Going Dutch: the Netherlands as a Location for Operations and Treasury Services

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With advanced infrastructure, a skilled workforce, robust financial system, stable economy, and competitive tax regime, the Netherlands can meet the needs of any international company or treasury shared service centre (SSC). This article examines the practicalities of setting up in the country and provides a case study from LGC Electronics. To access the attractions of the Netherlands successfully it is important for corporates and their treasury teams to work with a trusted adviser that combines local knowledge with international capabilities.

The Netherlands has always welcomed foreign investors and been successful in attracting them. An open economy and the outward-looking nature of its population have long been factors in the Netherlands’ favour. Over several decades, those strengths have been bolstered by substantial investment in infrastructure and education, coupled with a sustained commitment to a stable, efficient low-tax economy. In addition, the recent controversial case of Starbucks, which used the Netherlands to minimise its UK corporate tax payments, further highlighted the country’s success in attracting international corporations.

Despite their recent troubles, Europe’s economies continue to become more interconnected. From a business perspective, the Netherlands offers unrivalled access to the European market via high-quality transport infrastructure. Meanwhile, in the treasury world the trend is also towards greater centralisation in order to improve visibility, control and efficiency. The Netherlands’ business-friendly approach to taxation and robust financial infrastructure offer a unique opportunity to establish a regional treasury and/or shared service centre.

As a result, the Netherlands has continued to attract corporates of all sizes from across the world to set up manufacturing sites, logistics and distribution centres, sales companies, research and development (R&D) innovation centres and treasury centres. While its economy has not been immune to the problems in the eurozone, the Netherlands has shown a consistent commitment to maintaining its advantageous legal, financial and business environment.

Indeed, in many areas the Netherlands has strengthened efforts to ensure its economy will appeal to new businesses. In the World Economic Forum’s (WEF) ‘Global Competitiveness Report (GCR) 2012-13’, the Netherlands improved its competitiveness ranking from seventh to fifth in the world. The report cited the country’s “strengthening of its innovative capacity and heightened efficiency and stability of its financial markets”.

**Location and Infrastructure**

The Netherlands enjoys the benefits of its accessible location bordering Belgium and Germany. The port of Rotterdam is among the world’s largest, acting as a gateway to Europe while the ‘GCR’ rates Dutch maritime facilities as the best in the world. In 2013, the second Maasvlakte area will open, expanding Rotterdam port by 2,000 hectares and opening access to the world’s largest container vessels.

Similarly, Schiphol is one of the world’s largest international airports and is also at the heart of the growth in international air freight to and from Europe. Overall, the Netherlands ranks fourth in the world for air infrastructure according to the WEF while its rail (ranked ninth) and road infrastructure are also crucial components in its success as a production and distribution hub for Europe.

The Netherlands’ infrastructure strength continues to spur companies to build new manufacturing
or distribution facilities in the country. Microsoft announced in April 2012 that it was moving its software distribution centre from Germany to the Netherlands in 2012 and US electric vehicle manufacturer Tesla announced last month that it had chosen the city of Tilburg as its European hub for car assembly, imports handling, parts, repairs and training.

**Workforce Skills, Financial Sector and Economy**

The Netherlands' long history of hosting international companies owes much to its open economy and historic dependence on exports due to its small domestic economy. As a result of this outward-looking approach, Dutch people and treasuries have the language and business skills required to work at both a European and global level.

The Netherlands has a higher level of public spending on health and education than many other European countries. The 'GCR' ranks it fifth for health and primary education and sixth for higher education and training. Despite a relatively low unemployment rate of 7.2% and high productivity, the labour market remains flexible and wage costs are attractive compared against many European countries, especially for management roles. Consequently, international firms can easily find suitable and cost-effective labour to meet any operational or treasury requirements.

While the number of banks operating in the Netherlands is limited - and those with an international footprint fewer still - the market is extremely competitive in terms of pricing and services. It is also prudently regulated: its regulators have a record of taking a far-sighted approach, most notably in eliminating paper cheques and the creation of an entirely paperless financial system. The Netherlands operates an efficient clearing system for low value and single euro payments area (SEPA) payments. High-value electronic payments (e-payments) are cleared via TOP, the real-time gross settlement system of De Nederlandsche Bank (DNB), the Dutch central bank, which is linked to Target2 for cross-border euro payments.

The stability of the Netherlands' economy in the post-crisis period has been impressive and is reinforced by adherence to the Maastricht criteria regarding government deficits, balance of payments and inflation. The country runs a trade surplus with 50% of all exports being transit trade, mostly from Rotterdam. Equally, the government is committed to ensuring efficient markets: the WEF ranks the Netherlands sixth worldwide for its goods market, demonstrating the dynamic and flexible nature of business activity.

