Public procurement and the EU policies

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Dr. Burghard Ilge
Outline

* EU agenda on Government Procurement from Global Europe Strategy
* EU procurement market
* Role of Government Procurement for economic policies
* Threat of EU to restrict access to EU Government Procurement market
What is Government Procurement?

Government Procurement = Public Procurement

purchase of goods and services by the state or state bodies.
EU agenda on Government Procurement from Global Europe Strategy
“Public procurement is an area of significant untapped potential for EU exporters. This is probably the biggest trade sector remaining sheltered from multilateral disciplines.”

“it represents between 10% and 25% of GDP of partner countries. It is vital for sectors such as construction or engineering.”
“Currently, almost all the EU's major trading partners operate restrictive procurement practices which discriminate de jure or de facto against EU suppliers,”
“In certain limited cases, it may be that greater openness in the procurement markets of major trading partners can only be achieved through the possibility of carefully targeted restrictions on access to the EU (procurement) market.”

“This approach would not be considered for poorer developing countries”
EU Government Procurement market
EU public procurement legislation

Public procurement legislation in the EU is aimed at creating a common market by ensuring free movement of goods, persons, services and capital, and promoting effective competition in the Internal Market[1]. The guiding principles[2] by which these aims are sought to be achieved are:

(a) Equal treatment of all economic operators;
(b) Transparent behavior;
(c) No discrimination based on nationality.

[1] These objectives are laid out in Articles 2 and 3 of the Treaty of Rome (1957).
[2] These are laid out in Articles 2 and 3 of the Public Sector Directive 2004/18/EC.
EU situation on Government procurement

EU Government procurement market are open.

Officially no discrimination between countries

EU internal GP markets still not fully harmonized (currently an EU internal process ongoing)

Governments of EU member states still procure mainly national
Thresholds for EU public procurement rules

Open bidding leads to more price competition
  -> good for the consumer

But also draw backs:

increased competition may drive down prices down to a level
where poor quality or predatory pricing become a concern

to reduce the problem thresholds for public tender requirement

€ 125 000 for public sector supply and service contracts
€ 4 845 000 for public works concession contracts

only 18,2% is published in the EU official journal
Government Procurement in India
Government Procurement in India

“estimated to be in the order of $100 billion”

“more than 20% of GDP”

Both ENDS
Environment and Development Service
Role of Government Procurement as an economic policy tool
Government Procurement as policy tool

EU and World Bank main paradigm

“Foreign competition in domestic government procurement markets will lead to efficiency gains for the host country”

“Open and competitive government procurement markets will prevent corruption”
Government Procurement as policy tool

# During recession it can facilitate faster recovery

# Domestic firms are more likely than foreign firms to source inputs domestically, to employ local staff (including senior level) and to subcontract to domestic SMEs for services and supplies

# Target government procurement spending to marginalized sectors in order to redress inequality and to achieve other social objectives
* Government procurement as policy tool *

- Economic stimulus for national business sector
- Differentiation: e.g. regional discrimination
- *Bona fide* regulations might be challenged as *Indirect discrimination*?
- Counterbalance EU Business support
- Stabilization of agricultural markets
Threat of EU to restrict access to EU Government Procurement
Under the EU’s FTA proposals it would be prohibited from favoring particular firms on the basis of their origin. But allowed according to objective criteria (such as size or sector).

“This is what we already practice”

“If you don't reciprocate we might have to reconsider”
EU and Member states

Public sector import for government Procurement in EU “7,5%” Japan 4,7% US 4,6%

But 7,5% contains also all import from other EU countries

on country level most imports are from other EU countries 63-65%

extra EU import for Public Procurement only 2,66%

Other EU study:
Number of contracts 1,6%
How are these average 7.5% of national imports for GP distributed?

No data !!!!

but estimates on trade date
(accumulated public and private sector imports)

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<table>
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<tr>
<td>other EU countries (inter EU trade)</td>
<td>64.5%</td>
</tr>
<tr>
<td>USA</td>
<td>12.6%</td>
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<tr>
<td>China:</td>
<td>12.4%</td>
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<tr>
<td>Japan</td>
<td>5.7%</td>
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<td>Norway</td>
<td>5.2%</td>
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<td>Switzerland</td>
<td>5.1%</td>
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<tr>
<td>Canada:</td>
<td>1.3%</td>
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<td><strong>Rest of the world:</strong></td>
<td><strong>20.48%</strong></td>
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How important is the EU GP market for India?

Total current share of India in EU GP not known

EU imports rest of the world (excluding other EU and 6 main countries): 1.5%

Canada: 0.0975%

So no big share from India

but how important?
## Estimate India share in EU public procurement

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<tr>
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<th>Total GP (Euro billion)</th>
<th>Canada (million)</th>
<th>all remaining (excluding: EU,big 6) million</th>
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<tbody>
<tr>
<td>EU (total)</td>
<td>197</td>
<td>192</td>
<td>2955</td>
</tr>
<tr>
<td>Germany</td>
<td>40</td>
<td>39</td>
<td>600</td>
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<tr>
<td>France</td>
<td>33</td>
<td>32</td>
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<td>Italy</td>
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<td>25</td>
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<td>Spain</td>
<td>21</td>
<td>20</td>
<td>315</td>
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<tr>
<td>Netherlands</td>
<td>13</td>
<td>12</td>
<td>195</td>
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</tbody>
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Impact of threat on India is one thing

Impact on business in EU another
EU study asked EU business

Do you (ever) include foreign subcontractor(s) when bidding domestically?

Yes: 30%

Did you (ever) include foreign consortium partners when bidding domestically within the last three years?

Yes: 9%
How to discriminate?
Different types of cross border procurement
Introduction of discrimination on GP against India

“the introduction of the procurement Directives in the then 15 MS increased the value for money of procurement subject to the Directives by between 2.5 % and 10 % from 1992 to 2003. There was also an increase in administrative costs of about 0.7 per cent.”


0,7 % of Euro 197 Billion = 1,3 Billion
Summery

Introduction of discrimination on GP

Increased cost of new discriminatory GP rules in EU

* additional administrations cost?
0,7% of Euro 197 Billion = 1,3 Billion could be more

* Decrease of “value for money of procurement”

* Loss of flexibility for EU business sector in tendering

Current share of India in EU GP market unknown but most likely not more than a few 100 million
More information:

http://ec.europa.eu/internal_market/publicprocurement/index_en.htm

http://en.wikipedia.org/wiki/GovernmentProcurement_in_the_European_Union

Thank You!