legal systems are the next highest ranked barriers in both cases and thereafter the ranking of barriers

[7] The denominators are set out in Section 4, Table 4.30(a) and are: selling directly from the home base (124), by sending a team from the home base (47), and via a local operation in the export market (66).

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is broadly similar with factors such as differences I commercial practices, planning restrictions, and restrictions on cross-border marketing being seen as relatively insignificant.

- The type of socio-cultural barriers listed in Table 5.9(a) are perceived by firms as being more of a constraint on setting up a local operation in other EU markets than on exporting from the home base. (This is hardly surprising given that setting up an operation in another country is likely to make companies more aware of the type of barriers listed in the table than is the case where a firm is exporting from the home base.)

As with the earlier analysis, there are strong grounds for broadening the analysis out to include all companies, whether exporting or not: the perception that there are barriers to trade may well be a reason why some companies have not become involved in selling services to other EU markets. Table 5.9(b) analyses the survey responses from all 307 firms in the sample on the severity of horizontal barriers.

Table 5.9(b): Horizontal Barriers – Socio-Cultural and Market Related Barriers

Key: 1=Barriers are very important; 2=quite important; 3=not important; 0=don't know/non-response.

Barriers	**A - Home Base**				**B - Local Operation**			
	1	2	3	0	1	2	3	0
1. Need to work in local language	90	47	25	146	42	26	22	217
2. Differing national standards	55	43	27	182	31	26	21	229
3. Need for local track record	60	30	30	187	50	12	15	230
4. Complexity of legal systems	56	39	29	183	31	30	16	230
5. Differences in local traditions	55	33	44	175	30	29	29	219

Percentage Breakdown:

Barriers	**A - Home Base**				**B - Local Operation**			
	1	2	3	0	1	2	3	0
1. Need to work in local language	29.0	15.3	8.1	47.6	13.7	8.5	7.2	70.7
2. Differing national standards	17.9	14.0	8.8	59.3	10.1	8.5	6.8	74.6
3. Need for local track record	19.5	9.8	9.8	60.9	16.3	3.9	4.9	74.9
4. Complexity of foreign legal systems	18.2	12.7	9.4	59.6	10.1	9.8	5.2	74.9
5. Differences in commercial practices	6.2	15.3	13.7	64.8	3.3	10.4	9.1	77.2

Source: CSES analysis of survey data

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Notwithstanding the high proportion of 'don't knows' and non-responses, the need to work in local languages stands out in both Tables 5.9(a) and 5.9(b) as being the most significant socio-cultural barrier – indeed, language ranks above all other barriers examined in the survey – legal, regulatory, financial, market-related, etc – as a constraint on cross-border trade in business services. A further aspect of the analysis worth highlighting is the different perception of barriers in this category depending on whether they are viewed from the point of view of selling from the home base or from the standpoint of setting up a local operation. Taken together, all socio-cultural barriers are seen – perhaps not surprisingly - as having a more serious impact on firms seeking to export services from their home base.

Table 5.10 provides an analysis of the five highest ranked barriers by export market. The analysis is limited to showing the proportion of companies giving the 'very important' response for the five highest ranked barriers shown in the overall analysis (Column 2 of Table 5.9(a). It should be noted that the analysis is limited to the importance of the various factors from the point of view of selling business services from the home base to clients in other EU countries. It will be recalled that of the three possible methods, this was the most commonly used.[8]

Table 5.10: Main Horizontal Barriers – By Export Market

Key: 1=Barriers are very important; 2=quite important; 3=not important; 0=don't know/non-response.

Main Horizontal Barriers	A	B	D	DK
	No/%	No/%	No/%	No/%
1. Need to work in local language	1 (8.3)	9 (23.0)	13 (25.4)	1 (10.0)
2. Differing national standards	1 (8.3)	11 (28.2)	11 (21.5)	1 (10.0)
3. Need for local track record	1 (8.3)	7 (17.9)	14 (27.4)	1 (10.0)
4. Complexity of legal systems	2 (16.6)	10 (25.6)	8 (15.6)	2 (20.0)
5. Differences in local traditions	1 (8.3)	4 (10.2)	7 (13.7)	1 (10.0)
Main Horizontal Barriers	**E**	**F**	**FIN**	**GR**
	No/%	No/%	No/%	No/%
1. Need to work in local language	6 (23.1)	12 (25.5)	2 (22.2)	3 (27.3)
2. Differing national standards	7 (26.9)	9 (19.1)	2 (22.2)	1 (9.1)
3. Need for local track record	9 (34.6)	11 (23.4)	1 (11.1)	1 (9.1)
4. Complexity of legal systems	6 (23.1)	5 (10.6)	1 (11.1)	1 (9.1)
5. Differences in local traditions	5 (19.2)	6 (12.7)	1 (11.1)	1 (9.1)

[8] The denominators for the various countries are Austria (12), Belgium/Luxembourg (39), Denmark (10), Finland (9), France (47), Germany (51), Greece (11), Ireland (17), Italy (20), Netherlands (32), Portugal (15), Spain (26), Sweden (19), UK (50).

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Main Horizontal Barriers	I	IRL	NL	P
	No/%	No/%	No/%	No/%
1. Need to work in local language	4 (20.0)	5 (29.4)	5 (15.6)	4 (26.7)
2. Differing national standards	5 (25.0)	5 (29.4)	4 (12.5)	3 (20.0)
3. Need for local track record	6 (30.0)	5 (29.4)	6 (18.7)	4 (26.7)
4. Complexity of legal systems	3 (15.0)	2 (11.6)	7 (21.8)	1 (6.7)
5. Differences in local traditions	5 (25.0)	3 (17.6)	1 (3.1)	3 (20.0)
Main Horizontal Barriers	**SW**	**UK**	**EU15**	
	No/%	No/%	No/%	
1. Need to work in local language	7 (36.8)	10 (20.0)	82 (22.9)	
2. Differing national standards	4 (21.0)	9 (18.0)	73 (20.4)	
3. Need for local track record	6 (31.5)	11 (22.0)	83 (23.2)	
4. Complexity of legal systems	4 (21.0)	6 (12.0)	56 (15.6)	
5. Differences in local traditions	6 (31.5)	9 (18.0)	53 (14.8)	

Source: CSES analysis of survey data. Note: Strictly speaking, these data should we weighted to take into account the varying level of export activity in relation to different markets. However, given the relatively small numbers, this is not considered appropriate.

Turning to the sectoral dimension, Table 5.14 analyses the survey data on the main horizontal barriers by provider sector.

Table 5.14: Main Horizontal Barriers – By Sector

Sectors	Main Horizontal Barriers									
	Local language		Local track record		Legal systems		National standards		Local traditions	
	No	%	No	%	No	%	No	%	No	%
IT Consultancy	23	33.3	18	26.1	11	15.9	7	10.1	11	15.9
Personnel Recruitment	9	21.4	6	14.3	6	14.3	8	19.0	6	14.3
Leasing & Renting	11	25.0	3	6.8	8	18.2	5	11.3	10	22.7
Contract R & D	7	18.4	8	21.0	6	15.8	7	18.4	6	15.8
Accountancy & Audit	8	27.6	3	10.3	4	13.8	10	34.5	7	20.0
Tax Services	1	10.0	1	10.0	2	20.0	0	0.0	0	0.0
Engineering Related	25	40.3	20	32.2	16	25.8	13	20.9	13	20.9
Technical Testing	6	46.1	1	7.7	3	23.1	5	38.5	2	15.4
TOTAL	90	29.0	60	17.9	56	18.2	55	17.9	55	17.9

Source: CSES analysis of survey data

Here, there is a marked contrast between the IT Consultancy sector, where the need to work in local languages is ranked as 'very important' by a third of providers, and sectors

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such as Tax Services and Contract R&D where this factor is not viewed as being so significant. Likewise, views on the importance of national standards as a barriers to trade in business services vary considerably: whereas in the Accountancy and Audit, Technical Testing, and Engineering Related fields there are ranked highly as barriers, this is less so with most of the other sectors.

To complete the analysis of horizontal barriers, Table 5.15 examines the survey feedback from the point of view of firm size. The analysis does not point to any clear patterns.

Table 5.15: Main Horizontal Barriers – By Firm Size

Firm Size Bands	**Main Horizontal Barriers**											
Employees	1-10		10-50		50-250		250-500		500-1000		Over 1000	
	No	%	No	%	No	%	No	%	No	%	No	%
Local language	1	10.0	14	33.3	42	27.1	12	24.5	11	52.4	10	33.3
Local track record	3	30.0	10	23.8	23	14.8	13	26.5	8	38.1	3	10.0
Legal systems	2	20.0	7	16.7	25	16.1	11	22.4	5	23.8	6	20.0
National standards	3	30.0	10	23.8	22	14.2	10	20.4	6	28.6	5	16.7
Local traditions	1	10.0	6	14.3	29	18.7	8	16.3	4	19.0	7	23.3

Source: CSES analysis of survey data.

In the survey, we also asked business service providers to identify the EU Member States that, in their opinion, present the most severe barriers to trade. Table 5.16 provides an analysis of the responses. This analysis is based on how frequently the 165 providers currently exporting services to other EU Member States mentioned different countries as presenting barriers to trade in services as a percentage of the total number of companies selling into the particular markets concerned. [9]

Table 5.16: Barriers to Trade in Business Services - EU Member States

Key: A = total number of firms selling services in a particular market; B = number of firms stating they faced barriers to trade in these markets; C = B and a percentage of A.

Country	**A**	**B**	**C**	**Country**	**A**	**B**	**C**
A	26	10	38.5	GR	25	16	64.0
B/L	68	14	20.6	I	50	20	40.0
D	98	35	35.7	IRL	32	3	9.4
DK	34	12	35.3	NL	64	7	10.9

[9] The number of companies selling to other EU markets (Column A) is based on the data presented in Table 4.28(b) in Section 4.

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E	61	10	16.4	P	41	7	17.1
F	92	33	35.8	SW	35	8	22.8
FIN	26	8	30.7	UK	89	16	18.0

Source: CSES analysis of survey data

In comparing one EU Member State against another, it does of course need to be borne in mind that some countries account for a larger share of export activity than others and it is therefore arguably more likely that barriers to trade will be detected. Likewise, the varying sample sizes for different EU Member States could affect the results.

Barriers to Trade in Business Services – User Perspectives

Business service users were also asked to identify other factors, in addition to differences in range, price, and quality that might help explain why services from other EU Member States are not used. Table 5.17(a) provides an analysis of the responses. The analysis is based on the number of times the various factors were mentioned in the survey as constituting a barrier to trade. The total number of companies in the sample (198) has been used as the denominator. It should be noted that multiple responses were possible.

Figure 5.17(a): User Views - Barriers to Trade in Business Services

Barriers to Purchasing Business Services from Other EU Countries	**Survey Responses**	
	No	%
(1) Language complications	137	69.2
(2) Different commercial practices and traditions	128	64.6
(3) Difficulty in identifying suitable foreign suppliers	125	63.1
(4) Uncertainty about after-care services from abroad	124	62.6
(5) Need for close interaction with suppliers	122	61.6
(6) Uncertainty about legal contracts with foreign suppliers	116	58.6
(7) Difficulty in getting information on track record of foreign suppliers	108	54.5
(8) Procedures for cross-border payments are more complex	95	47.9
(9) Use of domestic suppliers encouraged by national authorities	83	41.9
(10) Tax on foreign suppliers makes them more expensive	83	41.9
(11) Planning and zoning restrictions on foreign suppliers	82	41.4

Source: CSES analysis of survey data

It is clearly also helpful to analyse the number of user companies identifying different types of barriers as being significant. In Table 5.17(b), the analysis is restricted to the 58 users identified in Section 4 (see Table 4.19) as having purchased business services from

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a supplier based in another EU Member State. The analysis shows the number of users ranking barriers as a constraint on purchasing services abroad in relation to at least one of the eight provider sectors.

Figure 5.17(b): User Views - Barriers to Trade in Business Services

Barriers to Purchasing Business Services from Other EU Countries	**Survey Responses**	
	No	%
(1) Language complications	40	68.9
(2) Different commercial practices and traditions	39	67.2
(3) Difficulty in identifying suitable foreign suppliers	36	62.1
(4) Uncertainty about after-care services from abroad	37	63.4
(5) Need for close interaction with suppliers	39	67.2
(6) Uncertainty about legal contracts with foreign suppliers	36	62.1
(7) Difficulty in getting information on track record of foreign suppliers	34	58.6
(8) Procedures for cross-border payments are more complex	31	53.4
(9) Use of domestic suppliers encouraged by national authorities	29	50.0
(10) Tax on foreign suppliers makes them more expensive	29	50.0
(11) Planning and zoning restrictions on foreign suppliers	29	50.0

Source: CSES analysis of survey data

Overall, the two ways of analysing barriers to purchasing business services from abroad produce very similar results. As can be seen, in both Tables 5.17(a) and 5.17(b), the three most serious barriers from the user perspective (ranked in order of severity) are language, differences in commercial practices and traditions, and difficulty in identifying a suitable foreign supplier. In contrast, planning restrictions, tax on foreign suppliers, and national incentives to use domestic business suppliers are all considered relatively insignificant actual or potential barriers to trade.

Barriers to Trade - Comparison Between Provider and User Views

Direct comparisons between the survey findings for providers and users on barriers to trade are difficult to make for several reasons:

- Although there is some overlap, different factors influence business service providers and users with regard to their involvement in cross-border trade;

- In the case of providers, the ranking of many barriers to trade depends on the mode of delivering services (from home base, via local operation, etc).

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Table 5.18 compares the business service user and provider perspectives on the main barriers to trade. In the case of both providers and users, the analysis is based on the rankings given by companies that are engaged in cross-border trade (rather than all firms making up the survey sample).

Table 5.18: Key Barriers to Trade – Provider and User Perspectives

Key: (Provider Rankings): Column A = Selling from Home Base; Column B = Selling via Local Operation.

Note: in Table 5.18, barriers facing providers have been ranked, in the first place, according to the views of firms selling services directly from the home base on the grounds that this represents the predominant method.

Providers	**A**	**B**	**Users**	**%**
1. Language complications	40.3	52.2	1. Language complications	69.2
2. Distance related factors	31.5	n/a	2. Differing commercial practices	64.6
3. Differing national standards	29.8	45.6	3. Difficulty identifying suppliers	63.1
4. Need for local track record	29.0	76.1	4. Uncertainty about after-care from abroad	62.6
5. Local presence for aftercare	21.8	n/a	5. Need for close interaction with suppliers	61.6
6. High cost of local operation	n/a	43.9	6. Legal complexities of foreign purchases	58.6
7. Need for specific legal form	21.7	30.3	7. Lack of information on foreign suppliers	54.6
8. Lack of necessary skills	n/a	39.4	8. Complexity of cross-border payments	47.9

Source: CSES analysis of survey data

The above suggests that:

- In the case of providers, the barriers to setting up a local operation in an export market are generally perceived as more severe than those affecting the capacity to deliver services directly from the home base (this is an obvious explanation as to why the latter is the predominant method);

- Administrative-regulatory barriers – differing national standards, the need for a specific legal form – feature as barriers for providers whilst in the case of users differing commercial practices (which can be related to administrative-regulatory factors) are also seen as significant;

- Although earlier survey findings suggest that other factors – price, quality, etc – are more important to users than physical proximity in the selection of a business service provider, in the case of both providers and users there is a recognition that possible difficulties in delivering after-care services from abroad can be a barrier to trade. Likewise, many of the other barriers listed above – distance-related factors, need for a local track record and (in the case of users) difficulty in identifying suppliers and the

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need for close interaction with them, relate essentially to the provider-client relationship and by implication the importance of a physical presence in export markets.

