

Doing Business in WALLONIA

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Gunmaker FN Herstal is proving to be a controversial asset for the region
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Investors are key to unlocking growth

Tax incentives and subsidies are being deployed to inject dynamism into the region, writes Stanley Pignal

Attracting external investment so as to secure faster economic growth is a time-honoured strategy for European regions wanting to give their economies a boost.

A central player in Europe's industrial revolution, Wallonia, Belgium's French-speaking southern region, is banking on inward investment as a motor for exports and broad-based economic growth.

Though heavy industries such as steel and glass remain part of its business landscape, over the past decade it has targeted foreign investors as a catalyst for prosperity.

Wallonia, sandwiched between Europe's two largest markets of Germany and France, is playing on its location to attract companies looking for a foothold on the continent.

From its industrial past, it has drawn attributes such as a well-educated workforce, an attractive quality of life and decent – if ageing – infrastructure.

Brussels, its mainly francophone cousin within the Belgian federation, has benefited from its status as the European capital, putting the whole of the country on the map as a location for international activities.

But Wallonia's legacy also includes high costs of doing business, an inflexible labour market and insufficient dynamism in its domestic economy.

Added to that is a perception

of Belgium as a country with an intermittent federal government: a deep-rooted political crisis has resulted in extended periods with no permanent executive, including the past seven months.

Notwithstanding the chaos at federal level, the Walloon regional government has sought to improve the climate for investment, bagging some high-profile investors as a sign that the region is open for business.

Google, the technology company, Skechers, a shoemaker, and GlaxoSmithKline, the pharmaceuticals group are among those that have come, often taking advantage of generous subsidies, tailored tax arrangements and other incentives.

The Walloon authorities see foreign investment as a key driver of the region's economic growth. "Attracting investment is a deliberate policy for Wallonia, as for many regions with a heavy-industrial past," says Jean-Claude Marcourt, vice-president of the Walloon region in charge of its economic development.

Studies commissioned by the regional government show that one in four industrial jobs in the region come from companies based abroad; and that they generate two-thirds of its exports and nearly four-fifths of the research and development.

The region is most obviously attractive for the logistics sector, aided by its proximity

'From Wallonia, you can reach two-thirds of the European market in less than a day's drive for a truck'

both to end markets and to sea ports such as Antwerp and Rotterdam.

Land is much cheaper in Wallonia than in Dutch-speaking Flanders, the region's traditional rival whose export-based economy has fared better than Wallonia's in recent decades. "The geographic location makes Wallonia the obvious place to

base logistics and distribution activities for a Europe-wide operation," says Philippe Suinen, head of Invest in Wallonia, the regional trade promotion group.

The campaign to attract logistics investment plays into efforts to brand Wallonia not only as a base for companies to access the 11m-strong Belgian market, but to reach the European Union's 500m consumers.

"From Wallonia, you are certain to be able to reach two-thirds of the European market in less than a day's drive for a truck," says Mr Suinen.

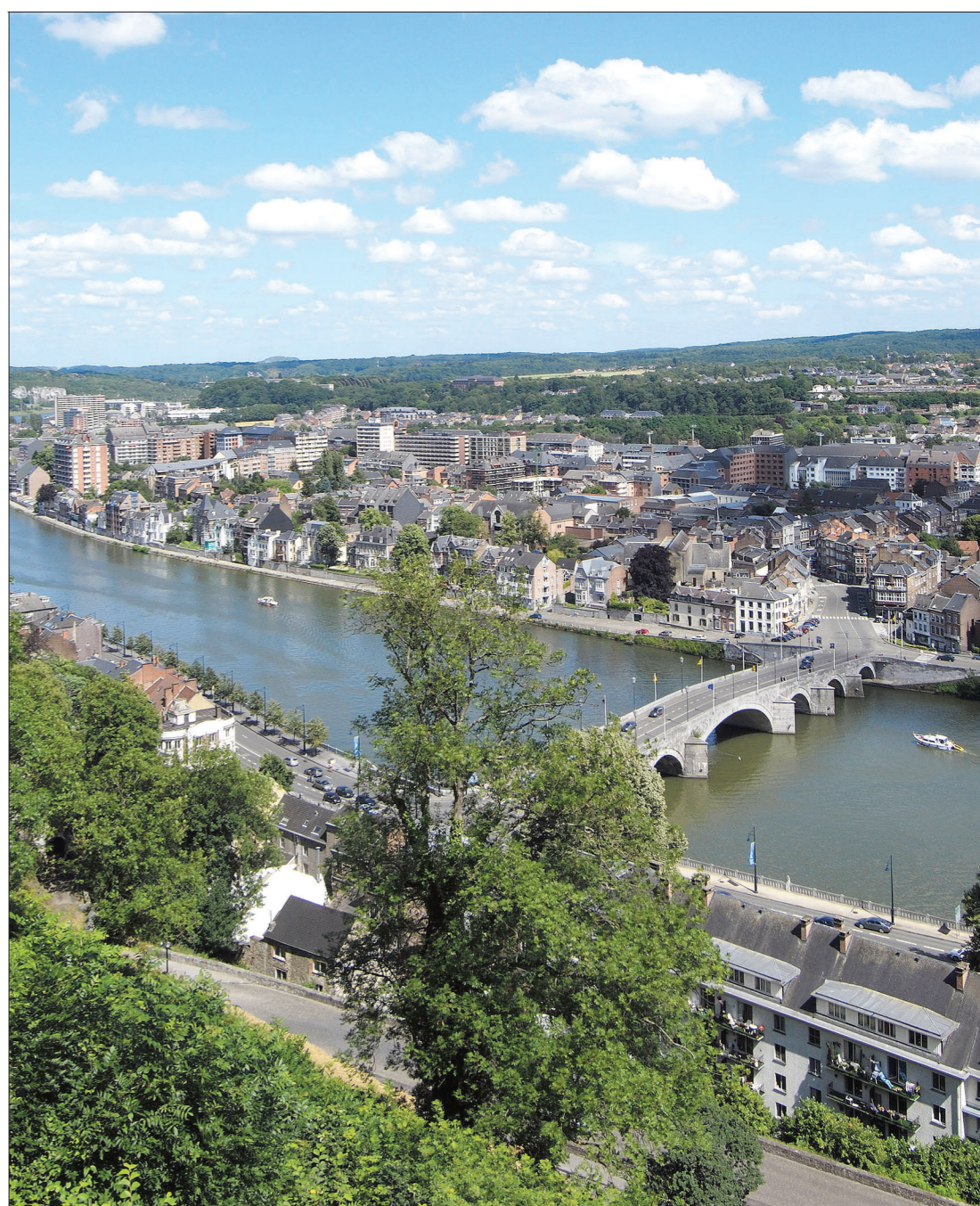
Other infrastructure assets also contribute to the logistics hub, including an airport in Liège that is open 24 hours, an extensive rail system – high-speed lines go into France, the Netherlands, Germany and the UK, via the Channel tunnel – and a large canal network.

