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Public-Private Synergies? The Luxembourg Maritime Cluster: a private sector entity supporting the economic diversification policy of the Grand-Duchy of Luxembourg

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Conscious of its strong dependency on the financial and banking sector and in an attempt to reduce its relying on a sole business, Luxembourg actively promotes a handful of selected groundbreaking sectors and economic levers. These sectors and levers, having been identified as promising for the national economy, are the aerospace, the automotive components industry, the clean technologies, high-end financial services, the high-tech industry, the information and communication technologies (ICT), the attraction of international headquarters, the intellectual property rights management, the research & development activities including life sciences and personalized medicine, logistics and the shipping business. At the dawn of this new approach, six state controlled clusters have been created to be instrumental in supporting the economic diversification (all part of the Luxembourg Cluster Initiative led by Government Innovation Agency Luxinnovation) as well as two clusters controlled by private interests with an agenda and strategy not necessarily fully-aligned on the Government policy.

The latter is the case of the non-profit organization “Luxembourg Maritime Cluster”¹ (LMC) created in 2008 and for the time being financed as well as sponsored by private companies only. The LMC is chaired by Mr. Freddy Bracke and has been established by 16 companies to promote the local maritime business community domestic and abroad, i.e. all economic activities related to the sea or what is now known as Blue Economy. As of today, fifty companies and private institutions actively participate in the initiative. They operate in nearly all subsectors of the Blue Economy – which is rare if not unique in a landlocked country: merchant marine, dredging activities, banking, financial and consulting services (audit, law, insurance and reinsurance, ship brokerage, classification, training, strategic consulting), railway and port logistics (Luxembourg has a river port and a dry port for containers), marine

¹ The official name is “Cluster maritime luxembourgeois asbl” whereas “asbl” stands for non-profit organizations according to Luxembourg Law. An extensive description of the Luxembourg Maritime Cluster and its activities is available on following website: <http://www.cluster-maritime.lu>.

telecommunications and surveillance services, environment-friendly ship technology, marine biology and equipment. In the long run, the LMC pursues the objective to establish Luxembourg as a significant shipping location comparable to other European maritime centers with regards to the number of controlled ships, the breadth and reputation of the maritime expertise. Nevertheless, its strategy is not only focused on ocean-going vessels and their owners, but rather on any business or undertaking related to the sea as per the above mentioned membership structure of the cluster. Developing the sector will bring economic growth and employment also through knowledge and innovation, generate direct and indirect tax revenues for the state and enhance the prestige of Luxembourg as a seafaring nation.

Speaking of strategy with regards to Luxembourg maritime economy, it is obvious that the macroeconomic goals pursued by the private sector are similar to those of the public policy. Bearing this in mind, the present paper will try to illustrate first of all the author's field observation that the coexistence of separate private strategies and public policies tends to be beneficial in many ways. We will thereby examine the added value of a private cluster in this context. In a second step we will elaborate on how these two approaches may diverge or converge, sometimes collide and what it means in terms of cluster funding. The last part of this essay will showcase recent actions – especially at European level - taken by the Luxembourg Maritime Cluster which turned out to be collaterally supportive of the economic diversification strategy of the Grand-Duchy of Luxembourg.

The complementary of public policy and a private strategy: the added value of the Luxembourg Maritime Cluster

In the case of the Luxembourg maritime sector, there was no real public-private synergy at the beginning due to a lack of economic substance. The start of the shipping business dates back to the seventies as first Protection and Indemnity Clubs settled in Luxembourg in order to take advantage of a favorable legal framework for insurances. Since they were presiding over a country without a coastline, no politician became significantly involved in maritime topics until the late 80's as several European foreign governments encouraged Luxembourg to establish its own ship register in an attempt to avoid the relocation of ship-owners to far-away places outside of European jurisdictions. Traditional national flags were in fact swiftly losing ground against cheaper, less demanding non-European registries. Hence Luxembourg built its ship register from scratch with two major bills passed in 1990 and 1994; and shipowners gradually set up companies in the country. It has to be admitted that a certain