To complete the analysis, Table 5.19 compares the responses from business service providers and users to questions concerning trends in barriers to trade.

Table 5.19: Trends in Barriers to Trade – Provider and User Views

Trends in Barriers	**Provider Views**							
	Yes		No		Don't know		Total	
	No	%	No	%	No	%	No	%
New barriers replacing old ones?	56	18.2	103	33.5	148	48.3	307	100.0
Barriers decreasing over past 5-10 yrs?	160	52.1	76	24.8	71	23.1	307	100.0
Trends in Barriers	**User Views**							
	Yes		No		Don't know		Total	
	No	%	No	%	No	%	No	%
New barriers replacing old ones?	36	18.2	78	39.4	84	42.4	198	100.0
Barriers decreasing over past 5-10 yrs?	109	55.0	57	28.8	32	16.2	198	100.0

Source: CSES analysis of survey data. Note: Columns 6 and 7 combine 'Don't Know' and non-responses.

As can be seen, business service providers and users generally share a positive view of trends in recent years with regard to barriers to trade in their markets. Few companies (only 18.2%) in either group consider that new barriers are replacing old ones. Likewise, there are almost identical views regarding overall trends in the past five to 10 years – a majority of companies in the case of both business service providers and users stating that barriers to trade have been reducing.

5.2 Cost of Barriers to Trade in Business Services

In this section, we consider the cost of barriers to trade in business services and how markets, prices and costs might be affected if remaining barriers were to be removed.

The nature of the service industries is that many providers organise themselves to offer cross-border services in a manner that overcomes the regulatory barriers in as simple a way as possible. Accordingly, the additional costs which providers have to meet include direct costs associated with the set up and running of their organisations, and opportunity

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costs related to business at which they cannot undertake. From the users point of view, costs are associated with increased prices caused by a possible lack of competition, and the inability to obtain the nature of the services they need. This section examines each of these issues

Providers Set Up and Operating Costs

We asked providers to comment on the significance of set up costs in making it more difficult to sell services in other EU Member States. Table 5.20 presents the survey results.

Table 5.20: Barriers to Trade – Set Up Costs

Set up costs as a barrier to trade	**Survey Responses**	
	No	%
Not significant	39	12.7
Significant	91	29.6
Very significant	47	15.3
Don’t know or non response	130	42.4
TOTAL	307	100.0

Source: CSES Analysis of survey data.

As can be seen, most companies who were able to respond indicated that set up costs are a significant factor in making it difficult to establish an operation in another EU Member State that can be used to sell services into local markets. There are also a large number of companies, however, who were not in a position to comment.

Table 5.21 (a) breaks down the ‘important’ and ‘very important categories shown above by firm size, comparing this with the sample structure.

Table 5.21(a): Barriers to Trade – Set Up Costs By Firm Size

Key: A = number of firms stating that start up costs were important/very important barrier; B = percentage breakdown of Column A; C = percentage breakdown of whole sample (307 firms); D = difference between Columns B and C.

Firm Size Bands	**Responses (Important/Very Important)**			
	A- No	B- %	C- Sample	D- Variance
Less than 10 employees	4	2.9	3.3	(0.4)
10 to 50 employees	18	13.1	13.7	(0.6)
50 to 250 employees	70	50.7	50.5	0.2

250 to 500 employees	22	15.9	16.0	(0.1)
500 to 1000 employees	12	8.7	6.8	1.9
Over 1000 employees	12	8.7	9.8	(1.1)
TOTAL	138	100.0	100.0	-

Source: CSES Analysis of survey data.

As can be seen from Table 5.21 (a), there is very little difference in the findings by firm size. Compared with the sample structure, firms from all size bands are more or less equally well represented in the category of those who gave an ‘important/very important’ response.

In a related question, we asked firms to estimate these market entry costs as a proportion of their sales. An analysis of the responses is shown below. Table 5.21(b) presents the results of the analysis of survey returns.

Table 5.21(b): Barriers to Trade – Set Up Costs as a Proportion of Sales

Proportion of Sales	**Survey Responses**	
	No	%
0 to 1 month’s sales	11	3.6
2 or 3 month’s sales	16	5.2
3 to 6 month’s sales	31	10.1
Over 6 month’s sales	44	14.3
Don’t know or non-responses	205	66.8
TOTAL	307	100.0

Source: CSES Analysis of survey data.

Perhaps not surprisingly, a large proportion of the sample (68.8%) were not in a position to estimate these costs. However, amongst the remainder it is clear that they are regarded as very significant in financial terms. Analysis of the data suggests that set up costs will be of the order of 6 months sales – a significant barrier to new entrants to the market.

We now consider the effect of removing barriers to trade on continuing business. In the survey, we asked what effect the removal of all barriers to trade would have on operating costs. Table 5.22 (a) analyses the responses.

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Table 5.22(a): Impact of Removing Barriers – Operating Costs

Impact of Removing Barriers on Operating Costs	**Responses**	
	No	%
No change	43	14.0
Decrease by up to 5%	33	10.7
Decrease by 5% to 10%	23	7.5
Decrease by 10% to 20%	30	9.8
Decrease by over 20%	2	0.7
Don't know	102	33.2
Non responses	97	31.6
TOTAL	307	100.0

Source: CSES Analysis of survey data

A majority of the companies surveyed (57.4%) were not in a position to answer this question. As can be seen from the above analysis, the remainder gave varying responses, some (14%) saying that there would probably be no change, and the others indicating that operating costs would reduce by up to 20%. Making assumptions[10] on the distribution of the responses within each range, we can estimate that the impact of removing barriers will cause producers' costs to fall by some 6%.

It is clearly of interest to identify the characteristics of firms – especially in terms of size bands – who stated that they would see no change in operating costs if barriers to trade were removed or stated that they didn't know. This could point to firms that would become uncompetitive in a more integrated market. Table 5.22(b) analyses the 'no change' and don't know' responses shown above. The 'total' column in the table gives the average percentage breakdown across firm size bands for the responses 'no change' and 'don't know' while the final column compares this with the size structure of the sample as a whole.

[10] In carrying out this calculation we have assumed that responses are grouped the-mid point of each range, and for the top range where there is no upper point, that responses are grouped a half range above the lower point. For example, for responses of over 20% we have assumed that these are grouped at 25%. The small number of ranges appears to preclude more sophisticated analysis

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Table 5.22(b): Impact of Removing Barriers – Analysis of 'No Change' and 'Don't Know' Responses

Size Bands	No Change		Don't know		Total	Sample	Variance
	No	%	No	%	%	%	%
Below 10 employees	1	2.3	3	2.9	2.8	3.3	(0.5)
Between 10 and 50 employees	5	11.6	12	11.6	11.7	16.0	(4.3)
Between 50 and 250 employees	23	53.5	53	51.9	52.4	50.5	1.9
Between 250 and 500 employees	10	23.2	17	16.7	18.6	16.0	2.6
Between 500 and 1000 employees	0	0.0	7	6.8	4.8	6.8	(2.0)
Over 1000 employees	4	9.4	10	10.1	9.7	9.8	(0.1)
TOTAL	43	100.0	102	100.0	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

As can be seen, medium-sized business service providers employing between 50 and 500 people are disproportionately represented. This suggests that it is these firms that would be least likely to reduce operating costs and could therefore be the most vulnerable to increased competition.

We also asked whether there might be significant additional costs involved in increasing the level of sales to other EU Member States if remaining barriers were removed. A fifth of respondents stated that there would be additional costs but more (27%) said there would not be. Again, there were a large number of 'don't knows' and non-respondents.

Effect of Removing Barriers to Trade on Providers Sales

An important question is whether business service providers would be likely to increase their sales of business services in other EU Member States if all regulatory barriers were removed. The responses are shown below, first in respect of existing markets and then on possible new markets.

Table 5.23: Impact of Removing Barriers on Company Sales

Markets	Substantial Increase		Modest Increase		No Effect		Some Decrease		Non Responses Don't Knows	
	No	%	No	%	No	%	No	%	No	%
Domestic market	19	6.2	71	23.1	121	39.4	31	10.1	65	21.2
Export market	51	16.6	114	37.1	47	15.3	4	1.3	91	29.7

Source: CSES Analysis of survey data.

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Business service providers do not, on balance, expect to increase their sales by a significant amount in domestic markets following the removal of remaining barriers to trade. The position with regard to export markets is very different and points to a greater level of confidence that companies will benefit from improved business opportunities. These findings are consistent with the earlier analysis regarding market competitiveness: domestic markets are already seen as being highly competitive in most countries whereas this is not seen as being the case for export markets

Turning to new markets – generally export markets – producers were asked the effect on sales of removing barriers.

Table 5.24: Impact of Removing Barriers on Company Sales in other EU markets

If Barriers were removed, would your company increase sales?	Responses	
	No	%
Yes	162	52.8
No	61	19.9
Don't know or no response	84	27.3
TOTAL	307	100.0

Source: CSES Analysis of survey data.

Just over half (162 firms) the sample indicated that they would be likely to increase their sales of business services in other EU Member States if regulatory barriers were removed. Analysis of the characteristics of this group of companies indicates that:

- A relatively high proportion (69%) were already exporting to other EU Member States (a further 7% had done so in the past);
- Selling from the home base represented the most common delivery method, accounting for 54% of cases where companies were exporting compared with 48% amongst the larger sample of all exporters. Conversely, selling via a local operation in an export market accounted for a lower share than in the larger sample;
- A higher proportion of larger companies indicated that they would probably increase exports than was the case with smaller firms. For example, whereas 67% of companies employing over 1000 people fell into this category, only 45% of firms with between 10 and 50 employees did;

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- Companies in the Contract R&D, Technical Testing and Engineering Related Consultancy sectors were disproportionately highly represented amongst those stating they would increase exports compared with the sample as a whole.

Table 5.25 (a) examines the last of these observations in more detail by providing a full analysis of the sectoral characteristics of companies stating that if barriers were to be removed, they would increase their exports to other EU markets. The first two columns of the table provide an analysis by sector of the 162 companies (162=100%). The remaining two columns compare this distribution with that of the sample as a whole. The analysis shows that in sectors where the level of export activity is already comparatively high (see Table 4.2.6) a relatively high proportion of companies indicated that they would probably increase their exports to other EU markets if barriers were removed.

Table 5.25(a): Sectoral Characteristics of Firms Stating They Would Increase Exports

Sector	**Increased Exports (162)**		**Whole Sample (308)**	
	No	%	%	Variance
IT Consultancy	35	21.6	22.5	(0.9)
Personnel Recruitment	22	13.6	13.7	(0.1)
Leasing & Renting	22	13.6	14.3	(0.7)
Contract R & D	23	14.2	12.4	1.8
Accountancy & Audit	11	6.8	9.4	(2.6)
Tax Services	4	2.5	3.3	(0.8)
Engineering Related	37	22.8	20.2	2.6
Technical Testing	8	4.9	4.2	0.7
TOTAL	162	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

It is also highly pertinent to examine the characteristics of firms who stated that they had never been involved in export activity but would consider selling abroad if barriers were removed. Table 5.25 (b) and 5.25 (c) analyse the firm size bands and sectors of the 36 companies from the sub-sample of 162 falling into this category:

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Table 5.25 (b): Characteristics of Likely 'New Entrants' to Export Markets

Size Bands	New Entrants (36)		Whole Sample (308)	
	No	%	%	Variance
Below 10 employees	2	5.5	3.3	2.2
Between 10 and 50 employees	6	16.7	16.0	0.7
Between 50 and 250 employees	19	52.8	50.5	2.3
Between 250 and 500 employees	4	11.1	16.0	(4.9)
Between 500 and 1000 employees	2	5.6	6.8	(1.2)
Over 1000 employees	3	8.3	9.8	(1.5)
TOTAL	36	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

Table 5.25(b) demonstrates very clearly that smaller business service providers employing less than 250 people are more heavily represented in the category of likely 'new entrants' than larger providers. Table 5.25(c) repeats the analysis from a sectoral perspective.

Table 5.25(c): Sectoral Characteristics of Firms Stating They Would Increase Exports – New Entrants

Key: A = breakdown by sector of potential new entrants; B (Column '%') = distribution of firms in whole sample, C ('Variance') = difference.

Sector	Increased Exports (36)		Whole Sample (308)	
	No	%	%	Variance
IT Consultancy	9	25.0	22.5	2.5
Personnel Recruitment	7	19.4	13.7	5.7
Leasing & Renting	4	11.1	14.3	(3.2)
Contract R & D	3	8.3	12.4	(4.1)
Accountancy & Audit	3	8.3	9.4	(1.1)
Tax Services	2	5.6	3.3	2.3
Engineering Related	8	22.2	20.2	2.0
Technical Testing	0	0.0	4.2	(4.2)
TOTAL	36	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

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Again, the findings are very clear with IT Consultancy, Personnel Recruitment, Tax Services and Engineering Related Consultancy accounting for a disproportionate share of the 'new entrants'.

We then asked by how much their sales would be likely to increase. An analysis of the responses is shown below.

Table 5.26(a): Impact of Removing Barriers on Company Sales – Overall

If Barriers were removed, would your company increase sales?	Responses	
	No	%
Up to 10% more sales	59	19.2
10% to 20% more sales	63	20.5
More than 20% sales	28	9.1
Don't know or non responses	157	51.2
TOTAL	307	100.0

Source: CSES Analysis of survey data.

Making assumptions as before about the distribution of the responses, we can estimate business service providers consider that their sales in new markets might rise by about 13% if barriers were removed. Clearly, this is an important effect.

Taking the 155 firms who provided an estimate concerning the impact of removing barriers on their sales (the first three rows in Table 5.26(a)), the analysis below breaks down the responses (for 150 of the providers who gave information) on their turnover in the last financial year.

Table 5.26(b): Impact of Removing Barriers on Company Sales – Turnover Bands

Key: A = Firms who have never exported; B = firms who considered exporting but decided not to go ahead; C = firms who exported in past but not now; D = firms who are currently exporting services.

Turnover Bands	A		B		C		D	
	No	%	No	%	No	%	No	%
Less than €1 million	1	4.3	1	7.1	0	0.0	5	4.7
€1 to €10 million	10	43.4	6	43.0	5	45.4	35	32.7
€10 to €50 million	6	26.0	2	14.3	6	54.6	37	34.5
€50 to €100 million	4	17.7	1	7.1	0	0.0	10	9.4
€100 to €500 million	1	4.3	1	7.1	0	0.0	11	10.3

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Over €500 million	1	4.3	3	21.4	0	0.0	9	8.4
TOTAL	23	100.0	14	100.0	11	100.0	107	100.0

Source: CSES Analysis of survey data.

As can be seen, in each of the categories A to D, firms stating that they would probably increase their export sales if barriers to trade were removed tend to be concentrated in the categories €1 to €10 million and €10 to €50 million.

We also asked whether there might be significant additional costs involved in increasing the level of sales if remaining barriers were removed. Based on the entire sample (Column ‘A’ in Table 5.27), a total of 66 providers (21.5%) stated that there would be additional costs – in increasing sales to domestic and/or export markets - but slightly more (72 or 23.4%) said there would not be. Again, there were a large number of ‘don’t knows’ and non-respondents accounting for over half (55.1%) of the sample. The high level of ‘don’t knows’ and ‘non-responses’ makes it difficult to arrive at definite conclusions. If the analysis is confined to business service providers stating that they would increase sales to other EU Member States (the column ‘Sub-sample’ in Table 5.27(a)), a similar picture emerges but those responding ‘yes’ outnumber the firms saying ‘no’ and the level of ‘don’t knows’ and non-responses is lower.

