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MARKET INFORMATION

Myths & Realities of Doing Business in Emerging Environmental Markets

Team Canada • Équipe Canada

This article is a summary of a paper presented at the World Environmental Congress in London, Ontario last September. It is published with the permission of the authors of the original paper Dr. Norbert W. Schmidtke and Henry R. Hidell III and provides clear insights on doing business in emerging environmental markets.*

The international market is far less accepting than Canada of environmental concerns, the precepts of costs, and the implied need for resource conservation, resource recovery and environmental protection. Those nations which are emerging into more globally oriented world trade seek only markets for their industrial products.

Often, the public health issue is not the business driving force. They are less concerned about the environment and more concerned about their economies. Therefore, the environmental professional seeking to develop these countries must understand that in most emerging industrial economies their pretence is unwanted, with the exception of 'polite' acceptance of their efforts for the sake of international public relations. In addition, any activities which may indicate that the government is not concerned about the environment will be 'buried' in rhetoric, but the real effort - the focus- will remain on the sale of their industrial goods and maintaining strong economic activity..

In most emerging economies, environmental policy ranges from absence to presence in only the most rudimentary form. The need to devise, revise or even enforce such policy will be met with strong resistance from governments -even though they will confirm the need for same and espouse a very favourable public position. In addition, many of the industries in these emerging economies are owned and operated by government, quasi-government or very powerful private enterprises which do not want to interrupt income streams or reduce 'profits' to respond to environment concerns. Economic output remains the principal force in these nations. These countries often argue that environmental issues are only for rich countries.

The environmental professional seeking international business opportunities

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must seek a marketplace on a step-by-step basis. Advanced economies are saturated with professionals and remediation firms. The major significant business growth opportunities lie with environmental policy resistant nations which are emerging with the extreme need for economic and hence political stability. Such stability is not typically found in environmental policy development.

What follows is a list of problems, opportunities, myths, and realities in doing business in emerging environmental markets.

INTRODUCTION

There has been considerable interest by environmental consulting firms in Canada to push their domestic operations overseas and develop an international environmental consulting base. These overseas opportunities are appealing, particularly as competition mounts in the domestic markets and government funding of environmental consulting and remediation contracts decrease due to funding cuts. Those who work in the international markets are aware of many of the myths and in some instances painfully aware of the realities.

MYTHS & REALITIES

Myth #l: Foreign governments are benefiting from large infusions of capital from various public funds such as the World Bank, the European Bank for Reconstruction and the International Monetary Fund as well as from within the foreign governments which are funding environmental consulting and remediation projects.

Reality: There are precious few funds being applied to international environmental consulting projects. Most countries which face serious environmental issues such as the countries of the Former Soviet Union, and countries in Asia and Latin America where Industrial wastes have been dumped in the environment, whether rivers or landfills or down injection wells, have little capital for environmental cleanup and few external sources of funding. Furthermore, there are few if any enforceable environmental regulations, hence no legislative foundation or reason to clean up the environment, much less the capability to force industry to manage Its waste handling and disposal procedures any differently than Is presently being done. There is extreme competition for funds which exist only in meagre amounts when compared to the need.

Myth #2: There is an assumption by environmental consultants that analytical capabilities and environmental knowledge and employed remediation technologies in most countries are similar to those found in Canada and the United States.

Reality: Few countries outside of Western Europe have the laboratory equipment available to complete analytical protocols commonly required in Canada or the United States. This limitation is amplified by the general lack of stringent laboratory quality control procedures which often leads to questionable and unreliable analytical results. An adequate supply of chemical reagents for even routine testing purposes are often not available.

In addition to laboratory limitations, the remediation technologies employed are often primitive at best. For example: there are many companies and salesmen selling very questionable remediation systems such as the clean-up of groundwater by passing it through strong magnetic fields.

Myth #3: Foreign governments seek the assistance and provide support for encouraging environmental consultants to enter into the development of environmental regulation and remediation activities.

Reality: Most foreign governments pay only polite attention to environmental consultants and at this point in time rarely follow recommendations of such consultants. Many of the major "environmental polluter industries" on a world-wide basis are government owned and operated. For this reason, governments prefer not to have the interference of environmental consultants since such countries can ill afford to remediate the environment or adjust their manufacturing practices without significant costs.

Myth #4: There are unlimited joint venture opportunities ready to start environmental consulting activities and the domestic partner has all of the government co-operation to complete environmental research.

Reality: There are more joint ventures available than capital to support the effort. The joint venture partner in most overseas efforts has no capital, can provide only basic personnel, but no funds, no equipment, no workplace and no sanctioned projects. In Russia for example, unless the foreign partner can invest significant funds, there is no way to start. In addition, there will be no cash flow generated from the project because of the government's inability to pay and industry's refusal to pay since most are government owned. So even though there may be a willing partner, there is no business which can pay for the work with strong government support.

Myth #5: I need a partner in every country where I wish to do business.

Reality: Not necessarily so. You need a partner who is established in a market area which may comprise a group of countries, but definitely you require an overseas partner.

Myth #6: Finding a partner should not be too difficult.

