



European
Construction Sector
Observatory

Analytical Report

Fostering the
international
competitiveness of EU
construction enterprises

April 2017

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1. Introduction

The construction sector plays a strategic role in the European Union's (EU) economy, accounting for 9% of gross domestic product (GDP) and 18 million direct jobs¹. Despite its significance, its global reach remains limited compared to the size of the overall sector. The vast majority of construction companies, namely SMEs, operate mainly at local level, while only a small number of international contractors have a global outreach. Similarly, trade in construction products is still largely dominated by intra-EU exchanges.

However, international competitiveness plays an increasingly important role for the long-term sustainability of the construction sector, in particular considering the sustained slow-down of the European market and its moderate prospects. The economic crisis of 2008 hit the European construction sector very hard, slowing down construction activity and investment across the continent. While growth has been slowly picking again and prospects have improved, European markets are predicted to be overall less dynamic than emerging markets. Both these 'pull' and 'push' factors are prompting construction companies to seek opportunities abroad. Important future growth opportunities for construction goods and services are arising in the Asia-Pacific region, in the Middle East, in North and Sub-Saharan Africa and in Latin America. To reap the benefits of this growth potential and maintain their competitive edge, European companies need to be well positioned to compete in these foreign markets. Furthermore, global trade of construction products and services stimulates the movement of capital, technology and skills and increases the potential for opportunities of scale and specialisation of firms. Both of these elements contribute to the overall competitiveness of construction companies.

Despite the clear benefits arising from internationalisation, competition in international markets is often fraught, with a number of challenges affecting both large and small companies. Indeed, some countries still restrict access to their markets through direct bans of foreign companies. Although this is no longer the case in the majority of the countries, important technical and regulatory barriers still persist. Such barriers can range from lack of recognition of foreign professional qualification, lack of harmonisation in construction standards, discriminatory practices in public procurement, as well as capital requirements for foreign companies. In addition, high tariff and duties deter global trade². Another challenge in internationalisation of firms consists in unfair competition from countries with less strict standards than European companies. The challenges to internationalisation are exacerbated for SMEs, which have reduced resources to tackle the barriers of international trade.

Against this background, the European Commission launched 'Construction 2020', as the strategic policy agenda for the construction sector in Europe. Construction 2020 focuses on the identification and implementation of measures that help fostering sustainable competitiveness in the construction sector in the short, as well as in the medium to long term. Its overarching goal is to implement sound framework conditions for the construction sector to flourish, including for investment, research, innovation, entrepreneurship, higher resource efficiency and better work environment. The strategy encourages actions to reassure and ameliorate the functioning of the Internal Market and help remove barriers to trade and business at international level.

International competitiveness features prominently in Construction 2020, as a key goal to maintain and secure the future competitiveness of the industry by opening up opportunities for the international expansion of European companies. The Thematic Objective 5 "Fostering the global competitive position of EU construction enterprises" outlines policy measures foreseen in the Construction 2020 action plan both

¹ European Commission, The European construction sector: A global partner, 2016. <http://ec.europa.eu/DocsRoom/documents/15866/attachments/1/translations/en/renditions/native>

² World Economic Forum, Shaping the Future of Construction: A Breakthrough in Mindset and Technology. 2016. http://www3.weforum.org/docs/WEF_Shaping_the_Future_of_Construction_full_report_.pdf

for the Commission and national stakeholders. The Commission plays a key role in this regard, as it drives the trade policy of the EU as well as international cooperation on regulation and standards. Furthermore, it plays a key role in ‘business diplomacy’ and provides financial support via a number of financial instruments and cooperation funds. The EU is also active in promoting the internationalisation of SMEs through various support measures.

At national level, there is scope for policy action, too. Indeed, Member States are often engaged in business diplomacy for their own companies. The most important policy response at national level, however, has focused on providing SMEs with finance and other support tools to internationalise, notably through dedicated events and business missions.

Within this context, the purpose of the present Analytical Report is to draw a snapshot of the current trends with regard to the internationalisation of the construction sector in the EU-28. Namely, **Chapter 2 provides a high level analysis of internationalisation trends of European construction firms**, focusing on the quantitative analysis of trade flows in construction products and services within and outside the EU. **Chapter 3 provides an overview of the international opportunities** that drive expansion abroad, in particular the growth potential of emerging markets, key developments in trade negotiations, as well as economic relations with developing countries. **Chapter 4 takes stock of the obstacles faced in international expansion**, namely persisting regulatory barriers, e.g. in public procurement and standardisation, and overall challenges for SMEs. Finally, **Chapter 5 focuses on the main policy responses to support internationalisation** at EU and national level, highlighting best practices and lessons learned from various national and EU programmes.

2. Internationalisation of construction firms: key facts and figures

This section aims at providing a comparable picture across the 28 EU Member States on the basis of indicators related to internationalisation of EU companies in the construction sector. It describes and analyses a set of facts and figures to understand the current state of play in the internationalisation of construction products and services markets.

General overview on the international activities of the EU construction sector

This section provides information regarding the current situation in the internationalisation of the EU construction sector based on recent general trends in trade flows; it uses available information on the trade of products and services in the construction sector both within and outside the EU28.

General trends in sector specific FDI

The analysis of Foreign Direct Investment (FDI) in construction shows that foreign investment goes both to catching-up and to well-established economies, as shown by the available data on FDI³ flows in the year 2015.

The top 3 countries benefiting from inward FDI are :

- Bulgaria
- UK
- Netherlands

³ FDI flows represent all investment made by a direct investor in a foreign economy with the aim to acquire a company operating in another economy. A notion of “lasting interest” prevails and exists if the foreign direct investor acquires at least 10% of the voting power in the company.

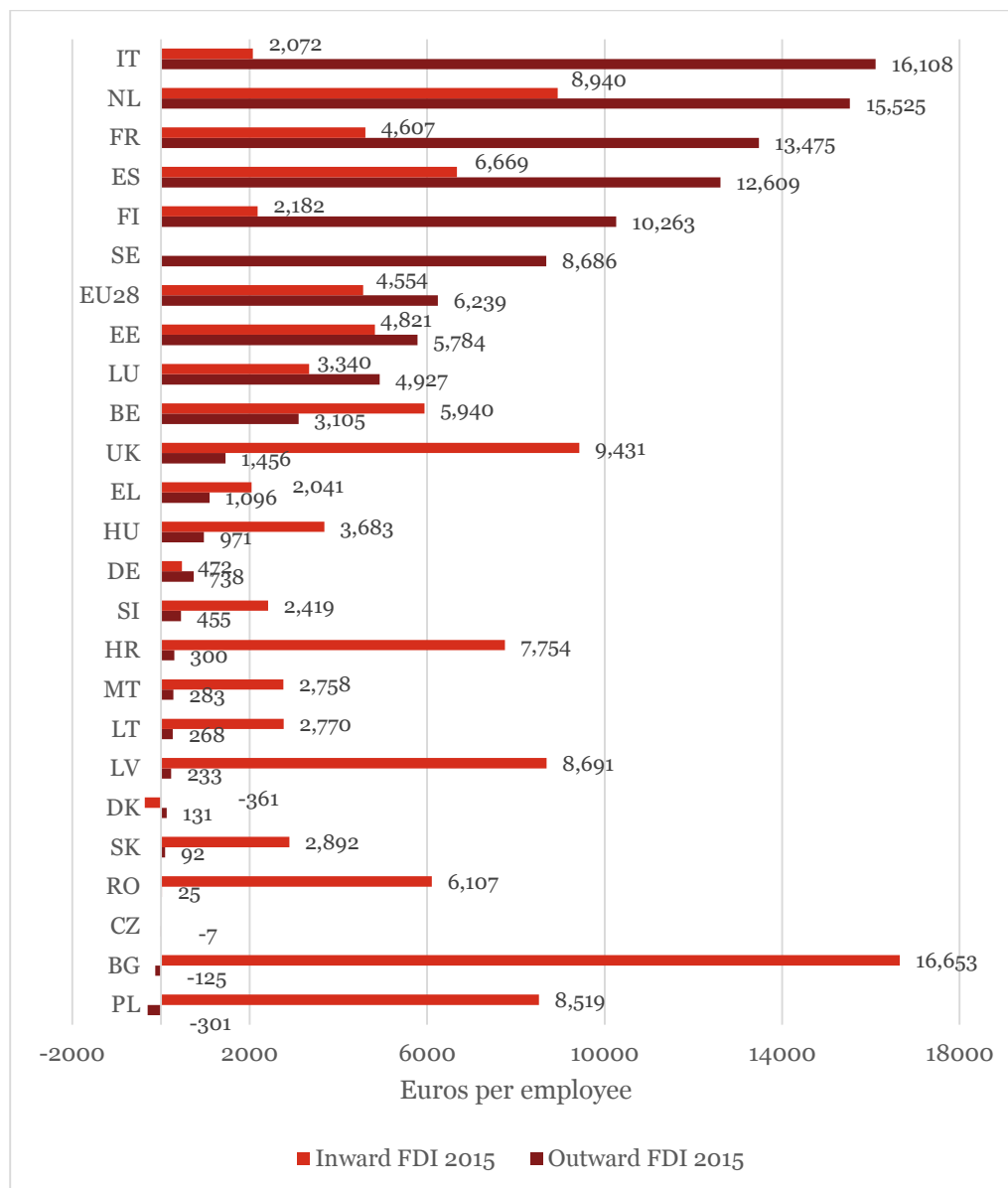
Results from the analysis indicate that the top three countries that benefit from the highest amount of inward FDI in the construction sector (expressed in euros per employee in construction)⁴ are Bulgaria (1st) Latvia (4th) and Poland (5th) representing the Eastern and converging economies, and the UK (2nd) and the Netherlands (3rd) representing established Western economies. On the opposite side of the distribution, the analysis shows that the countries with the lowest amount of inward FDI per worker are Denmark and Germany, both below 500 EUR per employee in the sector. The analysis of inward FDI in the construction sector indicates that both developed and catching up economies are benefiting from inward flows and that the amount invested by foreign countries is not necessarily linked to the general level of GDP per capita of these economies; indeed, it is difficult to establish a pattern, as both Member States with high and low GDP per capita benefit from important inward FDI flows in the construction sector.

Further analysis on the construction sector FDI indicates that total outward flows (investment made by entities in a Member State towards any other country) are originated in strong economies. Indeed, the distribution of total outward FDI in the sector indicates that the top economies investing in the construction abroad are Italy, the Netherlands, France, Spain and Finland, which concentrate the highest amounts of outward FDI (above 10,000 euros per worker). The top group is followed by a group of middle investors represented by outward FDI flows in the range of two to eight thousand euros per worker. The distribution ends with group of countries where the total outward investment in foreign construction sector companies is less than 2,000 euros.

It is important to notice that many of the countries in the top and middle of the distribution, concentrating most of the FDI per employee, represent in many cases Western advanced economies (with the exception of Estonia); this observation points out to the fact that sector specific outward FDI flows primarily from well-established and developed economies in Europe. Figure 1 overleaf provides an illustration of the inward and outward distribution of construction sector specific FDI flows.

⁴ The analysis performed standardises the FDI flows by the size of the construction sector of the reporting economy to ensure the comparability of sectoral FDI across Member States.

Figure 1: Inward and outward construction sector specific FDI per worker (2014)



Source: PwC analysis based on Eurostat data (data is unavailable for the countries that are missing in the chart)

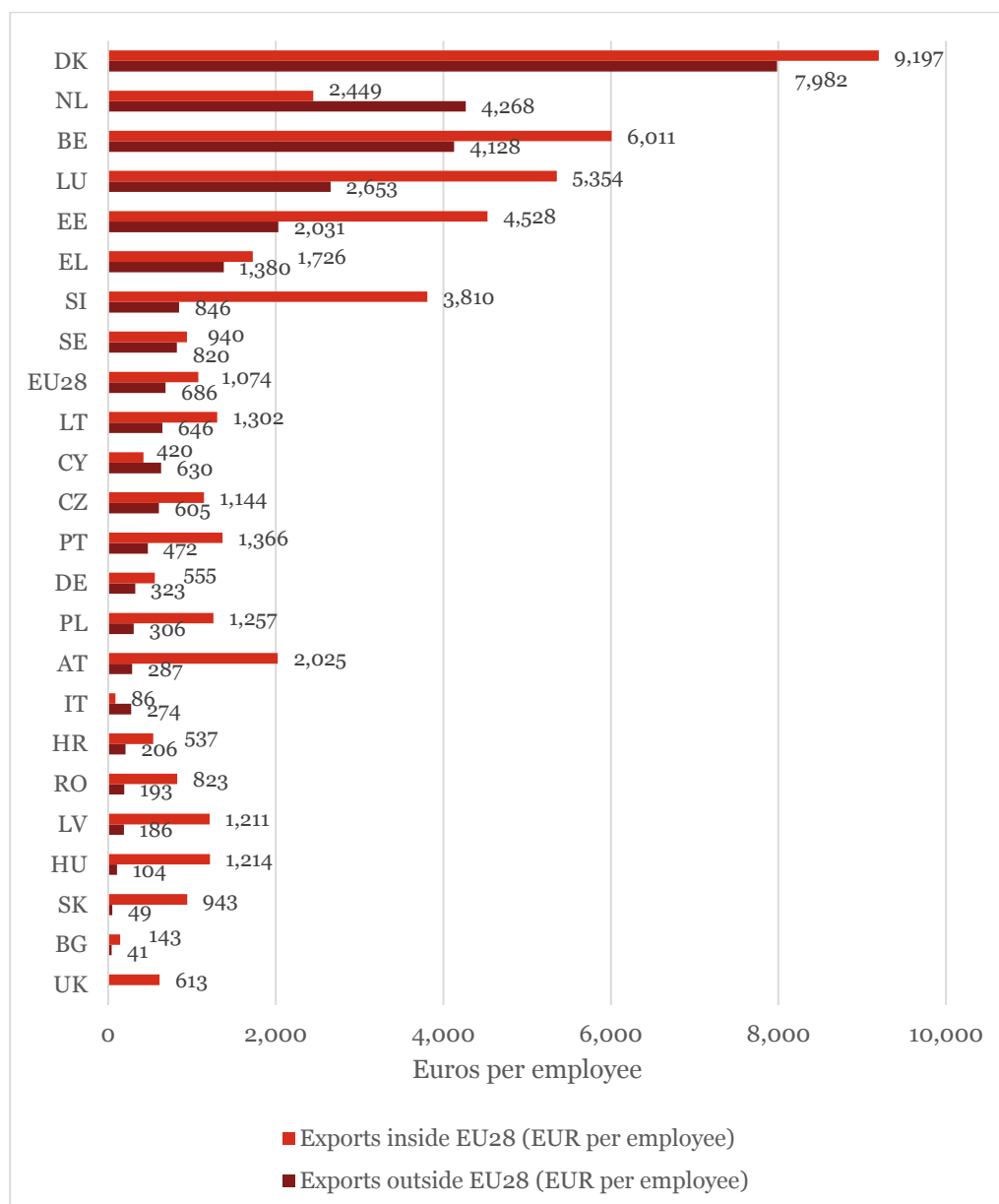
International trade in construction services

The distribution of exports within the EU for the year 2015 indicates that the top three countries exporting the highest sector related value outside the EU28 are Denmark, the Netherlands and Belgium (above 4,000 EUR per employee), considerably outpacing the bottom three countries Bulgaria, Slovakia, and Hungary (about or below 100 EUR per employee). The analysis shows that even if most of the value of exports is driven by trading with other Member States, the total value of exports towards the rest of the world are also of importance for the EU. Indeed, the share of extra-EU exports of construction related services represents about 40% of



the total sector exports for half of the Member States⁵. Figure 3 below provides an illustration of the distribution of total exports within and outside the EU28 for the year 2015.

Figure 2: Exports in construction services outside and within the European Union (2015)



Source: PwC analysis based on Eurostat data (data is unavailable for countries missing in the chart)

Further analysis of the total trade in construction services investigates the characteristics of the value of imports per employee from outside and from within the EU28. In all EU MS, imports of construction services come largely from within the EU; however, extra-EU imports of construction services are sizeable for a number of countries, such as Denmark, the Netherlands, Belgium and Estonia (above 1,000 euros per employee).

⁵ The share of Intra-EU exports represents more than 60% of the sector exports in Slovakia, Hungary, Austria, Latvia, Slovenia, Romania, Poland, Bulgaria, Portugal, Croatia, Estonia, Luxembourg, Latvia, Czech Republic, and Germany.