Table 5.27(a): Additional Costs from Additional Sales - Overall

Survey Responses – Additional Costs	**A - All Firms**		**B – Sub-sample**	
	No	%	No	%
Yes	66	21.5	49	30.2
No	72	23.4	46	28.4
Don’t know or non response	169	55.1	67	41.4
TOTAL	307	100.0	162	100.0

Source: CSES analysis of survey results

As Table 5.27(b) analyses the sectoral characteristics of the 49 firms shown in the above analysis who said (a) they would increase sales if barriers were removed and (b) they would incur additional costs. As can be seen, there are a disproportionate number of business service providers in two sectors – Engineering Related Consultancy and Technical Testing stated that they would incur additional costs if the level of exporting were to increase as a result of barriers to trade being removed.

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Table 5.27(b): Additional Costs from Additional Sales – By Sector

Key: A = breakdown by sector of firms stating that they would incur additional costs; B (Column '%') = distribution of firms in whole sample, C ('Variance') = difference.

Sector	**A - Additional Costs**		**B - Whole Sample (308)**	
	No	%	%	Variance
IT Consultancy	9	18.4	22.5	(4.1)
Personnel Recruitment	7	14.3	13.7	0.6
Leasing & Renting	6	12.2	14.3	(2.1)
Contract R & D	7	14.3	12.4	(1.9)
Accountancy & Audit	4	8.2	9.4	(1.2)
Tax Services	1	2.0	3.3	(1.3)
Engineering Related	12	24.4	20.2	4.2
Technical Testing	3	6.2	4.2	2.0
TOTAL	49	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

Table 5.27(c) repeats the analysis by examining the distribution between different company size bands. There is no clear pattern although smaller firms tend to be disproportionately represented amongst those saying they would incur additional costs.

Table 5.27(c): Additional Costs from Additional Sales – By Firm Size

Key: A = breakdown by sector of firms stating that they would incur additional costs; B (Column '%') = distribution of firms in whole sample, C ('Variance') = difference.

Size Bands	**A - Additional Costs**		**B- Whole Sample (308)**	
	No	%	%	Variance
Below 10 employees	2	4.1	3.3	0.8
Between 10 and 50 employees	9	18.4	16.0	2.4
Between 50 and 250 employees	25	51.0	50.5	0.5
Between 250 and 500 employees	6	12.2	16.0	(3.8)
Between 500 and 1000 employees	4	8.2	6.8	1.4
Over 1000 employees	3	6.1	9.8	(3.7)
TOTAL	49	100.0	100.0	-

Source: CSES Analysis of survey data. Note: figures in brackets = negative variance.

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Purchases of Business Services – User Perspective

We also asked about purchases from a user perspective. A key question in the survey was: 'If barriers to trade in business services were removed, would your company increase its use of business service providers from other EU countries?' Table 5.28 analyses the responses:

Table 5.28: Effect on Purchasing of Business Services from Other EU Countries

If barriers were removed, would purchases increase?	Survey Responses	
	No	%
Yes	66	33.5
No	45	22.8
Don't know	76	38.6
Non responses	11	5.1
TOTAL	198	100.0

Source: CSES Analysis of survey data.

A high proportion of the sample – 39% - said that they did not know whether they would buy more business services from other EU Member States if remaining barriers were removed. However, a third of firms said they would do so compared with less than a quarter (23%) who answered negatively.

A more detailed analysis of the characteristics of business service users stating that they would increase cross-border purchases indicates that:

- There was little difference between users in different size bands saying they would/would not increase cross-border purchases;

- From the perspective of the types of business services purchased, users who had previously bought Engineering Related Consultancy, IT Consultancy and Technical Testing services were less well-represented amongst those firms stating they would increase cross-border trade than those who had purchased other the types of services covered by the research.

Those responding positively were asked to indicate by how much they might increase purchases of business services from other EU countries. Table 5.29(a) summarises the results.

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Table 5.29: Likely Increase in Purchases from Other EU Member States

	Responses	
	No	%
Up to 10% more purchases	33	16.8
10% to 20% more purchases	19	9.6
Over 20% more purchases	8	4.1
Don't know or not relevant	138	69.5
TOTAL	198	100.0

Source: CSES Analysis of survey data.

Clearly, a hypothetical question of this kind is extremely difficult to answer and, not surprisingly, a high proportion (69.5%) of users gave a 'don't know' response. Amongst the remainder, most indicated a possible increase in purchases from other EU Member States of up to 10%.

Table 5.29(b) takes the 66 users from Table 5.28 who stated that if barriers were removed they would increase cross-border purchases and identifies the EU Member States where they are located while Table 5.29(c) analyses the source of past cross-border purchases.

Table 5.29(b): Location Users Stating They Would Increase Cross-Border Purchases If Barriers to Trade Were Removed

Key: A = Location of Users stating they would increase cross border purchases if barriers were removed; B = distribution by country of whole sample (198 firms); C = Column A as a percentage of Column B.

Export Markets	Extent of Cross Border Purchasing By Users						
	A	B	C		A	B	C
Austria	1	2	50.0	Ireland	2	3	66.7
Belgium/Lux	1	3	33.3	Italy	9	27	33.3
Denmark	0	3	0.00	Netherlands	2	8	25.0
Finland	1	6	16.7	Portugal	1	4	25.0
France	8	26	30.7	Spain	2	11	18.2
Germany	18	54	33.3	Sweden	1	5	20.0
Greece	9	15	60.0	UK	11	31	35.5

Source: CSES Analysis of survey data.

Three countries – Austria, Greece and Ireland – stand out as having a relatively high proportion of business services users that might take advantage of a removal of barriers to increase cross-border purchases. Scandinavian countries tend to be positioned at the opposite end of the scale.

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The analysis shown in Table 5.29 (c) identifies the location of providers previously used by firms stating that they might increase cross-border purchases if barriers to trade were removed. It is not unreasonable to argue that users would, in the first instance, look to providers from the same countries to meet their needs.

Table 5.29(c): Location of Providers Used By Firms Stating They Would Increase Cross-Border Purchases If Barriers to Trade Were Removed

Key: A = location of providers used by firms stating that they would increase purchases from other EU Member States if barriers were removed; B = location of providers used by whole sample of users (198); C = Column A as a percentage of Column B.

Providers	**Extent of Cross Border Purchasing By Users**						
	A	B	C		A	B	C
Austria	4	8	50.0	Ireland	2	4	50.0
Belgium/Lux	3	7	42.8	Italy	4	9	44.4
Denmark	2	4	50.0	Netherlands	4	9	44.4
Finland	0	1	0.00	Portugal	1	3	33.3
France	6	12	50.0	Spain	0	4	0.00
Germany	14	23	60.8	Sweden	4	8	50.0
Greece	2	2	100.0	UK	10	21	47.6

Source: CSES Analysis of survey data.

Table 5.29(d) provides an analysis of the sectors of users stating they would increase cross-border purchases, showing that a disproportionate number are concentrated in the manufacturing and distribution sectors.

Table 5.29(d): Sectoral Analysis - Users Stating They Would Increase Cross-Border Purchases If Barriers to Trade Were Removed

Sector	**Responses**		**Sample**	**Variance**
	No	%	%	%
Manufacturing	29	43.9	36.4	7.5
Distribution	3	4.6	3.0	1.6
Services	27	40.9	42.4	(1.5)
Energy and Utilities	1	1.5	2.0	(0.5)
Construction	1	1.5	4.5	(3.0)
Others	5	7.6	11.7	(4.1)
TOTAL	66	100.0	100.0	-

SURVEY DATA – BARRIERS TO TRADE 5

Source: CSES Analysis of survey data. Note: in the table, Column 'Sample' provides breakdown of whole sample of 198 users by sector while Column 'Variance' indicates difference between sample breakdown and breakdown of firms stating they would increase cross-border purchases.

Effect of Removing Barriers to Trade on Competition and Prices

We now consider the effect on competition in service markets. Table 5.30 provides an analysis of the survey responses with regard to the affect of removing remaining barriers to trade on competition in home markets. Table 5.31 then presents an analysis of responses on the related question concerning export markets elsewhere in the EU.

Table 5.30: Impact of Removing Barriers on Competition in Home Markets

Possible Impacts	**Increase**		**No Change**		**Decrease**		**No Response**	
	No	%	No	%	No	%	No	%
Number of competitors	173	56.4	88	28.7	2	0.6	44	14.3
Competition on the basis of price	149	48.5	95	30.9	16	5.3	47	15.3
Competition on the basis of quality	131	42.7	109	35.5	19	6.2	48	15.6
Competition on the basis of the range of services	163	53.1	91	29.6	2	0.6	51	16.7

Source: CSES Analysis of survey data.

Table 5.31: Impact of Removing Barriers on Competition in Export Markets

Possible Impacts	**Increase**		**No Change**		**Decrease**		**No Response**	
	No	%	No	%	No	%	No	%
Number of competitors	153	49.8	54	17.6	5	1.6	95	31.0
Competition on the basis of price	149	48.5	51	16.6	8	2.6	99	32.3
Competition on the basis of quality	122	39.7	79	25.7	10	3.2	96	31.4
Competition on the basis of the range of services	136	44.3	69	22.5	2	0.6	100	32.6

Source: CSES Analysis of survey data.

Tables 5.30 and 5.31 present a very consistent picture. By a fairly decisive margin, there is an expectation that removal of remaining barriers to trade will lead to more competition in both domestic and export markets. More specifically, the survey feedback suggests that there will be greater competition in terms of the number of business service providers in these markets and price levels. Increased competition on the basis of quality is thought less likely, particularly in home markets, and the same applies to competition on the basis of the range of business services being offered although here the difference between domestic and export markets is less pronounced.

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We now consider the potential effect of removing barriers on price levels. Table 5.32 provides an analysis of the feedback from users and providers on the extent to which prices for business services vary between the home market and other EU countries.

Table 5.32: Differences in Prices for Business Services

Price in home market compared with export market	**Users**		**Providers**	
	No	%	No	%
Over 20% lower	6	3.0	11	3.6
10% to 20% lower	8	4.1	25	8.1
Up to 10% lower	10	5.1	20	6.5
No difference in price	34	17.3	43	14.0
Up to 10% higher	21	10.7	20	6.5
10% to 20% higher	13	6.6	18	5.9
Over 20% higher	2	1.0	9	2.9
Don’t know or no response	104	52.3	161	52.4
TOTAL	198	100.0	307	100.0

Source: CSES Analysis of survey data

As can be seen from Table 5.32, excluding the ‘don’t knows’, the single most common response was that there is no difference between the price for business services. This supports the findings from an earlier question concerning the significance or otherwise of price as a factor influencing the selection of domestic/other EU business services providers. However, amongst those firms who claimed that a price differential did exist, a majority of users expressed the view that prices were generally *higher* in their home markets than in other countries (18.3% of users fell into this category compared with 12.2% who stated that prices were lower in their home markets). Amongst providers, however, the situation is reversed (the corresponding figures being 15.3% and 18.2%).

Business service providers were also asked to say what might happen to prices if remaining barriers to trade were removed. Few companies answered this question.

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Table 5.33(a): Effect on Prices from Removing Barriers - Provider Views

Effect on Prices	Survey Responses	
	No	%
No change	92	30.0
Decrease by up to 10%	53	17.3
Decrease by over 10%	7	2.3
Don't know or non response	155	50.4
TOTAL	307	100.0

Source: CSES Analysis of survey data

As can be seen, a high proportion of business service providers (50.4%) did not provide an answer to this question and almost another third (30.0%) indicated that, in their view, the removal of remaining barriers to trade would not have an effect on prices. Users were not asked this question.

It is clearly relevant to examine which business service sectors are likely to experience the most pressure on prices if barriers to trade are removed. Table 5.33(b) takes the 152 firms who expressed an opinion on likely price movements and provides an analysis of the survey responses by business service sector.

Table 5.33(b): Effect on Prices from Removing Barriers – Sectoral Analysis

Sectors	No change		Up to 10% Down		Up to 20% Down		TOTAL	
	No	%	No	%	No	%	No	%
IT Consultancy	17	54.8	9	29.0	5	16.1	31	100.0
Personnel Recruitment	11	52.4	10	47.6	0	0.0	21	100.0
Leasing and Renting	14	60.9	8	34.8	1	4.3	23	100.0
Contract R&D	18	69.2	8	30.8	0	0.0	26	100.0
Accountancy and Audit	5	50.0	4	40.0	1	10.0	10	100.0
Tax Services	0	0.0	4	100.0	0	0.0	4	100.0
Engineering Related Consultancy	18	66.7	9	33.3	0	0.0	27	100.0
Technical Testing	9	90.0	1	10.0	0	0.0	10	100.0
TOTAL	92	60.5	53	34.9	7	4.6	152	100.0

Source: CSES Analysis of survey data.

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As can be seen, the greatest downward pressure on prices are expected in the IT Consultancy, Personnel Recruitment, Accountancy and Audit, and Tax Service sectors (the results for the last of these sectors need to be interpreted cautiously given the very small sample).

Other Effects from Removal of Barriers to Trade

The research suggests that there might be other benefits to business service providers , in addition to increased sales, resulting from a removal of remaining barriers to trade. These are summarised below.

Table 5.34: Other Effects of Removing Barriers – Provider Views

Other Company Impacts	Very likely		Possible		Not likely	
	No	%	No	%	No	%
1. Internal restructuring to improve competitiveness	77	25.1	66	21.5	78	25.4
2. Networking to improve competitiveness	90	29.3	67	21.8	68	22.1
3. Linking up with other firms to provide different services	76	24.7	81	26.4	58	18.9
4. Cross border links to improve competitiveness	98	31.9	73	23.8	51	16.6
5. Investment in new markets, services, delivery methods	97	31.6	68	22.1	53	17.3
6. More emphasis on technology in services/delivery methods	100	32.6	67	21.8	56	18.2
7. Improved service quality and innovation	117	38.1	74	24.1	37	12.0

Source: CSES Analysis of survey data.

As can be seen, between a quarter and a third of the providers were able to identify a number of other benefits. More emphasis on technology in the delivery of services, the development of cross-border business partnerships, and investment generally in developing new markets, services and delivery methods were ranked highest as likely effects.

We also asked business service users what effect the removal of remaining barriers to trade might have on their companies' performance. As can be seen from Table 5.35, a significant proportion of firms – just under half (47.7%) - considered that there would be 'some effect'.

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Table 5.35: Other Effects of Removing Barriers – User Views

Effect on Performance of User Companies	Survey Responses	
	No	%
No effect	42	21.3
Some effect	94	47.7
Major effect	18	9.1
Don't know or not relevant	44	21.9
TOTAL	198	100.0

Source: CSES Analysis of survey data.

In the research, we investigated the likely effects in further detail. Table 5.36 provides an analysis of the responses. As can be seen, there was a high proportion of 'don't knows' (reflecting the uncertainties over effects suggested by the data in Table 5.35). However, a sizable proportion – over a third (34.8%) of companies indicated that the removal of barriers would probably reduce the cost of projects. Other effects – in particular, increased exports, improved productivity, and the easier recruitment of personnel – were also highlighted by a significant percentage of the users.

Table 5.36: Other Effects of Removing Barriers – User Views

Effect on Performance of User Companies	Yes		No		Don't know	
	No	%	No	%	No	%
1. Reduction in cost of projects	69	34.8	24	12.1	168	53.1
2. Improvements in company management	35	17.6	37	18.7	126	63.7
3. Increased R & D	35	17.6	35	17.6	128	64.8
4. Recruitment of additional personnel	51	25.7	32	16.2	115	58.1
5. More support for subsidiaries	24	12.1	45	22.7	129	65.2
6. Increased productivity	53	26.7	28	14.1	117	59.2
7. Increased exports	56	28.3	25	12.6	117	59.1

Source: CSES Analysis of survey data.