reluctance on the part of public opinion had to be overcome. The first major policy initiative came from the former Minister for Economy and Foreign Trade Jeannot Krecké who fathered a regular maritime roundtable gathering shipping companies and service providers such as lawyers, bankers, logisticians etc. As the association “Luxembourg maritime cluster” was formed in 2008 in the aftermath of the roundtable, the aim was still to improve the image, substantiate the existence of a local maritime transportation business in the Grand-Duchy, inform and convince – especially the public sphere – of the advantage of having the ship register. Considering the fact that 90 % of the international commerce is seaborne, no country can afford to ignore the sea. At least, Luxembourg decision makers were aware of positive externalities due to the settlement of maritime companies and perceived the presence of ship owners in Luxembourg as a great help to open the country to the sea ports and hence strengthen its competitive edge as logistics hub. Yet, none of them could predict at that time the success story to come and which is still ongoing. Since there was no real comprehensive policy for the economic development of the maritime sector, the business community had to develop its own strategies. Given the limited view of the Luxembourg public policy regarding the maritime sector, legislative initiatives are still strictly confined to the operation of seagoing ships or included in the closely related logistics sector. The LMC was continuously growing in the meantime, brought even more companies together to reach the surprising figure of 50 active members as of January 2015 and highlighted the existence or even the development of subsectors related to the sea, sometimes far beyond the scope of the operation of ships. By contrast the prerogatives and means of the Luxembourg authority in charge of maritime affairs² remained essentially limited to the management, supervision and occasionally the promotion of the ship register. So, the LMC embodies a strategy whose sectorial scope is broader than the Luxembourg maritime policy. By resolutely opening its doors to these undreamt-of activities, the Cluster’s strategy unveils new areas of diversification for the economic fabric and on top of that the association disposes of related information, expertise and relevant contacts freely available both for the Government and interested parties. As a matter of fact, a private controlled cluster dedicated to a specific sector will monitor all recent developments in a given sector, even developments which at first sight are not directly related to that sector but may be of great importance for the future of the same; as a consequence, such private cluster is able to identify new opportunities and direct efforts on topics the administration is not in charge or aware of. The link between

² The mentioned public authority is the “Commissariat aux affaires maritimes” and is part of Luxembourg Ministry of Economy.

public and private economic strategies takes shape as an informal exchange platform between the Cluster and the maritime authority. It focuses on topics such as the dissemination of knowledge, exchange of good practices, difficulties encountered by ship-owners and the administration alike and subjects related to the maritime business development.

The real benefit of the public private partnership in the maritime sector lies in the complementary activities of both the Cluster and the Maritime authority, especially their readiness and commitment to work hand in hand for the benefit of the sector. Whereas the Luxembourg Maritime Authority concentrates on offering high administrative quality and operational standards, putting in place safety safeguards and inspections etc., the Luxembourg Maritime Cluster focuses on the economic development of the sector and on maintaining a reasonable competitiveness which constitutes indisputably its real added value. The annual roadmap of the Luxembourg Maritime Cluster usually includes following categories of activities: public relations, lobbying, co-animation of the European Network of Maritime Clusters (ENMC)³, business development, knowledge sharing, and networking. The presence of the whole value chain of the sector and their suppliers within a single organization reinforces the cross-fertilization. Bigger corporations, Small and Medium sized Enterprises (SMEs) and start-ups can all gain from mutual exchange of specific knowledge and innovation. The Luxembourg Maritime Cluster makes its members feel part of a maritime business community and renders them more visible as an economic sector that counts.

The results from actions taken by the public or the private sector have proven to be beneficial for both parties. For instance, the study on the economic weight of the Luxembourg merchant marine performed by the Luxembourg Maritime Cluster with 350 balance sheets of ship owning companies is relevant both for the administration to shape appropriate policies and for the private sector to fine-tune its strategy or make recommendations to the policymakers. The Cluster also benefited from the review of this in-depth analysis by the maritime authority and the Luxembourg Office of Statistics which made its impact even bigger. This collaboration demonstrates again the efficient private public synergy in the general interest. Thus, the recipients of the study got to know facts and figures for the very first time. Furthermore, the study made clear and visible that the shipping business eventually benefit

³ The ENMC is managed by a French-Luxembourg team. It is chaired by former French Maritime Cluster President Francis Vallat. Vice-President is Fabrice Maire who also owns the Vice-presidency of the Luxembourg Maritime Cluster whereas the author of the article is acting as the Secretary General. Further information is available on <http://www.enmc.eu>.