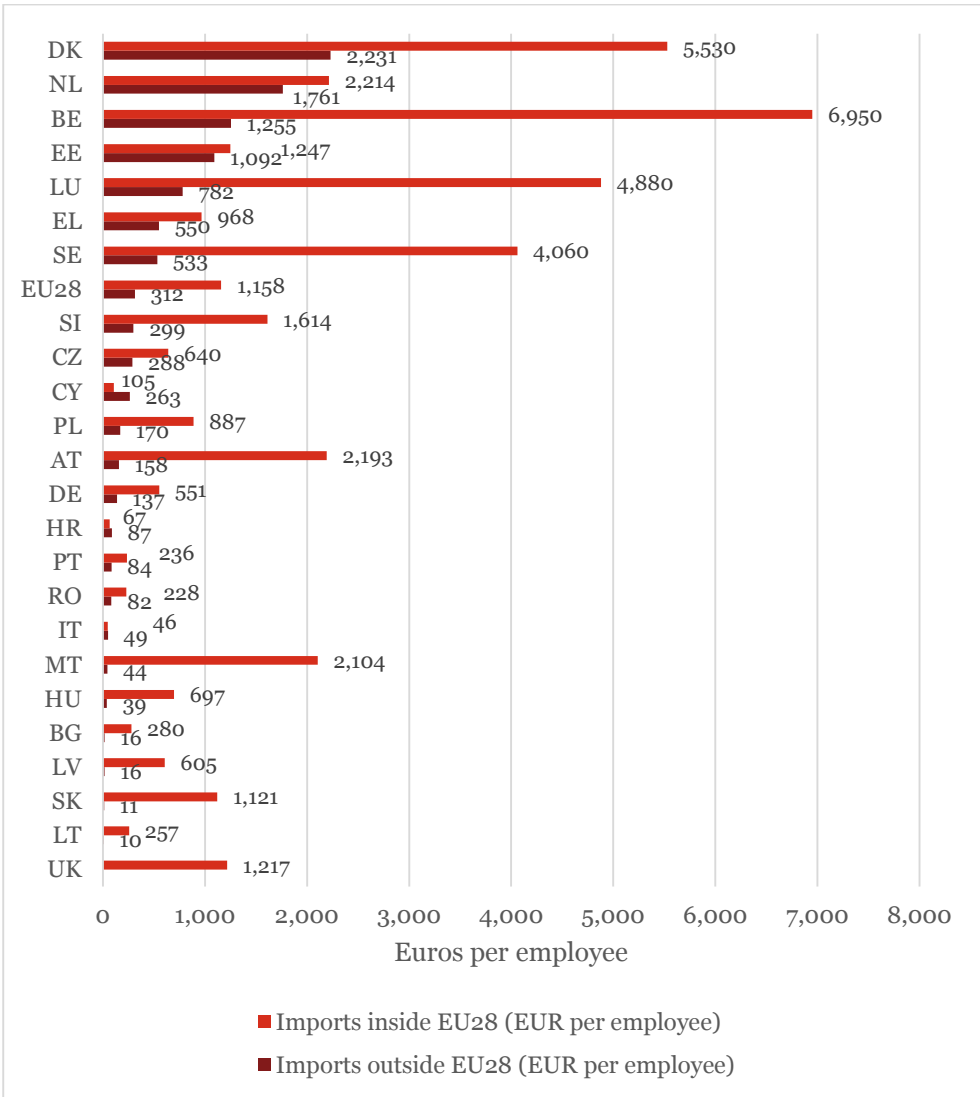
The EU construction sector is dependent on intra-EU trade

It is important to note that the share of extra-EU imports within all imported values represents about 20% of the total imports value for nearly half of the EU28 Member States⁶. This observation, contrasts with the case of the countries with high shares of extra-EU exports described above; it confirms the dependence of the European construction sector on intra-EU trade; which is a key point to take into account when designing internationalisation policies for the European construction industry. Figure 4 below provides an illustration of the distribution of total imports within and outside the EU28 for the year 2015.

20%

Share of extra-EU imports out of the total imports for half of the EU28 MS

Figure 3: Imports outside and within the European Union (2015)



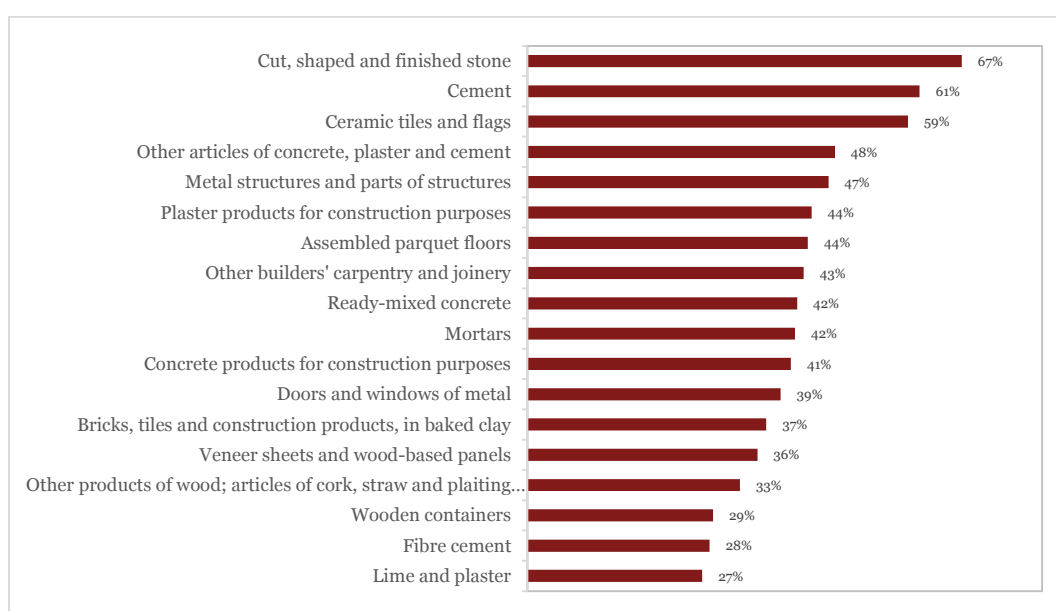
Source: PwC analysis based on Eurostat data (data is unavailable for countries missing in the chart)

⁶ 13 countries in total: Slovakia, Malta, Latvia, Lithuania, Hungary, Bulgaria, Austria, Sweden, Luxembourg, Belgium, Slovenia, Poland, and Germany.

International trade in construction products

Diving into the characteristics of trade in construction products, the present subsection intends to highlight the state of play in the trade of goods to grasp a better understanding of the degree of internationalisation of the European construction industry. The available data for 2015 provides an overview of the share of value for each type of construction product⁷ exported from a Member State towards the EU28 or towards non-member states; as illustrated in figure 4 below, the families of products that are most exported outside the EU28 are related to architectural services, stones, cement, and ceramic tiles. Exports outside the EU28 in these four categories represent beyond 50% of their trade in the sector.

Figure 4: Share of exports value outside EU28 by families of products (2015)



Source: PwC analysis based on Eurostat data

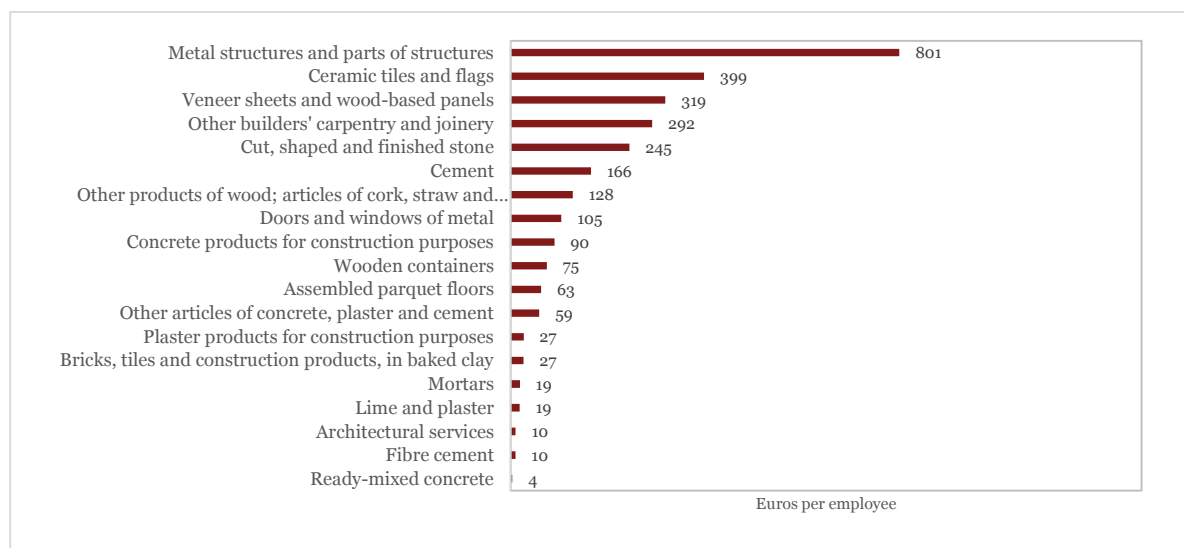
The export value per employee towards non-EU countries is concentrated around a few types of products, namely the families of metal structures and parts of structures, ceramic tiles and flags, veneer sheets and wood-based panels, other builders' carpentry and joinery. The exports value per employee in the trade of these four families of construction products represented over 250 euros in 2015; in particular, metal structures and parts of structures accounted for the highest value per employee, representing over 800 euros. Figure 5 below provides an illustration of the ranking of exports value at towards non-member states by type of products in the construction sector.

800€

Highest export value per employee accounted for metal structures and part of structures

⁷ The analysis focuses on trade information on 19 families of products for the year 2015; in order to ensure comparability of the construction sector across Member States, the country aggregates are standardised by the size of the countries' construction sector.

Figure 5: Exports value per employee towards non-EU28 countries in the top 30 trading partners for construction sector products (2015)



Source: PwC analysis based on Eurostat data

In general, the observations made under the overview on the international activities of the EU construction sector show that the internationalisation of construction firms across the EU is highly intensive in terms of intra-EU trade, with important shares of exports and value generated per employee made amongst partners within the EU28 Member States in both goods and services, as well as investment.

Geographic patterns in the internationalisation of the industry

The present section discusses geographic patterns in the sector specific value traded by Member States. The analysis presents the characteristics of exports towards non- member states in terms of their geographic distribution and value.

International benchmark of trading partners

Geographic patterns in the internationalisation of the European construction industry investigates the distribution of the total exports value in construction goods originating from the EU28 with respect to their top trading partners in the world, taking into account all families of products, in order to reflect an international benchmark of the preferred partners and the value of products and services they buy from Member States.



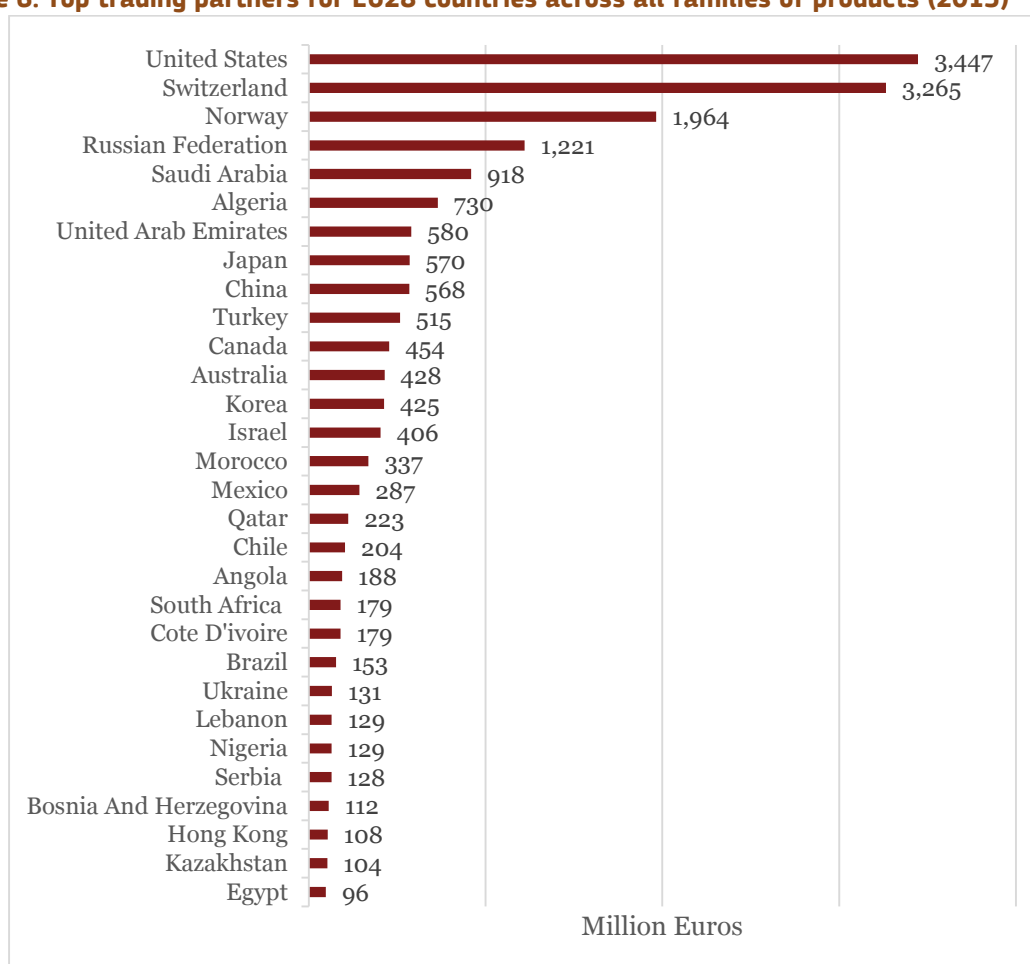
Over 1 billion €
Worth of deals from exports with US, Switzerland, Norway and Russia

Amongst top 30 trading partners outside the European Union for the EU28 construction industry in the year 2015, we find that amongst those paying the highest value in construction goods exports (measured in millions of euros) there were countries in the vicinity of the EU28 such as Switzerland, Norway and the Russian Federation, as well as farther countries such as the US and the UAE. This observation strengthens the evidence of “proximity” of trade in the construction sector, and the non-negligible importance of extra-EU trade, even in the presence of strong local relations within EU countries, as discussed in the previous sections.

It is important to note that the distribution of exports value across non-EU28 trading partners is heavily concentrated on deals with the US, Switzerland, Norway, and Russia, with total exports above EUR 1,000 million (although this

position does not take into account the size of the partner's population or economy). Figure 6 below provides the ranking of trading partners for EU28 countries across all families of construction sector products.

Figure 6: Top trading partners for EU28 countries across all families of products (2015)



Source: PwC analysis based on Eurostat data (data is unavailable countries missing in the chart)

In conclusion, the present section provides insight on the internationalisation patterns of the European construction industry with respect to non-member states. In particular, based on an analysis of the exports value of construction goods it provides a general analysis of trading partners by establishing a benchmark of the most important trading partners outside the EU28. A key takeaway from this analysis is the confirmation of the “proximity” or “localism” of the industry when it comes to international trade, but also the importance of trade with the rest of the world. This observation, as discussed in previous sections, shows the need to take both proximity and value into account when designing internationalisation policies that will benefit the industry.

Internationalisation patterns in construction products and services

The present section discusses changes and patterns of trade in the sector focusing on the evolution of construction sector trade at EU level and on net changes in exports value at national level during the period 2010 – 2015 and provides insight on its evolution across Member States.

Evolution of trade in construction services

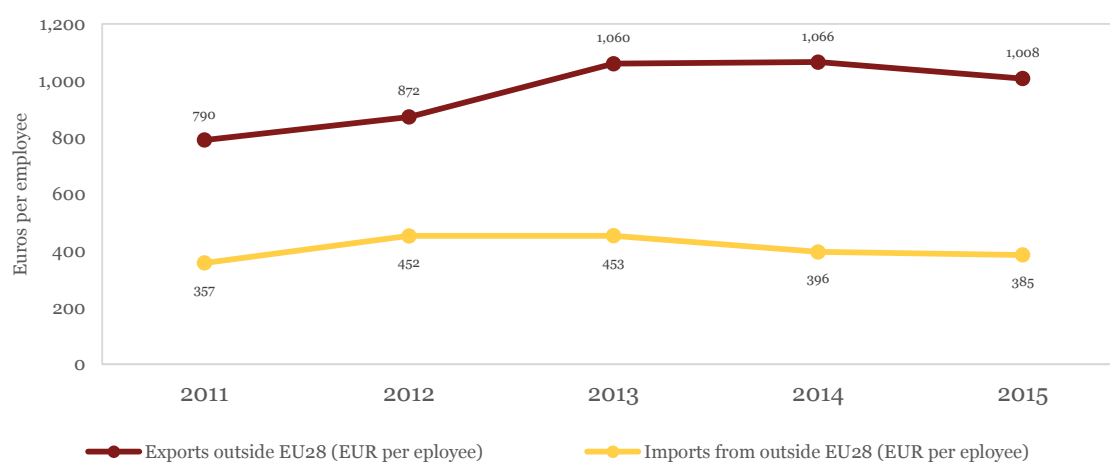
+ 27.4%

Net change in the value per employee of exports during 2011-2015

During recent years, the trade of services in the construction sector at EU level has increased in general for each type of flow (imports and exports both within and outside the EU28), which provides an insight on the improvement of the degree of internationalisation of firms in the sector. Looking at the evolution of imports and exports during the period 2011 – 2015, we notice a slight, nearly marginal, increase in the level of imports from outside the EU28, from 357 to 385 euros per employee representing a net change of +7.8% of value. Furthermore, the evolution of exports follows a slightly different pattern as the value per employee of exports towards countries outside the EU28 increased from 790 to 1007 euros per employee in the sector during the period, representing a net change of +27.4% in value. These observations on the level and evolution of exports contrast with the observed trends on both trade flows, as both imports and exports in construction

services engaged on a decreasing pattern towards the end of the period. Figure 7 below provides an illustration of the evolution of imports and exports in the European construction sector.