Conclusions – Impact of Removing Remaining Barriers to Trade

Overall, the research suggests that the removal of barriers is likely to have a beneficial effect on markets. There are limitations on what can be obtained from the data but some key indications are:

- Producers perceive their costs in existing markets might by some 6%;

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- There will be little change in sales in domestic markets but producers say their export sales would rise by 13%;
- Users will purchase additional services and there would be a fall in price levels, although the data does not support the extent of this effect;
- Companies – both providers and users would benefit in other ways relating to organisation and management.

At the same time, it needs to be emphasised that many companies found it difficult to quantify the costs of remaining barriers to trade and the above conclusions need therefore to be treated with some caution.

5.3 Impact of Single European Market and Other Factors

To conclude the part of the analysis, this section examines the impact of the Single European Market and other factors – the euro and e-commerce – on trends with regard to barriers to trade in business services.

Table 5.37 presents an analysis of the survey feedback with regard to the impact of the Single European Market on the home base of business service providers.

Table 5.37: Impact of Single European Market – Home Base

Responses	Yes		No		No Answer		Total	
	No	%	No	%	No	%	No	%
Many firms have entered from other EU countries	64	20.8	235	76.5	8	2.6	307	100.0
Price competition has become more intense	104	33.9	194	63.2	9	2.9	307	100.0
We have expanded our range of services	71	23.1	226	73.6	10	3.3	307	100.0
We have improved the quality of services	88	28.7	211	68.7	8	2.6	307	100.0
Costs have been reduced due to cheaper inputs	14	4.6	281	91.5	12	3.9	307	100.0
Costs have been reduced by increasing sales	20	6.5	275	89.6	12	3.9	307	100.0
Structures have been modified	68	22.1	231	75.2	8	2.6	307	100.0
Single EU Market has had a significant impact	137	44.6	161	52.4	9	2.9	307	100.0

Source: CSES Analysis of survey data.

Table 5.38 investigates the impact of the Single European Market on export markets. Respondents were asked to evaluate the impact in terms of the same range of possible effects.

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Table 5.38: Impact of Single European Market – Export Markets

Responses	Yes		No		No Answer		Total	
	No	%	No	%	No	%	No	%
Many firms have entered from other EU countries	24	7.8	274	89.3	9	2.9	307	100.0
Price competition has become more intense	46	15.0	251	81.8	10	3.3	307	100.0
We have expanded our range of services	32	10.4	265	86.3	10	3.3	307	100.0
We have improved the quality of services	29	9.4	269	87.6	9	2.9	307	100.0
Costs have been reduced due to cheaper inputs	6	2.0	288	93.8	13	4.2	307	100.0
Costs have been reduced by increasing sales	11	3.6	284	92.5	12	3.9	307	100.0
Structures have been modified	33	10.7	264	86.0	10	3.3	307	100.0
Single EU Market has had a significant impact	39	12.7	258	84.0	10	3.3	307	100.0

Source: CSES analysis of survey data

A comparison between the analyses shown in Tables 5.37 and 5.38 suggests that the Single European Market is perceived as having had a far greater impact on domestic markets for business services than on export markets. This conclusion needs, however, to be qualified by pointing out that the analysis shown in Table 5.38 is based on the responses from all providers and not just those that have been are currently are trading across borders. In other respects, a broadly similar picture emerges far as the impact of the Single European Market on export markets is concerned. As in domestic markets, a relatively high proportion of firms (15.0%) indicate that price competition has become more intense in export markets whereas the perception is that there has been little impact on costs.

From a sectoral perspective, there is some difference in the views of business service providers concerning the impact of the Single European Market on domestic and export markets. Table 5.39 analyses the survey data on the first of these issues.

Table 5.39: Analysis of View on Impact of SEM on Home Markets – By Sector

Sector	Some Effect		No Effect		Non Response		Total	
	No	%	No	%	No	%	No	%
IT Consultancy	31	44.9	37	53.6	1	1.4	69	100.0
Personnel Recruitment	21	50.0	20	47.6	1	2.4	42	100.0
Leasing & Renting	16	36.4	26	59.1	2	4.5	44	100.0
Contract R & D	18	47.4	20	52.6	0	0.0	38	100.0
Accountancy & Audit	21	72.4	8	27.6	0	0.0	29	100.0
Tax Services	3	30.0	7	70.0	0	0.0	10	100.0
Engineering Related	23	37.1	36	58.1	3	4.8	62	100.0
Technical Testing	4	30.8	7	53.8	2	15.4	13	100.0

SURVEY DATA – BARRIERS TO TRADE 5

Total	137	44.6	161	52.4	9	2.9	307	100.0

Source: CSES analysis of survey data

As can be seen, the Single European Market is seen by firms in the Personnel Recruitment, Contract R&D - but especially the Accountancy and Audit sector – as having had a greater impact on domestic markets than is evident with other business service sectors where a considerably lower proportion of respondents indicated that there had been positive effects.

Turning to export markets, as commented earlier, a much lower proportion of firm detected impacts attributable to the Single European Market. Moreover, with the exception of Accountancy and Audit, the sectors where such an effect is considered apparent - Leasing and Renting, Engineering Related Consultancy, and Contract R&D - are different to those in the case of domestic markets. Table 5.40 provides an analysis.

Table 5.40: Analysis of View on Impact of SEM on Export Markets – Sectoral Analysis

Sector	Some Effect		No Effect		Non Response		Total	
	No	%	No	%	No	%	No	%
IT Consultancy	6	8.7	62	89.9	1	1.4	69	100.0
Personnel Recruitment	4	9.5	37	88.1	1	2.4	42	100.0
Leasing & Renting	7	15.9	34	77.3	3	6.8	44	100.0
Contract R & D	4	10.5	34	89.5	0	0.0	38	100.0
Accountancy & Audit	6	20.7	23	79.3	0	0.0	29	100.0
Tax Services	1	10.0	9	90.0	0	0.0	10	100.0
Engineering Related	8	12.9	51	82.3	3	4.8	62	100.0
Technical Testing	3	23.1	8	61.5	2	15.4	13	100.0
Total	39	12.7	258	84.0	10	3.3	307	100.0

Source: CSES analysis of survey data

Impact of Other Factors – Euro and E-Commerce

Business service providers and users were asked for their view on the impact of the euro and e-commerce on markets. Providers were asked whether these factors are helping to reduce barriers to trade. On the grounds that users would not be well paced to answer this question, they are asked whether the development of the euro and e-commerce would lead them to increase their purchases of business services from other EU Member States. Table 5.41 presents an analysis of the survey feedback.

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Table 5.41: Impact of Euro and E Commerce

Providers	Positive Impacts on Barriers to Trade?							
	Yes		No		Don’t know		Total	
	No	%	No	%	No	%	No	%
Euro	184	59.9	59	19.2	64	20.9	307	100.0
E commerce	162	52.7	51	16.6	94	30.7	307	100.0
Users	**Increased purchases of services from other EU countries?**							
	Yes		No		Don’t know		Total	
	No	%	No	%	No	%	No	%
Euro	65	32.8	89	44.9	44	22.3	198	100.0
E commerce	88	44.4	57	28.8	53	26.8	198	100.0

Source: CSES analysis of survey data

CASE STUDIES 6

The selection of the case study targets was discussed with the Commission in September and October 2000. This appendix sets out case studies carried out by sector type. Because certain companies requested that details be kept confidential, names are only disclosed where companies have given positive agreement. In this version of our report, serial numbers relating to the database are shown.

Inevitably, not all targets agreed to take part and as anticipated it was necessary to substitute these with other similar companies. The case studies detailed in this appendix are as follows;

Sector	Country	Reference
Accounting, audit and tax	France	1
Accounting, audit and tax	UK	2
Accounting, audit and tax	Belgium	3
Labour Recruitment	Belgium	1
Labour Recruitment	Netherlands	2
Labour Recruitment	Sweden	3
IT consultancy	Spain	1
IT consultancy	Sweden	2
Engineering related consultancy	Belgium	1
Engineering related consultancy	UK	2
Engineering related consultancy	Germany	3
Leasing and renting	UK (European HQ)	1
Leasing and renting	UK (European HQ)	2
Technical testing	UK	1

CASE STUDIES 6

Sector	**Accounting, auditing, tax**
Case study number	**1**
Country	**France**

This case study was carried out with BDO Gendrot, a national firm of accountants in France who are members of an international group of accountants.

Services

BDO Gendrot provide a range of services in France through companies with the appropriate ownership structure and skills. The main services provided are:

- Audit (including statutory audit, operational reviews and other work involving opinions such as valuation). This area accounts for over half the company's turnover

- Accounting (accounting assistance, outsourced accounting and some bookkeeping, although this is not a key market) This area accounts for about a third of the business.

The remaining areas are specialist services including:

- Taxation and legal advice

- Corporate finance and mergers and acquisitions

- Some consultancy (EDP advice, management advice)

The legal structure of the business follows the requirements to have separate ownership and control of parts of the business. The main company is BDO Gendrot Audit et Conseil. There is a separate company BDO Juri-Fisc to provide legal and taxation advice to clients. Many offices are subsidiaries of BDO Gendrot for marketing reasons, and others, also for marketing reasons may trade under other names.

Barriers to the provision of multidisciplinary services

The French legal requirement is that an organisation performing a statutory audit (*Commissaire aux comptes*) shall maintain independence and shall not provide accounting or other advice. The Commissaire aux comptes occupies a particular legal position and has some quasi judicial roles in, for example, providing evidence. Accordingly, a company wishing to obtain a statutory audit and accounting advice will need to obtain these separately.

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Also, a further legal requirement is that an accountant (*expert comptable*) providing accounting advice to a client may also provide ancilliary taxation advice. However, the company may not provide taxation advice by itself. This role is provided by legal firms and BDO Gendrot can rely on a separately owned form for this purpose.

BDO Gendrot has chosen to join an international group for the purposes of providing services outside France. Accordingly, BDO only supplies services to clients within France. It refers clients who would like services outside France to another member of the BDO group – for example, if a French company wants accounting services in Germany the client will be referred to BDO Germany. The client is of course open to choose whether to use BDO or another firm.

Other countries

The case study also discussed barriers to providing multi-disciplinary services in other countries. Examples included the following:

- In Belgium there is a separation of the auditing and accounting professions. There are two separate groups for auditors of accounts, and for those providing accounting advice.
- In Germany, although there are some restrictions, generally auditors are able to provide certain accounting advice
- In the UK and in Ireland, auditors can also provide accounting advice and other advice
- In Italy, there is a special form of audit, and auditors are not able to provide accounting advice

Restrictions on ownership

In France, audit firms are not able to take a share in legal firms, but people who are not "*Experts Comptables or Commissaires aux Comptes*" are allowed under certain conditions to take a maximum of 25 per cent interest in firms such as auditors.

Personnel issues

The case study did not identify any significant barriers to the use of personnel. In France, BDO Gendrot recruits both nationally and from other countries. An important criteria for recruitment is the ability to speak other languages, in particular English. There are no legal barriers to recruitment within the EU, but it is often difficult to obtain a visa or work permit for non-EU citizens.

The market for good people is tight. One practical problem is that that is often difficult to compare national qualifications. BDO Gendrot are well aware of the relative standing of qualifications from French universities, but find it more difficult to compare the relative standing of other universities.

Cost of barriers

It is not possible to make any material estimation of the cost of barriers. The major cost is likely to fall on clients who have to get advice from several different firms because of restrictions on multi-disciplinary services.

CASE STUDIES

6

Sector	**Accounting, auditing, tax**
Case study number	**2**
Country	**UK**

This case study was carried out with a large international firm of accountants, with offices throughout the European Union and most of the larger economies in the rest of the world. Although the firm is not part of the 'Big five', it provides a comprehensive range of services throughout all of major countries.

The principal services which the firm supplies are auditing and accounting, forensic and investigation services, taxation advice, and a range of other services such as corporate recovery and insolvency, corporate finance, consultancy and trust work.

The Business Model

Much of the work the firm carries out is concerned with the provision of the above services in a national context. The basic skills required to provide such services are largely common throughout the world, but the national context depends on local company law, tax law, business practice and language. The majority of the cost of providing services includes salaries, together with premises and other equipment, and other overhead costs. The most important resource to provide services is the staff resource. Because of national differences the most appropriate business model is for services to be provided locally by experts who have both the common international professional skill sets, plus the local skills to deal with local commercial and tax law and business practice.

This business model requires separate national groupings of accountants and the issue for the firm is how to best to organise itself so that it both provides services locally but also ensures that international services are provided successfully. In discussion, the international partnership secretary of the firm suggested that there were four possible different models for firms of accountants depending on their size and market.

- Model 1 applies to a local firm of accountants who seek to serve the local market. Because of the different skills set to provide services outside its own country, it is possible that the local firm of accountants will make a conscious decision to serve only its local market, and not to carry out any cross-border work. Small scale operators will not have the resources to overcome barriers to cross border trade.

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- Model 2 applies to a local firm of accountants who wish to offer a fuller service to their clients. The model consists of a series of similar firms in different countries, all with expertise in their own countries. Under this model firms will refer cross-border work to each other. Typically, the firm referring work to a firm in another country will receive a commission of a few percentage points of the fee. This model is relatively easy to set up and does not require substantial investment. It provides a vehicle for providing cross border services without trading outside the home base.

- Model 3 applies to large firms of accountants who wish to work cross border under the same name. The typical model will consist of a series of local firms with the same name, with an agreement to adopt the same standards and working procedures. They seek to provide international clients with a single quality of service throughout the world. Typically, the groupings will be organised by means of an international organisation responsible for quality of service and for developing the network. But in this model, the local firms will retain their own profits and ultimately their own independence to leave the grouping if they so wish (as, for example, some ‘big 5’ local firms have done at the time of mergers)

- Model 4 also applies to large firms of accountants, but is a development of model 3. It is the one adopted by the firm in the case study. They believe that the model is more advanced than most of their competitors. In this model, local firms still exist because services have to be provided it in respect of national law and in a national language. But all partners in local firms are also partners in an international firm. The remuneration of partners is based partly on their performance in the local market, and partly on the performance internationally. There are some regulatory constraints to this model, but the firm believes that it is the most appropriate to provide the sort of service that clients require. There are signs that some firms in Model 3 are seeking to move towards Model 4.

Regulatory Constraints

There are a number of regulatory constraints which would prevent the adoption of a fully integrated international firm with a single legal structure. This note concentrates on constraints within the European Union, but in discussion the firm made it clear that they were concerned with a worldwide market and would wish constraints to be removed where appropriate on a worldwide basis.

The following constraints were discussed:

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- National legislation requiring the separation of companies providing taxation, auditing and consulting services. There is no fixed position throughout the EU. For example, the UK and Germany allow firms providing all these services together. France requires their separation, so the grouping has three separate firms in France, all separately members of the international grouping.
- Constraints on the ownership and organisation of auditing firms: National governments in the EU are allowed to require that auditing firms be under the control of individuals with appropriate national qualifications. The extent of control varies from country to country.
- The reservation of some services to particular professions: In particular, taxation services may only be provided by legally qualified persons in some countries
- Mutual recognition of qualifications: This already exists to some extent, but qualification for an auditor will include both a common international skill set, and local knowledge. To practice in any country, an auditor has to meet both sets of skills and to practice in a second country the auditor will have to take a second local test. It would be best if this test of local knowledge could be minimised as far as possible.
- Differences in national law present obstacles to the movement of workers: The example given was that differences in national tax laws meant that it would be necessary to change remuneration substantially to move some people. For example, a wealthy individual would be unlikely to move to a country with a personal wealth tax.
- One constraint which might be important in future was the inability to set up a single European pension fund. The firm has a programme of transferring employees between European (and other) offices. Whilst younger employees were more concerned with experience rather than pensions, older employees would wish to see appropriate pension arrangements.