Janssen Pharmaceutica, a subsidiary of Johnson & Johnson, the US group, is in the process of setting up its second European distribution sector in Wallonia, having looked at competing sites in the Netherlands, northern France and elsewhere.

"It was a mix of factors that brought us to Wallonia," says Stefan Gijssels, head of public affairs at the company. "France and Germany are our biggest markets, and we wanted quick access to the UK too, as well as access to air freight."

"The regional authorities did everything they could to get us in – we sensed a real willingness to work with foreign investors, not just at the initial decision-making phase, but also following up after the investment," he says.

Beyond logistics, the region is



Continued on Page 2 Clear flow: rivers, canals, roads and rail contribute to the region's excellent transport network

Alamy

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Doing Business in Wallonia

Regions compensate for federal deadlock

Politics

Separatist pressure has led to a five-month leadership vacuum, says **Stanley Pignal**

René Magritte, the Wallonian artist famous for his surrealist creations, might have appreciated the current state of Belgian politics. Investors looking for stability and predictability may be less amused.

Seven months after Prime minister Yves Leterme's federal government collapsed, and five months after fresh elections were held, Belgium is still without a permanent executive.

But what would be considered surreal in other countries seems to be becoming the norm in Belgium – the leadership vacuum comes just two years after the country was rudderless for more than nine months, a near-record in postwar European history.

The outgoing governmental team remains in power as a caretaker executive, but with limited powers. Meanwhile, a complex overlapping web of decision-makers are in office in the regional governments (representing Brussels, Wallonia and Flanders) and in linguistic community governments (representing French-speakers, Dutch-speakers and the small German-speaking minority).

At the heart of the problem plaguing the federal government is an intractable political dispute pitting Dutch-speaking Flanders in the north against francophone Wallonia.

A significant tranche of the Flemish electorate wants the

'Investors tend to be well-informed about the political situation – they see that Belgium continues to work'

current federal system to be replaced by a much looser confederation, with French-speakers and Dutch-speakers able to pursue different social, economic and cultural policies.

The New Flemish Alliance (N-VA), a party seeking the eventual secession of Flanders from Belgium, emerged as the big winner of the June poll, and has been unable to form a coalition with francophone parties. The result has been a succession of mini-crises.

The government-building process is running side-by-side with political reforms demanded by the N-VA. The guiding principle so far is that far more powers are to be devolved to the regional governments of Flanders and Wallonia.

Though a break-up of Belgium is not on the cards, the 180-year-old union could emerge looking very different once a deal is hammered out. When that might be, however, remains unclear.

Politicians had originally hoped to be able to form a coalition by September, with Elio Di Rupo, the French-speaking Parti Socialiste leader, as prime minister. But talks collapsed amid fraying trust between the francophones and the N-VA.

Ahead of the elections, Ernst & Young, the professional services group, warned in a report that "our studies show a clear link between political instability of a country and the absence of investment by foreign companies" and encouraged the rapid creation of a new government.

But seven months on, those dealing with foreign investors say the crisis will not affect them.

"I honestly don't think it's a factor," says Philippe Suinen, the regional trade promotion group. "Investors tend to be well-informed about the political situation – they see that Belgium continues to work, even when its federal government is in caretaker mode, as is the case today."

For Jean-Claude Marcourt, the Wallonian minister of economy and trade, the crisis shows the resilience of the Belgian system. "One of the advantages of regionalism is that even when the federal government is not working at full capability, decisions can still be made at different levels," he says.

Jean Hindriks, professor of economics at the Université Catholique de Louvain, adds: "The key in the current situation is that the regional governments are still in office, and they are working without restrictions."

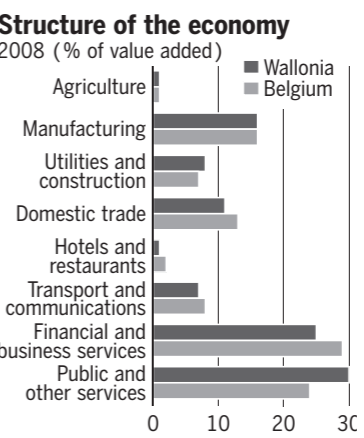
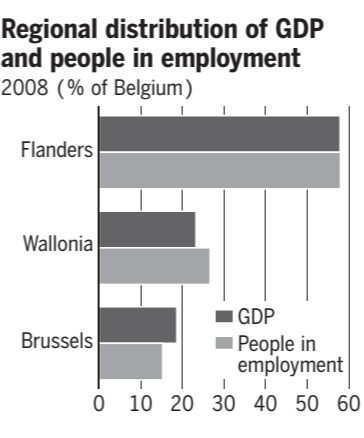
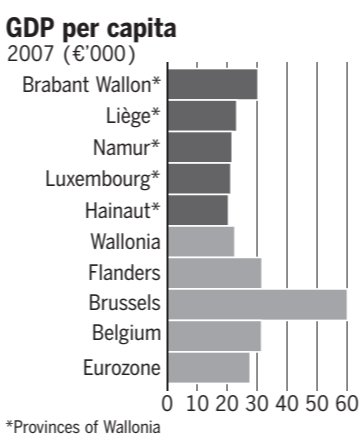
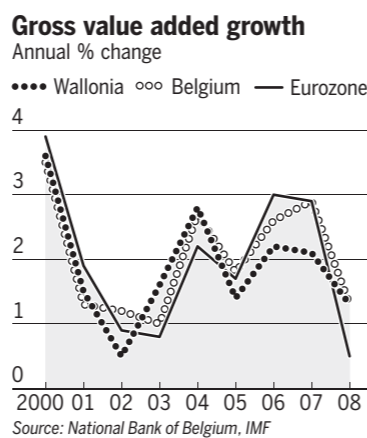
For businesses, the most noticeable changes are likely to occur if and when regional governments gain additional political powers over areas that matter to investors, in particular corporate and personal taxation.