Figure 7: Evolution of imports and exports in construction services at EU level during the period 2011 - 2015



Source: PwC analysis based on Eurostat data

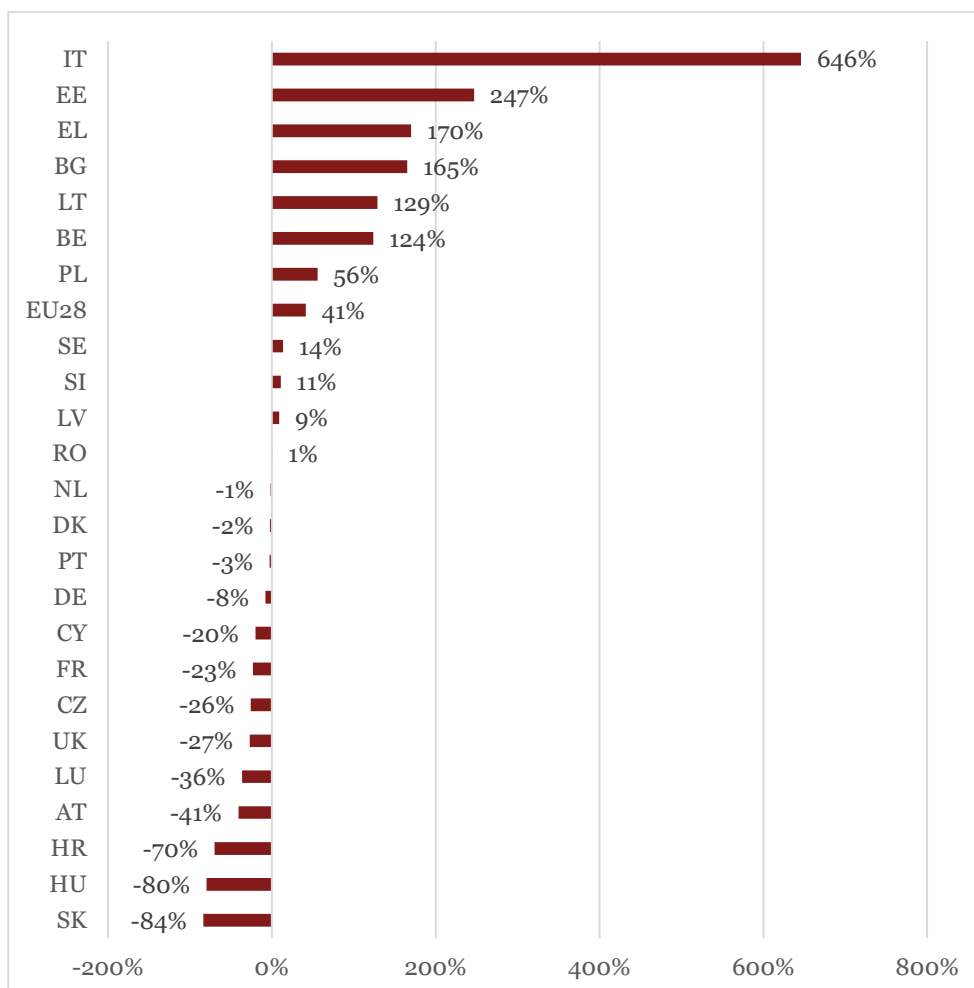
Changes in the value of exports of construction goods and services

-70 %

Croatia, Hungary and Slovakia present over a 70% decrease of their exports outside Europe during 2010-2015

Using information on the value of goods and services exports from EU28 countries during the period 2010 – 2015, we notice several differences on the magnitude of changes in extra-EU28 trade across Member States. Six countries catch the attention with respect to their changes in total extra-EU28 exports of construction services, Italy, Estonia, Greece, Bulgaria, Lithuania, and Belgium, each presenting a net change over 100% in the value per employee of exports over the period indicating an expansion in the sales of products abroad. In contrast, several countries present negative net changes in exports value of construction services traded with extra-EU28 countries, among these are observed the Netherlands, Denmark, Portugal and Germany as mildly losing ground on their extra-EU28 exports, whilst Croatia, Hungary and Slovakia present over a 70% decrease of their exports outside Europe. Figure 8 below provides the distribution of extra-EU28 exports value of construction services for each Member State during the period 2015.

Figure 8: Changes in the value per employee of total exports in construction services towards non-EU28 countries (2010 -2015).



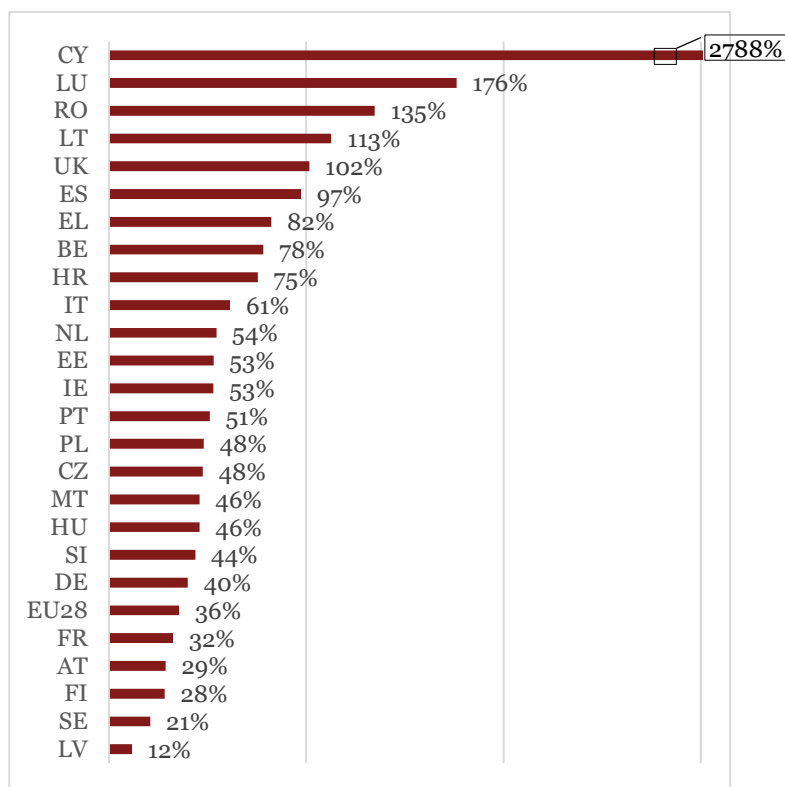
Source: PwC analysis based on Eurostat data (data is unavailable countries missing in the chart)



Increase of value per employee of exports outside Europe during 2010-2015 in Italy, Estonia, Greece, Bulgaria, Lithuania and Belgium

Finally, in the case of the analysis of net changes in the exports value of construction products towards countries outside the EU28, it is important to note that all Member States present a positive increase in the value of exports related to construction goods. Four countries present an increase of over 100% in the value of construction products exported during the period 2010 – 2015, followed by the rest of Member States who also present a positive increase denoting an expansion of sales outside the EU28 and of value generated for the European construction industry. It is important to note that Cyprus presents a considerable outlying increase in the value per employee of goods exports; several assumptions may explain these observations such as strong movements in the value of exports and the size of the industry at national level; nevertheless, it is advised to interpret this observation with care. Figure 9 below provides the distribution of extra-EU28 exports value of construction products for each Member State during the period 2015.

Figure 9: Changes in the value per employee of total exports in construction products towards non-EU28 countries (2010 -2015).



Source: PwC analysis based on Eurostat data (data is unavailable countries missing in the chart)

3. Internationalisation opportunities

Significant opportunities are currently open to European construction companies wishing to expand their activities abroad, acting as key drivers for the internationalisation of the sector. Namely, these stem from the brighter outlook of the construction sectors of third countries compared to the modest prospects of the domestic EU market, the important trade policy efforts and trade agreements between the EU and some of the most important global economies, as well as from economic relations with developing countries. This section therefore develops on these aspects.

Brighter prospects in foreign markets

The financial crisis had a profound impact on the European economy and, consequently, on the construction sector in particular. Indeed, European GDP contracted by about 4% in 2009 alone, followed by a further decline in 2012 as a result of the Euro crisis. In this context, the European construction sector declined for six consecutive years since its 2007 peak, bottoming out in 2013, i.e. a 25% drop. Such a decline varied across the various segments, with new residential construction experiencing almost a 50% drop, while renovation contracted by 6%. Different countries were also affected to a varying degree by the financial situation, with the construction sector in Member States such as Germany, Luxembourg and the Scandinavian countries displaying greater

The European construction sector declined for six consecutive years with a 25% drop since the 2007 peak

resilience to economic shocks, compared to the overheated sectors in countries such as Spain, Ireland and Greece. Although the situation has started to stabilise and resume its growth path since 2014, the relatively slow pace of economic growth (1.3% per year) implies that the outlook for the European construction sector is moderate, with growth being forecast at an annual average of 1.5% until 2025. In particular, the construction market in Western Europe will be almost 5% smaller by 2025 than 2007. Moreover, the weight of the construction sector in European GDP went from about 13% of GDP in 2006 to a low of 9.4% in 2014, projected to increase only slightly to 9.6% in 2019 and potentially 10% in 2025, further highlighting the fact that construction will grow slowly and almost in line with GDP⁸.



Global construction output is expected to grow by 70% by 2025 with China, USA and India accounting for 60% of such growth

By way of comparison, global construction output is predicted to grow by over 70% by 2025, reaching USD 15 trillion (EUR 14.2 trillion), with China, the United States and India accounting for almost 60% of such growth. Namely, China became the world's largest construction market already in 2010, and is set to further increase its global share from the current 18% to 26% by 2025, although its growth is expected to continue at a slower pace⁹. Conversely, the United States are expected to experience a much faster growth in construction, at an annual average of 5% until 2030. Similarly, the Indian construction market is forecast to grow at a rate double that of China, thus overtaking Japan and becoming the third largest construction market already by 2021. Considerable opportunities are also originating from Asian countries such as Indonesia, Vietnam and the Philippines, particularly for export-oriented manufacturing, which will see the size of their construction market increase by over 6% per year until 2025, taking advantage of the slowdown in China¹⁰.

From the comparison between the outlooks, it can be concluded that the prospects for the European construction sector are subdued, particularly in relation to the buoyancy of foreign construction markets. As a consequence of this situation, opportunities in domestic markets are shrinking. However, this also carries a positive implication, constituting a key driver for European construction companies to seek new opportunities abroad and take advantage of the better prospects that foreign markets can offer. Indeed, the construction sectors of many European countries have been increasingly turning towards internationalisation as one of the solutions to counteract the decline on the domestic market. A strategy that has been proving to be successful in this respect is the internationalisation of construction companies through cross-border deals (i.e. mergers and acquisitions), which offers one of the most common access routes to foreign markets. This tendency is highlighted by the increasing proportion of **cross-border deals** as a share of the total number of deals reported in the European construction sector. Thus, in 2015, 55% of the recorded deals were cross-border, i.e. involving businesses established in different countries. This represents an increment of over 5 percentage points compared to 2014, as well as a continuously growing trend since 2010. Namely, 71 such deals were reported in 2015, compared to 63 in 2014 and 53 in 2013. This is not surprising, given the recession experienced by the construction sector since then and the ensuing growing international focus as a result of the stagnation in domestic markets¹¹. The share of cross-border deals in the total number of construction deals is depicted in Figure 10 below.

Cross-border deals offer one of the most common access routes to foreign markets

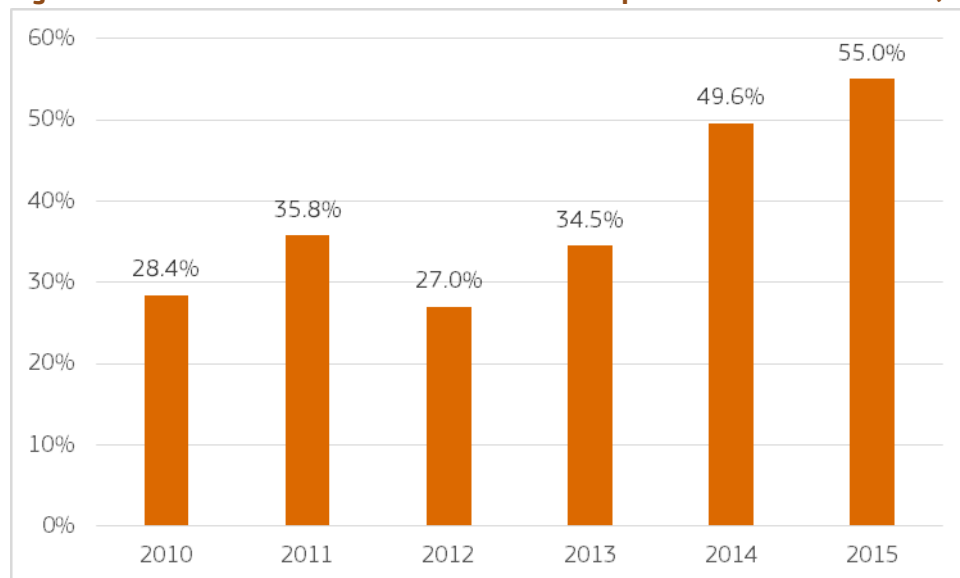
⁸ Euroconstruct, Recovery of European Construction after the Financial and Euro crisis. December 2016. http://www.euroconstruct.org/ec/blog/2016_12

⁹ PriceWaterhouse Coopers, Global construction 2025. <http://www.pwc.com/gx/en/industries/engineering-construction/publications/global-construction-2020.html>

¹⁰ PR Newswire, Global Construction Market to Grow \$8 Trillion by 2030: Driven by China, US and India. November 2015. <http://www.prnewswire.com/news-releases/global-construction-market-to-grow-8-trillion-by-2030-driven-by-china-us-and-india-544142522.html>

¹¹ Deloitte, European Construction Monitor 2016. March 2016. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-real-est-construction-monitor.pdf>

Figure 10: Share of cross-border deals in the European construction sector (2010-2015)



Source: adapted from Deloitte, 2016.

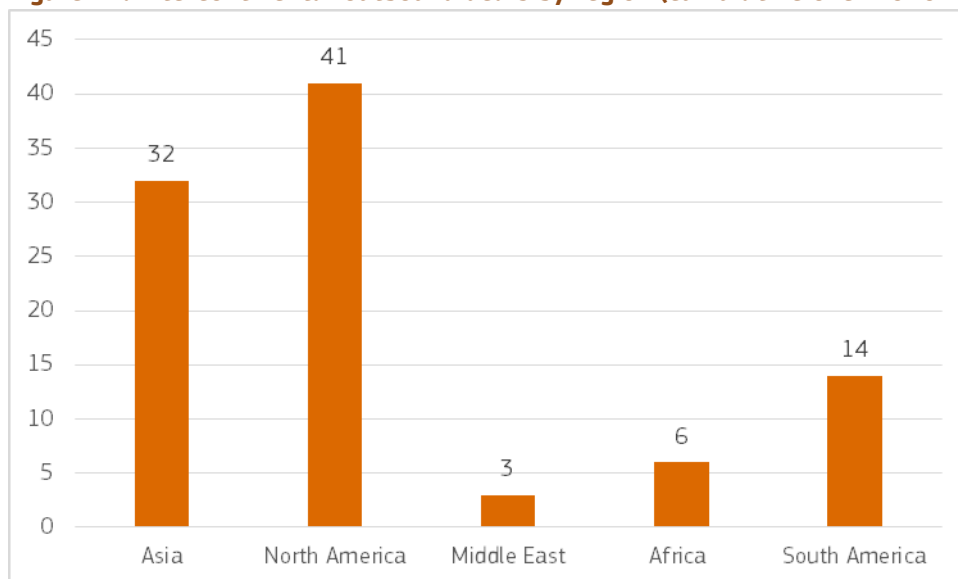
By further analysing the composition of cross-border deals, it can be observed that the proportion of **intercontinental deals** (i.e. deals where either the acquirer or the acquired entity are from Europe) is acquiring increasing significance. Indeed, in 2013, the number of intercontinental deals in the European construction sector amounted to 27, which increased to 28 in 2014, representing 22.0% of the total number of cross border deals, and to 36 in 2015 (i.e. 27.9% of the total). It is worth noticing that, out of these 36, 18 were classified as outbound, i.e. involving European investors targeting foreign markets, greater than in 2014 (17 outbound out of the 28 intercontinental deals). The rise in intercontinental deals, and specifically in outbound, reflects the fact that not only are European construction companies looking away from their domestic markets, but they are reorienting their activities away from Europe as a whole, focusing instead on the generation of profit in other continents¹².