Luxembourg in terms of employment, investments, growth and paid taxes. According to this study, the maritime sector in Luxembourg accounts for around 4000 jobs - 300 of it are located onshore and nearly 30% of the seafarers are citizens of the European Union. In 2012, payroll costs amounted to 147.71 million of EUR. Around 260 ships are registered in Luxembourg representing a gross tonnage of 4 million equivalent to the maritime center of Bremen in Germany. The net turnover reached the total of 2.87 billion of EUR. In 2013, the Luxembourg Maritime Cluster also drafted a business case for the Luxembourg financial newspaper AGEFI⁴ to investigate the contributions to the state budget and service providers involved by the registration of a 15000 Gross Tons vessel, with an approximate purchase price 50 000 000 EUR and a crew of 20 seafarers. We found that circa 80 000 EUR taxes by each ship during the first year of registration and 64 000 EUR from the second year of registration on. This amount does not take into account the fees paid to banks, audit firms and lawyers. We stated that” revenues created by this activity go far beyond the registration fees paid by ship-owners and the overall benefits for the country are considerable in terms of job creation and wealth production.” In 2012, the Luxembourg Maritime Cluster estimated this contribution to around 74 million of EUR.

Tradeoff between public funding / no public funding

Although the maritime sector is not the first sector to come to mind when speaking about economic development in Luxembourg and where to put the public funding, these figures may advocate public funding for the Luxembourg Maritime Cluster in order to sustain its activities.

Nevertheless, for the time being, the Government is not ready to support it financially on a regular basis. That is why the Luxembourg Maritime Cluster qualifies and remains as the only private controlled and financed business and research network of the Grand Duchy. This status comes along with some advantages and disadvantages, especially with a difficult trade-off with regards to the ability of the LMC to lobby. This being said, the main difference between the Maritime Cluster and the other clusters is actually the fact that the CML may attempt to influence decisions if need be. No public funding guarantees that the companies enjoy a nonpartisan setting where they can freely discuss their business concerns. Conversely, getting public money would hamper lobbying possibilities in a case of discordance between

⁴ “What’s the Deal with Luxembourg’s 250 Merchant Ships?” by Paul Marceul, Manager of the Luxembourg Maritime Cluster, AGEFI LUXEMBOURG, March 2013, p. 11

the maritime sector and public authorities. This would happen to the detriment of the state which shall look for market information and insider rules in order to shape efficient economic policies and to the detriment of the private sector which would miss the opportunity to impart their concerns and ideas. Then again, the membership of the CML is encompassing a lot of different expertise and interest which enables the cluster to think up positions of general interest summing up several point of views. This is not the case of basic trade associations representing one single sector and hence promoting one variant. So, private controlled clusters – being cross-sectorial by definition – are a powerful tool of bottom-up and top-down information flow.

Moreover, having no public funding ensures that companies remain involved and motivated in cluster activities. Unlike Luxembourg public hold clusters, member companies of private administered clusters have to pay membership fees to benefit from the cluster roadmap activities and their outcomes. The annual budget of the Luxembourg Maritime Cluster is made exclusively out of membership fees and remains steady with around 100 000 EUR covering a.o. all expenses related to human resources, office rental etc. When clusters raise fees, they can expect the fees to act as barrier and to get the most motivated companies and entities as members. The Luxembourg Maritime Cluster tries to keep the costs as low as possible though whilst delivering the most value for money. Furthermore, individuals having been delegated by member companies in order to engage in cluster governance and activities shall report on the time spent there, the use of the budget, the outcomes, the business leads etc. This is the way how a dynamic network comes into being. At different stages, both the cluster management and the companies ‘representatives are put under pressure to deliver the best results. If the companies get their return on investment (ROI), they shall pay their membership fees accordingly. Thus, it encourages best practices in terms of cluster management. Incidentally, the Luxembourg Maritime Cluster considers data related to the punctual settlement of the membership fee and the sponsorship willingness of specific initiatives as key performance indicators. Luxembourg’s publicly hold clusters are currently trying to move apart from the fully public funded model and to reinforce the role of private companies in their clusters to ensure them matching their expectations.

However, the experience made by the Luxembourg Maritime Cluster shows that public-private synergies in terms of funding allow to mix short, medium and long term horizons. Public entities are, for instance, more willing to finance initiatives with higher risks regarding the ROI or projects whose outcomes are only visible in the long run. The fact that public and

private have not the same time horizon is a complementarity the LMC wants to use. Negotiations with the Luxembourg Cluster Initiative have been started to elaborate on cooperation opportunities whether *ad hoc* or permanent. For the time being and in the recent past, public and private strategies run quite parallel, just tactics may sometimes differ but in a pragmatic Luxembourg environment, this is not insurmountable. Additionally, a mix between private and public funding stabilizes the revenue of the cluster since companies first slash marketing / membership costs when going through a slump or policy priorities may change.