One of the avowed aims of the Flemish separatist movement is to reduce the redistribution of money from Flanders – the significantly richer part of the Belgian union – to Wallonia and Brussels. Estimates put the annual transfer at €6bn a year, a figure contested by both sides.

That could place a strain on Wallonian public finances, which would in turn affect its ability to invest in infrastructure or offer generous tax perks to foreign investors.

However the situation is resolved, the new Belgian government will have to cut spending to bring the country's national debt, worth 100 per cent of its gross domestic product, into line with European Union requirements, which stipulate a maximum debt-to-gross domestic product ratio of 60 per cent. Spending cuts of €25bn by 2015 have been mooted, despite opposition from the Parti Socialiste, Wallonia's traditional party of power and currently the biggest political force there, which wants slower budget consolidation.

The budget questions Belgium faces are the same ones that many other countries in Europe and beyond are asking themselves. But, at the moment, there is no government in office to provide answers.



EU presidency's mixed results

Brussels

Belgium is trying to showcase a changing region, reports **Joshua Chaffin**

On a recent evening in Liège, 600 executives, politicians and policymakers from across Europe gathered for a lavish dinner inside the city's new glass-panned jewel – an elegant rail station designed by Spanish architect Santiago Calatrava.

The dinner was the highlight of a three-day conference on business innovation and entrepreneurship that was co-sponsored by the European Commission and the Belgian presidency. More than that, it was an example of how Belgium has sought to use its six-month European Union presidency to showcase a changing Wallonia to the world.

"It was quite a great event. We had a very good response," says Thierry Delaval, a Wallonian delegate to the EU. "The main objective of the presidency is not to promote one's country, but it is certainly an occasion to do so."

The rotating presidency is one of the peculiarities of the EU's system of governance. Every six months, a different member state takes a turn running the affairs of the 27 governments

that comprise the European Council.

While the role has been somewhat diminished by the revised Lisbon treaty, which created a permanent president, the presidency still serves as a unique moment for countries, whether big or small, to take their turn at the centre of the European stage.

Belgium has tried to make the most of that opportunity to prod visitors to reconsider their ideas about Wallonia, holding a slew of high-level meetings and cultural events in the region and nearby Brussels.

A two-day symposium hosted by André Antoine, the budget minister, was dedicated to exploring how the regional airports at Liège and Charleroi had been revitalised and overhauled to be more environmentally friendly. Another event, held on the site of a former glassworks converted into a conference centre, will consider how European industry can adapt to the green economy.

All these gatherings are bound by a recurring theme: Wallonia is not a region of decay and economic decline but, in fact, an emerging centre of innovation and creativity.

"We have a disadvantage because the image of Wallonia is not the most superb," says Althi Cartuyvels, director of the European arm of Wallonia's Office of Foreign Investment. "But we have an advantage

because the reality is much better than the image."

Once companies can be enticed to come see the region for themselves, they inevitably include it on the shortlist for their projects, Mr Cartuyvels says. As evidence, he mentioned the recent decision by H&M, the clothing company, to build a distribution centre in Mons, joining other multinationals that have flocked to the city in recent years including Microsoft and Google.

"In the past, we very much had to run after investment

'We have a disadvantage as the image of Wallonia is not the most superb. But the reality is much better than the image'

projects. Today, we have more and more companies that call Wallonia with projects," Mr Cartuyvels says.

For Wallons, there has long been a certain ambivalence about their proximity to Brussels and the European institutions. Many complain that most of the business of catering to those institutions has gone almost entirely to Brussels. Some even argue that being so close to Brussels has the effect of exposing them to greater scrutiny by regulators.

But in recent years, Wallonia's business leaders have begun to see Brussels more as an opportunity than an irritant. Forging closer ties with the commission has helped the region to bring back more European funding for the sort of research and development programmes touted at the Liège conference. It has also enhanced Wallonia's appeal as a distribution hub.

"Five or 10 years ago, it was really nothing. But now I think we are using the proximity to Brussels much better," says Didier Paquot, director of economic affairs for the Wallonia Business Federation.

Nonetheless, Mr Paquot complains that he does not believe the local business community has benefited as much from the EU presidency as it might have. Too many of the meetings, he says, are geared towards Eurocrats instead of small businesses.

"I'm afraid the impact has not been very large, to be frank," he says. "I don't have the impression that business was very involved in all the conferences."

Fortunately, Wallonia will have an opportunity to correct that oversight in the near future. Later this month, Mons is to be confirmed as a European cultural capital for 2015. That will mean more attention from the outside world, and another opportunity to convince visitors to look at the one-time industrial belt with new eyes.

Investors are key to unlocking growth

Continued from Page 1

branding itself as a cluster for a range of high-value-added industries, notably in the aerospace, information technology and life sciences sector, banking on its well-regarded universities and research institutions to attract funds.

"Some of the investments have links to our historic competences: for example, new materials used in the aeronautics sector are in a way descendants of coatings that were developed for the steel sector," says Mr Marcourt. "We have created a bridge between Wallonia's industrial tradition and its future."

One draw is that salaries are relatively low in Wallonia and labour more readily available: the unemployment rate stands at 11.2 per cent, more than double the 4.9 per cent in Flanders but also higher than its immediate neighbours in France or Germany, according to the EU.

The advantages, however, are often offset by onerous fiscal rules, in particular payroll charges that add to labour costs.