European construction companies are reorienting their activities away from Europe as a whole

With regard to the specific continents where most of the outbound intercontinental mergers and acquisitions take place, it appears that North America and Asia are the main target markets for European construction companies, suggesting a preference for more legally and economically stable geographical locations. Thus, over the period 2010-2015, 41 outbound intercontinental deals involved companies in North America, followed by 32 in Asia (out of which 8 in Australia and 16 in India). However, market entry often requires the takeover of a local national company or the establishment of local national branches, as some market are generally closed off to EU companies, e.g. the North American market. The choice of target markets is also influenced by the historic ties between countries. For instance, ties between the UK and India affect the interest and thus the amount of outbound deals between these countries. Similarly, the historical relationship between Portugal and some South American and African nations explains the preferential focus of Portuguese construction companies on the Brazilian and Angolan construction markets, whereas French construction enterprises target the French speaking Sub-Saharan region and Northern Africa. The Middle East is targeted by companies from all the EU. The intercontinental markets targeted by outbound deals are depicted in Figure 11 below.

¹² Ibidem.

Figure 11: Intercontinental outbound deals by region (cumulative over 2010-2015)



Source: adapted from Deloitte, 2016.

The increasing turn towards international and intercontinental markets and the opportunities that can be reaped in terms of profitability are also demonstrated by the growing international turnover of construction companies. Indeed, the international turnover of European construction companies¹³ reached EUR 179.9 billion in 2015, a 9% increase compared to 2014 and a 7.4% rise relative to 2012 (EUR 167.6 billion). Namely, EUR 104.9 billion of the total was generated outside Europe. North America accounted for the single largest amount of turnover after Europe (EUR 28.6 billion)¹⁴.

179.9

The international turnover of European construction companies reached €179.9 billion in 2015

¹³ Refers to the international turnover of European contractors affiliated to the European International Contractors (EIC)'s Member Federations

¹⁴ European International Contractors, EIC 2015 Statistics: International Turnover reaches new Peak. October 2016. <http://www.eic-federation.eu/news/eic-2015-statistics-international-turnover/>



The largest French players have continued to expand internationally especially through mergers and acquisitions

Looking at specific countries allows to observe how different construction sectors have been approaching internationalisation to exploit opportunities abroad. An interesting example is Italy, whose sector has suffered from a sustained decline since 2008, in terms of employment, number of companies, production and profitability. Due to the poor domestic conditions, the performance of Italian construction companies in international markets has been considerably stronger than in their local context, reflecting the increasing internationalisation of the sector. Indeed, between 2004 and 2015, revenues from foreign activities in the construction sector increased by 286.8%, from EUR 3.1 billion to EUR 11.99 billion. On the contrary, domestic revenues fell by 24.3%, from EUR 6.8 billion to EUR 5.1 billion in 2015. Thus, foreign revenues represented 70% of the total revenues of the industry in 2015, compared to 31.4% in 2004. In terms of the key contributing markets, 23.1% of the total value of the global portfolio of ongoing construction projects (EUR 87.2 billion) originates from projects in South America, followed by the Middle East (and particularly Saudi Arabia, Qatar, Kuwait and Israel) (14.7%) and Sub-Saharan Africa (11.4%)¹⁵. In terms of the typology of works carried out by Italian construction firms abroad, railway infrastructure accounted for 24.2% of the total value of the global portfolio of ongoing projects in 2015, with Venezuela being the single largest market (EUR 8 billion), followed by Argentina (EUR 2.5 billion) and Algeria (EUR 2 billion). Road infrastructure accounted for 22.3% of the total, with major projects in Russia, Algeria, Libya, Australia and Colombia, whereas hydraulic infrastructure works accounted for 14.7% of the total. Residential and non-residential construction are also acquiring increasing importance, representing 8.3% of the total value of the global portfolio, with projects including construction of healthcare facilities, business centres, hotels research infrastructure and other social infrastructures. However, the growth in foreign revenues is generally mostly applicable to the largest players, whereas for construction SMEs with a turnover below EUR 100 million, foreign revenues account for about 27-44% of the total.

Similarly, given the limited domestic growth, the French construction sector, and particularly its largest players (e.g. Vinci, Bouygues and Eiffage), have continued to expand internationally, especially through mergers and acquisitions. These have mainly been targeting Africa and the Middle East, Latin America, as well as Canada, Asia and the Pacific. Likewise, the relatively small consumer market size in Austria and the subdued growth of the domestic construction market in recent years have led Austrian construction companies to expand their cross-border operations and follow an internationalisation strategy. However, the Austrian construction sector is currently especially focusing on Central and Eastern European markets, which offer particular opportunities in the infrastructure sector and residential construction¹⁶.

Opportunities emerging from trade agreements

The EU is a major power in global trade, having the single largest share of world trade in both goods (15%) and services (23%), ahead of both China (14% and 8% for goods and services, respectively) and the United States (13% and 16%)¹⁷. It seeks to promote open markets and transparent regulatory frameworks, as well as facilitating trade by supporting the lifting of tariff and non-tariff trade barriers. To this end, the EU has been focusing on securing and effectively implementing international agreements and negotiations with high-growth and high-potential markets to promote the exchange of goods and services, as well as undertaking joint initiatives with neighbouring and other partner countries. Ultimately, by fostering dialogue and cooperation on economic governance, macroeconomic policies and regulatory convergence, the aim is

¹⁵ Associazione Nazionale Costruttori Edili (ANCE), Rapporto 2016 sulla presenza delle imprese di costruzione italiane nel mondo. September 2016. <http://www.ance.it/docs/docDownload.aspx?id=33213>

¹⁶ Deloitte, European Construction Monitor 2016. March 2016. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-real-est-construction-monitor.pdf>

¹⁷ European Commission, The European construction sector - A global partner. March 2016. <http://ec.europa.eu/DocsRoom/documents/15866/attachments/1/translations/en/renditions/native>

to achieve a level playing field which can concretely support the internationalisation of EU businesses, and particularly SMEs.

The wide-ranging trade policy of the EU and international negotiations are opening up a number of opportunities also for construction companies, in particular as procurement markets are being included in these trade agreements. The phasing out of tariffs, which is one of the key subjects of such negotiations, is one of the most important enabling elements for the trading of goods. However, other equally important aspects that fall under agreements and negotiations include services, investment, intellectual property rights and government procurement, which are also relevant for the construction sector¹⁸. The following paragraphs discuss the major trade negotiations, such as TiSA, CETA and the EU Korea Free Trade Agreement, and their relevance for the construction sector.



The **Trade in Services Agreement (TiSA)** is a plurilateral trade agreement currently being negotiated by the EU and 22 other members of the World Trade Organization (WTO) and aiming to further liberalise worldwide trade in services. This constitutes an important part of the European Commission's trade policy strategy, giving that the prioritisation of trade in services is one of its key areas of focus, as services account for around 70% of the EU GDP and employment. Moreover, services account for almost 40% of the value of exports from Europe. With regard to construction, the TiSA includes some aspects that are relevant¹⁹. Namely, full commitments are made by the EU and the single Member States for three different modes of service supply, specifically cross-border supply, consumption abroad and commercial presence, thus opening up these opportunities for EU construction companies²⁰. Similarly, the **Transatlantic Trade and Investment Partnership (TTIP)**, a bilateral trade agreement between the EU and the US, aims to create a free trade area on both sides of the Atlantic, also involving trade liberalisation in services. In particular, under TTIP, public procurement negotiations related to opening up public procurement could allow EU firms, including construction and engineering companies, to gain better access to the US market by being able to tender for public contracts. However, negotiations are still ongoing, and major progress is not expected in the immediate future.



Increase expected in trade of goods and services between EU and Canada with CETA

In October 2016, the European Union and Canada signed the **Comprehensive Economic and Free Trade Agreement (CETA)**, a free trade agreement aiming to improve trade and investment opportunities for both importers and exporters. Indeed, through CETA, it is estimated that companies will benefit from an increase of nearly 25% in trade in goods and services between the EU and Canada. Overall, 98.6% and 98.7% of all Canadian and EU custom duties will be fully eliminated, respectively. For EU exporters of industrial goods in particular, this provision is estimated to result in annual savings worth approximately EUR 470 million. Going beyond tariff liberalisation, CETA sets out a collaborative approach on matters such as access to services markets, government procurement, protection of intellectual property rights, cooperation on standards and certifications, improved customs and trade facilitation. Indeed, as part of the public procurement provisions, EU and Canadian companies will be able to

participate in public tenders, thus opening up new opportunities for infrastructure projects and construction services²¹. This situation will prove to be particularly beneficial for established EU exporters of construction

¹⁸ European Commission, Thematic Group 5 – International Competitiveness. June 2013.

¹⁹ European Commission, Comparison of the EU service offers for the TTIP and TiSA negotiations. December 2015. [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/535015/EXPO_STU\(2015\)535015_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/535015/EXPO_STU(2015)535015_EN.pdf)

²⁰ European Parliament, The Trade in Services Agreement (TiSA): An end to negotiations in sight?. October 2015. [http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/570448/EXPO_IDA\(2015\)570448_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/570448/EXPO_IDA(2015)570448_EN.pdf)

²¹ Deloitte, Thumbs up for CETA: How to benefit from the Comprehensive Economic and Free Trade Agreement (CETA) between Canada and European Union (EU). November 2016.

products and services, but also for Member States seeking to expand their export market base. Denmark for instance is the EU's second largest exporter of construction services to Canada, with its exports accounting for over 11% of total EU exports to Canada in this area²².

Another important agreement is the **EU-South Korea Free Trade Agreement**, entered into force in July 2011, which is the first trade deal with an Asian country. Under the FTA, import duties will be eliminated on most products (with 98.7% of duties in terms of trade value eliminated within the first five years) and liberalisation of trade in services will be achieved across all modes of supply. In particular, the scope of the FTA includes a variety of service sectors, including telecommunications, environment, transport, construction, financial and professional services such as legal, accounting, engineering and architectural services, among others, with Korea committing to bring about market access liberalisation in over 100 different sectors. Of particular relevance to the construction sector is the expansion of the already existing mutual commitments on government procurement, whereby the EU and Korea had previously agreed to apply substantial transparent and non-discriminatory rules to tendering for some goods and services by public authorities, including construction services. The FTA thus expands such commitments to cover EU public work concessions and Korean 'build-operate-transfer' (BOT) contracts, which open up considerable business opportunities in both regions, by granting practical and legal access to such tenders and making sure EU SMEs are given equal treatment as their Korean counterparts during the tendering process. These contracts, which are used frequently in key infrastructure projects such as the construction of highways, are especially interesting to European construction companies, due to their internationally renowned expertise in this area. In particular, the FTA allows EU companies to access BOT contracts with a value greater than 15 million SDRs²³ (equivalent to about EUR 17 million) from all procuring public authorities, including those of Seoul Metropolitan City, Incheon Metropolitan City, Gyeonggi-do Province and Busan Metropolitan City, which alone represent over 50% of Korea's GDP and population²⁴.

Finally, negotiations are also ongoing with other South East Asian countries, such as Thailand, Indonesia and Vietnam. For instance, in December 2015, the Vietnam-EU Free Trade Agreement (FTA) was signed, due to be enforced in 2018. Similarly, letters of Intent were signed with two countries in Latin America, namely Colombia and Peru, aiming to deepen cooperation in the areas of construction design codes, construction processes and sustainability. As for Russia, a Memorandum of Understanding was signed with the Russian Ministry of Trade, the DG ENTR-Russia Regulatory Dialogue, expected to contribute to the alignment of technical provisions applicable to construction equipment and strengthen discussions related to Eurocodes for structural design for bridges and other aspects²⁵.

Economic relations with developing countries and development assistance

European construction companies boast a long-time presence in Africa, both in the Maghreb region and Egypt as well as in Sub-Sahara Africa, being particularly specialised in key public infrastructural assets. However, overseas works in Africa accounted only for 8.8% of the international turnover of European construction firms²⁶ in 2015²⁷, implying that the African market offers currently untapped potential. This is

<https://www2.deloitte.com/content/dam/Deloitte/be/Documents/tax/TaxAlerts/CustomsFlashes/Customs%20Flash%20-%20Benefiting%20from%20CETA%20-%2030%20Nov%202016.pdf>

²² European Commission, The EU-Canada Comprehensive Economic and Trade Agreement (CETA) - Opening up a wealth of opportunities for people in Denmark. February 2017. http://trade.ec.europa.eu/doclib/docs/2017/february/tradoc_155340.pdf

²³ Special drawing rights (SDR) are a form of international money, created by the International Monetary Fund, defined as a weighted average of various convertible currencies.

²⁴ European Commission, The EU-Korea Free Trade Agreement in practice. 2011. http://trade.ec.europa.eu/doclib/docs/2011/october/tradoc_148303.pdf

²⁵ European Commission, Thematic Group 5 – International Competitiveness. June 2013.

²⁶ Refers to the international turnover of European contractors affiliated to the European International Contractors (EIC)'s Member Federations

The African market offers currently untapped potential

even more evident considering that Africa is estimated to face an annual financing gap in the infrastructure sector of around USD 30 billion (EUR 28.2 billion)²⁸. It is important to note, however, that European companies face intense competition from Chinese construction contractors, which deliver approximately 50% of Africa's internationally contracted engineering, procurement and construction market. Indeed, Chinese contractors have gained a reputation for an efficient in terms of cost structure as well as speedy delivery mode²⁹.

In order to develop this potential, whilst at the same time contributing to the development of less developed countries, the EU is actively implementing policies to promote resource efficiency, green economy and infrastructural investment. To this end, a variety of financial instruments and other relevant measures are in place, such as development aid and cooperation funds, which aim to strengthen economic and trade relations and consequently open up new opportunities for European construction companies.

The EU-AITF is a blending instrument seeking to support infrastructure projects in sub-Saharan Africa

The most notable instrument currently available is the EU-Africa Infrastructure Trust Fund (EU-AITF), a 'blending instrument' seeking to support infrastructure projects in Sub-Saharan Africa. The AITF combines long-term investments from development finance institutions, such as loans and risk capital, with grants, with the aim of ensuring project sustainability. Moreover, the instrument promotes cooperation and coordination between European and non-European aid actors. In terms of eligibility, the AITF supports infrastructure projects in energy (e.g. geothermal/solar/power plants, transmission lines, etc.), transport (road and railway networks, ports, maritime and river routes, air transport) water (supply, treatment and sanitation plants, etc.), as well as information and communication technologies. Since its launch, and up until end of 2015, the AITF had committed 85% of its total available resources, with the total of grant operations approved standing at EUR 654.9 million. The total cost of all projects in their investment phase is currently estimated at EUR 8.9 billion³⁰.

The EIP will support innovative guarantees to stimulate private investment

In addition, in September 2016, the European Commission announced the launch of a new European External Investment Plan (EIP), an instrument that will allow to boost investments in Africa and EU Neighbourhood countries, particularly for social and economic infrastructure and SMEs, by addressing obstacles to private investment. The EIP aims to strengthen the partnerships between the EU and these partner nations, promote a new model of participation of the private sector in infrastructural projects and contribute to achieving sustainable development goals. Indeed, private participation is crucial, since public aid alone is insufficient. Nevertheless, the high risks associated with the economic, social and political situation in developing countries has traditionally deterred private investors from financing these types of projects, particularly in transport and

²⁷ European International Contractors, EIC 2015 Statistics: International Turnover reaches new Peak. October 2016. <http://www.eic-federation.eu/news/eic-2015-statistics-international-turnover/>

²⁸ European International Contractors, Proposal by European International Contractors (EIC) for a modified EU-Africa Infrastructure Trust Fund ("ITF Blending 2.0"). http://www.eic-federation.eu/media/uploads/activities/introduction_eic_blending_2.0.pdf

²⁹ McKinsey, Dance of the lions and dragons, How are Africa and China engaging, and how will the partnership evolve? June 2017. <http://www.mckinsey.com/~media/McKinsey/Global%20Themes/Middle%20East%20and%20Africa/The%20closest%20look%20yet%20at%20Chinese%20economic%20engagement%20in%20Africa/Dance-of-the-lions-and-dragons.ashx>

³⁰ EU-Africa Infrastructure Trust Fund, http://www.eu-africa-infrastructure-tf.net/attachments/Publications/eu_africa_infrastructure_trust_fund_2016_en.pdf

water infrastructure projects, hence limiting the presence and, consequently, the opportunities for European construction companies. Thus, through an allocation of EUR 3.35 billion from the EU budget and the European Development Fund, the EIP will support innovative guarantees to stimulate private investment, mobilising investments of up to EUR 44 billion. This could reach up to EUR 88 billion, should Member States and other partners match the EU's contribution. The EIP consists of three main pillars, namely the mobilisation of investment through the combination of existing investment facilities with a new guarantee within the new European Fund for Sustainable Development (EFSD); technical assistance to support public authorities and companies in partner countries to better prepare and submit projects to the Fund; and cooperation programmes and political dialogue to improve the investment climate by promoting good governance, fighting corruption, removing barriers to investment and market distortions³¹. The EFSD is the main instrument for implementing the EIP dedicated to support investment in African and EU neighbourhood countries with a particular focus on addressing the root causes of migration. Specifically, it consists in a financial instrument worth EUR 3.35 billion offering guarantees and blending mechanisms to eligible investment projects³².

