

5 Thematic Group 5 - " International competitiveness"

5.1 Overview of Thematic Group 5

Introduction

The above-mentioned Communication COM(2012) 433 has identified the international competitiveness of the European construction sector as a priority area for action. The High-Level Tripartite Strategic Forum therefore mandated Thematic Group 5 to address related issues and elaborate recommendations to ensure a level playing field in international construction markets and market access to third countries' markets (public and commercial). Specifically, the Group's aim is to:

- Map sector needs and blockages to the implementation of the Action Plan regarding International Competitiveness;
- And, subsequently, to identify how to proceed with concrete proposals and solutions related to upcoming legal acts and other policy instruments.

Priorities for 2014

TG5 focused this year on the following actions:

- Action 1: Focus future work and collaboration on the construction sector with a well-targeted selection of international partners (due to the particularities of trade in the construction sector).
- Action 2: Funding and guarantees for international construction projects, notably for trade and investment with high-risk regions and those where European companies suffer from unfair competition. Foster the participation of the private sector in EU External Aid projects through blending mechanisms.
- Action 3: International regulation on regulation and standards beyond Eurocodes, notably to include construction products and professional qualifications.

5.2 Follow-up actions

Follow-up Action 1: Focusing future work and collaboration on the construction sector with a well-targeted selection of international partners

Key recommendations

Cooperation efforts should focus on the African, neighbouring countries and United States markets and address market access barriers both for construction products and services, particularly those on Foreign Direct Investment (FDI) or establishing local offices. In more detail, market access barriers to wood-related products in Japan should be discussed in the EU-Japan negotiations. With regard to EU US Free Trade Agreement (TTIP), a specific follow-up is required for dredging and marine services in the US (Jones Act). Architects call for Mutual Recognition Agreement from US. Moreover, the internationalisation of SMEs in the construction sector should be further supported by EU-wide export facilitation measures.

Overview of discussion

Based on the priority countries selected in the TG meetings of 2013¹⁶, the work of the Group in 2014 focused on identifying market access issues, international cooperation initiatives and particular trade barriers in key priority countries.

A priority follow-up action was to **conduct a construction products and services trade (barrier) analysis**. The analysis' purpose is to arrive at a better understanding of the importance of construction services trade relations between the EU and priority countries and construction products trade between the EU and priority countries, and to encourage stakeholders to contribute with more data on trade flows and data on trade barriers to priority countries.

¹⁶ EU's Eastern and Southern neighbourhood countries (Moldova, Armenia, Georgia, Azerbaijan, Ukraine, Belarus, Morocco, Tunisia, Algeria, Egypt, Libya, Jordan, Syria, Lebanon, Israel), Asia Pacific, the Americas, Russia and Central Asia, Africa, the Gulf region.

The main conclusion from the analysis was that Africa, Russia and the United States are key export destinations for EU contractors. A key policy recommendation following the trade analysis is that Foreign Direct Investment (FDI) is crucial for exports in the sector (determines about 80 percent of internationalisation in the sector). As a result barriers to investment or entry abroad play a crucial role in influencing the international competitive position of EU contractors.

Particular attention was also paid to the potential provisions in the **EU US Free Trade Agreement (TTIP)** and the **EU Japan Free Trade Agreement** (and the EU Japan Industrial Cooperation Initiative) for EU construction services and construction products. Members of the Group focused on dredging services in TTIP, which will continue to be addressed in the agreement. With wood being the most important construction product export to Japan, it is crucial for the international competitive position of the EU wood sector in Japan to address this sector in current negotiations. The Members of the Group will continue to contribute to optimise the outcomes of trade negotiations by continuing to define market access barriers to key priority markets and outlining the importance of trade and investment for the EU construction sector in selected priority markets.

For architecture services, **recognition of professional qualifications** was discussed as the most significant market access barrier. According to a contribution by the Architects' Council of Europe, an effective way of overcoming the barrier for architects to supply services across borders is appending a Mutual Recognition Agreement to Free Trade Agreements (FTAs). The process of agreeing and negotiating these is however slow. With respect to market access barriers in the **ceramics** sector, Cerame-Unie presented their market access barrier database (appended to October meeting minutes) showing many tariff and non-tariff barriers to priority third country markets.

The **internationalisation of SMEs in the construction sector** has also been discussed extensively. SMEs face particular barriers to entering a foreign market or exporting to a third country market, mainly due to the administrative burden involved when exporting, the lack of automatic recognition of qualifications, late payment risk and difficulties with access to credit. From the perspective of SMEs, internationalisation of EU contractors can further be stimulated by increased support from EU-level support services, such as a unique entry desk for exporting SMEs to help EU SMEs with knowledge and information about the local market. As expressed by SMEs representatives (Vergnet SA/ANCE), internationalisation of construction SMEs is a tremendous challenge.