However, Belgium as a whole has worked on putting together a tax package that can result in much-diminished tax bills for new companies.

Its favourable accounting treatment of investments has helped cut the effective corporate tax rate from 34 per cent to the mid-20s – which is level with or lower than its neighbours.

There is also a raft of fiscal benefits to help companies thinking of investing, notably subsidies offered by regional, national or EU-level bodies to stimulate investment.

One example is a tax break for exporters of goods covered by Belgian patents, created to encourage investment in research and development.

And as part of its service to investors, the Wallonian regional authorities commit themselves to telling companies what their tax obligations will be like, well before an investment is made, thus reducing risk.

The aim is to make Wallonia attractive to a broader range of industries than in the past. But the region also wants to seek new sources of funds. Over the past decade, inward investment has come mostly from within Europe, the bulk from Flemish, Dutch and German investors. The US has been the largest single investor, responsible for about a third of the total; with Asia a mere 4 per cent – the vast majority from Japan.

With an eye to evolving global economic patterns, the authorities recently launched two specialist offices to cater for Chinese and Indian investors.

Whether that will be enough to attract investment on the scale Wallonia needs to revitalise its economy will partly depend on how the global economy fares in the coming years.

By its authorities' own reckoning, the global downturn has only dented investors' appetite. The region attracted €489m in foreign investment in 2009, down from €536m in 2008 – and compared with an average of just over €200m a year in the first half of the decade.

With the Europe's economies – and most particularly neighbouring Germany's – returning to growth, the amounts of money invested in Wallonia could be in for another jump in the years ahead.

Tax breaks and incentives cut the cost of entry

Business environment

Stanley Pignal finds that financial burdens are no higher than in neighbour nations – for the moment

As a region whose economy is sometimes still defined by the steel works and coal mines that made it rich, Wallonia has to work doubly hard to come across as a dynamic, cost-effective place to do business.

In developed economies, the biggest concern for investors relates to the cost of doing business – hardly a competitive advantage for high-cost northern Europe.

Though Wallonian public authorities like to stress the quality of the labour and the region's famous hospitality, they know full well that potential investors will ultimately look to cold, hard numbers when making a decision. Perhaps Wallonia's single biggest advantage is the cost of industrial land, which is among the cheapest among the regions that can deliver products to Europe's leading economies.

But other costs have to be taken into

account by investors. The Belgian headline corporate tax rate of 34 per cent is the third highest in the European Union, after only Malta and France – more than 10 percentage points higher than the EU average. Belgian labour is also among the most heavily taxed, at nearly 43 per cent in 2008.

However, the headline corporate tax rate overlooks deep discounts granted to new investors under a plethora of schemes designed to attract foreign funds.

Chief among them, the deduction of notional interest, is a measure that was agreed in 2005 under the outgoing finance minister, Didier Reynders.

Under the scheme, companies can deduct from their taxable income an amount based on their equity capital – a figure likely to be significant for new investors.

"The impact of this is to cut the effective tax bill to somewhere around the 25 per cent mark, and perhaps even lower for some companies that have a low return on investment such as those in logistics," says Paul Op de Beeck, a tax partner at KPMG, the professional services firm.

Labour tax rates for expatriates can also be significantly below what resi-

dent Belgians pay, under an incentive scheme reserved for multinational workers. In particular, foreigners based in Belgium can be exempt from tax on days when they travel out of the country.

Another fiscal perk, a deep discount on tax due on sales of products covered by Belgian patents, is aimed at attracting research & development investors –

'The impact of this is to cut the effective tax bill to somewhere around the 25 per cent mark, and perhaps even lower for some companies'

creating the sort of high-value-added jobs that the public authorities want to see in Wallonia.

Taken together, those advantages help make the tax burden on Belgian companies comparable to their German and French neighbours, several studies claim. And that is before the cheaper land and high quality of living for employees that the region also offers are taken into account.

Unsurprisingly, potential investors want to see more efforts by the Belgian authorities to reinforce their business credentials.

An Ernst & Young study conducted this year found that 26 per cent of corporate leaders thought that further tax breaks were the best policy Belgium could pursue to woo foreign capital.

The tax deductions do not take into account the subsidies that some investors can be eligible for, financed by national and regional bodies in Belgium as well as the European Union.

Few investors publicly discuss the subsidies packages they have extracted from the government, and indeed such perks are limited by the EU's rules on state aid to industry.

But whether they come in the form of grants to train the workforce, helping to cover dedicated infrastructure costs or in other ways, they can significantly alter an investment proposal, particularly in the first few years.

There is a fixed rate of available incentives for smaller companies, reaching 20 per cent of the investment in dedicated investment areas. That is before the tax exemptions are taken into account.

Large companies can negotiate a

package directly with the Belgian federal authorities, which will consider factors such as how many jobs are created, in what region and the impact on the local area.

If investing in areas where businesses are in line to receive EU subsidies, the combined incentive package can reach as much as 50 per cent of the investment, the regional authorities claim.

Whether all those schemes are here to stay is one potential concern for investors: the notional interest regime in particular has been attacked by some left-leaning politicians as too expensive a price to pay to attract investors. Others want the scheme to be limited to companies that meet job creation targets.

The Belgian government may yet need to raise taxes or cut subsidies to help scale back its bloated national debt, equivalent to 100 per cent of its gross domestic product – the third highest in the eurozone.

And a future reform of the Belgian political system could result in unpredictable changes for investors, for example by leaving corporate taxation policy up to regional authorities rather than at the federal level, as is currently the case.

Contributors

Stanley Pignal
Brussels Correspondent

Nikki Tait
EU Correspondent

Joshua Chaffin
EU Correspondent

Andrew Bounds
Former Brussels Correspondent

Andrew Jack
Pharmaceuticals Correspondent

Vanessa Mock
FT Contributor

Rohit Jaggi
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact:
Prakash Megha
Phone +33 1 53 76 82 51
Fax +33 1 53 76 82 53
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Doing Business in Wallonia

European money is vital in funding a U-turn on roads

Infrastructure

Cash is being spent on important transport links, says Andrew Bounds

There are said to be only two man-made things you can see from space: the Great Wall of China and, at night, the Belgian motorway system. The bright lights tend to peter out as you head south from Brussels, however, and it is also said that you know you've left Flanders for Wallonia when you hit a pothole. The investment divide between the two provinces has widened since federalism took hold in 1970. Flanders expanded its ports and canals, while Wallonia chose to preserve its dying industries with subsidies.