4. Obstacles to internationalisation

While opportunities for internationalisation of the construction sector abound, there are many challenges and obstacles to successful internationalisation of construction companies. Many obstacles are related to market entry barriers, such as regulatory restrictions, lack of harmonisation of standards and difficulties in accessing procurement markets, which constitute a large share of international opportunities. The complexity of project finance for large scale construction and civil engineering also poses a further challenge. Furthermore, SMEs face a number of specific obstacles linked to their size and their limited capacity to develop an international foothold. This section develops on the most important factors that constitute an obstacle for EU construction enterprises to internationalise.

Regulatory restrictions to trade in construction, architectural and engineering services



The construction sector is often subject to a large amount of regulation, which aims at protecting health, safety and the environment. Indeed, building regulations and technical requirements are often defined in detail. Furthermore, construction companies are affected by the regulations governing construction products, as they are responsible for bringing materials and machinery that is compliant with standards to the construction site³³. In addition, given the labour-intensive character of the construction sector, restriction on the movement of labour also has a significant impact on the industry³⁴.

Similarly, architectural and engineering services have a significant impact on safety and are thus tightly regulated. As they are less dependent on a local presence for service delivery, requirements related to professional standards and qualifications are among the main hurdles affecting their internationalisation.

³¹ European Commission, State of the Union 2016: Strengthening European Investments for jobs and growth. September 2016. http://europa.eu/rapid/press-release_IP-16-3002_en.htm

³² Council of the European Union, European fund for sustainable development: Council confirms final deal with the EP, June 2017. <http://www.consilium.europa.eu/en/press/press-releases/2017/06/28-european-fund-sustainable-development/>

³³ OECD Experts Meeting on Construction Services, Trade and Regulation: The Case of Construction Services, December 2008. <http://www.oecd.org/trade/services-trade/41707878.pdf>

³⁴ http://www.oecd.org/tad/services-trade/STRI_construction_services.pdf

While international efforts to set harmonised standards are ongoing and often spurred by the EU, many standards are set at national or even local level. Increasingly, local authorities are putting in place their own requirements, for instance regarding environmental and social standards³⁵.

There are a number of specific regulatory barriers that have been identified as mostly affecting trade in construction, architectural and engineering services. The OECD's service trade restrictiveness index (STRI) identifies five different regulatory elements that are hampering trade in the broad construction sector, namely³⁶:

- **Restrictions on foreign market entry.** There are various forms of restriction to market entry by foreign construction firms imposed by countries around the world, which affect companies either directly or indirectly. These may take the form of foreign equity restrictions, whereby a foreign company may only own a limited amount of shares of a construction company. Ownership of publicly-owned firms may also be restricted for foreign companies. Restrictions in the legal entity of construction companies can also pose a challenge to market entry for foreign firms. In particular, short-term commercial presences are often hurdled by a number of restrictions. While joint ventures offer the possibility of overcoming some of the barriers for foreign firms, they may also be subject to specific rules, limiting their decision-making power. Finally, the receipt of construction permits may also favour local companies. Restrictions on land use and ownership may apply, which have an effect on construction companies' ability to work. In contrast, architecture and engineering services are generally less restricted in entering a foreign market when it comes to foreign equity restrictions and choice of legal set-up of their professional practice, with the exception of some countries, where non locally-licensed architects are subject to equity restrictions.
- **Movement of people.** As construction is a labour-intensive industry, restrictions in the movement of labour may have a significant impact on the ability to perform construction services abroad. For instance, construction firms may need to send their project managers and professional staff to the foreign construction site. This type of movement is frequently restricted by requirements for qualified personnel, such as residency, nationality, as well as recognition of professional qualifications. Architects and engineers, on the other hand, may face limitations due to licensing requirements, e.g. recognition of a foreign degree or mandatory membership in a professional chamber.
- **Discriminatory measures.** Discrimination against foreign companies may occur in procurement, which often favours local suppliers. Building regulations and technical requirements for construction may also have a discriminatory effect on construction companies. Architects and engineers may face discrimination in the use of professional titles or in discriminatory treatment regarding taxes and subsidies, which are often imposed by national architects and engineers organisations that regulate the practice of these professional activities.
- **Barriers to competition.** These types of obstacles arise when foreign companies are discouraged from competing abroad, due to the lack of a fair level-playing field. This can be the case when public works are carried out by government-owned companies or when there is a lack of dispute



Discrimination against foreign companies may occur in procurement, which often favors local suppliers

³⁵ Thematic Group 5 – International Competitiveness, June 2013. <https://circabc.europa.eu/sd/a/28c54495-7557-4a3a-b88e-fb26f552487f/Thematic%20Group%205%20Meeting%20Report%201%20060613.pdf>

³⁶ OECD, Trade Policy Papers, Services Trade Restrictiveness Index (STRI): Construction, Architecture and Engineering Services. 2014. http://www.oecd-ilibrary.org/trade/services-trade-restrictiveness-index-stri-construction-architecture-and-engineering-services_5jxt4nnd7g5h-en

resolution mechanisms to address unfair business practices. Price control mechanisms may constitute a barrier for competition for architecture and engineering firms.

- **Regulatory transparency.** The overall business climate and the transparency of regulations affects the ability of EU construction companies to compete in foreign markets. High regulatory uncertainty, political risk, and high levels of corruption are often deterrent factors for conducting business globally.

From the 2016 OECD's STRI review covering 35 OECD countries, as well as Brazil, China, Colombia, Costa Rica, India, Indonesia, Lithuania, Russia and South Africa, it emerges that the five most restrictive countries for trade in construction services are Iceland, Indonesia, Russia, Israel, and Norway³⁷. Furthermore, Asian markets often presents specific hurdles, as the experience with the Chinese market demonstrates (see Box 1 below).


Box 1: Restrictions for construction companies in the Chinese market

The Chinese market is particularly restrictive for the construction sector. Foreign companies are not allowed to work on a temporary/project basis in China, while Wholly Foreign Owned Enterprises (WFOE) are limited to working on foreign-financed projects. As a result, the only option to enter the Chinese market is to acquire or invest in a local company. Joint Ventures are also subject to specific restrictions (minimum 25% participation of Chinese firm) and a discriminatory qualification system.

Legal barriers prevent professional service providers such architects, quantity surveyors, project managers and contractors from entering the Chinese market and sharing their expertise. Western companies have resorted to tackling niche markets were they have a clear competitive advantage as a strategy for market entry³⁸.

Restrictions in public procurement markets

As the public sector makes up a significant share of the demand for construction services, notably public works, it is a key actor with regards to trade of construction services. Indeed, government procurement has a considerable impact on the internationalisation (or lack thereof) of construction services and restrictive procurement practices are among key barriers to market access in a number of countries.



The WTO GPA foresees the possibility to challenge procurement decisions

There are multi-lateral efforts to open up procurement markets for global trade. A key initiative in this regard is the WTO Government Procurement Agreement (GPA), which over 40 countries³⁹ have adopted. The GPA prohibits discrimination against foreign providers and includes a provision for transparency in advertisement of procurement opportunities. It also foresees the possibility to challenge procurement decisions. Technical specifications and the selection criteria need to be non-discriminatory to comply with the GPA. Despite the growing role of the GPA, many important economies are not

³⁷ OECD, Services Trade Restrictiveness Index Simulator, Construction.

³⁸ EU SME Center, Sector Report, The Construction Sector in China. June 2015. http://www.ccilc.pt/sites/default/files/eu_sme_centre_report_-_the_construction_sector_in_china_update_-_june_2015.pdf

³⁹ The 19 signatories of the GPA are Armenia, Canada, the European Union (and its 28 Member States), Hong Kong China, Iceland, Israel, Japan, the Republic of Korea, Liechtenstein, Moldova, Montenegro, the Netherlands with respect to Aruba, New Zealand, Norway, Singapore, Switzerland, Taiwan (Chinese Taipei), Ukraine, and the United States.

signatories to the agreement (e.g. Australia, Mexico, Turkey). Furthermore, it applies only above certain thresholds.

As a result, accessing procurement markets remains a key issue for construction companies. The challenges are often exacerbated in countries where the GPA does not apply. Indeed, in a number of countries, the lack of transparency in procurement poses a barrier for construction companies to submit tenders and carry out works. The specific restrictions to procurement vary from country to country and may entail different degrees of severity, from opaque procedures to the effective exclusion of foreign companies. For instance, in India, procurement practices are considered non-transparent and discriminatory against foreigners. In Japan, too, there is a lack of transparency. In addition, procurement by the local administration is not open to foreign competition and there are a series of administrative barriers and hurdles that make procurement markets very difficult to access. Ukraine public procurement policy clearly favours domestic suppliers, while Russia has complicated procedures for issuing work permits and restrictive procurement legislation. Algeria requests that tenders set up investment partnership with Algerian companies to access procurement opportunities⁴⁰.

Non-harmonised regulatory standards for buildings and construction products

Given the high impact of the construction industry on many dimensions in society, it is highly regulated via a number of standards, which address structural design and construction products. Standards in construction aim at protecting safety, implementing urban and land use planning and preserving the environment. However, international trade is greatly affected by regulatory standards both for structural design and for construction products, as the lack of harmonisation means that EU products may not be allowed on foreign markets, or construction companies may have to apply different design standards.

While the lack of harmonisation in standards may pose a barrier for trade, the standardisation of the industry is generally considered having a positive effect on the competitiveness of European business. Indeed, standards facilitate trade as they decrease costs and reduce information asymmetries between supply and demand⁴¹.



In terms of structural design standards, the EU implemented the Eurocodes domestically and promotes their use abroad. Eurocodes are a series of European standards for a common approach to structural design of buildings and civil engineering projects covering actions on structures and the design of concrete, steel, composite, timber, masonry and aluminium structures, and include geotechnical, seismic and structural fire design. With the use of Eurocodes, a number of technical obstacles related to trade within the EU/EFTA have been eliminated, but this does not apply for global trade, where national design standards often still apply. The lack of harmonised structural

design standards also poses a further challenge to the access to procurement markets, as these often form the basis for technical specifications.

Construction products are tightly regulated at EU level to guarantee safety of building and civil engineering. At EU level, over 450 national standards are harmonised. Furthermore, the Construction Products Regulation (CPR) defines technical standards for the following dimensions:

⁴⁰ Thematic Group 5 – International Competitiveness, Federation of European International Contractors (EIC), EIC's feedback on Market Access Barriers in the Construction Sector

⁴¹ European Commission, Using standards to support growth competitiveness and innovation, 2012. <http://bookshop.europa.eu/en/using-standards-to-support-growth-competitiveness-and-innovation-pbNBBN12002/?pgid=GSPefJMEtXBSR0dT6jbGakZD0000FyzmXcHB;sid=bRCcesdbasGcep-2eRwC3aV-IHOCCI04c2l=?CatalogCategoryID=C5gKABstvcoAAEjZJEY4e5L>

- Mechanical resistance and stability;
- Safety in case of fire;
- Hygiene, health and the environment;
- Safety and accessibility in use;
- Protection against noise;
- Energy economy and heat retention;
- Sustainable use of natural resources.

Only products that comply with the EU regulations are allowed to freely circulate in the EU market. These are signalled by the CE marking, which certifies that products conform to the applicable norms. The CE marking applies also to imported products that are in compliance with rules in the EU. Similar to the EU, other countries may regulate the circulation of construction products in their economies. This is often a hurdle to international trade. In Japan, for instance, regulatory standards are considered one of the main burden on trade. Notably, exporters face considerable barriers in understanding the local regulatory environment and the requirements for technical standards, e.g. for fire resistance. Access to information on applicable standards may often pose a challenge in itself⁴².

Furthermore, it is often considered that European companies face unfair competition from other countries due to the fact that they need to comply with stricter standards in the European construction value chain. In some cases, compliance with foreign standards may provide an advantage in tackling various foreign markets, as these may be better known or more trusted. For instance, Japanese standards may be more easily accepted in the South-Asian market rather than European standards.

Obstacles specific to SMEs

SMEs play a key role in the construction industry, as they constitute the large majority of operating firms. On the other hand, SMEs also face the greatest obstacles to internationalisation compared to larger companies. The sector is one of the least internationalised, with only around 7% of European SMEs exporting internationally in 2006-2008⁴³.

Due to their size, SMEs have less capacity to spend significant resources on what is needed to internationalise. They often lack the market knowledge and the financial means to work abroad effectively, and are less able to take on significant risks for international expansion. The challenges faced by SMEs in the construction sector are generally speaking no different from other industries and may depend on the specific market entry barriers in the targeted foreign market. For instance, entering Asian markets is a very complex undertaking due to different business cultures and a number of regulatory barriers, which often require the cooperation with a local partner. Market access in this kind of scenario is challenging for any company, but especially for SMEs that have fewer resources to address the challenges. The challenges in internationalisation, however, may be exacerbated the so-called 'localism' of the construction industry. Indeed, the construction sector is strongly embedded in the local culture, with the local authorities being responsible for the built environment.

Overall, the main barriers limiting the performance of SMEs in international trade can be summarised as follows:

⁴² EU-Japan Centre for Industrial Cooperation, Sustainable Building and Construction Sector in Japan and analysis of opportunities of for European firms. http://cdnsite.eu-japan.eu/sites/default/files/publications/docs/sustainableconstruction_final.pdf

⁴³ European Commission, Internationalisation of European SMEs, 2010. <http://ec.europa.eu/DocsRoom/documents/10008/attachments/1/translations/en/renditions/pdf>

- **Financing constraints.** One of the key barriers to internationalise from the perspective of SMEs are financing constraints. Indeed, SMEs often lack the working capital needed to finance their export activities. Furthermore, SMEs may have more difficulties in accessing loan capital to engage in projects abroad. Financing constraints also affect their ability to expand internationally through FDI.
- **Market knowledge and experience.** Entering foreign markets requires substantial efforts to identify and analyse target markets in order to devise the most appropriate market entry strategy, target potential clients, set up distribution channels and similar activities. For some specific markets, knowledge of the local language and cultural practices also plays an important role for entering the market. SMEs, however, often lack the personnel and the capacity to have in-depth knowledge of the local market conditions to identify the best internationalisation opportunities.
- **Foreign legal jurisdiction, administrative effort and bureaucracy.** The legal framework and bureaucracy of foreign countries have a significant impact on the internationalisation of construction firms, for instance with respect to the recognition of professional qualifications and compliance with local rules and regulations for building and procurement. Navigating a foreign legal jurisdiction is even more complex for SMEs, which have limited resources and little specific knowledge of local conditions.
- **Absence of business partners.** In a number of countries, working with a business partner is essential for internationalisation and may even be a legal requirement. However, SMEs have greater difficulties in locating suitable business partners and establishing viable collaborations with them.
- **High risk markets.** Internationalisation often entails working in markets where the risks are much higher (e.g. political risks, corruption, risk of non-payment, lack of jurisdictional protection in case of a commercial dispute, etc.). SMEs are less equipped to deal with such risks.

To conclude, entering foreign markets requires significant efforts in managing the potential risks effectively, such as keeping up-to-date with the regulatory framework, hedging potential risks arising from local competition, securing payments and financial resources.

5. Policy initiatives

In order to exploit the opportunities offered by foreign markets, address the relative obstacles and facilitate the internationalisation of SMEs, Member States have been introducing a varied policy response, with measures being adopted to tackle a variety of aspects related to internationalisation support. Namely, these range from more general export and internationalisation strategies, to financial support, promotion of harmonisation of standards and other tools. Moreover, the EU is also actively involved in backing up these efforts, with its contribution to the creation and internationalisation of clusters being particularly relevant. These are explored in detail in the sections below.

General internationalisation strategies

Given the many opportunities available abroad to construction companies and SMEs, as well as the challenges in taking advantage of such opportunities, most Member States have put in place a number of policy initiatives that support internationalisation. Indeed, many countries introduced overall **strategies for internationalisation and export promotion**, which aim to support companies throughout the process of internationalisation. These strategies typically focus on all sectors of the economy, including the

construction sector, and address the main barriers to internationalisation, such as lack of a single point of information about global markets, lack of funding, improving ties with emerging markets and streamlining available initiatives. Some of the strategies may include initiatives that support the promotion of a particular national brand, offer market analysis and other types of advisory services, or create opportunities for firms to meet business partners.

