

American multinationals consolidate European distribution centres in the Netherlands

Invasion of American companies

These days, many American companies are restructuring their European supply chains. The market has collapsed, leaving too much inventory lying around in too many locations: consolidation is the next logical step. Many of these multinationals are choosing to serve the whole of Europe from the Netherlands, not just because it is of the tax benefits.

By: **Marieke Jansen**

For a while, the Netherlands was considered a tax haven, at least in the eyes of President Obama. It was listed, along with its fellow EU country Ireland, on a black list of countries: countries where American multinationals set up business to avoid paying taxes. Obama had pledged to tackle the issue of tax havens and tax evasion during his presidential campaign. His belief is that the U.S. treasury is losing money because large American companies shelter their profits in countries that provide the greatest tax advantages. According to a White House press release, in 2003 American companies generated one third of their foreign revenue in just three countries: the Netherlands, Bermuda and Ireland.

At a corporation taxation rate of 25.5 per cent, the Netherlands would indeed appear to belong to the group of so-called low-tax countries; at 12.5 per cent, Ireland comes in much lower than that – but, then, it's located much farther from the European continent. Obama's pronouncement had many negative undertones but was unjustified.

'It was an unfortunate remark on Obama's part. We do not belong in that group,' responds Stephan Satijn, Vice President of Logistics for Nederland Distributieland/Holland International Distribution Council (NDI/HIDC). 'These companies have many reasons, beyond tax reasons, for establishing a presence in the Netherlands.'

Consolidation

In many cases, the companies concerned are consolidating their distribution centres and choosing the Netherlands to do so. 'Many American companies are restructuring their operations because of the economic recession. The market has collapsed, leaving too much inventory lying around in too many locations. They want to lower costs and free up working capital. So, they consolidate their existing supply chains in Europe. At the moment, many contracts are being signed between American companies and Dutch logistics providers,' Satijn says.

Indeed, the American company Terex announced in May that it was building its first European head office

at the Borchwerf II industrial park in Halderberge, in the province of Brabant. This manufacturer of excavators, cranes and earth-moving equipment plans to work with Ceva Logistics to market its products throughout continental Europe, the Middle East, Africa and Russia, from its base in West Brabant. It will be closing its distribution centres in the UK, Spain, France and Sweden. 'The ramping up and consolidation will lead to better performances providing prospects for more growth and expansion,' says Matt Fearon, Vice President and Managing Director of Terex for Europe, the Middle East, Africa and Russia.

West Brabant is expecting to welcome many more American companies, as well. Two companies are still waiting to sign contracts, but they are already recruiting staff and have commenced distribution activities. A third has signed the contract, but its operations are being consolidated and staff elsewhere has not yet been notified. 'I have to admit that all of these cases are related to consolidation efforts. These are companies that are already established in Europe but want to ramp up their operations and consolidate to cut costs,' says Cees Nuijten, Director of Investments in Southwest Netherlands and China for the regional development agency Rewin West-Brabant.

Sjoerd Boomsma of the Limburg Development and Investment Company LIOF has noticed the same trend. Americans are interested in Venlo and

the surrounding region, as well as the Roermond-Heerlen axis. 'We haven't noticed the same level of development as in the West Brabant region, where one company after the next is signing contracts. However, we have entered talks with several American parties that we hope will lead to them locating in Limburg. Brabant probably has an advantage in terms of having a more established base: it is easier to expand an existing operation at national level. Limburg may have outstanding logistics providers, but fewer American multinationals have an operation here.'

Regulatory environment

In the context of freeing up working capital, the Netherlands' offset provision for VAT does make it more attractive for importers. Under it, VAT does not have to be paid upon import. The importer does have to report the import value on his VAT declaration form and calculate the tax owed; but two lines down, he can deduct that same amount as an input tax, together with any other VAT paid on goods purchased in the Netherlands. Few other countries, outside of the Netherlands and Belgium, have such an arrangement for transferring VAT liability. That means that in Germany, for example, an importer would need to pay 'Einfuhrumsatzsteuer' upon import. Since it is rare that the VAT deduction can also be taken in that same month, this creates a liquidity gap for the importer to the benefit of the tax authorities.

Beyond this, the Netherlands has a specific tax ruling that applies to foreign distribution operations: the cost plus ruling. Under this ruling, distribution companies can make a contractual taxation arrangement with the Dutch tax authorities (Grote Ondernemingen in Rotterdam) about how costs will be allocated. 'And that usually works in favour of the foreign company,' Rewin's Nuijten says. 'Instead of 25.5 per cent corporation tax, the effective rate is lowered to 20 per cent or, in many cases, even less than that. That is a nice benefit

for foreign entities, instead of being dependent on some local tax inspector, as in Italy or France, and at the mercy of their whims. In the Netherlands, a company knows from the start – not afterwards – how tax-friendly their reception will be and that often produces a tax incentive. The procedure itself is a relatively complicated process, though.'

Lead times

Satijn, of NDL/HIDC, has noticed another shift in thinking as people reconsider supply chain dynamics. 'Lead times have always been critical, and they still are,' he says. 'The difference is that American companies have set up distribution centres in different regions, so that they can deliver goods within 24 hours. You would never be able to supply

the whole of Europe within 24 hours from the Netherlands. But is that 24-hour timeframe such a necessity – or would 48 hours suffice? It is an antiquated notion that has never been questioned. It turns out that in most cases, 48 hours is perfectly acceptable. Anything else can be sent by rush order. That means they can still serve the market well if they consolidate their DCs in the Netherlands.' It might be true that the Netherlands benefits from its favourable tax treaty with the United States. And that has undoubtedly played a big role as American multinationals reconsider their options. But if the Netherlands were not such a good country for distribution, the Americans would not locate there. 'So, it is simply a legitimate process,' NDL/HIDC's Satijn concludes.

CONSOLIDATION DCS EUROPE TO THE NETHERLANDS