As one Flemish politician says: "We invested in the future, they poured money down coal mines and steel-works."

That has changed, however, Wallonia has launched a €343m (\$475.3m) drive to clean up polluted sites and improve others to create industrial parks for life sciences, distribution, renewable energy and agro-industrial businesses.

Infrastructure development is one of the key priorities. However, with Belgian government debt more than 100 per cent of GDP, it is looking for new ways to finance it.

IWEPS, a local think-tank, says public investment in Wallonia fell by 1.2 per cent in 2009. It estimates an increase of just 0.4 per cent in 2010 but a rise of 14.3 per cent in 2011.

Some of that comes from a big loan from the Euro-

pean Investment Bank. In October it agreed to lend Wallonia €375m, with the road network receiving €250m and waterways €125m.

The EU-linked bank sees Wallonia as a vital cross-road of the bloc's north-south and east-west transport arteries – and a damaging bottleneck.

Trucks comprise a third of traffic on the roads, three times the typical proportion. The region's plan is twofold: to strengthen bridges, widen roads and improve HGV parking areas; and to equip waterways to take more freight from the roads.

Benoit Lutgen, the public works minister, had to convince the bank that the haphazard approach to road maintenance in the past would change. "This loan is an excellent opportunity for Wallonia," he said at the

signing. "It allows us to propel ourselves into the future and carry out projects of massive scope."

He defined the key strategic roads, some 1,800km of its total 7,800km network of regional roads, carrying half the total traffic.

He then drew up a list of 575 individual schemes in order of priority, of which 434 qualify for EIB support. Almost 75 per cent of the "Roads Plan" should be finished within the next five years.

The total cost is put at €885m. The country is spending €303m on its roads this year from its own funds, which Mr Lutgen says it will be hard to maintain next year in a time of austerity.

According to Belgium's court of auditors in a 2007 report, Wallonia spends an average of 0.7 per cent of the value of its roads annu-

ally in maintenance – less than half what it should.

The EIB is also financing the construction of two 225m x 25m locks at Lanaye and Ivoz-Ramet, and dredging works. The waterway takes freight from London and Dunkirk via the Escaut, Sambre and Meuse, to the Rhine, Danube and Black Sea.

In 2009, 9.6m tonnes passed through Lanaye and 10m tonnes at Ivoz-Ramet. "The locks have reached saturation point and any problems result in traffic holdups that are harmful to economic activity," the bank said.

Covering 450km, the Wallonia Region's inland waterways network is one of the densest in Europe and is used to transport nearly 40m tonnes of goods a year.

Mr Lutgen now hopes he can get further loans on the back of the EIB commit-

ment, and is also looking at harnessing private sector investment.

Airports and railways are also receiving significant attention. Liège airport has focused on cargo and is the eighth busiest freight airport in Europe.

In 2009, it handled 482,121 tonnes, down 7 per cent from a peak of 518,650 tonnes in 2008. Ryanair and Jetairfly, part of Tui, have bases there and road access is being upgraded.

Meanwhile, the domestic bus system carries some 225m passengers. Train times to Brussels are to reduce drastically within two years, with the construction of the first fast commuter RER line in Wallonia.

The line to Nivelles, which allows trains to travel at speeds of up to 160km/h, is scheduled to open in 2012. In time, four lines should connect the capital with all big towns within 30km, which is expected to boost passenger numbers by 50 per cent.



'This loan allows us to propel ourselves into the future and carry out projects of massive scope'

Benoit Lutgen,
Public works minister

Distribution 'sweet zone' wins in drive to centralise

Logistics

The region is not yet a victim of its own success, says Nikki Tait

Ask any Wallonian planner why the region is suited to logistics, and the "blue banana" quickly makes an appearance.

This refers to the affluent, urbanised corridor that runs from the English Midlands, down through Milan, before bending west to encompass Toulouse and Marseille, Barcelona and Madrid. It is reckoned to cover about 90m people and about 60 per cent of Europe's purchasing power.

Wallonia's geography puts it squarely within that zone, with access to good road links and proximity to North Sea ports – in short, so the theory goes, well-placed to service both Europe's manufacturing industry and its main markets.

"Any study will show that the area between northern France, Rotterdam and western Germany is a logistics hot spot. Wallonia is at the bottom of that triangle," says Paul Struman of Investing in Wallonia, the regional investment agency.

Numerous other areas within the same broad region can, of course, make similar arguments, and Wallonia does face strong competition as it tries to build up a logistics "cluster". Thirty years ago, for example, the south-east corner of the Netherlands – the region around Venlo – was famous primarily for growing white asparagus. Today, it houses dozens of warehouses and distribution centres and is seen as a key logistics hub between the North Sea ports and Germany's Ruhr region.

But according to Cushman & Wakefield, the commercial real estate firm that carries out a biennial ranking of European logistics locations, established success is

not always an advantage when it comes to attracting new investment.

The property firm's 2009 report – published with support from Investing in Wallonia – gives the top three places to three Belgian areas. Liège is in the number-one spot, followed by the Genk-Hasselt region of Limburg and then Hainaut's Charleroi. By contrast, some of the best-known Dutch logistics centres – such as Venlo, Eindhoven and Rotterdam – rank only in the middle of the 60-odd contenders.

That, say the authors, is because these latter regions are victims of their own success and now carry much higher land costs, as well as suffering from tight labour markets during the 2007-08 boom years.

"The location is very good, but real estate prices have gone up, as have some other things such as road transport congestion," says Jef Van Doorslaer, head of research at Cushman & Wakefield's Brussels office.