Reality: Finding the right partner is a time consuming and arduous task. It requires patience, perseverance, financial resources and commitment. Invite the potential partner to meet at your offices (at his cost). This tests his sincerity and commitment.

Myth #7: Foreign countries always want foreign technologies and/or ,services.

Reality: Many foreign countries have technologies and a strong technical base, but little application experience. This offers the opportunity to forge strategic alliances to make your product/service look local and come up with more cost-effective solutions. In addition, many countries have very strong national pride and dignity. The overseas consultant must preserve this national pride.

Myth #8: A country must have strong environmental laws which are enforced.

Reality: Market forces will drive an industry/sector to self enforce high environmental standards as dictated by their export market countries. This phenomenon we call 'virtual regulations'. An example is Turkey where they have a significant market for their textiles in Germany and other European countries. Germany is insisting that the Turkish textile industry implement production and treatment strategies which result in German equivalent effluent quality. Otherwise the German market will no longer be accessible. This is a unique case and must be viewed cautiously.

Myth #9: High-tech, end-of-pipe solutions to wastewater management problems will solve all industrial water pollution problems.

Reality: Cost-effective wastewater management lies with production integrated waste management strategies which in many instances will generate additional revenue or cost reduction for industries and thus give them a competitive advantage.

Myth #10: Business meetings are easily arranged and you will meet at the agreed-to time.

Reality: While this may appear to be true, often, agreed-to meeting times become rather elusive. As well the intended subject of the meeting often gets side-tracked.

Key people are all of a sudden not available. If this occurs, it is done of politeness. They really do not wish to do business with you. Or the product/service vendor is already predetermined.

However, if you have a powerful, influential, well-connected partner, you can minimize these disappointments. The Canadian experience is that embassy staff and officials can be a great help in opening doors and meeting decision makers.

Myth #11: By participating in environmental events such as trade shows or trade missions I will fill my order book.

Reality: Trade shows and trade missions are useful tools in establishing a first contact, but require your sustained support. This goes back to your business plan. Careful market research will give you the direction and resource commitment required. Trade missions are useful in identifying business opportunities.

Myth #12: In today's information and communication age communication is easy.

Reality: Not everybody is hooked into the communication frenzy. In many of the emerging Industrial nations the degree of urgency we feel that a reply should have is not shared. Allow for communication times to be double and your communications budget requirements to be 25-30% greater than domestic communications costs.

Myth #13: Project timetables are similar to those of North America.

Reality: Wrong! Allow for at least double the time. As well, many European and Latin American countries have many more holidays which interrupt business projects.

Myth #14: The international business arena is a gold mine.

Reality: It is more like a mine-field. To be successful requires commitment, resources, staying power, a strategy (short-, intermediate- and long-term) and flexibility.

Myth #15: Everyone understands English. .

Reality: Maybe so, to varying degrees. But knowing the local language and therefore being able to communicate gives you a decided advantage over the competition. You understand the culture and the nuances, and you will be able to socialize at a different level. In addition, clear wording of contracts is essential including how words are used. Retain a translator if necessary and local legal counsel.

Myth #16: Emerging industrial nations have resources for infrastructure and other capital projects.

Reality: Emerging industrial nations have little to no capital of their own and therefore look for strong external financial inputs. Build, operate and transfer (BOT) projects are increasingly more sought after. Firms which offer this are finding it to be a good formula to do business in emerging environmental markets.

Myth #17: Emerging industrial nations will pay for consulting services,

Reality: To many countries this is a foreign concept. Advice should be free. Thus, the consulting activity must be linked to a project which you will get as a result. There are no guarantees that this will happen. Hence you must choose and weigh your time and knowledge investment carefully.

Myth #18: Having a local partner will ensure that you will get your share of projects.

Reality: Unless you found a partner who is as committed as you and stands to gain and lose as much as you, you may wind up putting in a lot of resources and getting nothing in return.

Myth #19: Market entry strategies are the same everywhere. If you have a neat gadget, the world will beat a path to your door.

Reality: Wrong. In the international arena it is critical to know who/what controls market entry. For example: in Spain, through technology demonstration; in Italy, through political connections; in Germany, through technology authentication.

Myth #20: It is difficult to identify environmental projects.

Reality: There is no shortage of projects. Only a shortage of money.

Myth #21: I must get paid in convertible currency.

Reality: Preferably but not necessarily so. If there is an opportunity to be paid in a commodity get a commodity trader involved at the contract negotiation stage.

Having identified and dispelled a number of myths about entering emerging environmental markets, it is also prudent to share a few thoughts and experiences on the cost of doing business

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 invéstor 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.

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The upside is found when the environmental consultant in Canada is able to identify a foreign partner with capital and a political base so that if any government sponsored contracts are available, the contract has a good opportunity to be "shuttled' to the joint venture. In addition, a foundation of mutual trust must emerge between the two partners and each must bring an equal in value or staff or equipment to the table at the outset.

The development of international environmental consulting practices requires an understanding of the risks, a comprehensive understanding of the culture, language and its nuances, and certainly the present status of laws relating to business conduct and environmental matters. Failure to enter into a relationship without this comprehensive knowledge will require one to be either very lucky or to absorb the almost inevitable financial losses.

Such are the myths and realities of doing business in emerging environmental markets.

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