

THE COST OF DOING BUSINESS IN EMERGING MARKETS

There are no myths involved here, only realities.

Even though there are significant opportunities for the development of joint ventures for environmental consulting, many of the countries which have the need do not yet have business legislation which protects foreign investors and businesses. In Europe, Latin America, and Russia, there is a very heavy emphasis on social programs that American and Canadian companies have not experienced. For example, the payroll costs in some countries have a social tax in excess of 45% paid on top of the salary. In addition, and depending upon the corporate setup, foreign companies doing business in these countries often face corporate withholding taxes of upwards to 25%.

Percentage of ownership restrictions may exist such as not permitting a foreign corporation to be a majority shareholder or not permitting foreign directors in the company. In addition, there are few laws, particularly in the fast growing emerging economies where foreign capital investment is protected. The business security risks are very high in many countries and the foreign partner must realize that there may be a necessity to "walk away" from the effort, facing huge losses and no opportunity for recovery. Most importantly, the foreign investor must be willing to have foreign directors control the company and capital. Also, any analytical or field equipment imported for company use will be subjected to all duties and tariffs. This could increase the cost of the equipment by 15% to 35%.

A significant travel and communications budget, personal and staff commitment are pre-requisite underpinnings of a successful business plan.

SUMMARY AND CONCLUSIONS

This report appears to paint a rather negative picture about trying to do business in emerging environmental markets. It was done with a distinct purpose in mind. The emerging environmental markets are not gold mines. Yes they are mine fields. However, by generating a sound business plan taking all of the pitfalls and opportunities into account, the business risks are reduced significantly and success can well be the final reward. It is also important to identify that you are not in for the short haul. To go to a country on a project by project basis is short-sighted and will ultimately end in failure. A true commitment will be long term and gains strength.