Whatever the merits of the precise rankings in the Cushman study, logistics experts agree with the underlying thesis. Alan Braithwaite, chairman of LCP Consulting, a UK-based supply chain management specialist, and also a visiting professor at Cranfield School of Management, describes Wallonia as being "in the sweet zone for European distribution".

Road transport, he points out, remains the dominant distribution system in Europe and the region is well-connected. "You can get to most of your customers in 48 hours," he says. Parts of the region are also classed as an economic development zone, bringing associated tax breaks. "I think it's winning its share of projects at the moment – and doing a bit better than Flanders," he says.

Meanwhile, the demand for logistics facilities is being fuelled by an ongoing drive for centralisation, as manufacturing companies try to reduce costs by combining the distribution activities



Well positioned: the region aims to make the most of its location within the EU's 'blue banana' of affluence

of their subsidiaries into larger and more mechanised sites. This is trend that began in sectors such as technology and automobiles, but has spread to industries ranging from food to pharmaceuticals.

In Wallonia, Johnson & Johnson, the US pharmaceutical group, is a good example of the trend. In March, it announced plans for a new European distribution centre at La Louvière, a rust belt town close to Charleroi.

The 25,000 square metre facility will consolidate activities previously spread over 15 European sites. Work is due to be completed in 2012 and the Wallonian region

is chipping in €11m (\$15.2m) towards the €49m cost.

Johnson & Johnson says it wanted somewhere that provided easy access to both French and German markets. With the bulk of its shipments moving by road, it chose to be south of Brussels to avoid traffic congestion.

The company acknowledges that other areas were considered, but says one particular advantage was the proximity of an existing distribution site, for medical goods, at Courcelles, between La Louvière and Charleroi. The other was the public funding contribution: "The grant tipped the balance," the company says.

'Any study will show that the area between northern France, Rotterdam and western Germany is a logistics hot spot'

Liège Waterways link strands of a city's future

Just outside centre of the Liège, an 11-metre-high statue of Belgium's King Albert I stands at the base of an even taller Art Deco lighthouse. On one side is the Meuse River, on the other, the Albert Canal.

This is start of the canal, a 135km waterway authorised in 1928 and completed 11 years later, linking Liège with Antwerp. At the time, its purpose was threefold: to cut the journey time for shipping exports, such as coal; to provide construction jobs as Belgium rebuilt itself after the first world war; and to stop the next German invasion.

The last objective was a failure and, today, the coal fields have also closed. However, the 14-hour shipping link between Liège and Antwerp remains a big economic advantage. Total water-borne traffic handled by the Port of Liège – a string of 31 publicly owned ports around the Wallonian city – ran at 15m-16m tonnes annually during the mid-2000s, making Liège Europe's third largest inland port after Duisberg and Paris.

Antwerp was the largest single point of origin and destination for shipments handled by the port authority, whose facilities include two container terminals at Monsin and Renoy, although Rotterdam also accounted for significant inward traffic.

All of which, in turn, has meant employment and spending power. According to a study by the Belgian National Bank, Liège port activities generated almost 11,700 direct jobs and

17,400 indirect ones in 2008. That represented about 15 per cent of gross domestic product in Liège Province and 3.3 per cent for Wallonia overall.

But there are vulnerabilities. In 2009, the recession cut the amount of trade to about 13m tonnes, with waterway traffic falling away by a fifth. One reason for that decline was the decision by ArcelorMittal, the steelmaker and a key port customer, to mothball a nearby blast furnace, prompting worker protests and reduced shipments.

Today, a significant part of the port's business has returned: in the first six months of 2010, waterway traffic was about 7.3m tonnes, a 19 per cent improvement on the same period a year earlier.

Emile-Louis Bertrand, managing director of the port authority, hopes that the year overall will be comparable with 2007, when the amount of business handled was 15.7m tonnes.

But officials are keen to shore up future business and diversify the port's links – after all, question marks have hung over ArcelorMittal's continued presence in



Port authority: Liège attained a top-three spot among Europe's inland ports

the region for much of the past decade.

One strategy is to try to boost further the business with Rotterdam, which, like Antwerp suffers from space pressures and road congestion in its immediate hinterland. Reaching Rotterdam from Liège involves a slightly longer 24-hour journey, this time mainly via the Meuse itself and Holland's Juliana Canal. But Mr Bertrand says discussions are under way and he is hopeful there could be some conclusion by next year.

Another is to try to sell Liège as a multimodal facility. This capitalises on the newly renovated and architecturally glorious railway station at Liège-Guillemins, with its fast links to both France and Germany: a cargo airport to the city's west; and a fairly extensive road network. In 2009, road and rail traffic handled by the Port Authority amounted to a further 3m-plus tonnes.

Related to this is the port authority's biggest initiative: the ambitious and sometimes controversial €150m (\$206.5m) Trilogipart project on the Albert Canal. This is designed to be an

integrated "logistics" centre, comprising a 15 hectare container terminal, built on the banks of the canal; a 41.7 hectare zone for warehouses and distribution facilities; a separate port area for companies that want to use the waterways; and a smaller services area.

The project was conceived in the mid-2000s and officials say that the site, a little further down the canal from King Albert's statue, together with related construction permits, has now finally been secured. Mr Bertrand hopes building work will start next year, with a view to completion by 2013.

Backers include Euroports Belgium, part of a Luxembourg-based group that specialises in port handling; Dubai Ports World, the world's fourth largest container terminal operator; Deutsche Lagerhaus, a German warehouse company; and Warehouses De Pauw, a Belgian counterpart.

The project has not been popular with local residents and will now include a 25 hectare "buffer zone" of walking areas and other recreational facilities.

Total investment, meanwhile, is put at more than €150m – €44m of public money and €115m from the private sector, for the first phase.

Funding, says Mr Bertrand is not a problem: "All the money is there."

Canals sway decision in Google search

Digital Valley

The region is trying to create a technology centre, says Stanley Pignal

Abundant electricity, canals and a favourable location were essential to Wallonia's development during the Industrial Age.

A century later, the same attributes were crucial in attracting Google as it sought a site for a data centre to serve the European market.