For instance, Sweden launched its renewed Export Strategy (*Sveriges exportstrategi*) in 2015, in which it outlines actions for 22 priority areas on how to improve the presence of Swedish companies abroad, ranging from the introduction of export support (Team Sweden), to the creation of Regional export centres, to the provision of finance and credit, among others⁴⁴. For the implementation of the strategy, a budget of SEK 150 million (EUR 15.6 million) was foreseen in 2016 and a total of SEK 800 million (EUR 80.3 million) is earmarked up until 2019. Some Member States have a longstanding tradition of supporting the export economy in their country. This is the case for instance in Austria, where the so-called 'Internationalisation Offensive' (*Internationalisierungsoffensive*) has been running since 2003, thereby contributing to the country's vision for foreign trade (*Österreichische Außenwirtschaftsleitbild*). The idea of the Offensive is to continuously work towards opening up new markets for Austrian enterprises, building on the strengths and addressing the weaknesses of the country's export economy.

Denmark, Slovenia, Croatia, the Czech Republic and Romania have also developed export strategies. Notably, the Croatian Export Support Action Plan 2014–2015 aims to support exporters in all phases of export, from product development, financing, training and removal of administrative barriers in the country, to support in expanding to international markets. Similarly, Denmark introduced the 'Government Strategy on Export Promotion and Economic Diplomacy' in 2014, an overarching strategy to promote exports. It foresees nine main measures, which are implemented by 40 underlying initiatives, including streamlining existing initiatives for export promotion, support to SMEs, as well as strengthening the economic role of the Foreign Service. While most initiatives are government-sponsored, the Romanian Strategy to strengthen the international presence of Romanian construction companies is led by an industry association and benefits from the support of the Ministry of Economy.

The UK also places an emphasis on the export economy of the construction sector, as outlined in the overarching strategy for the competitiveness of the British construction sector, the so-called 'Construction 2025'. The objective is to foster collaboration between the government and industry in order to boost opportunities for UK construction and engineering firms, as well as construction product manufacturers. Among others, the strategy foresees the promotion of the construction industry through the national GREAT brand⁴⁵.



Export strategies focus primarily on SMEs as they face the greatest obstacles with tackling markets abroad

A number of export strategies focus particularly on **SME internationalisation**, as these face the greatest obstacles when tackling markets abroad. For instance, Belgium has launched the 'SMEs without borders' Plan as a strategy built around six main axes, including increasing the awareness of SMEs to the benefits of internationalisation and to the available export support instruments; providing fiscal incentives to stimulate SMEs to expand abroad and hire an export expert; and promoting cooperation at the European level to foster the exchange of best practices relative to the internationalisation of SMEs. In France, the Strategic Committee for Export is leading an Action Plan for SMEs internationalisation.

The objective of the plan is to support 3,000 SMEs in going abroad. Renewable energies and sustainable cities are part of the priority areas for export and include urban planning, architecture, engineering,

⁴⁴ Government of Sweden, Sweden's Export Strategy, September 2015.
<http://www.regeringen.se/4b003b/contentassets/e2b2f540107143e99907cbe604a87ce2/swedens-export-strategy.pdf>

⁴⁵ <http://www.greatbritaincampaign.com/#!/home>

construction, energy efficiency, eco-industries and urban service. Similarly, Hungary set a target for SME internationalisation for the period 2014-2020, foreseeing an increase in SMEs export activities by 30% of total exports by 2020.

Another way of increasing the internationalisation of domestic companies is by engaging in diplomacy and **international cooperation**, e.g. signing cooperation agreements with third countries. In Bulgaria for instance, the Ministry of Regional Development and Public Works engages in international (extra-EU) cooperation, notably for the construction sector. It has signed agreements in the field of construction and architecture with countries such as Turkmenistan and Russia, focusing on aspects such as legislation, urban development, energy efficiency, as well as standardisation.

Finally, specific **internationalisation programmes** support companies throughout the internationalisation process, by providing a number of services to enterprises and SMEs that wish to target markets abroad. Export agencies often play an important role in running such programmes. Typically, they include soft skills training, advice and intelligence about local markets and some form of financial support or incentive. A number of MS have developed such programmes, for instance Austria (see Box below), Slovenia, Slovakia, Malta and Finland. With the Go Global programme, companies in Malta receive an assessment on their export readiness, as well as training and financial assistance. In Finland, the Team Finland network brings together all state-funded actors and their services to promote the internationalisation of Finnish companies by providing them with market intelligence, advice and training, networking opportunities as well as information on the available financing instruments for internationalisation. In Slovenia, the export agency SPIRIT acts as 'one-stop-shop' for the internationalisation of companies, offering services such as market research or training for international business.

Finally, at **EU level**, several initiatives support the internationalisation of firms and SMEs. For instance, the Enterprise Europe Network is focused on support European SMEs within the EU and abroad. It has a network of over two million SMEs as well as an established presence in over 50 countries. Furthermore, through the programme EU Gateway – Business Avenues, European companies receive funding for participating to targeted business missions in key export markets. Finally, the Market Access Database (MADB) provides information to EU exporting firms on import conditions in third country markets.



Box 2: Austria's 'Go International' Programme

The Austrian 'Go International' Programme is the key operational measure of the broader 'Internationalisation Offensive' implemented as joint initiative of the Ministry of Science, Research and Economy and the Austrian Economic Chamber. The programme aims at strengthening the presence of Austrian firms abroad. Under the scheme, potential exporters receive information, advice and financial support for market entry costs such as events, trade fairs and missions. The strategic aim of the programme is to keep Austria within the five top pro-capita exporters in the EU. Specifically, for the current 2015-2019 edition, the scheme aims to create 8,000 new exporters, 6,000 exporters in new markets and help 2,000 service providers and 1,700 investors enter foreign markets. The scheme provides support through 25 different measures organised under five clusters, namely:

- *Motivate and train SMEs to start exporting (Get Going);*
- *Accompany established exporters into new markets and assist Austrian companies in investing abroad (Keep Going);*
- *Focus on the export of know-how, consulting, creative services, technology and skills (Going Special);*

- Create platforms for communicating Austria's economy abroad (Going Strong);
- Provide direct financial support to companies (Go Get It).

Key takeaways

- ✓ Many countries introduced overall **strategies for internationalisation and export promotion** focusing on tackling the main obstacles of to international expansion. In most cases, these strategies are not specific to the construction sector and provide a policy-mix to address barriers to internationalisation, including diplomacy, funding and support services.
- ✓ Export strategies focus particularly on **SME internationalisation**, as these face the greatest obstacles with tackling markets abroad.
- ✓ Specific **internationalisation programmes** provide services to companies and SMEs wishing to internationalise. Typically, they include soft skills training, advice and intelligence about local markets and some form of financial support or incentive.

Financial support for internationalisation

As discussed above, financing can be a major obstacle for construction companies seeking to internationalise. Indeed, due to the risky nature of the business, but also to the higher risk profile of certain non-EU countries, financial institutions are often reluctant to provide the required funds for expansion abroad. In order to address this issue, most Member States have introduced relevant measures that seek to facilitate exports and the internationalisation of local businesses. Namely, three main types of initiatives can be identified in this respect across Member States, as follows:

- Export financing for internationalisation;
- Financial support for events/market entry strategies;
- Insurance and guarantees.

Export financing is the most direct form of financial support for companies wishing to export and expand abroad. Typically, export financing is offered by dedicated government-owned export credit agencies and financing companies. In general, these support measures are open to a variety of business sectors, including construction companies, and can be found across most Member States, from Western European countries to Eastern Europe. For example, in Finland, loans for internationalisation are offered by Finnvera,

the government-owned financing company that acts as the country's official export credit agency. Through its financial assistance, Finnvera aims to get up to 50% of Finnish SMEs to export directly. Similarly, the Netherlands Enterprise Agency (*Rijksdienst voor Ondernemend Nederland*) manages the Dutch Trade and Investment Fund (DTIF), a facility offering loans, but also guarantees, to Dutch companies seeking to invest or export to foreign markets. In Luxembourg, the Société Nationale de Crédit et d'Investissement (SNCI), a bank specialising in medium and long-term financing of investments, provides loans to co-finance foreign investments by Luxembourg-based companies wishing to expand

Most Member States offer a one-size-fits-all type of financial initiatives

Export financing is offered by dedicated government-owned export credit agencies and financing companies

abroad as part of their development strategy. Eligible costs covered by this scheme include production equipment and buildings used for professional purposes, as well as the acquisition of equity stakes to gain control over an existing company. The loan can amount to a maximum of EUR 2.5 million per project, with SNCI's intervention being limited to a maximum co-financing of 50% of the total investment. Likewise, export financing in France is provided through Bpifrance, which offers a dedicated Export Credit scheme that can be granted both to French firms and to their international clients, covering up to 85% of the export value defined in the contract. Credits to foreign clients can range between EUR 5 million and EUR 25 million, whereas credits granted to French exporters range between EUR 1 million and EUR 25 million. Similar facilities are also in place in Eastern European countries. For instance, the Croatian Bank for Reconstruction and Development (*Hrvatska banka za obnovu i razvitak* – HBOR) offers various programmes for exporters with the objective of enabling their equal competition in the international market. For instance, as part of the Export Preparations programme, HBOR is offering a more favourable interest rate (2%) for first-time exporters. In Estonia, the national financing institution KredEx offers the Export Loan (*Ekspordilaen*) facility, dedicated to companies wishing to finance large-scale export transactions of goods manufactured in Estonia, for activities such as offering a long payment term to a foreign buyer, paying a credit insurance premium or financing the production of goods to be sold to a foreign client. Loans are repayable between 2 and 10 years, and can amount up to EUR 3 million. Similarly, in Hungary, the Hungarian Export-Import Bank Plc. (Eximbank) offers Export investment loans (*Exportcélú beruházási hitel*) to domestic companies, financing the purchase of equipment, machinery and real estate, as well as the construction of new buildings and building renovations.

Box 3: Austria's 'tec4market' programme

The schemes discussed above, though accessible to construction companies, are not tailor-made to the sector. Indeed, most Member States offer a one-size-fits-all type of financial support initiatives. Nevertheless, some countries are starting to put in place measures to specifically support the internationalisation of construction businesses. One such example is Austria, where the National Foundation for Research, Technology and Development, in cooperation with the Austrian federal promotional bank Austria Wirtschaftsservice Gesellschaft (aws), introduced 'tec4market'. The scheme supports the internationalisation of technology firms, and particularly of SMEs active in the field of innovative building technology. Namely, the programme focuses on supporting projects related to intellectual property rights, prototype development and construction of pioneering demonstration buildings and equipment, using Austrian technology, aiming to help participating firms grow in overseas markets. Under the programme, up to 50% of the costs of external consultants, translation and R&D are covered, as well as tangible and intangible investment costs, up to a maximum of EUR 100,000.

A second typology of measures available to foster the internationalisation of companies involves **financial support for the participation in trade fairs, business missions and other events**, as well as for preparing market entry strategies and business plans. These are offered by a variety of institutions, from specialised export and development agencies, to ministries and private organisations, such as chambers of commerce and trade associations, and are typically in the form of grants, loans or vouchers. Again, such initiatives can be found across most Member States, from Western to Eastern European countries. In the Netherlands for instance, the Starters International Business (SIB) programme, implemented by the Netherlands Enterprise Agency, offers various types of vouchers to SMEs and entrepreneurs seeking to expand to foreign markets. Namely, coaching vouchers help beneficiaries get coaching on the risks and opportunities of exporting and information on foreign countries. For 2017, 1,000 vouchers are available, for a total budget of EUR 2.4 million. Mission vouchers allow SMEs to participate in trade fairs and exhibitions in foreign countries by reimbursing 50% of the participation fees, up to EUR 1,500. The budget for 2017 is EUR 1.4 million. Knowledge vouchers are also available. With a budget of EUR 0.9 million for 2017, these

help SMEs cover up to 50% of the cost of hiring an expert (maximum EUR 2,500) to advise and assist them in positioning their business in foreign countries. Similarly, in Sweden, the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) offers Internationalisation Cheques, which can be used to hire external expertise to help businesses draft an internationalisation strategy, carry out market research and understand legislative and insurance requirements in the foreign country of interest, as well as covering costs of traveling and trade fair participation. Cheques can range between SEK 50,000 and SEK 250,000 (EUR 5,278-26,386), covering up to 50% of the total costs of the company's internationalisation plan, and are available to a broad range of sectors including construction and real estate businesses. In Luxembourg, the Committee for the Promotion of Luxembourg Exports (*Comité pour la Promotion des Exportations Luxembourgeoises* - COPEL), founded by a cooperation agreement between the Luxembourg Export Credit Agency (*Office du Ducreire* – ODL) and the Luxembourgish government, contributes to promotional material expenses (e.g. translations for presentations) and advertising costs and provides support for participation in trade fairs, seminars and conferences. The maximum amount of financial aid offered amounts to 50% of the expenses incurred, with a ceiling of EUR 200,000 over a period of three years. In Malta, Malta Enterprise, the country's economic development agency, offers the Strengthening Market Entry and Internationalisation scheme, which provides co-financing for companies to participate in international trade events, fairs and trade missions. The maximum aid per individual company amounts to EUR 30,000 per year, covering up to 40% of eligible costs for large companies and up to 50% for SMEs. Similar measures are also available in Eastern European countries. In Romania for instance, the Ministry for Business, Trade and Entrepreneurship recently launched the Programme to support the internationalisation of Romanian economic operators (*Programul de susținere a internaționalizării operatorilor economici români*) as a measure to address the low internationalisation of its companies. Running over 2017-2020 with a budget of RON 18 million (EUR 4 million), the programme offers state grants of up to RON 50,000 (EUR 11,000), which can be used for participation in international fairs, exhibitions and trade missions abroad, development of the company's visual identity, online presence to facilitate the promotion of goods and services, as well as market research to prepare for internationalisation.

Again, although most of these measures are accessible to construction companies, they are not specific for the construction sector. Nevertheless, aware of the particular challenges and specificities of the sector, some Member States are introducing targeted incentives and programmes that better address the need for internationalisation in the building sector. Some of the most notable examples, which can be found across a variety of geographical areas, are illustrated in the Boxes below.

Box 4: Cyprus' subsidy schemes

The export of services and the promotion of Cypriot companies in overseas markets is fostered by the Section for the Promotion of Trade in Services of the Ministry of Energy, Commerce, Industry and Tourism. Namely, the Section operates two subsidy schemes which are particularly relevant to companies in the construction sector. These grant financial support to Cypriot exporters of services to participate in specialised international service exhibition.

The first scheme, introduced in 2014 and set to run until 2021, provides financial assistance to Cypriot exporters of services and land development companies, which participate at their own expenses in specialised fairs and exhibitions abroad. It is open to companies operating in the construction sector, real estate and architectural and engineering services. The grant covers up to 50% of the expenses associated with participation, such as rental of the exhibition space and equipment, assembling/dismantling the stand and participation fees, up to a maximum of EUR 2,563 per company.

The second scheme provides financial support to exporters of services and land developers, which participate in overseas exhibitions organised by the Ministry of Energy, Commerce, Industry and

Tourism. For instance, for the year 2017, support is provided for a series of international events foreseen by the Ministry specifically for Cypriot real estate and land development companies. These include the Dubai International Property Show and A Place in the Sun, the largest overseas property exhibition in Europe held in London. The scheme covers up to 85% of the expenses associated with participation, such as rental of the exhibition space and related equipment, assembling/dismantling the stand and participation fees. Other international exhibitions supported by the Ministry in 2017 for Cypriot building material companies include Project Iran and The Big Five in Dubai.

Box 5: Italy's fair funding for SMEs

As mentioned in the section Brighter prospects in foreign markets, Italian construction companies have been increasingly focusing on foreign markets due to the limited opportunities offered by the domestic one, thus expanding the sector's turnover abroad. However, smaller construction SMEs are generally less involved in this internationalisation trend, which mainly concerns larger players. Therefore, in order to make internationalisation accessible to the entire sector, the Ministry of Economic Development, together with the Italian Construction Contractors' Association (Associazione Nazionale Costruttori Edili – ANCE) and the Agency for the Internationalisation of Italian Enterprises (ICE), has been supporting missions abroad for construction firms in foreign markets (such as Qatar, Albania, Lebanon, etc.) through financial measures. These include the SME funding for participation in fairs in non-EU markets, a scheme that covers up to 100% of the costs incurred (e.g. renting of space, promotional activities, logistics, etc.), up to a maximum of EUR 100,000.