Cost of Constraints

In this case, the constraints set out do not appear to cause material cost to the firm. The firm is large enough to adopt an organisational structure of local branches which mean that it is not materially hindered by the constraints. If the firm was smaller, the constraints would be more onerous. The only real effect of the constraints is that sometimes an organisational structure has to be adopted for legal reasons which is more complicated than need be and may result in an individual who might not be the first choice being asked to undertake a particular role. Any resulting cost is an opportunity cost and hard to measure.

CASE STUDIES 6

Sector	**Accounting, auditing, tax**
Case study number	**3**
Country	**Belgium**

This case study was carried out with a large international firms of accountants.

Business model

The firm first made the point that, in common with their competitors, the range of services they provide a much greater than it would have been in the past and that it is not appropriate to call them a firm of accountants.

The principal services provided by the firm are:

- Audit
- Accounting advice
- Taxation advice
- Management consultancy
- Legal services
- Outsourced accounting and operational services
- A range of other services such as insolvency, trusts and related areas

The firm's business model is to provide a complete range of services through nationally based operations. Because of legal restrictions there may be several national firms in one country offering different services. The various national firms are linked together by operational and cost sharing agreements to produce an international firm. In some cases the international firm may have direct responsibility for the provision of services.

Generally it is essential to operate on a national basis. Company law and much tax law is determined nationally and international clients of the firm will require access to local expertise on a consistent basis in all countries

Barriers to the provision of full services

The greatest barrier faced by the firm is the inability to provide a consistent level of service in all countries because of legal barriers. The case study discussed some of these barriers as listed below:

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The area of legal services is one where the firm is developing fast. But it is hampered by legal restrictions. In the Netherlands, the Netherlands Bar, through a regime of self-regulation, prohibits financial cooperation between lawyers and accountants. By way of contrast, lawyers are permitted to cooperate with patent agents or tax advisers. The legality of this restriction is being challenged by the firm in the ECJ

French law requires separation of the various activities of the firm. For example, it is not possible for accountants to provide taxation advice to organisations who are not existing clients of the firm – it is necessary to set up a separate legal firm to provide this advice. The firm therefore has 23 different legal entities in France to allow a full service to be provided, with a consequent effect on administrative costs and on efficiency.

In Italy, the 8th directive on the provision of audit services has been interpreted differently from other countries. The need for an audit is covered by the operations of the 'Collegio Syndicale' . In practice this means that a team of five people carry out a limited number of checks in respect of a legal entity – for example ensuring the probity of cash transactions. Membership of the Collegio Syndicale can now only be achieved by training, but there are around 100000 older unqualified members who received their appointment by being company directors when the Collegio was set up. The firm told us that in some ways the Collegio Syndicale audit can be looked on as an extension of internal audit. It does not cover normal international requirements of the audit of accounts because, for example, it is limited to a legal entity and does not include subsidiaries – so group accounts are not covered. In Italy, at the request of clients or investors, the firm will provide a full audit.

In Greece, the accounting and auditing profession is still substantially state dominated and although there has been a degree of privatisation the profession has not developed fully.

People

There were less problems in the interchange of people. Both auditors and lawyers had to understand the local environment before practicing in a particular country. And it was often difficult to obtain work permits for non-EU nationals – important in an international environment.

Costs of barriers

The direct costs of barriers are difficult to quantify – they relate to administrative costs and efficiency. The amounts are not small but have not been quantified.

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The major area of cost is the cost of lost revenue caused by the inability to provide a full range of services. The firm estimated that is revenues might rise by 20% if it could provide a full range of services in all countries.

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Sector	Labour Recruitment
Case study number	1
Country	Belgium

The case study was carried out with a Brussels-based recruitment company that specialises in graduate recruitment. The Company is one of Europe's leading companies in this sector. It has a turnover of €22m, employs approximately 250 people and has been operating 13 years.

Company Background – Description of Principal Business Activities

Founded in 1987, the Company has grown to be one of the leading players in the area of graduate recruitment. The Company's creation was based on a key belief that recruitment practices would become global. The first Euromanagers Forum in 1989 in Brussels was the first manifestation of this vision in practice, and was an invitation-only recruitment event that enabled top European business talent to interview with leading employers over two days for positions across Europe.

The success of the event led the Company to develop a portfolio of such forums and to continue to innovate – it was the first company to introduce such innovations in the recruitment field as the 2-day, pre-selective recruitment fair.

The Company has gown to some 250 staff in 21 offices in 17 countries around the world. It has been listed three years in succession on the GrowthPlus Europe's 500 Listing of Entrepreneurial Fast Growers, and is a Global Growth Company Member of the World Economic Forum. The Company has also developed a network of universities and partnerships with the media.

The Company is focussed solely on graduate recruitment - graduates with 0-10 years of professional experience (the Early Career Professional) - which makes it somewhat unusual within the recruitment sector.

The Company offers Forums for a wide variety of positions in Africa, Asia, Western Europe, Central and Eastern Europe, the United States and Latin America. Forums are organised on both a geographical (e.g. Career Futures Latin America) and sector/skills basis (Career Days Finance Central Europe). The Company now serves the needs of approx. 150,000 candidates who use its services.

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Business Model

The company operates across Europe and has offices in numerous European countries. It has also opened offices in other continents. The opening of offices in other EU countries is in part determined by client's traditional expectations that their recruitment services provider will have a local office and a desire by The Company to be close to its customers.

There are essentially three different business models for the labour recruitment sector.

- Model 1 applies to local recruitment firms who seek to serve the local market. Such small-scale operators have neither the resources, critical mass nor desire to engage in cross border trade, or only do so sporadically and not with strategic intent.

- Model 2 applies to medium to large-sized recruitment firms, which, having built up solid brand recognition in their domestic market, seek to replicate their business success in other EU countries. Although firms adopting this business model operate on a pan-European basis, the nature of the temporary and general recruitment market demands that clients be serviced on a localised basis. In cross-border regions, whilst there is an increasing level of cross-border recruitment activity, a natural consequence of geographic proximity and the free movement of labour, the level of activity remains relatively small in percentage terms.

- Model 3 applies to large recruitment firms or specialist executive search companies. International and pan-European recruitment companies provide international clients with a single quality of service throughout the world, to harness the international brand potential.

In terms of general business model The Company would approximate most to Model 3 and could be categorised as international specialist recruitment services provider. Given that The Company is the only pan-European company specialised in graduate recruitment services, and in one sense it is not really typical of any one category of recruitment company. Part of the company's core mission was about changing perceptions and practices in one part of the recruitment sector.

Legal/Administrative barriers

The interviewee considered that there are no significant regulatory or administrative barriers that have hindered the development of the Company in an important way. For example, hiring people from other countries within the EU is no problem (unlike for example seeking to recruit US nationals).

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Barriers do exist, but they have not posed a significant obstacle for the Company. One potential example is the requirement in Flanders that a psychologist has to be part of a recruitment team. In Flanders, as well as some other countries, one also is required to place recruitment notices in the local language.

But for the Company the key barrier has been to change people's mindsets. In Switzerland, for example, it took a long time to persuade people that the free movement of people would bring benefits to the country.

In the graduate recruitment sector, as mentioned above, few barriers are perceived to exist. A key barrier has been mindset. At the level of the Company's target graduate population, this can mean young graduates who do not realise that their career universe is now global and that they can go and work anywhere in the world. Yet people still will have a knee-jerk reaction that 'that's impossible'.

Soft barriers

Soft barriers, such as language, have clearly decreased during the past 10 years. Ten years ago, when The Company would visit a Director for Recruitment/HR in a German company, speaking English would as likely be a problem as not be a problem. This has changed completely. Mindsets have changed also, and both companies and recruitment candidates have a much more global outlook.

Country-specific issues

The Company has found it easiest to develop its market and communicate successfully its offer in countries where the market was less mature. The **UK** has been one of the more difficult markets for the Company to develop, partly because it is more competitive but also because it is a more developed recruitment industry and practices than some continental European countries. However, this is not to say that the UK or any other European market has been difficult in the sense of regulatory, legal or administrative barriers.

In Belgium, a requirement exists in Flanders that a psychologist has to be a part of a recruitment team. In Flanders, as well as some other countries, one also is required to place recruitment notices in the local language.

Cost of Barriers:

For the Company, any barriers of a legal or administrative nature, to the extent they exist, have had no real effect on the structure of the business. The Company has established

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offices in practically all of its international markets because it needs to be close to the client.

This could be considered a barrier if one assumes that an Austrian client expects its recruitment services provider to be located in Austria if it is going to win that company's business. (Relative to the USA, where in contrast companies are used to dealing with suppliers from all parts of the continent, this could be considered a competitive disadvantage). In other words, it is clearly a barrier created by customer expectations and local market practices.

Impact of the Removal of Constraints

Administrative/Legal or Regulatory Barriers: Regarding any legal, administrative or regulatory barriers, removal of same would likely lead to marginal reductions in operating costs. No estimate was available but it was thought that such a reduction would be unlikely to exceed 5%.

Soft Barriers: However, it is a change in such 'soft' factors such as people's mindset and global outlook that would produce the biggest impact on The Company's business.

Additional Issues

Regulation of Online Recruitment Services: The internet is changing recruitment practices in some respects, and is accelerating trends in graduate recruitment. At present, there is no regulation of online recruitment. To the degree that government(s) will deem such regulation necessary, The Company hopes such regulation will be well designed and not be of a restrictive nature.

European Immigration Laws and Practices:

Europe's immigration laws and mindset may prove to be an increasing barrier in the years to come. Thought should be given to exploring selective lowering of immigration barriers to allow some skilled immigrants to come and work in the EU and redress the increasing skill shortages. Central and Eastern Europe is a potentially important source of such skills in the future.

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Sector	Labour Recruitment
Case study number	2
Country	Netherlands

The Company was founded in 1987 in the Netherlands by two Dutch Entrepreneurs. The company has since then expanded across the Netherlands and now has 9 offices established across the country.

The Company recorded a turnover of NLG 120 million (EUR 54 million) in 1999 and now employs approximately 300 people. The Company is engaged in three core activities:

- *Recruitment:* This is the biggest part of the Company's business, accounting for 80% of Group revenues. the Company is also market leaders in this sector. The market area which the Company targets is the career professional with a university or technical education and who is earning NLG 50-150,000, and aged 25-45.

- *Temporary Recruitment:* This is recruitment activity where the candidates have temporary contracts with the Company. This sector of the business accounts for 10% of revenues.

- *Interim Services:* the Company buys into the candidate for a longer period (also 10% of turnover)

The Company's first venture into an international market was the opening of an office in Hamburg. During 2000, it has also opened an office in Brussels. Further international expansion is also foreseen.

The experience in Germany has been a success and plans exist to expand the Company's presence in Germany. The expansion and growth of the office in Germany was slower than it might have been, but this was in part due to the learning experience and in part due to limited resources. The staff running the German operations had to convince the Company management that expansion was a good move for the Group. The motivation to internationalise has also strengthened and the Company is now clear that it wants be become a European recruitment company. Another reason for international expansion has been to provide the Company staff with increased career opportunities and thereby help retain talented staff members.

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Business Model

The expansion into a first foreign market was as much a coincidence as a decision. One of the Company's key staff members left the company and relocated to Hamburg. This led to a decision to experiment with opening an office in that city. In hindsight, Germany proved to be a good choice, as the market segment which the Company serviced did not really exist in the underdeveloped German recruitment sector. The middle section of the recruitment market did not really exist in Germany – one had either temporary/interim recruitment and executive search but nothing in between.

The Company's strategy is also to open offices only in large urban centres – during its expansion in the Netherlands it decided that it would not open offices everywhere as it considered the operating costs of smaller offices would be high and would reduce overall profitability.

There are essentially three different business models for the labour recruitment sector.

- Model 1 applies to local recruitment firms who seek to serve the local market. In the Netherlands, such small-scale operators have neither the resources, critical mass nor desire to engage in cross border trade, or only do so sporadically and not with strategic intent.

- Model 2 applies to medium to large-sized recruitment firms such as The Company, which, having built up solid brand recognition in their domestic market, seek to replicate their business success in other EU countries. Although firms adopting this business model operate on a pan-European basis, the nature of the temporary and general recruitment market demands that clients be serviced on a localised basis. In cross-border regions, whilst there is an increasing level of cross-border recruitment activity, a natural consequence of geographic proximity and the free movement of labour, the level of activity remains relatively small in percentage terms.

- Model 3 applies to large recruitment firms or specialist executive search companies. International and pan-European recruitment companies provide international clients with a single quality of service throughout the world, to harness the international brand potential.

In terms of general business model The Company would approximate most to Model 2 above. Having build up a successful business in the Netherlands the company's initial success in the German market has led it to want now to replicate this success in other EU markets.

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Regulatory Barriers

Regarding the need to obtain a licence, this requirement no longer exists in the Netherlands. However, in Belgium it is a requirement and the Company has found it to be a time-consuming and slow process. The company applied for a license in September of this year, and has been told it will not receive it before January next year.

Another example has been the need to adjust to and understand differing labour laws in Belgium, and incorporating that within the Company's HR policy and practices. This is not considered a major challenge in terms of fulfilling recruitment contracts once the office in Brussels becomes operational, as these contracts will be between the client and the candidate recruited. However, for temporary recruitment contracts, which will be on the Company's books and in order to be able to advise clients and candidates competently, the company will have to master the Belgian environment.

Cultural barriers:

Another initial barrier was the different understanding of recruitment in Germany, where people understood recruitment to mean temporary work. Germans also did not understand why a career professional would use the services of a recruitment company, and tended to implicitly assume that anyone who did was a sub-standard professional who wasn't capable of getting a good job themselves.

One example would be the different working practices and behaviours in Germany. When the Company first started operating in the Netherlands it had to adapt to some very different work practices – for example, in Germany a recruitment search contract had to be signed before a search could commence. In the Netherlands, the Company was used to working much more informally with clients, often executing the search and billing much later.

However, this learning curve had proved beneficial to the Company – it has also started incorporated contract signature before starting a search as a standard practice in the Netherlands. So what was initially perceived as a barrier on one sort or another has been turned into an innovation and opportunity.

Overall, none of the above barriers were considered very significant, and have not in any important way constrained the Company or led to the company changing its strategy.

Country-specific issues

The Company has to-date built up a presence in only one market (Germany) and could not say which EU Member State‘s market presents the largest difficulties.

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Belgium: The experience to-date in establishing a presence in the Belgian market would suggest that Belgium may offer more administrative barriers compared with a foreign company establishing in the Netherlands.

Germany: As mentioned above, The Company took some time to understand and adapt to the different working practices and behaviours in Germany. When the Company first started operating in the Netherlands it had to adapt to some very different work practices – for example, in Germany a recruitment search contract had to be signed before a search could commence. In the Netherlands, the Company was used to working much more informally with clients, often executing the search and billing much later. These differences however would not of course be considered explicit or intentional barriers.

Netherlands: The Company can only comment on the Dutch market from the perspective of being a Dutch player. The Netherlands recruitment market has many more companies than 5-10 years ago, and is much more competitive. This would suggest that market access barriers are low, and are certainly not high enough to deter new would-be entrants, be they foreign players or local start-ups.