The US technology group bought 85 hectares of land outside Mons in 2007 to host a cutting-edge data centre delivering services including its flagship search engine, YouTube videos, and web-based e-mail.

After a three-year building and testing process, the facility became operational in early 2010.

A large rectangular box built on a brownfield industrial estate not far from the French border, it now sits at the heart of Google's "cloud computing" offering, and represents a prestigious catch for Wallonia.

The company says it has invested more than the €250m it forecast when first considering the project, making it one of the top foreign investors in Wallonia in recent years.

"This is a symbol of Wallonia's recovery and of our attractiveness to foreign investors," said Rudy Dettonne, leader of the Wallonia regional authority, at the inauguration of the site in October.

Google scouted locations in Europe for two years before placing its cluster of thousands of connected computers in Wallonia.

The proximity to large population centres in north-west Europe was the first thing that Google was looking for.

Although data centres can be placed almost anywhere in the world, a location near the user helps deliver faster results a key competitive advantage in the cut-throat web-services field.

The facility is one of an estimated dozen Google data centres in Europe – the precise number is not released by the company because it says its operational set-up is commercially sensitive.

But Mons stands out as "probably one of the most – if not the most – energy-efficient data centres in the world", says Al Verney of Google Benelux.

Part of the reason is that Google is using water from Wallonia's canals to cool its computers, instead of the power-hungry refrigeration units that are more commonly used.

As electricity for cooling is one of the main costs associated with large-scale computing, the savings make financial as well as environmental sense.

The set-up requires fresh water to be available on a scale which is not common in other parts of Europe. The water passes through a purification plant to

ensure it returns to the canals cleaner than when it was drawn.

It explains the plumes of steam emerging from the facility, as the water from the canals meets the heat of the computers.

Access to different types of electrical power – in particular renewable energy, which the Californian group prefers in order to burnish its green credentials – was also a factor in selecting Wallonia.

It helped that the region already had a good fibre-optic network, enabling Google to whizz data efficiently across northern Europe. While other nearby rivals may have had some of the same advantages, details made the difference. "The team responsible for attracting our investment really worked hard to get us in," says Mr Verney.

"We had a lot of questions – as you do with a project this size – and they worked hard to smooth the way for us."

As a result, the company revised its plans just before construction work was to begin, expanding the facility's capacity markedly. The skills available locally were also an important factor.

"Belgium has a good reputation in engineering.

Access to different types of electrical power – in particular renewable energy – was also a factor

What we found is a local workforce and companies that are able to meet our needs," says Mr Verney. The Walloon authorities are hoping that Google's investment will underpin the region as a "Digital Innovation Valley".

The includes a Microsoft research centre in a nearby industrial estate. The US software group's investment is a blend of incubator for local start-ups and a training and certification centre, with the aim of employing 250 people at full capacity.

In part, the enthusiasm of the regional authority stems from the prestige of hosting well-known technology groups. But the projects also help create jobs in emerging technologies.

In the case of Google, about 120 positions have been created to keep the place running, including external contractors taking care of security, catering and the like.

The equivalent of 300 full-time workers were needed during the construction phase.

Though some staff were brought in from overseas, most come from the region, including some of the project's top management.

Perhaps the only downside for Wallonia is that, though the data centre exports trillions of pieces of information every day, no recipients are ever likely to know they came from a large warehouse near Mons.

Nikki Tait

Doing Business in Wallonia



Targeting exports: a helicopter-mounted gun capable of firing 1,100 rounds a minute is one of the weapons systems made by Walloon-owned FN Herstal

Gunmaker is explosive asset for the region

FN Herstal

A temporary ownership arrangement has dragged on for a long time, reports **Vanessa Mock**

The unprepossessing little town of Herstal is an unlikely gateway to one of the world's leading makers of small arms.

FN Herstal supplies the US army with its M16s, and Nato allies with submachine-guns. Hunters collect the deluxe Browning shooting rifles that are handcrafted at its workshops.

The company has long been regarded as a proud emblem of Wallonia. But its reputation was tarnished last year by a controversial export deal with Libya. Since then, it has kept a low public profile and is reluctant to open its gates to the press. The

affair also raised questions about its ownership: it is 100 per cent owned by the Wallonia government, the same entity that grants it licences to export arms.

Tucked away at the end of a row of nondescript, grey town houses with no signposts to lead the way, Herstal is the largest of a handful of arms manufacturers in Wallonia. About 1,200 staff work in its turn-of-the-century, red-brick headquarters – half its global workforce. Its engineers produce everything from mounted weapons systems for helicopters to ammunition.

Global sales of the Herstal Group, which has its main subsidiary in South Carolina, amounted to \$612m last year, with the Belgian arm, FN Herstal, reporting sales of \$224m. Two-thirds are defence-linked and the rest related to sporting weapons.

The region has a tradition of weapons manufacture dating back five centuries, but it was not until the 1880s

that a disparate group of small companies dotted around the city of Liège joined forces to create the *Fabriques Nationales d'Armes de Guerre*. This temporary entity, created to meet an exceptional order of 150,000 Mauser rifles made under licence for the Belgian state, was a success and it was decided that the fusion should be permanent.

Back in those days, pistols and rifles were just a small part of FN's eclectic product range. Had it not been for a fortuitous encounter with John Browning in 1887, its logo might today have been more ubiquitous on car bonnets than on handguns.

Up until the 1980s, FN engineers worked on a range of transport vehicles, starting with chainless bicycles and going on to cars, motorcycles, trucks and aero-engines.

But Mr Browning's involvement with Herstal was decisive. The legendary American arms maker designed the semi-automatic rifle, thereby revo-

lutionising the entire weapons industry. By 1910, the semi-automatic had become standard. A semi-automatic FN, for instance, was one of the four weapons found on the assassins of the Archduke Franz Ferdinand of Austria in 1914.

FN acquired the Browning family business in 1976 and, later, the US Repeating Arms Co, with the manufacturing and marketing licence for Winchester rifles and shotguns. "They are what John Wayne would have used," jokes Robert Sauvage, the company's communications director, as he holds up a walnut-encased, hand-carved rifle. "The top price for one of these? About €75,000 (\$103,000)."