Box 6: Lithuania's New Opportunities

Lithuania has also put in place a scheme to foster the internationalisation of its companies. Indeed, the New Opportunities LT (Naujos galimybės LT) programme provides subsidies to organisations such as business associations, Chambers of Commerce and cluster coordinators to participate in international exhibitions, fairs and trade missions abroad. With a budget of around EUR 30 million, the scheme covers up to 50% of eligible costs, up to a maximum of EUR 500,000, supporting a variety of projects across different sectors, such as ICT, textiles, food and construction. Particularly with regard to the construction sector, EUR 433,560 was allocated to the Confederation of Lithuanian Industrialists (Lietuvos pramonininkų konfederacijos - LPK) for the project 'Promotion of the internationalisation of the Lithuanian construction, food technology and environmental sectors'. Under the project, SMEs active in these fields will be supported in expanding their existing markets and exploring new ones, presenting their products in international exhibitions on construction held across countries such as Finland, Norway, Lithuania, Latvia, Estonia, Poland and Belarus. In addition, EUR 392,950 has been granted to the LPK for the project 'Lithuanian construction and landscaping sector abroad', under which Lithuanian construction companies and their products will be presented in construction and landscaping international exhibitions in countries such as Poland, Belarus, Latvia, Russia, Ukraine and Germany.

Finally, the third typology of financial support available for internationalisation consists of **insurance and guarantee products**. These are particularly relevant and frequently used by the construction sector, due to the riskier business profile of construction companies. Insurance and guarantees are typically provided by government-owned export credit agencies and insurers, and seek to support exports and internationalisation by protecting exporters from the risks associated with their business and with the political and economic

In Finland, the export credit agency Finnvera offers internationalisation and export guarantees against political and commercial risks


situation of the target countries. These instruments are widespread across most Member States, from Western Europe to Eastern European countries. For instance, in Finland, the export credit agency Finnvera offers internationalisation and export guarantees against political and commercial risks arising from exports. These are commonly taken out by construction and civil engineering companies for the export of services. Similarly, the Dutch Export Credit Insurance (ECI) facility specifically covers the export of capital goods or capital-intensive services to non-EU countries, across high-risk sectors including contracting, dredging, construction and shipbuilding. The ECI aims to mitigate the risk of non-

payment from foreign buyers, enhancing national competitiveness and boosting exports. In Luxembourg, the ODL can cover buyer credits financed by banks, so as to enable foreign buyers to fund export transactions of contracting equipment, services or construction works, as well as supplier credits, which the exporter may arrange for its foreign buyer. Likewise, the Belgian public credit insurer Ducroire insures companies and banks against political and commercial risks associated with international commercial transactions involving capital goods and industrial projects, as well as contracted works and services. For the realisation of construction projects in third countries in particular, the Ducroire covers the construction entrepreneur against the risks associated with the contract, as well as risks of non-payment from the employer. The Ducroire also implements the SME support programme known as 'forfaiting', whereby it purchases exporters' trade receivables, thus taking on the financial burden and relieving exporting SMEs from having to book provisions for these trade receivables in their accounts. The financial support available for this facility has been increased from EUR 100 million to EUR 200 million. Insurance and guarantee products are also available in the Baltics and Eastern European countries. In Latvia, Export Credit Guarantees (*Eksporta kredīta garantija*) of up to EUR 2 million are offered by the state-owned development finance institution Altum for exports to third countries (excluding the EU, EEA, USA and other industrialised countries), such as all African, Asian, and South American countries. Namely, export guarantees cover up to 90% of the value of the export transaction in case of commercial risks, and up to 95% for political risks, as well as late payments of up to 2 years.

Key takeaways

- ✓ Financial support for internationalisation is a crucial element to make the internationalisation of construction companies possible. **Three main types** of initiatives are the most common, namely export financing, financial support for trade fairs/market entry strategies and insurance and guarantees.
- ✓ **Export financing** is the most direct form of financial support, usually offered by export credit agencies. Export finance schemes are provided by most Member States, such as Finland, the Netherlands, France, Croatia, Estonia and Hungary, and are typically open to a variety of industry sectors. Austria is a notable example of a country offering a more construction-specific internationalisation financial support measure.
- ✓ **Financial support for the participation in trade fairs, business missions and other events** and for the preparation of market entry strategies and business plans is offered by specialised export and development agencies, ministries and private organisations (e.g. chambers of commerce and trade associations), typically in the form of grants, loans or vouchers and open to several sectors (e.g. the Netherlands, Sweden, Malta and Romania). Construction-specific schemes are available in Cyprus, Italy and Lithuania.
- ✓ **Insurance and guarantee products** are frequently used by the construction sector. They support exports and internationalisation by protecting exporters from political, economic and commercial risks, as well as non-payment (e.g. Belgium, Luxembourg and Latvia).

Internationalisation through construction clusters




Clusters act as effective launch pads for the acceleration of the international expansion of SMEs

Clusters also play an important role, acting as effective launch pads for the acceleration of the international expansion of SMEs. Indeed, clusters offer important advantages to companies, allowing them to join forces and team up their efforts and resources to access international markets more successfully. Moreover, clusters bring together a variety of actors, from companies to research centres and associations, enabling the exchange of knowledge and different competences. Finally, clusters facilitate the establishment of long-term cooperation between SMEs and strategic business and research partners worldwide, giving them access to global value chains. Clusters can be formed at the national level, by bringing

together local actors, as well as at the EU level, as 'cluster of clusters'. Examples of both types are discussed below.

National construction clusters

Construction-specific clusters can be found across a variety of EU countries, aiming to foster networking and cooperation between relevant stakeholders, thus ultimately allowing them to devise effective internationalisation strategies. For instance, in Croatia, the Croatian Competitiveness Cluster for the Construction Industry (*Hrvatski klaster konkurentnosti građevinske industrije - HKKGI*) was established as an industry platform for networking and cooperation between entities in the construction sector, scientific research and the public sector, with the goal of improving the competitiveness of the Croatian construction sector. To this end, the HKKGI seeks to strengthen cooperation with other partners on joint EU projects, carry out development studies and identify important new markets and opportunities for cooperation. Furthermore, it aims to bring about the internationalisation of cluster members through meetings with foreign business partners, participation in international conferences, fairs and exhibitions, and through the provision of information and consulting services to cluster members on new business opportunities. Similarly, in Slovenia, the Construction Cluster of Slovenia (*Slovenski Gradbeni Grozd*) aims to improve the domestic and international competitiveness of its members through commercial cooperation and networking, R&D and innovation, education, training and policy action. The cluster encompasses all major actors involved in the industry, such as construction companies and institutions in the fields of building design, consulting, engineering, contracting and manufacturing of construction materials. Its priority areas for EU and international cooperation include new technologies and advanced materials, sustainable construction, environmental protection, resource and energy efficiency, as well as the development of new skills and financing models for sustainable construction and the energy-efficient renovation of the building stock. In Spain, the Sustainable Construction Cluster (*Cluster Construcción Sostenible*) specifically focuses on the creation of a sustainable economic model for the construction sector, by bringing together business and professional actors along the entire construction value chain (from architecture and engineering to energy,



In France, Vivapolis is the umbrella brand aiming to group all French actors active in the field of sustainable cities

water, materials, R&D and planning). Likewise, in France, Vivapolis is a cluster aiming to group all French actors (companies, investors, policy-makers, universities, etc.) active in the field of sustainable cities and promote French expertise and know-how abroad. It organises international forums, B2B meetings, business missions and conferences across countries such as Malaysia, Singapore, Ivory Coast, Turkey, Morocco and Brazil, giving participant companies the opportunity to network and secure business partners and contracts. For instance, Vivapolis and its members are involved in an eco-city project in the Chinese city of Wuhan, in China, as well as sustainable city project in the city of Campeche in Mexico.

EU support to cluster internationalisation

Considerable efforts to support national clusters and promote their internationalisation are being carried out at EU level. Indeed, cooperation between European clusters is key for developing common international strategies to reinforce the competitiveness of EU SMEs abroad.

The **Cluster Internationalisation Programme for SMEs** is one of the most notable instances of EU support to the creation of EU-wide clusters and to their cooperation in the development of strategies to internationalise in third countries. The Programme is a comprehensive EUR 19 million initiative under the COSME framework programme, focusing specifically on reinforcing international cluster cooperation and supporting the establishment of so-called European Strategic Cluster Partnerships – Going International (ESCP-4i), which are transnational cluster partnerships that develop and implement joint internationalisation strategies to support SMEs in accessing global value chains. In particular, the creation of ESCP-4i is promoted under the ‘**Cluster Go International**’ action of the Programme. Following the first EUR 3.8 million call for proposals in 2014⁴⁶, 24 partnerships were created, gathering about 150 cluster organisations across 23 Member States from various sectors, such as construction, health, food, energy, materials and ICT. The partnerships seek to establish cooperation with third countries, and particularly Brazil, China, India, Japan and the US, providing support to over 17,000 European SMEs in strengthening their international competitiveness⁴⁷.

The ECCA seeks to position European clusters and their members as globally competitive actor

With regard to construction specifically, two such ESCP-4i were created under the ‘Cluster Go International’ call. The **European Circular Construction Alliance (ECCA)**, one of the 15 ESCP-4i co-funded by the European Commission, is an EU wide meta-cluster aiming to support SMEs in global competition by offering them novel activities and services such as ECCA branding, participation in international brokerage events, promotion and marketing, intellectual property rights (IPR) support, technology transfer, joint

1,450

SMEs are involved in CROSSCUT

entrance into foreign markets, as well as collaboration and cooperation with clusters and SMEs from third countries. Ultimately, ECCA seeks to position European clusters and their members in the construction sector as globally competitive actors in innovation, deployment and marketing of circular economy solutions and technologies. ECCA involves 400 SMEs and its main focus areas and sectors include construction, sustainable & smart buildings but also related industries such as energy, environment and waste management. Its target markets are China, India and Mexico. The second construction-specific cluster is the **European Strategic Cluster Partnership on Sustainable Construction (CROSSCUT)**, one of the 9 additional ‘voluntary’ ESCP-4i on the reserve list of the first ‘Cluster Go International’ call which do not

ECCP is a web-based platform acting as the main hub for cluster cooperation and internationalisation

benefit from direct co-funding from the Commission. CROSSCUT aims to promote cluster collaboration across borders and industry sectors, involving SMEs from the extractive industry to the construction materials and products manufacturing industry, thus ultimately bringing about the sustainable transformation of the construction value chain and accelerating the international competitiveness of SMEs. CROSSCUT involves almost 1,450 SMEs, targeting primarily the Chilean, Colombian, Mexican and US markets.

In addition to the establishment of ESCP-4i under the ‘Cluster Go International’ action, the Cluster Internationalisation Programme for SMEs

⁴⁶ The second call for proposals was launched in March 2017 and will be open until May 2017, with a total budget of EUR 5.8 million.

⁴⁷ European Commission, Commission launches 24 European Strategic Cluster Partnerships to boost SME internationalisation. March 2016. http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8712

entails other initiatives that promote transnational cluster cooperation within and beyond the EU, with a view to better support SMEs in global competition. The **European Cluster Collaboration Platform (ECCP)** is a web-based platform acting as the main hub for cluster cooperation and internationalisation, allowing European clusters to profile themselves, exchange experiences and identify potential partners for international cooperation. The ECCP currently counts over 450 registered clusters and is also an instrument to disseminate and promote the activities and results of the Cluster Go international initiative. Further to the ECCP, a number of specific cluster matchmaking events are being organised to promote closer cluster cooperation with partners within and outside Europe. In 2016, these included the EU-USA event in Hannover (focusing on clusters in advanced manufacturing, industrial automation and environmental technology), the Taiwan-EU and Iran-EU events, as well as a Mexico-EU event focusing on renewable energy, energy efficiency and waste and wastewater management. Additional cluster matchmaking events will be organised in 2017 and 2018 by the ECCP and the Commission.

Key takeaways

- ✓ **Clusters** are an effective way of bringing together a variety of stakeholders, from companies to research organisations, allowing SMEs to team up, join efforts and develop joint internationalisation strategies to access global value chains.
- ✓ **Construction-specific national clusters** are found across many Member States, and aim to strengthen networking and cooperation between relevant actors, supporting their member SMEs in identifying new opportunities in foreign markets. Such clusters can also focus specifically on some sectors or thematic areas, for instance sustainable construction, energy efficiency and advanced materials, seeking to promote the expertise and know-how of local construction SMEs in third countries. Examples include Croatia, Slovenia, Spain and France.
- ✓ **EU support to cluster internationalisation** is also available. The EUR 19 million Cluster Internationalisation Programme for SMEs focuses on reinforcing international cluster cooperation through the creation of transnational cluster partnerships (ESCP-4i) that develop and implement joint internationalisation strategies to support SMEs in expanding abroad.
- ✓ **Construction-specific ESCP-4i** include the European Circular Construction Alliance (ECCA), which involves 400 SMEs in the areas of construction, sustainable & smart buildings, energy and environment, supporting their internationalisation in China, India and Mexico. Similarly, the European Strategic Cluster Partnership on Sustainable Construction (CROSSCUT) supports the international competitiveness of 1,450 EU construction material manufacturers in the Chilean, Colombian, Mexican and US markets.
- ✓ The Cluster Internationalisation Programme for SMEs also includes the **European Cluster Collaboration Platform (ECCP)**, a web-based platform acting as the main hub for cluster cooperation and internationalisation, as well as the organisation of a number of cluster matchmaking events within and outside Europe.

Trade fairs and trade missions are particularly valuable for SMEs, which may have less opportunities to utilise other channels for internationalisation

Events, missions and fairs

Another important way to foster the international expansion of construction companies is through specialised trade missions and trade fairs. Such events serve as a platform for showcasing the latest technologies, exchanging knowledge, developing contacts in export markets, as well as monitoring latest business trends. Trade fairs and trade missions are particularly valuable for SMEs, which may have fewer opportunities to utilise other channels for

internationalisation. Indeed, from the perspective of SMEs, trade fairs and trade missions are key vehicles to achieve the following goals:

- Establishing business networks and contacts in target markets, as well as setting up partnerships and joint ventures or other types of cooperation;
- Acquiring knowledge about new markets, consumer trends and potential business opportunities;
- Being up-to-date on latest innovation, technology, industry, and consumer trends;
- Strengthening the brand image;
- Benchmarking through comparison with competitors.

In a number of Member States, **national export agencies** are actively involved both in organising construction events, trade missions and similar activities, as well as securing participation from companies and SMEs. In Slovakia, the export agency SARIO implements the yearly 'Business Link Initiative', a series of cooperation events for export promotion, which also focuses specifically on construction SMEs (see Box 7). Many other Member States also conduct similar activities. In the UK, for instance, the Department for International Trade (DIT) organises workshops and seminars for construction companies and supports them in participating to international trade fairs and trade missions.

Some Member States focus on ensuring the **participation of SMEs** to trade fairs and trade missions. An instance of this is Bulgaria, where the project 'Promoting the internationalisation of Bulgarian companies' launched by the Bulgarian SME Promotion Agency (BSMEPA) is endowed with a budget of BGN 18 million (EUR 9.2 million) to support SMEs in participating to international fairs and exhibitions abroad. Instances include international trade fairs in the fields of civil engineering, building technologies, equipment and materials in Russia, Algeria, Montenegro and Morocco. Similarly, Enterprise Estonia (*Ettevõtluse Arendamise Sihtasutus* – EAS) is also involved in promoting the participation of Estonian construction companies in international construction events and fairs. In particular, EAS provided a stand at one of the major construction events for Estonian companies that could be used as a meeting point with other partners, as well as marketing and communication activities.

Box 7: Slovakia's 'Business Link'

The Slovak Agency for Investment and Trade Development (SARIO) prepares a series of business cooperation events called 'Business Link', aimed at promoting exports of Slovak companies. These events can be tailor-made for a foreign partner and closed to the public. Alternatively, they can take the shape of a conference with a professional or sector focus, offering information about opportunities of participation in international projects.

In 2015, the event 'Solutions for the construction industry' took place as part of the initiative, aiming to offer information on international tenders and projects in the construction and energy sectors, as well as provide networking opportunities with professionals and speakers. In 2016, the professional conference 'Construction, energy and water management projects abroad' was organised under the Business Link initiative. It provided information on financing of export activities (e.g. through the Export-Import bank of the Slovak Republic, which supports exports particularly to the EU and OECD countries, but also developing countries) and on the potential opportunities for business in countries like the Philippines, Indonesia and Vietnam.

Trade missions and events may be dedicated to the construction sector overall, or feature a specific topic for niche firms, such as for instance green technologies for building. Indeed, a business mission to Morocco organised in 2016 by Brussels Invest & Export, the foreign trade and investment agency of the Brussels-

Capital Region, was particularly tailored to firms active in energy efficiency, sustainable construction, architectural activities and civil engineering.

Specialised **trade fairs** provide key platforms for the exchange of contacts, knowledge and information among a targeted audience. Indeed, trade fairs offer participating companies the opportunity to showcase their latest products, innovation and technology. In Denmark and across Northern Europe, the trade fair Nordbygg stands out as the largest construction event, which fosters networking between suppliers of products, solutions and services from Scandinavia. For the organising country, it also provides a good opportunity for the promotion of the 'Made in Denmark' and 'Danish Design' labels. For participating countries, it serves as an opportunity for promotion and networking, as demonstrated by Latvian building companies participating in Nordbygg 2016. Indeed, Latvian construction products and services were regarded as being very competitive on the Swedish construction market, providing good opportunities for Latvian companies.

