

Doing Business with Brussels. A Case Study of Transaction Costs

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Everybody who has worked with developing countries has anecdotes about problems related to transaction costs. Corruption, bureaucracy or simply lack of respect for business agreements can easily lead to large amounts of time and energy spent on activities which are both frustrating and totally unproductive.

Brussels is also a good place to collect anecdotes. If you are a consultant wanting to work for the EU, perhaps you can learn something from my little experience.

In June last year, I received a telephone call from the European Commission. Mr. K, head of a department at the Directorate General for Development, called me to say that he wanted me to write a policy paper for his department.

The work sounded interesting, and I accepted to go to Brussels. Since I had heard nasty things about doing business with Brussels, I made sure that the EU would pay the costs for the trip, even if we failed to reach an agreement. "Of course", said Mr. K.

In Brussels, Mr. K asked me to negotiate the economic aspects of the assignment with Mr. D from the same department.

It was easy to deal with Mr. D. He asked me how much I wanted for the job. "90,000 SEK", I answered. "Plus travel costs and things like that."

Mr. D looked happy. "No problem." The whole "negotiation" took about one minute.

Shortly afterwards, I received a contract. Which I signed, and sent back to Brussels. Without, however, checking the rate of exchange between the ECU and the SEK. That was stupid. The fee stated in the contract - 8,000 ECU - was, at the time of the contract, 65,000 SEK instead of 90,000.

I discovered the true rate of exchange a few weeks later. But no big deal; Mr D was a nice guy, and I did not even bother to inform him about the mistake.

I sent a draft. Mr. K and I agreed that I should spend the first week of September in Brussels - which was not envisaged in the contract - to receive comments on my draft, and finalise the paper.

In September, Mr K asked me if I had incurred any additional costs. When I said yes, he asked me to negotiate, once again, with Mr. D.

Poor Mr. D had become aware of his mistake. He was extremely unhappy. I accepted his sincere apologies. "Forget about it", I said, "don't worry. It is also my fault. I should have checked the exchange rate before signing the contract."

Mr D now offered me a lump sum of 11,000 ECU, which would include all reimbursable costs. I accepted, and we shook hands to confirm our agreement. Back

in Sweden, I surprised my friends by saying: "Actually, the European Commission is not as difficult to deal with as people say."

My invoice is dated 10 September. I referred to our agreement, and wrote that the total amount of 11,000 ECU included all costs in connection with the assignment.

In October, Mr. D calls me. Once again, he is unhappy. "Look, Stefan, sorry to bother you, but could I have a look at your travel documents? Just a formality, you know."

I ask him if photocopies will do; my company needs the originals for the bookkeeping. "Sure, no problem." So I fax him a number of copies.

November. I send a fax to Mr. D, asking him how the policy paper had been received. I also remind him, jokingly, about the comments he had made about the EU being very fast and good at paying consultants. But no answer, and no ECU.

December. Still no reply. And no ECU. I send a fax to Mr. K. After all, it is he who is accountable.

A few days later, I get a fax from Mr. D. In order to solve the problem with the payment, I am told, I have to talk with Mr. X at Department Y.

To find Mr X is not easy, but after a number of telephone calls, I manage to locate one of his colleagues, Madame L, who says she will go and look at my file.

Madame L is tough. "We can't pay you until we have received the originals." When I mention the agreement between me and Mr. D, she makes it clear that it is her department that decides. I suggest that the EU must have some kind of communication problem. Madame L denies this, and describes how the system works: "No, communication is no problem. You see, our experience tells us that consultants who are not being paid will sooner or later get in touch with us. And then we can usually sort things out."

I see. And I begin to realise why it was so easy to deal with Mr K and Mr D: agreements with them do not really matter.

On December 23, I receive a letter from a new person, Mr. B, who informs me that my receipts - by now frequent travellers between Stockholm and Brussels - are all rejected. On a few occasions, Mr. B bothers to give an explanation. For example: "The first trip to Brussels took place prior to the contract and therefore can not be taken into consideration."

My suspicion is confirmed. Mr K may appear powerful, but his words and promises can not be taken into consideration.

By now, I am fed up with Brussels. The same day, I send an angry fax to Mr. K, reminding him of the agreement made on 6 September between me and the person explicitly authorised by Mr K to negotiate with my company, Mr. D. I ask Mr K for his comments.

No reply, no ECU. On January 8, I send a new fax to the silent Mr. K. To wake him up a little, I decide to use threats (as part of my contract enforcement costs, to use the nicer, and more academic, phrase). In my fax, I write: "**cc: Relevant authorities in Brussels and Stockholm.**" I remind Mr. K of the 11,000 ECU that the EU still owes me, and add: "The only good thing with this pathetic little story is that it has given me a good case study. In my past teaching and writing, I have normally used examples from developing countries to illustrate how transaction costs tend to rise if there is a lack of respect for business agreements, and a lack of accountability. As you may recall, this is also an issue which I analysed in the paper you invited me to write.

Now, you have provided me with an excellent case study. I will use it a lot."

This helps. Within less than an hour, Mr. K is on the phone. His main interest is to find out to whom I had sent copies of my correspondence.

The following day, Mr K sends me the most flattering fax I have ever received. The work I had done was "excellent" and "invaluable", "thorough, synthetic and courageous." And so on. But there is something wrong with the timing of the flatter. The fax ends with: "I will be in touch in the next few days."

A couple of weeks later, I get a nice call from Mrs T at the Swedish Ministry of Foreign Affairs, to whom I had sent copies of my correspondence. Mrs T asks me if I have heard anything more from Mr K. "No", I say, "but I have received 8,300 ECU." She asks me if I want the Ministry to intervene. I tell her that I would appreciate that very much. We both agree that although the sums involved are small, respect for business agreements is a matter of principle. Mrs T tells me that she will instruct the Swedish Delegation in Brussels to raise the issue with the EU authorities.

On February 7, I receive a fax from Mr. B, informing me that his department has decided to issue a payment order of an additional 1,500 ECU. When they arrive, the EU will only owe me 1,200 ECU.

When people ask me today how it is to deal with the EU, I still answer: "Not as bad as people say." But nowadays, I add: "Actually, it is even worse."

And as a European taxpayer, I am disgusted. The bureaucracy involved in the payment of a small invoice - or, rather, the gradual payment of 89 per cent of a small invoice - is huge. We shouldn't have to pay for such stupidities.