With regards to European funds, the Luxembourg Maritime Cluster has experienced difficulties to identify suitable calls for proposal or tenders. The process of obtaining funds is extremely complex and time-consuming which is not compatible with cluster capacity. Only established, well-endowed clusters or similar organizations seem to be able to benefit from European funding as we have noticed when considering an application in the programme Horizon2020 together with 16 national maritime clusters of the European Network of Maritime Clusters. The restrictions were peremptory with little room for bottom-up input although it has turned out to be an efficient way to bring forward successful cluster initiatives.

Recent business development initiatives of the Luxembourg Maritime Cluster in terms of economic diversification

Through competitive intelligence and the organization of high-level targeted business trips, the Maritime Cluster provided a lot of decision makers with valuable insights to develop and gain access to new markets. Thanks to this work, new opportunities were identified and working groups were set up. Member companies receive around 50 alerts a year so far with information targeted for their business. The LMC is also working together with the network of Luxembourg Embassies and Consulates, promotion agencies like Luxembourg for Business and Luxembourg for Finance, and several Ministries.

The LMC strategy for the years to come is to strengthen its position as a platform of internationalization for member companies. Hence the association is discussing with partners in Belgium and the Netherlands on the one side and the Benelux organization on the other side. The aim of this initiative is to identify paths of cooperation, bring companies together and possibly reflect about a common marketing. One main topic will be the improvement of

Luxembourg's connections to the ports of the North Range and their maritime professionals / clusters.

The European strategy of the Luxembourg Maritime Cluster is paying off. Since 2011 the European Network of Maritime Clusters is led by a French-Luxembourg Presidium⁵. France and Luxembourg built together an interface for 17 national maritime clusters. The created platform enables cluster managers and Chairmen from all over Europe to exchange best practices, discuss strategic options, collect business intelligence, and forward relevant information including calls for proposals and tenders. As such, the Luxembourg Maritime Cluster supports all initiatives put in place by the ENMC and has participated in the Euromaritime business exhibition held in Paris in February 2015. The LMC promoted the event within its network and set up a common national stand together with the Chamber of Commerce and the Ministry of Economy. Eight Luxembourg companies presented their know-how both at the exhibition and on occasion of the business seminars. 8000 visitors from more than 50 countries visited and 310 exhibitors showcased their know-how. A delegation of 35 businesspeople from Luxembourg joined the event in order to discover the far-reaching opportunities the oceans may offer in terms of diversification.

Since the beginning of the year 2014, the Luxembourg Maritime Cluster provides technical assistance to the Cabo Verdean Maritime Cluster and elaborate on mutual benefits. A memorandum of understanding shall be signed by mid-year and a Cabo Verdean delegation of businessmen and civil servants have visited Luxembourg companies in November 2014. In April 2015 and upon request of the Luxembourg Maritime Cluster, a conference has been organized on the business opportunities possibly created by Luxembourg aid to developing countries. The idea is to have a tool to disseminate information on tenders so that Luxembourg can also submit their proposals on equal terms.

In the case of the Luxembourg maritime sector, the complementarity of public policy and a private strategy is obvious: before the Luxembourg Maritime Cluster was created, there was no clear identification of the scope and the weight of Luxembourg's Blue Economy. National policies are still mostly related to the operation of vessels; the promotion of maritime activities is not officially the area of responsibility of the Luxembourg Maritime Authority. Suppliers and service providers of the maritime sector as well as ship owners formed a powerful tool in order to discuss strategic options, attract new customers and network once

⁵ Chairman of the ENMC is Mr. Francis Vallat, Vice-President is Mr. Fabrice Maire and Secretary General is the author.

they have established the Luxembourg maritime cluster. They were then able to shape common positions, to draw attention hereto and to defend them convincingly towards Luxembourg public authorities and occasionally public opinion. Given this complementarity and the Luxembourg experience, it makes sense to have private public partnerships when it comes to cluster financing provided some safeguards are established so that the clusters remain independent in their strategy and able to lobby which means that the role of public authorities in cluster governance shall be limited. Last but not least, the success of the European Network of Maritime Clusters and the competitive edge it provides show that cluster should seek for regional and European cooperation for their marketing, business development, lobbying and innovation in order to compete globally with a level playing field.