Key takeaways

- ✓ Trade missions and trade fairs serve as platforms for **showcasing the latest technologies**, exchanging knowledge, developing contacts in export markets, as well as monitoring latest business trends.
- ✓ Trade missions and trade fairs are **particularly valuable for SMEs**, as have less opportunities to utilise other channels for internationalisation.
- ✓ **National export agencies** are actively involved in organising construction events, trade missions and similar activities. They are actively involved both in organising such trade events and securing participation from companies and SMEs.

Guidance and tools for internationalisation

Finally, internationalisation is being fostered through a set of initiatives that aim to provide **guidance and tools** to companies wishing to export and expand abroad. This can take the form of courses, websites and mobile applications, but also informative materials that guide companies throughout the internationalisation process. This type of measures can be supported by the government, but also by trade promotion organisations, chambers of commerce and national construction associations.

Websites and portals are a common tool widely used to support exports, raise awareness and help businesses create new opportunities in foreign markets. Several Member States have thus introduced this type of measure. In the UK for instance, the government launched the 'Exporting is Great' website, which aims to develop global partnerships and promote the UK construction sector. The platform provides centralised information and guidance for new, occasional and frequent exporters, and allows companies to showcase their products to overseas clients and identify the best online marketplaces. It also provides real-time export opportunities across all sectors and countries and is set to run for 5 years, aiming to get 100,000 additional companies exporting by 2020. Similarly, in the Netherlands, the International Business Network (*Netwerk Internationaal Ondernemen* – NIO), an independent consultative body consisting of several trade promotion organisations and the Dutch Ministry of Foreign Affairs, launched the 'internationaal ondernemen.nl' portal, providing information, business opportunities in foreign markets across all sectors (including construction and infrastructure) and support to internationalisation and exports.



The UK 'Exporting is Great' platform provides real time export opportunities across all sectors and activities

An export app called Netherlands Exports (*NL exporteert*) is also available, providing information on upcoming events and trade fairs, tips for doing business abroad, macroeconomic fundamentals and contact details of embassies and trading posts worldwide, as well as access to relevant export documents, laws and regulations, international network programmes and information about financing. Similar initiatives are also found in Eastern European countries. For instance, in Bulgaria, the Bulgarian SME Promotion Agency (BSMEPA) operates the online National Export Portal, supporting entrepreneurs in acquiring the necessary skills to carry out foreign trade activities by gathering export-related information, publishing tender opportunities, information about foreign markets and export strategies for various manufacturing sectors (including manufacturers of wood and products of wood, and of metal products, relevant to the construction sector). Likewise, in Croatia, an export website (*Izvozni Portal*) was introduced as part of the Export Support Action Plan, containing news about domestic companies export deals, export-related economic trends and changes in legislation regulating exports, among others. Through the portal, exporters and entrepreneurs can share their experience on trade opportunities and obstacles in foreign markets and give suggestions regarding the organisation of exports. The website also offers services for exporters, such as a test of export readiness and information on export grants, events, trade fairs, visits by national trade delegations, information on export procedures and export markets, international public tenders and taxation matters.

Guidance to companies wishing to export is also provided through other **promotional and informative materials**. In Italy for instance, to facilitate the internationalisation of construction SMEs, ANCE published the Guide to the internationalisation of Italian construction SMEs. This elucidates the financial and insurance instruments supporting internationalisation projects (e.g. export credit, feasibility studies financing, financing of market penetration programmes, soft loans for setting up joint ventures in developing countries, etc.), the available sources of financing and risk/insurance coverage, as well as the regulatory framework and public procurement procedures to be followed when bidding in international tenders. Along the same principle, the Slovenian Chamber of Commerce and Industry introduced the Catalogue of Civil Engineering, which showcases the most eminent performances of Slovenian civil engineering firms. Ultimately, the catalogue seeks to facilitate the promotion of the civil engineering sector abroad.

Finally, successful internationalisation is also reliant on a good skill base, with specific competences and knowledge being required when exporting and expanding to foreign markets. In this respect, dedicated courses and training can contribute to strengthening the capacity, competences and confidence of construction companies, and particularly SMEs, preparing them for going international. An interesting initiative in this context is the 6-day Construction Internationalisation Continuing Professional Development (CPD) **course** in Ireland, offered by the School of Engineering of the Waterford Institute of Technology, in cooperation with Enterprise Ireland and the Construction Industry Federation. The course addresses the key issues for the successful internationalisation of construction firms, including elements of strategy, marketing, law, finance, culture and Building Information Modelling (BIM).



The CPD course in Ireland addresses the key issues for the successful internationalisation of construction firms

Key takeaways

- ✓ **Guidance and tools** are commonly used to support companies wishing to export and expand abroad. These can take the form of websites and applications, informative materials and courses, and can be implemented by the public and private sector.
- ✓ **Websites and portals** are effective tools for providing information on export markets, opportunities abroad, exchange knowledge and experiences and create partnerships. These initiatives are available in countries such as the UK, the Netherlands, Bulgaria and Croatia.

✓ **Promotional and informative materials** are also available in some Member States, such as the guide for the internationalisation of construction SMEs (Italy) and the Catalogue of Civil Engineering (Slovenia).

✓ **Courses** and training initiatives can also play an important role in providing the necessary skills and knowledge for successful internationalisation (e.g. Ireland).

Promoting standardisation in the industry

Harmonised standards open up trade opportunities for European companies worldwide by enabling access to foreign markets more easily and reducing technical barriers to trade. As a result, the promotion and harmonisation of European standards abroad is a key activity to secure a competitive advantage for European companies in trade in construction. At the same time, a more global application European standards helps in preventing unfair competition from foreign companies, which may otherwise not be subject to strict quality and safety requirements.

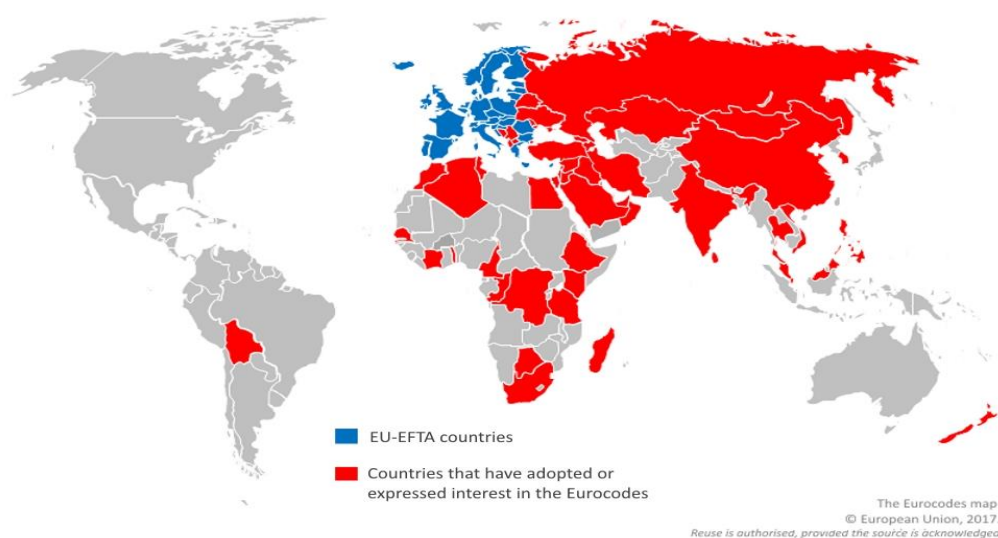
The EU is active in this regard, specifically by negotiating trade deals with foreign countries (see Opportunities emerging from trade agreements) and by holding technical dialogues on standardisation of construction standards, aimed in particular at promoting Eurocodes in third countries. Indeed, the promotion of Eurocodes aims at ensuring coherence in international standards and thus facilitating interoperability and trade. The standards are widely acknowledged as most up-to-date and consistent codes, providing rigour and flexibility at the same time. Since their full publication in 2007, and their implementation at EU level in 2010, the Commission is driving a process of international application of Eurocodes, which has gathered interest across many countries (see Figure 12). The implementation of Eurocodes in third countries can work either via their use as calculation methods or via their more formal adoption in national legislation.



Eurocodes's implementation in third countries works either via their use as calculation methods or via their more formal adoption in national legislation

In terms of promotion activities, the EU is providing information through a dedicated website and a contact point at the Joint Research Centre. Furthermore, it is also engaged in identifying local stakeholders target groups, and developing support measures to encourage the adaption, such as accompanying intermediaries with technical support, translation, training, etc. The promotional activities are conducted in the context of the European Neighbourhood Policy, the Euro-Mediterranean Partnership and the Technical Assistance and Information Exchange (TAIEX).

Figure 12: Worldwide interest in Eurocodes, 2017



Source: European Commission, Joint Research Centre

Key takeaways

- ✓ The promotion and harmonisation of European standards abroad is a key activity to secure a **competitive advantage** for European companies.
- ✓ The Commission is driving a process of **international application of Eurocodes**, which has gathered interest across many countries.
- ✓ The promotional activities are conducted by the Joint Research Centre in the context of the European Neighbourhood Policy, the Euro-Mediterranean Partnership and the Technical Assistance and Information Exchange (TAIEX).

6. Conclusion

The European construction sector has seen a prolonged period of recession following the crisis, with negative repercussions on investments, employment and profitability. Although it has been on the path to recovery since 2014, its growth prospects remain moderate, particularly in relation to the projected boom in the construction markets of countries such as China, the US, India and other South East Asian economies. Given the above, European construction companies have been increasingly turning towards foreign markets, which offer fertile ground and bright prospects for their skills and know-how. Nevertheless, they face persisting barriers when seeking to access non-EU countries, which range from hindrances related to the regulatory environment, such as public procurement restrictions and non-harmonised standards for buildings and construction products, to obstacles specific to SMEs, including access to financing and lack of knowledge of foreign markets and legislations.

At the same time, the internationalisation of construction companies is being driven by the intense cooperation efforts on economic governance, macroeconomic policies and regulatory convergence, which are being carried out between the EU and global economic powers, namely in the form of trade agreements, and which are opening up new procurement markets for EU construction companies, allowing them to take

full advantage of the growing opportunities in foreign markets such as the US, Canada, South Korea and Latin America.

In order to reap the benefits that internationalisation can offer, several support initiatives have been adopted, both at Member State level and at the EU level. These range from general national internationalisation and export strategies, to financial support instruments for exporters, missions abroad for SMEs and EU support to cluster formation and internationalisation. Although the available measures in place are generally recognised to be useful, some remarks and recommendations should be taken into account to further strengthen their effectiveness in supporting the successful global competitive position and international expansion of the EU construction sector.

- ✓ **Broader international industry collaboration on standards.** Aside from ensuring product safety, interoperability and sustainability, the harmonisation of technical specifications of products and services and the adoption of European standards by non-EU trading partners can remove a major barrier to trade and facilitate market access for European construction companies. Furthermore, it would enable the European construction sector to cater for an increasing global demand for its know-how and expertise in areas such as sustainable construction and energy efficiency of the building stock. Since currently most efforts in this respect are focusing on Eurocodes, it will be crucial to identify new key topics for standardisation cooperation and adopt a common standing. For instance, standardisation of software systems and interfaces, and particularly in areas such as robotics, automated construction equipment and interfaces between different tools like BIM and Geographic Information Systems (GIS), can facilitate the digitalisation of the sector and contribute to its international competitiveness. Similarly, standardisation of interfaces between prefabricated components and modules can enhance the compatibility of systems, thus boosting productivity, bringing down costs and enhancing the economic and technical viability of carrying out construction projects abroad. In addition, standardisation of construction products through the harmonisation of product assessment (e.g. the Construction Products Regulation) and environmental requirements (e.g. green public procurement and eco-label), as well as the recognition of professional qualifications for engineers, architects and construction workers are also key areas having the potential to significantly facilitate the internationalisation of EU construction companies.
- ✓ **Identifying priority countries for internationalisation.** As previously discussed, one of the risks associated with internationalisation is the dependence on the political and economic context of the third country, which can affect the ability of companies to secure the necessary funding, carry out the project according to the terms of the contract and collect payments from their foreign clients. For this reason, successful internationalisation relies on the careful identification and selection of the most suitable partner countries for cooperation efforts, based on political, economic and legal considerations, as well as on the experience gained through ongoing trade agreements and discussions. A sensible target group of countries therefore includes the EU's neighbourhood, candidate and accession countries (e.g. Turkey) and the Maghreb region (Algeria, Morocco), given the established cultural/historical/economic ties and the geographical proximity, but also Sub-Saharan Africa and the broader Middle East, China, India and South East Asian countries, the US and Central/Southern America (e.g. Brazil, Mexico, Chile, Colombia, Peru) and Russia.
- ✓ Financial support for internationalisation, there are a variety of programmes to support SMEs in exporting abroad and expanding to foreign markets, such as investment loans, grants, insurance and guarantees. Moreover, at the EU level, EU funding programmes such as COSME are also playing an important role financing the internationalisation of SMEs. However, many of the

available schemes are not specifically tailored to construction companies, being instead open to SMEs across a broad range of sectors. Hence, it would be advisable to put in place a series of financing schemes (loans, guarantees, etc.) that are designed to adapt to the specificities and particular requirements of construction firms, both in individual Member States and at the EU level. In addition, there is an important proportion of EU companies that do not classify as SMEs but that equally struggle in obtaining the financing needed to cope with competition in international markets. Thus, the issue of access to finance and guarantees should be further addressed, particularly for investment and expansion in high-risk regions subject to significant unfair competition. To this end, new innovative support measures and schemes should be devised. For instance, new ways of engaging with the private sector should be developed, so as to leverage on its capital and expertise for infrastructure investments in developing countries. In this context, the EU has expressed its willingness to explore up-front grant funding and risk sharing mechanisms to support public-private partnerships (PPP) and private investment. Moreover, proposals on the potential blending of external assistance for construction and infrastructure projects should be considered. For instance, to attract private financing and facilitate the establishment of PPPs for commercially non-viable infrastructure investments in developing countries such as Africa, the 'EU-Africa Infrastructure Trust Fund – blending 2.0' proposal should be envisaged, entailing the blending of EU Official Development Assistance (ODA) with commercial finance guaranteed by export credit agencies. This would allow the financing of public sector infrastructure projects (transport, water, etc.) in Africa, carried out by European construction companies.

Annex 1 – Legend

- **Narrow definition** of the construction sector: this refers to sector F - Construction, as defined by the NACE rev.2 classification:

NACE F - Construction

- F.41 - Construction of buildings
- F.41.1 - Development of building projects
- F.41.10 - Development of building projects
- F.41.2 - Construction of residential and non-residential buildings
- F.41.20 - Construction of residential and non-residential buildings
- F.42 - Civil engineering
- F.42.1 - Construction of roads and railways
- F.42.11 - Construction of roads and motorways
- F.42.12 - Construction of railways and underground railways
- F.42.13 - Construction of bridges and tunnels
- F.42.2 - Construction of utility projects
- F.42.21 - Construction of utility projects for fluids
- F.42.22 - Construction of utility projects for electricity and telecommunications
- F.42.9 - Construction of other civil engineering projects
- F.42.91 - Construction of water projects
- F.42.99 - Construction of other civil engineering projects n.e.c.
- F.43 - Specialised construction activities
- F.43.1 - Demolition and site preparation
- F.43.11 - Demolition
- F.43.12 - Site preparation
- F.43.13 - Test drilling and boring
- F.43.2 - Electrical, plumbing and other construction installation activities
- F.43.21 - Electrical installation
- F.43.22 - Plumbing, heat and air-conditioning installation
- F.43.29 - Other construction installation
- F.43.3 - Building completion and finishing
- F.43.31 - Plastering
- F.43.32 - Joinery installation
- F.43.33 - Floor and wall covering
- F.43.34 - Painting and glazing
- F.43.39 - Other building completion and finishing
- F.43.9 - Other specialised construction activities
- F.43.91 - Roofing activities
- F.43.99 - Other specialised construction activities n.e.c.

- **Broader definition** of construction: this includes sector F, as well as other sectoral activities, namely real estate activities (NACE L), architectural and engineering activities and related technical consultancy (NACE M) and certain manufacturing sub-sectors (NACE C), related to the construction sector:

NACE L – Real estate activities

- L.68.1 - Buying and selling of own real estate
- L.68.2 - Renting and operating of own or leased real estate
- L.68.3 - Real estate activities on a fee or contract basis

NACE M - Professional, scientific and technical activities

- M.71.1 - Architectural and engineering activities and related technical consultancy

NACE C – Manufacturing

- C.16.2 - Manufacture of products of wood, cork, straw and plaiting materials
- C.23.3 - Manufacture of clay building materials
- C.23.5 - Manufacture of cement, lime and plaster
- C.23.6 - Manufacture of articles of concrete, cement and plaster
- C.23.7 - Cutting, shaping and finishing of stone
- C.25.1 - Manufacture of structural metal products