**Tax Policy**

Among the most important advantages offered to companies and treasuries locating in the Netherlands is the favourable tax regime. The country has tax treaties with 99 others, including key economies, preventing double taxation. Moreover, tax authorities allow corporates to discuss in advance the level of corporate income tax levied on international group finance companies. A ruling can apply to tax payments for up to 10 years, offering certainty regarding costs that few countries can match and making the Netherlands especially attractive for companies setting up treasury centres and/or SSCs.

A further tax advantage offered is the absence of withholding tax on interest, dividends or royalties. As a result, legal vehicles can be established to facilitate efficient inter-company financing or collection of royalty streams. In addition, the Netherlands offers participation exemption, making it attractive in terms of capital gains and foreign tax credits for establishing holding companies and group financing structures.

One major legislative change on tax, that took effect from 1 January 2013, is the abolition of thin capital regulation. Under the new rules, only an excessive participation interest that exceeds a threshold of €750,000 is non-deductible. Although the new rules can limit deductibility in relation to debt financing of intragroup reorganisations, interest and financing costs in relation to operational investments should remain deductible.

Overall, few jurisdictions match the Netherlands in terms of tax policy attractiveness: it has been a major driver for the establishment of financial holding companies. US corporates continue to be the largest investors - the country was the largest recipient of US direct investment in 2011, of which 77% was accounted for by holding companies. There is also growing interest among Asian companies expanding into Europe in taking advantage of the Netherlands' favourable tax regime by establishing holding companies or treasury centres. Other countries, such as Switzerland and Ireland, are also keen to win this business of course.
Conclusion
There are many potential sources of support and information for any company that anticipates benefit from establishing a presence in the Netherlands. A number of public sector bodies, such as the Netherlands Foreign Investment Agency (NFIA), offer practical guidance while many institutions also arrange fact-finding trips for interested companies.

International banks that are active in the Netherlands such as Citi can also offer advice on financial infrastructure and the opportunities available there. It is essential that corporates work with a trusted banking partner that has local expertise and presence and is also able to offer a global network and a full suite of treasury and trade solutions. These will serve corporates’ international and local ambitions to ensure that the opportunities presented by the Netherlands are effectively harnessed.

Case Study: LG Electronics Sets up Dutch Global Treasury Centre
LG Electronics is a global leader and technology innovator in consumer electronics, mobile communications and home appliances with operations in 117 countries around the world. The company historically supported subsidiaries’ cash processes through its network of regional treasury centres (RTCs), but decided to migrate to a global treasury centre (GTC) to achieve a more coordinated, end-to-end approach to liquidity management. It wanted to reduce interest costs, optimise cash balances, and establish common processes to leave subsidiaries ‘cash free’ and able to concentrate on core tasks.

LG implemented a global treasury management system (TMS) and established its GTC as an in-house bank (IHB). The next step was to create a cost-effective cash management structure to optimise its liquidity globally by using centralised solutions. In addition, the company planned to use a tax-efficient structure to improve efficiency.

Following a benchmarking project and request for proposals (RFP), Citi was selected to implement an end-to-end solution concentrating liquidity on a global basis into a multi-currency notional pool. Balances from third-party banks are automatically swept via a SWIFT message-based platform. Citi achieves the multi-currency notional offset by creating synthetic foreign exchange (FX) swaps that use an interest-parity framework. Citi supplies all balance information directly into LG’s TMS via SWIFT MT940 reporting.

At the same time, LG selected the Netherlands for its treasury centre. “Our key objective was to consolidate banking relationships and centralise cash and treasury management based on a tax-efficient structure. Working with Citi and selecting the Netherlands fulfilled those requirements,” says Denis de Ruijter, senior manager at LG’s European treasury centre.

LG Electronics’ treasury structure has achieved its initial objectives while also creating a solid, standardised platform for future efficiencies. The solution has also established clear communication lines with its primary banking provider. “As well as interest savings through cash optimisation and improved cash flow forecasting through greater visibility, we have saved money because we use common processes that have increased automation and reduced banking interfaces,” says de Ruijter. “Moreover, we also work more effectively with the business, and can make decisions, such as our use of SWIFT, based on a global strategy.”

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Bruin van der Sar began working for Citi in 2006. He has been in the banking industry for more than 28 years in many different roles in corporate banking and cash/treasury management. In his current role as client sales manager he is responsible for managing a portfolio of leading global corporate clients across different industries within Citi Transaction Services, Treasury and Trade Solutions.

Van der Sar is responsible as strategic partner and trusted advisor to corporates in progressing and maintaining the overall CTS relationship bringing innovative global, regional and domestic solutions to treasury centres related to cash and treasury management, trade finance, trade services and corporate cards.

He graduated in Business Economics at Erasmus University, Rotterdam in 1984 with a specialisation in Finance and Investments.