Costs of the Constraints

The company did not perceive there to be any substantial barriers constricting the labour recruitment industry. The financial impact of barriers was therefore negligible.

Structural Implications:

Barriers, to the extent they exist, have not had an impact on the structure of the Company's business. The company has chosen to set up offices in foreign markets that it has entered because it wants to be close to clients. However, it is also open to trying potentially to serve some markets without setting up a local infrastructure, where it considers this would make good business sense.

Barriers have decreased, in particular cultural and mindset-related barriers. Today's knowledge workers are more mobile and flexible, and have a different common sense about careers and career advancement. They often have different life expectations regarding international work experiences and challenges, settling down etc.

Impact of the Removal of Constraints

If administrative and regulatory barriers were removed, the experience in Belgium to-date would suggest that this would result in :

- A slight decrease in operating costs (not possible to estimate how much)

- Faster market entry

Regarding cultural or mindset-related barriers, such as clients' traditional expectations, market understanding of recruitment processes etc - if these barriers were removed the potential effect would likely be much more significant than changes resulting from reductions in administrative or regulatory barriers.

CASE STUDIES 6

Sector	Labour Recruitment
Case study number	3
Country	Sweden

This case study was carried out with Poolia, Sweden's third largest staffing services company with offices in Sweden, Denmark and Finland. The firm has recently started expanding into Europe and is currently growing at 100% per annum. Poolia provides employment solutions and temporary staff in the following areas: accountancy & finance, IT, sales & marketing, legal, office, warehouse & industrial. The company is one of Sweden's top 4 recruitment agencies.

Business Model

To date, the bulk of Poolia's revenue comes from the core Swedish domestic recruitment market. However, the company has recently set up offices throughout Scandinavia and is actively seeking to expand into northern Europe. The Swedish temporary staffing market is still in its infancy compared with other countries in Europe. The company anticipates considerable scope for growth, since temporary staff account for only 0.6% of the total labour force in Sweden, compared with a European average of 2%.

The company pointed out that the labour recruitment industry only really operates on a cross-border basis at senior executive level - the temporary and general recruitment market tend to be localized with companies providing a tailored recruitment service for clients. Therefore, whilst the company is expanding within Europe, the level of 'pure' cross-border recruitment activity (as opposed to selling services through a local branch operation) is likely to remain minimal. By way of example, Poolia's newly opened Finnish office will primarily be orientated towards the recruitment of Finnish professionals.

There are essentially three different business models for the labour recruitment sector.

- Model 1 applies to local recruitment firms who seek to serve the local market. In Sweden, small scale operators have neither the resources, critical mass or desire to engage in cross border trade.

- Model 2 applies to medium to large-sized recruitment firms, such as Poolia, which, having built up solid brand recognition in their domestic market, seek to replicate their business success in other EU countries. Although firms adopting this business model operate on a pan-European basis, the nature of the temporary and general recruitment market demands that clients be serviced on a localised basis. In cross-border regions, whilst there is an increasing level of cross-border recruitment activity, a natural consequence of geographic proximity and the free movement of labour, the level of activity remains relatively small in percentage terms.

- Model 3 applies to large recruitment firms or specialist executive search companies. International and pan-European recruitment companies provide international clients with a single quality of service throughout the world, to harness the international brand potential. Cross-border recruitment is predominantly at senior or executive level and is used as a last recourse when applicants with the necessary skill set demanded by the client cannot be sourced locally. In such instances, an international company would use its international network of affiliated partners or sister companies to find suitable candidates.

Taxation:

Variations in personal and corporate taxation rates between Member States can be considered a barrier to trade in the labour recruitment industry. The Oresund region, which links Malmo in southern Sweden with Copenhagen in Denmark, has an increasing number of people who commute between the two countries and work cross-border. However, even if workers are only employed cross-border on a temporary basis, they are still obliged to pay taxes in the country of employment. Given that personal taxation is extremely high in Sweden, this might reduce the number of Danish willing to work in Sweden. Conversely, the relatively low level of taxation in Denmark and comparatively high wages could lead to a one-way employment outflow from the Swedish part of the Oresund region to Denmark.

Additionally, employees working cross-border are unable to set up a single European pension fund. The non-harmonisation of pensions and taxation across Europe acts as a deterrent to a truly integrated pan-European employment market.

Terms & Conditions of Employment:

Statutory terms and conditions of employment and a substantial degree of labour legislation is determined on a national basis rather than at EU level. Variations in labour legislation and the extent to which an employer is responsible for the social welfare of employees varies across Europe, as do the cost implications. National employment legislation could, therefore, be construed as a barrier to free trade within the internal market. For example, the cost burden on Swedish employers in terms of redundancy, taxation and social security payments is significantly higher in Sweden than in Denmark. In terms of legislation governing the employment of temporary staff, the cost burden is particularly high in Germany & Sweden, where unions have negotiated agreements with employers which stipulate that after 6 months, temporary staffing organisations must pay all registered temporary employees on their books a wage, irrespective of whether the recruitment agency is able to find them employment. In Germany, employers are obliged to pay the minimum wage to registered temps for 100% of the minimum working week (37 and a half hours). In Sweden, employers are obliged to pay 75-80% of the number of hours constituting a working week (exact percentage dependent on a range of additional factors) at minimum wage level.

Redundancy rules in Sweden are based on a last-in, first-out basis. In practice, this means that even for temporary staffing agencies, it is extremely difficult to terminate the employment of a long-term temp who has worked for the staffing company for a minimum 6 months. Even if no suitable work is available or the employee has a negative attitude to work, the staffing agency is financially deemed responsible for finding the employee work. Similarly, the company is also responsible for the financial cost of dealing with social problems such as alcohol and drug addiction. The cost burden to an employer of redundancy in Denmark is substantially lower. Danish employers are required to give a months notice and are not constrained by the first in, last out rule.

Mutual Recognition of Qualifications:

Poolia has not encountered any problems to date in terms of the mutual recognition of qualifications. Within Scandinavia and Northern Europe, mutual recognition of qualifications and educational attainment does not pose a severe problem – most EU countries have adopted an educational model based on the bachelors, masters and doctorate system. Whilst mutual recognition problems could occur between northern & southern Europe, in Sweden, the linguistic aspect of cross-border recruitment is by far the greatest barrier to cross-border recruitment.

Regulatory Constraints

There are no regulatory constraints to prevent a European labour recruitment company from operating as a fully integrated international firm with a single legal structure.

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Cost of Barriers

Within the labour recruitment industry, there appear to be very few constraints on recruiting EU nationals on a cross-border basis. However, the European recruitment industry tends to be highly localized with recruitment agencies providing highly customized services to clients. Barriers to cross-border recruitment are mainly of a non-regulatory nature, such as linguistic and cultural differences. The cost of barriers to trade in the recruitment industry is minimal – of greater impact are differences in labour legislation and employment social costs.

CASE STUDIES 6

Sector	IT consultancy
Case study number	1
Country	Spain

The Company was originally established by IBM in 1991 as a result of a project between IBM and Western Catalan. Since then the Company has grown to be an important player in the Spanish IT Services market. IBM now owns 50% of the company.

The company employs 1,500 persons. Important sectors of activity are the financial services sector, and also public institutions. Systems integration and e-business solutions for both large multinationals and for SMES have been important areas of business for the Company.

The Company is focused 100% on the provision of IT consultancy services. Areas where the Company provides solutions include: ERP and ADM and Europe. Software solutions are customised to fit with the individual client's needs.

Business Model

In terms of business model, the Company cannot be equated with the Model 3 type companies – the large international IT consultancy players who have global reach. Instead it approximates most to that of a medium sized IT Consultancy that has built up a successful business in its domestic market (Model 2). Its international activities in Europe are more sporadic than strategically driven, and Latin American markets are likely to be the only markets where the company might expand aggressively.

Like many of the Spanish IT companies, the Company does not have a large presence in European markets. The first foreign market into which the Company expanded was Portugal (1995), and the company has been working on a project in Greece since last year. 1999 also witnessed the first move into the Latin American market. Last year, the Company opened a subsidiary in Lisbon.

10% of its turnover is generated in foreign markets, these being Portugal, Greece and Latin America. The Portuguese market accounts for 60% of international revenues, with Greece and Latin America accounting for approx. 20% each.

CASE STUDIES 6

Regulatory Barriers

With regard to other EU markets, the interviewee considered that there were 3 principal barriers:

- *Cultural barriers in commercial contacts:* Cultural differences in communication and in business practices and etiquette were considered to be important. The person who is successful in commercial contact and business development in Spain may not be the person who succeeds in a foreign market, where different abilities and skills may come into play.

- *Administrative barriers:* Administrative barriers took time and caused delays when opening a representative office in Portugal. The key areas where barriers were encountered were in relation to tax matters, labour law, and social security.

- *Perception:* This related in particular to a perception that Spain is more advanced than Greece and Portugal in the area of IT. This factor was considered important in enabling the Company to enter these markets.

Regarding the domestic Spanish market, no barriers were considered to exist. A key reasons for the continuing existence of barriers was considered to be the basic diversity and differing traditions of EU countries, which will take time to change. Regarding administrative barriers etc, the probable difficulties in finding solutions in areas such as company law, indirect taxation etc.

Country-specific issues

This is difficult to say for the Company, as they have only been active in two EU countries – Portugal and Greece. Furthermore, the length and nature of their involvement in these two markets has been very different, and could not be used as a basis for an objective comparison.

For local Spanish IT companies, the orientation has tended to be primarily towards Latin America, with other EU markets being very much a secondary market. The EU market is much more competitive, and is home to many of the big players, such as SAP, Cap Gemini. These companies are technologically more advanced, have global networks and much greater resources.

Overall, it would appear that there are less barriers when compared with 5-10 years ago. The sector is more global, and each player also has a larger network of contacts within other countries.

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On a general level, the interviewee considered that Spanish (and other Southern IT companies) have to struggle with a perception among many middle and North European companies that sought IT consultancy firms are less developed and competent.

Costs of Barriers

It is difficult to establish precisely the effect of barriers. The sector is relatively global and is driven by market standards and practices, not government regulation. Some of the 'softer' barriers will be also experienced in other sectors, although for other areas of IT (e.g. hardware) the people aspect will not be as important.

The barriers encountered to date (e.g. in establishing in Portugal) may have taken more time than anticipated, but did not in any way deter the company. Overall, the interviewee considered that the Company's international experience has been a positive one.

The interviewee considered that the above barriers did result in additional costs for the Company in doing business in other markets. It was estimated that the overall additional cost was an extra 15% of existing operating costs.

Regarding the Company's strategy, it is important to underline that the company does not seek to be a leading player in foreign markets. Its overriding strategic goal is to be a leading player in the Spanish market, and establishing a presence in some foreign markets is very much a secondary goal. However, given the nature of the sector, the interview thought that if the Company were to decide to internationalise as a strategic priority, then they would look closely at securing local alliances and partnerships.

Impact of Removal of Constraints

The interviewee considered that removing these administrative barriers would lead to increased propensity of companies to consider doing business outside their domestic market. A second impact would be a faster market entry and business development process in these markets.

CASE STUDIES 6

Sector	**IT Consultancy**
Case study number	**2**
Country	**Sweden**

This case study was carried out with Adcore, Sweden's largest IT consultancy company with operations in 13 different European countries. The company is a fast-growing provider of IT Consultancy and e-commerce solutions. Adcore provides specialist IT consultancy services on a pan-European basis and is frequently involved in cross-border work for international clients.

Predominant Business Models in the IT Industry

There are essentially three different business models in the European IT industry.

- Model 1 applies to IT firms seeking to serve the local domestic market. IT solutions and systems integration are developed on a localised basis for clients.
- Model 2 applies to medium-sized IT Consultancy firms, which concentrate on the domestic market but also engage in some international cross-border consultancy work on an ad hoc basis.
- Model 3 applies to large IT Consultancy firms operating on a pan-European and international basis in order to provide their international clients with sophisticated, integrated global IT systems software and tailored ecommerce solutions.

ADCORE falls into the latter of the three business models with offices in 13 European countries. The company has expanded dramatically in the last ten years and is planning an imminent listing on the German stock exchange, pending greater stability of stock market conditions.

Generally speaking, in common with other international IT consultancy companies such as Andersen Consulting, Cap Gemini, Logica etc. ADCORE is a truly global operator and does not perceive there to be significant regulatory, legislative or administrative barriers to trade in the global IT industry. This conclusion was borne out by an additional face to face discussion with a representative from the Swedish IT employers association, SITO, which confirmed that its members had not encountered any problems in terms of cross-border provision of IT services. Adcore stated that IT companies operating across borders do not generally encounter barriers to trade other than the complex taxation and employment issues inherent in working in an internationalised environment.

Whilst there are minor differences across Europe in terms of regulatory requirements across Europe governing data protection, plus additional important legislative issues to be resolved such as the forthcoming EU directive governing ecommerce, such issues tend to be of greater concern to the *clients* of IT Consultants rather than the Consultants themselves, who work in a long-standing internationalised environment with few hindrances to free trade.

Taxation Issues

The biggest problem faced by Adcore in terms of barriers to trade was the lack of a homogenised personal and company taxation structure across Europe. When Adcore puts together a multinational team to work on a particular project, team members are all taxed at different rates depending on their country of domicile. Individual IT consultants are frequently deployed cross-border on a particular short-term project, which entails a whole host of personal taxation implications, the complexities of which are such that they can only be dealt with by external taxation specialists.
This necessitates that expatriate taxation and rewards packages have to be tailored on an individual basis for IT consultants by expert taxation experts who have a comprehensive understanding of expatriate taxation issues. This is extremely costly and internally administratively burdensome but a fact of life for any company operating globally on a regular basis. Large specialist IT Consultancy practices such as Andersen Consulting and PriceWaterhouseCoopers have special dedicated teams dealing exclusively with cross-border issues such as expatriate employee packages and cross-border taxation. However, smaller IT companies may not have the resources to be able to hire-in specialist business support in the taxation field.

Corporate Governance Issues and Different Accounting Standards

IT Consultancies operate in a globalised industry and are therefore constantly confronted with complex cross-border taxation, accounting and corporate governance issues which have considerable cost implications in terms of the extra cost of operating in multinational markets. For example, Adcore is intending floating on the German Technology Stockmarket Index, the Neuermarkt in the near future, but will be required to run three separate accounting systems concurrently to meet Swedish and German legislative requirements for a full listing.

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Costs of the constraints

Whilst the IT industry faces few regulatory, administrative or legislative barriers compared with other business services sectors, differences in taxation rates and accounting practices across Europe, obligate IT companies to bring in specialist, expert help on complex financial and taxation issues from Top 5 audit, and accountancy and taxation consultancies, which are extremely costly. Smaller IT Consultancy companies, which may not have access to necessary external expertise, may suffer an opportunity cost in terms of limiting their ability to operate effectively cross-border.

CASE STUDIES 6

Sector	**Engineering related consultancy**
Case study number	**1**
Country	**Belgium**

The Company is an engineering and consulting organisation headquartered in Deurne, Antwerp. The two key services strands it provides are classical engineering consultancy services and placement services. The former employs 180-200 persons, while approximately 120 persons are on placement by the Company.

