

Luxembourg; small but perfectly formed

By Margaret Ferns

As the magazine for business decision makers in Luxembourg (and abroad), Business Review has discussed the reasons why Luxembourg is a top location for business several times over the last couple of years. We make no apology for bringing the subject to the fore once again in this month's feature because, if anything has changed, it is that as the country's business environment has matured, so it has even more in its favour.



Gérard Eischen, Luxembourg Chamber of Commerce.

A prime location

This small, yet vibrant and versatile country, which has a proven ability to adapt to (and shape) European and world affairs, is working very hard to diversify its economy and encourage new (sustainable) businesses within its borders. Although the Grand Duchy can be proud of its financial centre, it does have much more to offer. Therefore, both the public and private sectors (from all industries) are travelling far and wide to draw the world's attention to the benefits of Luxembourg as a business location.

According to a publication entitled, "Luxembourg; A Prime Location for Doing Business," which is the fruit of a joint effort between PricewaterhouseCoopers Luxembourg (PwC) and the American Chamber of Commerce in Luxembourg (AMCHAM), "The main recognised advantages are Luxembourg's geographical location, its skilled international workforce, high return on investment, neutrality, easy access to government bodies and a very attractive and stable tax framework." As Claude Kremer, Chairman of Alfi, said in our

cover story interview, "All these advantages Luxembourg has before we even begin to look any deeper."

Robert Dennewald, Chairman of the Board, FEDIL (the representative association of employers in the industry, construction and services sectors) echoed these statements. "The advantages of Luxembourg as a business location are well known; its geographical position in the heart of Europe, its multinational and multicultural environment, its dynamic workforce composed of

nationals and commuters from neighbouring regions, a well-developed infrastructure, political stability and easily contactable public authorities."

Jean J Schintgen, General Secretary of HORESCA (the union representative of the Hotels, Restaurants and Cafés industry), although from a completely different sector of activity, also listed Luxembourg's principle advantage as, "its location in the heart of Europe." For his industry this means that the Grand Duchy is, "A very interesting destination for weekend tourism

» and conferences, for example.” (Please also see our separate article on Luxembourg; the European Centre for Conferences).

High international rankings

Gérard Eischen, Member of the Management Board and Head of Business Creation & Development, Luxembourg Chamber of Commerce wanted to, “Reiterate all Luxembourg’s well known excellences and highlight our outstanding position in various international surveys.” The PwC/AMCHAM publication mentioned before, listed some of Luxembourg’s rankings as follows;

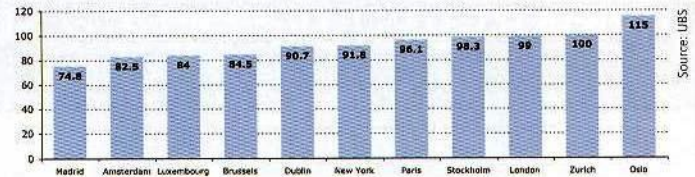
- The World Competitiveness Yearbook 2004 (by IMD Lausanne) – ranked 9th;
- The Index of Economic Freedom 2005 (by WSJ Heritage Foundation) – ranked 3rd
- Least Risky Place to do Business (by World’s Markets Research Centre) – ranked 1st.
- Overall Business Costs 2005 (by KPMG) – 6th.
- Worldwide Quality of Life 2005 (by the Economist) – ranked 4th.

A gateway to Europe

Eischen continued by saying, “Luxembourg is an excellent place to do business, not only for those in the financial sector, but also for those seeking to do business in a more traditional way.” He said that this is because

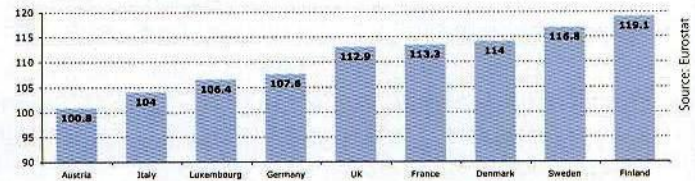
– and this is a very important statistic for anyone eyeing the Grand Duchy as a potential business location –, “Luxembourg is ‘the’ western European gateway; with a market of more than 100 million consumers within a range of 250km. It is the pivotal market for the Greater Region with its 14 million inhabitants.” In Eischen’s view Luxembourg is at the crossroads of the two biggest markets in the EU at present; Germany and France, and it possesses the language skills required to deal with each. But that’s not all. He added that, “These markets are in turn the natural stepping stones to the eastern European economies as well as to those of northern and Mediterranean Europe.”

The PwC/AMCHAM publication goes on to claim that the Grand Duchy of Luxembourg “Offers the optimal balance between low business costs and high purchasing power.” It sights the following as evidence, “Luxembourg is one of the least expensive capitals in Europe (UBS 2005 Survey); labour costs are among the lowest in the EU (Eurostat 2005) and Luxembourg has very strong domestic purchasing power, only Zurich has more (UBS 2005).” For the entrepreneur it is also especially interesting to note that, according to a study carried out by the European Commission (2003), SMEs (small to medium sized businesses) do not consider the administrative burden (red tape) in the Grand Duchy a major business constraint.



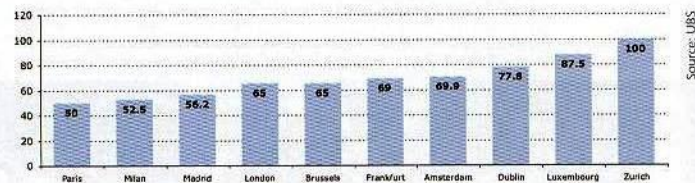
Price Index, 2005 (Zurich = 100)

Source: UBS



Labour cost index, 2005 (incl. salaries, social security, taxes...)

Source: Eurostat



Domestic purchasing power, 2005

Source: UBS

The optimal European business location

The arguments in favour of Luxembourg are many and only a few of them have been highlighted in this article; its location in the heart of Europe coupled with its skilled multi-lingual workforce makes it the perfect portal into the broader European markets. Even if the entrepreneur does not wish to step too far outside his front door, the Greater Region itself offers a potential 100 million customers within a 250km radius. Not only that, but in-

habitants of the Grand Duchy itself possess among the highest spending power in Europe. Business costs, labour costs and risks are low and, underpinning all of this, is Luxembourg’s flexible legal framework, low VAT rates, simple tax regime and that fact that almost every kind of professional business services company is already well established here (the article entitled, “Luxembourg gateway to Europe,” looks at these points in more detail).