Follow-up Action 2: Funding and guarantees for international construction projects

Key recommendations

Further support should be given to the development of the proposal to involve Export Credit Agencies in EU Development Funds in order to increase the benefits of EU development funds for EU contractors, for example by continued support to the EIC ITF Africa 2.0 proposal and its inclusion in the EUBEC TG-6 Working Group.

The design and development of Design-Build-Operate rules in public procurement for developing countries should be based on appropriate consultation of the construction industry stakeholders

Strict environmental and social (e.g. corporate social responsibility) criteria in international and development aid projects should to ensure a level playing field between EU (or OECD) contractors and other competitors.

Overview of discussion

Progress in the area of funding and guarantees for international construction projects focused around the support to the further development of the EIC ITF 2.0 proposal and the exploration of ways to increase participation of the sector in EU External Aid projects.

Progress on the work of EIC on extending the EU Blending Facility ITF Africa with guarantees from (national) Export Credit Agencies (“**ITF 2.0**”) was booked by including the EIC proposal in the June Blending Roundtable, organised by DG International Cooperation and Development where Development Finance Institutions, Export Credit Agencies and the EC participated and discussed the EIC proposal. The proposal was detailed and provided answers to technical and implementation questions posed in TG5 meetings in 2013. Further support to the EIC proposal will be given by means of encouraging the inclusion of EIC in the EU Platform for Blending and External Cooperation (EUBEC) platform, where further discussions are necessary on the legal side and development impact (leverage) side to bring along the proposal further.

Progress was also noted in **exploring new and other avenues of EU Blending Facilities** (other than the ITF Africa which is discussed specifically in context of the EIC proposal) for EU contractors by discussing the implications of the new Communication “*A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries*” and the opportunities for EU contractors. Members of the Group remarked that as soon as the blending mechanisms are managed through EU DFIs, the tied aid nature of this type of development aid is lost and would in practice be open to all contractors that comply with OECD Export Credit criteria.

Even though this type of project financing is thus untied aid, the inclusion of strict environmental and social (e.g. corporate social responsibility) criteria would in practice favour EU (or OECD) contractors and thus contribute to levelling the playing field with (notably Chinese) competitors.

On the topic of fostering participation of the private sector in EU External Aid projects, the Group recorded progress by discussing and **identifying opportunities in Public-Private-Partnership structures** and facilities in development projects, as well as the **opportunities and potential of integrating a Design-Build-Operate approach** in public procurement of external aid projects. Members of TG5 generally supported the integration of Design-Build-Operate (DBO) rules in public procurement, but also remarked that the inclusion of a “Competitive Dialogue” (CD) acts as a barrier for contractors to apply to DBO tenders as it makes company-specific intellectual property available to competitors. With regard to the opportunities from PPP structures, TG5 Members remarked that capacity building of local institutions, especially in contract management, remains the biggest barrier to successful implementation of PPPs in developing countries.

Follow-up Action 3: International cooperation on regulation and standards beyond Eurocodes

Key recommendations

Best practices in achieving Mutual Recognition Agreements with priority countries should be developed and applied in ongoing negotiations. Other ways of ensuring recognition of professional qualifications should also be explored.

New avenues for international cooperation on standards should be explored with practitioners from the private sector – such as for example World Green Building Council - and from the public sector.

The promotion of EUROCODES should be continued in neighbours countries, Middle-East and the Gulf Cooperation Council.

Overview of discussion

Progress in the area of international cooperation on regulation and standards beyond Eurocodes focused on the work of the World Green Building Council (WGBC), the uptake of Eurocodes in extra-EU countries and the discussion on recognition of professional qualifications for architects. Related to this, the EU Japan Industrial Cooperation initiative also aims at harmonising standards for construction products in the context of EU Japan cooperation. Future work of the Group should however focus on finding new ways of international cooperation on regulation and standards beyond Eurocodes.

The work of the World Green Building Council on **encouraging green building certificates in countries around the world**, including TG5’s priority countries, provides a good avenue forward. Through improved changes on the international construction market due to the push for sustainable building practices there, the business of EU contractors abroad can be improved.

The first and the second meeting benefited from contributions by the Joint Research Centre (JRC) and DG GROW on the **uptake of Eurocodes in non-EU countries**, notably the Balkan countries. Specifically in relation to the TG5 priority countries, efforts were launched with the University of Tongji (China) for scientific cooperation about the technical requirements for construction products. A Memorandum of Understanding has been signed between the Joint Research Centre and the University of Tongji.

The Architects’ Council of Europe and on-the-ground experience from SMEs demonstrated that the **recognition of Professional Qualifications** is not always guaranteed (or easy) in priority markets and should be addressed for increased access to these markets for construction services experts. Using Mutual Recognition Agreements in Trade Agreements is a workable suggestion.