The Company was originally founded by a Flemish engineering consultant who built up the activity, before selling out to the Anglo-American Engineering Consultancy Group ARCADIS, which is quoted on the NASDAQ and Amsterdam stock exchanges, and employs more than 7,000 employees worldwide in more than 120 countries.
The services provided by the Company include engineering consultancy services in respect of:

- Road infrastructure
- Sewage systems
- Water treatment studies
- town and country planning
- household water installations
- project management
- industrial buildings design
- electrical and automated instrumentation studies
- machine and tool construction
- support for the installation of industrial production facilities

Business Model

The Company works with both private and public sectors clients, with public sector organisations accounting for the greater part of its revenues. The Company recorded a turnover of BF 830 million in 1999, which is forecasted to increase to BF 1 billion this year.

- Model 1 applies to small firms of engineering consultants providing services to the domestic market. This model is probably the most common, with small groups of engineering consultants providing specialist advice on individual projects. Such companies do not have the necessary staffing resources or critical mass to engage in work outside the national market

- Model 2 applies to engineering consultancy firms involved in cross-border work through affiliations with local partners & subsidiaries. Foreign engineers can often provide specialist expertise on particular projects, whilst local affiliated partners participating in joint ventures have the requisite local knowledge to enable smooth project implementation (knowledge of local requirements, linguistic differences and understanding of local business practices). This model is the most common approach adopted by engineering consultancies operating on a pan-European basis since many of the problems traditionally associated with doing business in a foreign country can be avoided

- Model 3 applies to engineering firms providing services directly from the home base – this model is sometimes used by firms located in close proximity to another EU country with similar or shared linguistic and cultural characteristics, and where the business operating environment is not dissimilar to the firm's domestic market. Selling services from the home base to another EU country has the disadvantage that clients cannot be guaranteed adequate aftercare services. It is therefore more practical and preferable to use the second business model as an exemplar.

The Company's own experience would suggest that Model 2 is most appropriate to its situation and working practices. Its limited work experience abroad has reinforced for the Company the importance of having local companies involved. The Company's experience in countries with similar language (Netherlands) has led the interviewee to consider that supplying its services in such markets does not work effectively, as language commonality masks very different cultural behaviours etc. underneath.

In terms of competition, there are approximately 40 competitors in Belgium. The level of market competition was not considered highly competitive. All of the competitors are local Belgian firms – no foreign companies provide competition for the Company in the Belgian market. Most of the medium-sized firms are family owned, except for the larger ones that, like the Company, have merged with/been acquired by foreign companies.Consultancy services performed outside of Belgium account for only a very small proportion of the Company's turnover.

Regulatory Barriers

A key part of any explanation for the continuance of trade barriers is the differing origins and ways of doing things within the various national engineering consultancy sectors.

CASE STUDIES 6

For example, when the Company was recently involved in an assignment in Spain for an US-Japanese client concerning the design of a new factory in Madrid, the Company was principally responsible for all of the design work, while its sister company in the Arcadis network was responsible for the execution aspects of the contract. While this worked generally quite well, and produced good results, cultural and institutional issues kept surfacing, for example even where the Company produced its designs in Spanish, the templates etc used by Belgian companies sometimes differed to the standard practices in Spain.

One structural implication is that when the Company undertakes work outside of Belgium it seeks to do so as 'second' player behind a local company. Factoring this barrier to a more - macro level, the interviewee considered that it was very difficult for any engineering consultancy to undertake work outside its domestic market without partnering up with a local services provider (and generally playing second fiddle to the local partner). This is certainly the case for any assignments where the client is a public sector/government entity, and where local knowledge (e.g. environmental concerns) is required.

The Company does not feel threatened by foreign competition in the Belgian market, as it considers that cultural and language barriers are very high and would make it very difficult for a foreign company to develop a significant presence. For example, when John Brown in the UK undertook a major assignment for a large Pharmaceuticals operation in Belgium, the company hired local engineering consultants in order to ensure that they had relevant expertise regarding local legislative and regulatory requirements.

Country-specific issues

Given the limited work undertaken by the Company in other countries, it was not possible to say clearly whether some EU markets were more difficult to enter than others were. It was felt that Southern European markets (and France) did tend to differ from Middle/North European markets in the extent of government influence on the engineering consultancy sector. The Mediterranean countries tended to be characterised by a strong centralist government influence, for example in France the tradition and role of the *Ponts et Chaussees*.

Costs of Constraints

Regarding internal organisation and structure, the structure of the Belgian market has an impact on how the Company organises itself. Five years ago, when the local *intercommunales* and other municipal entities were significant buyers of engineering consultancy services, the Company had a number of individuals whose sole job was to travel around and visit the relevant municipal and local government officials and maintain relationships with them, from which contracts were procured for the Company. The outsourcing and/or centralisation of these activities has meant that there is no longer the same need for such roles within the sales and marketing teams, which has meant that such persons have been *integrated* into assignments where they perform the client liaison and relationship-building during the duration of the assignment.

For the Company, estimating the cost implications of intra-EU Member State trade barriers is difficult to do, given the limited work the Company does outside of Belgium. The time costs would be in increased communication times, understanding and adapting to differing local work and design practices, and understanding the needs of foreign clients.

Impact of the Removal of Constraints

Based on the Company's limited work experience outside of Belgium, the impact of the removal of constraints would lead to less time costs in respect of communication, understanding and adapting to differing local work and design practices, and understanding the needs of foreign clients.

CASE STUDIES 6

Sector	Engineering related consultancy
Case study number	2
Country	UK

BRE Engineering, formerly part of the state-owned British rail group, provides high-end, niche engineering consultancy services to a range of governmental & private sector clients.

- Model 1 applies to small firms of engineering consultants providing services to the domestic market. This model is probably the most common, with small groups of engineering consultants providing specialist advice on individual projects. Such companies do not have the necessary staffing resources or critical mass to engage in work outside the national market

- Model 2 applies to engineering consultancy firms involved in cross-border work through affiliations with local partners & subsidiaries. Foreign engineers can often provide specialist expertise on particular projects, whilst local affiliated partners participating in joint ventures have the requisite local knowledge to enable smooth project implementation (knowledge of local requirements, linguistic differences and understanding of local business practices). This model is the most common approach adopted by engineering consultancies operating on a pan-European basis since many of the problems traditionally associated with doing business in a foreign country can be avoided

- Model 3 applies to engineering firms providing services directly from the home base – this model is sometimes used by firms located in close proximity to another EU country with similar or shared linguistic and cultural characteristics, and where the business operating environment is not dissimilar to the firm’s domestic market. Selling services from the home base to another EU country has the disadvantage that clients cannot be guaranteed adequate aftercare services. It is therefore more practical and preferable to use the second business model as an exemplar.

BRE engineering operated as a government department for 75 years. As a private entity, BRE has only been in existence for three years. The company is a member of EMBRI, a European Commission-funded network of research institutes with an emphasis on engineering issues affecting the building industry.

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Regulatory Constraints

In terms of remaining barriers to trade, BRE pointed out that the Construction Product Directive has yet to be fully implemented. This means that engineering consultants have to be aware of variations in national requirements. Whilst the Harmonisation of Construction Products directive has been enacted, there is an inevitable transition process between legislative enactment and full implementation. For example, Germany has tried to retain some national standards within the building industry, the Din standards.

Non-harmonisation of professional indemnity: Professional indemnity in the engineering industry has yet to be harmonised. Harmonisation would arguably bring about a more operational single market within the Engineering Consultancy industry – at the moment, regulations on professional indemnity are determined on a national basis and differ markedly.

BRE is not aware of any other notable regulatory barriers to prevent the company from operating within the internal market. There are, however, intra-EU variations in the building and construction industries. Regulations governing the construction of new buildings can vary significantly within Europe in terms of the different demands of meeting national safety requirements. For example, an office within a large new office complex in some countries is required to have windows on a minimum of two walls, whereas in other countries, only one wall has to have a window in per office.

Other Barriers

BRE stated that minor intra-EU regulatory differences and administrative obstacles were insignificant in cost terms in comparison with the UK's non-membership of the Euro. The company cited an EU-funded research project which has been subject to currency fluctuations which has had an adverse impact on BRE's profitability.

In some countries, membership of a particular body is compulsory before the engineering consultant is allowed to practice: However, BRE did not regard compulsory membership of a professional body as a significant barrier to trade in comparison with horizontal barriers such as linguistic and cultural differences.

In Germany and Belgium, there are hurdles to establishment, such as the requirement to belong to a particular professional body before being able to practice.

The company stated that practical considerations were more important for business services firms than specific regulatory barriers or being obliged to join a particular trade association. In terms of non-regulatory barriers, the company regarded the following issues as of greatest importance:

- UK's non-membership of the Euro
- Language barriers
- Cultural barriers and differences in business culture/ commercial operating environment

Costs of the Constraints:

Generally, whilst obstacles to a fully operational market in the engineering consultancy industry remain, such as the non-harmonisation of professional indemnity, outstanding issues pertaining to implementation of the Construction Products directive, BRE did not perceive regulatory, legislative and administrative barriers to pose a significant cost burden. The most significant barrier to trade from BRE's perspective resulted from Britain's non-membership of the Euro.

CASE STUDIES 6

Sector	Engineering Related Consultancy
Case study number	**3**
Country	**Germany**

This case study was carried out with a small German engineering related consultancy firm based in Heidelberg. The interview took place on 3 November 2000.

The company was established forty years ago and now employs some 250 staff. It remains family-controlled. The areas of particular expertise in the engineering field are:

- Transport facilities for road and rail
- Bridges and tunnels
- Land improvements
- Building and industrial structures
- Airport facilities

The company's consulting services in relation to projects in this field includes advice on planning issues, feasibility studies and helping to develop project briefs, project management services as well as advice on specific technical issues.

Business Models

The company sees the German – and wider international - market as being structured as follows:

- There are a small number of international engineering consultancy firms. Increasingly, these typically work along side major banks involved in financing projects.
- The mid-market consists of firms, similar to the company case study company, with 200-500 employees. They mainly focus on the domestic market although in some cases the firms have a presence in one or two other countries. Mid-market players are having to increasingly specialise in order to remain competitive.

- Individual consultants and very small practices that generally work locally or, if they have very specialist know-how, might form part of a project team managed by larger companies.

The case study company saw itself as very much a mid-market player. It has five offices in Germany and has traditionally focused on the domestic market. However, (confirming the views of the federation – VBI) it has experienced a downturn in domestic market for infrastructure projects and recognises that its strategy should focus now more on (a) developing specialist expertise, and (b) exporting to other countries.

To date, the company has not had great success in entering other markets. Several attempts have been made to win assignments in other EU Member States – Greece being the most recent example - but without success. In general, the company has pursued projects in other countries by linking up with local organisations. However, a few years ago it opened an office in Prague to help market its services in the Czech Republic and other Central and Eastern European countries (this was done in association with another German engineering consultancy). Although precise details were not provided, it would appear that only limited business has been conducted through this office to date.

Barriers to Trade

The company identified a number of factors that make it difficult to sell services in other EU markets:

- Lack of information on tender opportunities – for example, the company only found out about the project in Greece from another German firm despite the fact that the tender opportunity should have been published.

- High wage rates in Germany – the relatively high cost of labour in Germany means that the company's costs are often uncompetitive compared with competitors from many other EU countries.

- Need for local partners/local presence – the company's perception was that awarding bodies generally prefer to deal with contractors that are based in the country concerned.

- Language – although most of the company's management speak good English, there is generally a requirement to work in national languages and this is difficult, especially given the highly technical nature of the projects.

- Requirement to demonstrate a track-record – again, the company's perception was that awarding bodies generally want to see a local track record, which makes it difficult to break into new export markets.

A further factor mentioned by the company was the increasing tendency for engineering related consultancy firms to form consortia with other organizations, especially financial institutions, involved in bidding for projects. In the view of the case study company representative, smaller firms are at a disadvantage compared with larger firms in this respect because they are not equal partners with other consortia members. This makes it difficult to bid for many larger projects.

In relation to the domestic market, the company argued that this was open to foreign engineering related consultancy firms. However, the decline in the domestic market meant that relatively few foreign firms were present.

Costs of Constraints

It was not possible for the case study company to quantify the cost of barriers to trade. However, in principle, this cost was seen as being the value of projects that the company might have pursued/won in export markets. The difficulty in quantifying this was that there may have been other factors, in addition to barriers, that led to the firm not being awarded projects and it was impossible, it was argued, to separate these factors from barriers to trade.

CASE STUDIES 6

Sector	Leasing and Renting
Case study number	**1**
Country	**European HQ based in UK**

This case study was carried out with a large international vehicle rental & leasing company with business activities in all EU Member States. The firm is a European and world market leader.

Company Background – Description of Principal Business Activities

The company operates in 160 countries worldwide and currently has 19,000 employees. The company offers hire cars from 4,000 different locations of which 1,100 are located in airports and 3,600 in downtown areas. In total, the company rents more than 5,000,000 vehicles per annum. Within Europe, the company derives 85% of revenue from wholly owned corporate subsidiaries in the key markets of France, Germany, Italy, Spain and the UK. With 13 wholly owned subsidiaries across Europe, the company operates on a truly pan-European basis. Outside these core European markets, the company also operates franchised businesses in Ireland & Scandinavia, as well as the Middle East, Africa and Asia. The remainder of the groups' turnover is derived from the car replacement and premium rental markets. The company has achieved strong business growth in the rental market in recent years, thanks to the onward march of globalisation and the increasing mobility with customer numbers growing in the business, tourist and domestic markets.

There are three different types of business model within the vehicle rental industry:

- Model 1 applies to companies operating on a pan-European and/ or international basis through wholly owned corporate subsidiaries. Under the Block Exemption, vehicle manufacturers have country-specific geographic exclusivity. This prevents pan-European vehicle leasing & rental operators from adopting a more centralised business model and from leveraging pan-European purchasing power, since contracts have to be negotiated on a country by country basis. Restrictions on cross-border usage of rental vehicles has kept cross-border rentals at a low level due to the high supplementary costs incurred by both customer & vehicle rental company

- Model 2 applies to international rental companies operating through a combination of affiliated partners, franchisees and wholly-owned subsidiaries. Other than in terms of corporate ownership, the business model is essentially similar to Model 1

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- Model 3 applies to smaller car rental companies orientated towards the domestic market. Such operators service the local domestic market and do not provide a cross-border rental service.

Regulatory Constraints

Restrictions on the rental of foreign-registered cars – Although the company operates on a pan-European basis, legislation governing the vehicle leasing and rental industry varies considerably from Member State to Member State, restricting the number of intra-EU cross-border rentals.

Country-specific legislation prevents car rental companies from renting cars outside the country where the car was first registered. The lack of harmonisation within Europe places a significant extra business cost upon vehicle leasing and rental companies. For example, a customer flying in to Paris cannot hire a vehicle in France and subsequently leave the hire car in Germany without incurring an extra charge to cover the cost of transportation of the car back to the country of registration, in this instance, France. The only circumstance in which a car can be hired in one country and dropped off in another without both company and customer incurring significant extra cost is if a non-domestic customer wishes to drive the vehicle one way back to the original registration country. In practice, this happens extremely seldom.

Legislation governing cross border usage of cars: Although market leaders such as this company operate both globally and on a pan-European basis, there are considerable barriers in terms of pan-European *usage* of cars. It is often the case that restrictive legislation in place in individual member states only allows rental vehicles to be driven outside the country of registration (intra-EU) for a fixed, limited period of time (14-28 days depending on the country). It can only move cross-border for a limited period of time (often 2 weeks) without contravening country-specific legislation on car rentals.

The period of time which constitutes renting a vehicle as opposed to leasing a vehicle varies between Member States, and is dependent on country-specific legislation. For example, renting a car in Portugal for a 3-month period might constitute a *lease agreement* whereas renting a car for a period as long as 9 months in France might be classified as a *car rental*. Lack of standardisation affects the cost of providing a car and hinders the potential for a single pan-European pricing structure.