When it was put up for sale in 1997 by its then-owner GIAT, the struggling French defence group, the Wallonia government stepped in. It used its golden share to block a sale to arch-rival Colt Manufacturing of the US, fearing the Wallonian flagship might be shut down, and bought the company itself.

But even today, there are many who feel uncomfortable with this arrangement. By 2003, Belgium was the only country in Europe where the power of granting export licences for guns

rested with regional authorities and not in federal hands, triggering fears of a conflict of interest.

"Of course, it made sense in terms of preserving the local economy, but it's been heavily criticised," says Luc Mampaey, deputy director of the Brussels-based Group for Research and Information on Peace and Security. "The sale of weapons is an industry like no other. If anything, it is a foreign policy tool and should be in federal, not Walloon, hands."

However, the company was tight-lipped when asked about exports and politics, and senior management declined an interview with the FT. Mr Sauvage would only insist that "there is a complete separation between the company and politics. We can only sell to countries for whom we have an export licence."

Yet the situation was severely tested last year when FN Herstal promised to deliver €10m worth of arms to Libya. The UK and Serbia had refused similar orders. But some felt that long-standing ties with Libya should be resumed, following the lifting of the arms embargo in 2004.

"Libya may no longer be on the blacklist but it's one of several 'grey'

countries that Wallonia courts. It remains problematic in terms of human rights and because of the high risk that it might re-export arms," says Mr Mampaey. "But it was election time, unions made a lot of noise and eventually the government agreed to the licence."

FN Herstal exports more than 400,000 weapons a year and some 20 per cent of those go to countries that are not in the EU or Nato, including Saudi Arabia.

The Wallonia authorities say there is a rigorous system of checks and balances to ensure that it is in line with EU and international guidelines.

Gilles Mouyard, a Walloon MP from the centre-right MR Party and a member of the regional government's Arms Licensing Commission, says: "We know this is not an ideal system but this was always meant to be a temporary set-up. Wallonia will sell Herstal when the time is right."

However, the long-running deliberations appeared to have scared Libya off from signing a far larger deal. FN Herstal had been on track to deliver weapons worth €100m to Libyan leader Muammar Gaddafi, but the order stalled.

Two wheels put landscape's rich contours in perspective

Cycling

Stanley Pignal learns not to rely on a region's myths when assessing a ride's difficulty

Cycling uphill is tiresome enough without having one's efforts belittled by people who contest the very notion that there are any "hills" in Belgium.

"It's in the Low Countries – should be flat terrain all the way," I was assured by the three friends organising a recent two-day jaunt through the Walloon countryside.

Their claim chimed with the lyrics of Jacques Brel, Belgium's favourite crooner, who sang so eloquently about *ce plat pays, qui est le mien* "this flat country of mine".

This talk of Walloon flatness was all the more reassuring considering the doubts I had about how I'd cope with the itinerary, a 180km ride from Eupen on Belgium's eastern border down to Arlon, the last stop before Luxembourg in the south.

In my enthusiasm, I had mentally blanked out that the Ardennes region we would be travelling through is renowned for its scenic but hilly terrain.

Before setting off, we built up our energy reserves with breakfast in a Germanic Konditorei, one of many in Eupen, the capital of a sliver of Wallonia that is German in all but fact.

The community is a quirk of history, part of two minuscule enclaves that were never returned to Germany after being seized by Belgium in the first world war.

The 73,000 Belgian Germanophones, as they are known in French, live in an

area about half the size of Greater London, and are part of Wallonia despite their linguistic differences.

The charms of the region quickly faded when we got on our bikes, and I discovered much to my chagrin that its terrain was not the Belgian pancake I had been promised.

Not long after we set off I could barely make out my much fitter friends disappearing in the distance. With 179km to go, this was not boding well.

The relative proximity of the sights is a welcome touch when relying on pedal power

My snail-like pace, though, did leave me with ample time to admire the Hautes Fagnes national park, a woodland I later discovered is so hilly that skiing is a popular winter activity. So much for the "Low Countries".

However, despite the terrain, biking is by far the best way to see Wallonia.

Even a meagre two-day trip enrolls its participants into a proud Belgian road racing tradition, one of the country's most popular sports.

Biking through Belgium is akin to dribbling a football down Rio de Janeiro's Copacabana beach, or bouncing a basketball in Madison Square Garden: it is practising a sport in its spiritual home.

Wallonia is the venue for many of cycling's most arduous races, and this year hosted a stage of the Tour de France, the sport's most important event. The region's second-largest city, Liège, was recently selected as the starting point for the 2012 race, a party for which Wallonia is already preparing.

As a result of this broad-based passion, the Walloon countryside is criss-crossed by cycle paths, and many of its roads include generous dedicated lanes for cyclists.

In any case, respect for cyclists is such that drivers give riders a wide berth and honk at stragglers to encourage them along – as I repeatedly discovered.

Facilities are also top-notch. Bike shops are plentiful and their staff knowledgeable. Trains welcome bikes, for a small fee. Restaurants do not bat an eyelid when confronted with sweaty, Lycra-wearing customers.

Staff at our hotel in Houffalize happily indicated a spot where our bikes would be safe for the night. They looked almost surprised we did not want to take them into our bedrooms.

The region also has a dense tapestry of history, ranging from medieval castles to industrial landmarks and ancient breweries. The relative proximity of the sights is a welcome touch when relying on pedal power.

Most notable are remnants of the second world war – the Ardennes being the venue for the epic Battle of the Bulge, a significant Allied victory and US general Dwight D. Eisenhower's finest hour.

Abandoned tanks by the side of the road provide a welcome distraction, and even the slightest bit of imagination is enough

to recreate mentally the intensity of combat the region experienced 65 years ago.

It helped place my own plight as an unfit punter struggling on near-mountainous terrain in perspective. That, and the fact that those gruelling uphill stretches turn into exhilarating descents – eventually.

Though I had cursed Wallonia's supposedly non-existent hills on the way up, they are really quite scenic on the way down.



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