Pricing and practical complexities: Intra-EU cross-border rental and leasing is currently a very complex process. The widely differing cost structure across Europe means that the

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pricing of a cross-border rental agreement has to take into account different daily rental rates across EU countries and differing tax and insurance rates.

Differences in Tax Structure: Registration, VAT and road-fund licenses vary considerably from country to country (as well as overall operating costs including wages etc). Differences in key operating costs lead to big variations in prices in the different country markets preventing pan-European pricing and a transparent cost structure

Country-specific issues

Spain and Portugal are considered to be particularly problematic (and hence not cost effective) in terms of re-transporting cars via the rental process. This applies if a customer has hired a car elsewhere in Europe (say France, for example) and wishes to leave the car at one of the company's Spanish locations. A rental company would be prevented by its contract agreement with the manufacturer in the country of registration of the vehicle from renting the vehicle outside its country of registration (i.e. to domestic Spanish residents). The vehicle would therefore be redundant in hire terms (unless a non-domestic tourist can be found who wants to drive the vehicle directly back to the country of registration).

France: New legislation introduced in Easter 1999 stipulates that the purchaser of a vehicle must register the vehicle in the *département* where the car was first used. This is extremely inconvenient and restrictive for rental companies. Across Europe, there are different time lags in terms of the length of the registration process. Even within the same country, the administrative procedures for vehicle registration alone can be different – examples include Spain & the Canary Islands and Portugal & Madera.

In Belgium, there is a regulation that a purchaser of a vehicle cannot take documentation invoices out of the country.

The differing registration, administrative and legal procedures across Europe means that the company is obliged to have a headquarters and an administrative department in each country – it would be impossible to centralise operations at the European level for this reason

Costs of Barriers

Less efficient operating practices: Under the Block Exemption, it is not possible to source significant volumes of cars from alternative sources to the manufacturer. Since companies are obliged to negotiate a separate agreement with an automotive manufacturer in each country, this prevents companies from purchasing on a pan-European basis and harnessing economies of scale.

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Inability to meet the demand of consumers for a pan-European, transparent pricing structure: The block exemption (for reasons outlined above) compels car rental companies to negotiate on a country by country basis. Secondly, there are considerable variations in tax structure in terms of the cost of car registration, Value Added Tax and road fund licences across Europe. Holland, for example, is cheap by European standards in terms of the overall tax on top of the basic manufacturer's retail price. Even if the basic cost price of a car across Europe were standardised for a given manufacturer, the rental cost would still vary due to differing tax, insurance and registration rates –key differences in basic operating costs are also a factor.

Price transparency engendered by the advent of the Euro means that there is more focus on a single European rental price by increasingly price-aware consumers

Impact of the removal of constraints

Greater purchasing leverage: Company could purchase on a pan-European basis rather than a country by country basis

Increase in volume of business. Consumers want to have as much flexibility as possible when hiring a vehicle. With increasing mobility, the company would like to be able to provide customers with hire cars, which they can pick up and drop off anywhere in Europe. The company is only able to offer such a service at present at a cost because legislation places restrictions on cross-border hire. Transportation costs in addition to the cost of the vehicle being out of action during transportation are a major barrier to achieving this goal.

Development of new products: The company would be in a position to offer a more flexible range of vehicle rental packages. Customers hiring a vehicle would be at liberty to pick up and drop off the hire car without restrictions.

The company would like to see an end to the lack of clarity on EU legislation governing the car rental industry (particularly intra-EU cross-border). The nature of barriers to trade in the industry were perceived to stem not so much from the EU legislation itself as from the way in which regulatory legislation has been interpreted and implemented by individual Member States across Europe.

The Block Exemption is up for renewal in September 2001. There is a strong possibility that the Block exemption will not be renewed and allowed to lapse. Whether or not a possible end to the block exemption will have an immediate significant impact on the car rental industry is however at this stage unclear. Car rental companies may be unable to overcome the country-specific nature of the car manufacturing industry because they are reliant on buy-back deals from manufacturers, which are at present an integral part of the contract. This may change however, as car manufacturers vie with one another to offer the best deal in a bid to win valuable pan-European contracts.

CASE STUDIES 6

Sector	Leasing and Renting
Case study number	2
Country	European HQ, based in UK

This multinational player within the vehicle rental industry operates in 140 countries and 6,500 locations worldwide. The company's principal business activities are short-term vehicle renting, long-term vehicle leasing and equipment rental (ranging from heavy-duty equipment for use in road building to the rental of consumer equipment). The company operates on a truly pan-European basis with directly owned subsidiary companies operating in the UK, the Benelux, France, Germany, Spain, Italy and Switzerland. The company also operates large franchises within all the remaining European countries – namely Greece, Ireland, Austria and Portugal.

Barriers to Trade

The vehicle rental industry is prevented from purchasing new vehicles from countries within the EU where the purchase cost is substantially below that of northern European countries. The company would ideally like to source the cheapest manufacturer's price for a given vehicle, wherever that may be in Europe. However, there are lots of regulatory barriers linked to the Block Exemption preventing the company from doing so. The company maintained that the one true winner from a truly single European market within the car rental industry would be the consumer.

Legislation governing car rentals varies from one country to another: The complexities of hiring vehicles on a cross-border basis place an unwelcome additional business cost on this car rental company. There are major limitations on the length of time which a vehicle can be hired across an intra-EU border. The vehicle has to be back in the country in which it was registered within a specified period.

Country-specific issues

Car registration is particularly expensive in Spain. However, paradoxically, the overall cost of purchasing a vehicle in Spain is cheap –however, the block exemption prevents companies from buying new cars abroad and reselling them elsewhere within the EU. This example illustrates the complex range of factors effecting cost structure in each country and lack of harmonisation

The cost of car registration in the UK is cheap compared with elsewhere in Europe. The company said that the business costs involved in the initial purchase of a car were much higher elsewhere in the EU. Similarly, the administrative and regulatory processes were

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perceived to be much more bureaucratic elsewhere in the EU. However, this is counterbalanced by the fact that new vehicles in the UK cost amongst the highest in Europe. The widely differing cost-structure in the new vehicle market across EU Member States (an essentially identical vehicle may cost 25% less in a southern European country than in the UK) is a direct result of manufacturers in individual countries running their own dealership and servicing network which guarantees geographic exclusivity. The consequence is that the company cannot source its vehicles on a pan-European basis, as it would like to do.

Effect of Barriers

Barriers to trade have prevented the company from capitalising on opportunities offered by its immense purchasing power (harnessing economies of scale etc.). This market leader would ideally like to be able to negotiate with car manufacturers on a pan-European basis but is unable to do so. Manufacturers use the block exemption as a means of justifying anti-competitive practices. Were it not for such legislation, the company could potentially have moved in to the lucrative new car market as a means of diversifying its operations.

Consumer awareness of uniform pricing is growing: Consumers are demanding uniform pricing across Europe. The advent of the Euro and the rapid growth in e-commerce are accelerating this process. The company is unable to offer customers pan-European uniform pricing because of the different cost structures across member states, which in turn is linked to anti-competitive practices by car manufacturers. Another factor preventing uniform pricing is variable tax rates (VAT, car tax etc.)

Impact of removal of barriers

Development of new products: The company would like to expand its existing operations and diversify its activities in other fields across the EU.

Leveraging of Purchasing Power: If the Block Exemption were to be removed, the company would no longer be obliged to negotiate on a separate basis with manufacturers on a country by country basis but could negotiate directly with manufacturers. This would facilitate the leveraging of purchasing power to generate significant operating cost reductions and economies of scale.

The removal of barriers to trade would benefit consumers directly by bringing down rental costs and allowing greater choice and flexibility. At the moment, consumers & rental companies alike are confronted by borders within the EU in terms of cost implication. Their removal would, in the company's opinion, lead to a tangible increase in overall business

CASE STUDIES 6

Sector	Technical Testing
Case study number	**1**
Country	**UK**

This case study was carried out with HSB Inspection Quality, a technical testing organisation, formerly the Central Inspection Service of ICI.

HSBIQ is certified by the United Kingdom Accreditation Service (UKAS) as a type "A" inspection body. Accreditation allows HSBIQ to carry out third party inspection work, the verification of design and certification of boilers, pressure vessels and associated pressurised systems. The company is a member of SAFed (Safety Assessment Federation) which represents the independent Inspection Industry. The company operates in a highly competitive market.

- Vendor/ Contractor Surveys
- Stress Analysis/ Design Approval
- New Construction Inspection with full certification as appropriate
- Inspection during site production and installation
- Welding Qualifications & Certification
- Expediting of orders
- Road Transport Containers
- Notified Body services under European Directives.

2: *Technical Services – Post-Commissioning of Existing Equipment*

- Prior to purchase examinations & assessments for "second-hand" equipment
- Authoritative technical reviews with advice on inspection intervals
- Fitness for purpose certification & inspection acting as the Competent Person
- Re-validation of items following modification or repair
- Validation of safe operating limits for uncertified equipment

3: *Quality Assurance Services*

- Quality & Product Audits to the ISO9000 series of standards or customer-specific requirements using qualified Lead Assessors
- Associated Quality Assurance Consultancy & Advice

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Business Model

HSBIQ, an accredited testing body, carries out inspection work and other consultancy services predominantly in the UK, but is actively involved in work in Germany, France & Italy.

Within the industry, there are three dominant business models:

- Model 1 applies to local accredited bodies providing services to the domestic market. Such firms, generally small in size, are strongly orientated towards the national market & have little interest in exporting their services

- Model 2 applies to technical testing organisations involved in cross-border work through affiliations with local partners & subsidiaries. Up until 10 years ago, the technical testing market was primarily focused on the domestic market with limited opportunities for carrying out consultancy work elsewhere within the EU. However, the gradual trend towards deregulation in the technical testing industry in many EU countries has opened up the market to the private sector. Technical testing organisations and / or accredited testing bodies seeking to provide services abroad tend to form alliances with partners in other EU Member States as a means of overcoming linguistic differences, cultural barriers, lack of knowledge of local business practices and regulatory barriers.

- Model 3 applies to firms providing services directly from the home base – this model is usually only used by firms operating cross-border in a country which is relatively close and shares a similar linguistic, cultural and business operating environment, such as Scandinavia. Selling technical testing or related consultancy services from the home base to another EU country has the disadvantage that clients cannot be guaranteed adequate aftercare services. It is therefore more practical and preferable to use the second business model as an exemplar.

There was a general perception by the company that selling services through a subsidiary / sister company/ subcontractor was preferable to setting up a local operation. The lack of a local track record, the absence of transparency and confusion about regulations were the most influential prohibitive factors. Therefore, HSBIQ rejected the third business model opting instead for the second. HSBIQ has recently taken over a German subsidiary in order to facilitate European expansion. In Italy, the company operates through an affiliated subcontractor.

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Regulatory constraints

Despite the presence of an EU directive setting out an EU-wide standard for the testing of pressurised boilers & vessels, (97/23/CE), several EU countries have found a means of effectively circumnavigating EU legislation as a means of enforcing pre-existing national standards. In practice, there remain problems in terms of the mutual recognition of standards. German legislation, for example, is perceived to contravene the spirit of EU harmonisation legislation by insisting on the imposition of national testing on products in use, which constitutes a significant additional business cost. Whilst German consumer protection legislation cannot prevent the entry of products bearing the CE mark (i.e. goods tested elsewhere within the EU by a Notified Body), in practice, the German authorities can demand the re-testing of products already in use. Standards within Germany vary marginally from Länder to Länder – which further complicates the process for exporters to Germany.

France and Holland also pose problems in the technical testing field by imposing national codes of practice which serve to undermine the EU-led process of harmonisation of technical testing standards

The difficulty in ascertaining the legislative, administrative and regulatory hurdles which must be overcome to set up shop in another country has encouraged the company to pursue an acquisition-led European expansion strategy. An acquisition strategy was felt to be more cost-effective and time-productive than setting up directly in another country or selling services directly from the UK home base. The company stated that it was extremely difficult to identify individual barriers to setting up a local operation. Many barriers encountered were quite subtle ranging from administrative barriers such as the lack of transparency in business processes and the difficulty in identifying local regulations to sociocultural factors (linguistic barriers, national bias in the awarding of contracts etc.)

In Germany, there are administrative and bureaucratic barriers to the establishment of a new business. The registration process is complicated and problematic, therefore, companies prefer to form local alliances, take over existing businesses

In France and Italy, (both major market players in the engineering industry) HSBIQ felt that the existence of indirect or ‘hidden’ subsidies put non-national providers at a disadvantage. Again, this is difficult to quantify since many subsidies and grant schemes are of an indirect nature. The plethora of potential subsidies available to individual companies (from regional, national governmental and European sources), makes it difficult to assess the scale and level of national subsidies as a barrier to trade. As an example of subsidies benefiting domestic providers of engineering services, HSBIQ mentioned an energy subsidy from the Italian government available for industrial

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companies, was one example of hidden subsidies preventing the company from operating on a 'level playing field'

Country-specific issues

Germany, France and Italy continue to present barriers to trade in technical testing. In Germany, for example, the national testing body, the formerly state-owned TUV has the power to insist on a product being tested at various stages of its life and can withdraw products from the market in Germany if they fail to meet German national standards irrespective of the products legitimate certification elsewhere within the European Community. The national testing body cannot stop an EU-tested product from entering the country but can effectively penalise the product subsequently if it has not been tested/inspected by a German Notified Body.

Germany and France will not accept British materials which have been in use for many years without impact testing. The requirement for impact testing of steels is in practice in both countries. This requirement will not be relaxed even for items that are not subjected to low temperature use whilst in service.

In the UK, goods tested by the Notified Bodies and inspectorates of other EU countries' are widely accepted. However, this recognition of intra-EU standards is not reciprocated elsewhere in Europe.

No mutual recognition of qualifications at the high end of engineering consultancy. However, given the differing educational systems within the European Union, this will be a difficult hurdle to overcome. France & Germany, for instance, do not equate a newly qualified UK l Engineer with a German or French newly qualified Engineer because the French & German educational systems demand two years additional study prior to qualification.

In France and Germany, the requirement to meet restrictive local labour employment regulations constitutes a considerable barrier to trade. Companies operating in France & Germany face substantially higher employment costs due to protective employment law and a high level of social protection

Although the company acknowledged that differing VAT and indirect taxation regimes in EU Member States did have an impact on trade, this was felt to be negligible in comparison with Britain's non-membership of the Euro. Uncertainty over currency fluctuations had a large impact on costing and bidding for large scale engineering consultancy projects

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Socio-cultural factors: HSBIQ felt that it was easier to win projects via a subsidiary or local intermediary. Operating from the home base to sell services directly into Europe was difficult because qualifications didn't always equate, and local firms knew the regulatory process much better so were better positioned to bid for business

Costs of Constraints

Cost Implications: Although it would be extremely difficult for the company to accurately quantify the impact of remaining barriers within the EU, HSBIQ was adamant that removal of technical testing barriers and other hidden barriers would enable the company to reduce its operating costs in Europe by up to 10%. HSBIQ also felt that if it was operating from a truly level playing field, (i.e. standardised testing rather than country-specific) then it would significantly increase its market share in other Member States

Recent Developments

Over the past 10 years, a number of measures have been introduced by the EU to bring about greater harmonisation within the engineering industry. The EU directive on pressurised equipment is a step in the right direction towards bringing about greater standardisation – from a business point of view, in order to maximise efficiency, all the designer of an engineering product wants is one universally recognised standard. The current coexistence of an EU standard and several country-specific codes of practice places an additional management time (and hence cost) burden on companies in the engineering industry with a pan-European focus.