



Business Memo from Belgium

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NEW TAX DEVELOPMENTS IMPROVE FOREIGN INVESTMENT CLIMATE

UNITED STATES AND BELGIUM SIGN NEW TAX TREATY TO REDUCE DOUBLE TAXATION

On November 27, Minister of Finance Didier Reynders and U.S. Ambassador to Belgium Tom Korologos signed a new treaty between Belgium and the United States to prevent double taxation and tax evasion.

Earlier in the year, Prime Minister Verhofstadt and President Bush had agreed to start negotiations on a reform and a modernization of the current treaty, which was signed in 1970.

The new treaty significantly reduces tax-related barriers to trade and investment flows between the United States and Belgium. One of the main features of the new agreement is the elimination of taxation on cross-border dividend payments. The source-country withholding tax on dividends from shares --held for a minimum of 12 months-- will be abolished for beneficiary companies in the U.S. owning a minimum of 10% of a Belgian company. The low threshold of 10% reflects the Belgium government's desire to attract U.S. direct investment. The new rules will also apply to beneficiary companies in Belgium owning at least 80% of a U.S. company. Under the current tax treaty, dividends are taxed at 5% or 15%. Other recent tax treaties concluded by Belgium --for example with Hong Kong-- already offered a 0% withholding tax for dividends. The withholding tax on interest payments will be eliminated as well.

The new treaty also introduces extended "limitation on benefits" (LOB) provisions along the lines agreed upon by the U.S. in its recent tax conventions. Those provisions are designed to prevent treaty shopping by third country residents. Whereas the previous treaty provided for a limitation on benefits clause for persons deriving dividends, interest or royalties from the other state, new treaty provides for a general clause concerning its benefits. However the clause will allow more persons to benefit from the provisions of the treaty, such as pension funds and headquarters of multinational groups, for example. Residents of the EU, EEA, NAFTA and Switzerland can, under certain conditions, enjoy the benefits of the treaty.

The new treaty offers mandatory arbitration of certain cases that cannot be resolved by the tax authorities within a certain time period. It is only the second time a U.S. tax treaty has contained such a provision. The U.S. and Belgium will also, upon request by either government, exchange information held by a bank or other financial institution.

A new article covering entertainers and sportsmen illustrates that the treaty aims to facilitate business travel or career moves between the U.S. and Belgium. For example, there will be tax relief for contributions made under pension plans by employees of multinationals before leaving their home country.

The taxation of specific U.S. entities, such as limited partnerships or limited liability companies, has led to legal uncertainty in the past, but has now been dealt with.

In combination with the introduction of a tax deduction for equity capital --the so-called 'notional interest deduction-- in 2005, the new tax provisions will undoubtedly add to Belgium's attractiveness for U.S. investors.

The U.S. and Belgian governments intend to submit the treaty as quickly as possible to their legislatures for approval, so that it may

BELGIUM ABOLISHES DOMESTIC DIVIDEND WITHHOLDING TAX

The Belgian Government announced that it intends to abolish completely the domestic dividend withholding tax for dividend payments made to corporate shareholders resident in countries that have tax treaties with Belgium, including the United States.

In practice, a corporate shareholder resident in the U.S. or any other treaty country, which has a shareholding of at least 15% in its Belgian subsidiary for an uninterrupted period of 12 months, will benefit from the new dividend withholding tax exemption.

The new measure is scheduled to enter into force on January 1, 2007, pending parliamentary approval before the end of 2006. If so, the 15% threshold would apply before the new U.S.-Belgium tax treaty enters into force. As of 2009, the shareholding threshold would be lowered to 10%.

This important development is in line with the recent tax treaties concluded by Belgium, such as the treaty with Hong Kong and the U.S. Currently, Belgium has concluded tax treaties with more than 80 countries. In addition, there are no limitation on benefits (LOB) under domestic law, traditionally designed to restrict access to the benefits for parties not covered by the law.

When the new law takes effect, it will allow U.S. holding companies to repatriate European profits exempt from dividend withholding taxes, without a limitation on benefits.

PRIME MINISTER EXPRESSES ECONOMIC CONFIDENCE IN STATE OF THE UNION

Prime Minister Verhofstadt used the State of the Union declaration before Parliament on October 17th to highlight Belgium's economic achievements of the last few years. During the annual overview of his government's agenda, Mr Verhofstadt underlined that on the economic front three priorities were set in 1999: lowering taxes, a reduction of the public debt, and a restoration of purchasing power and social protection.

On the first point, policies of reductions in personal income taxes, corporate taxes, and the cost of labor --including the cost of highly skilled foreign employees-- have contributed to the creation of about 145,000 jobs since the second quarter of 2003. The goal of 200,000 extra jobs which the Prime Minister had set himself has therefore come within reach.

On the second point, and contrary to the evolution in neighboring countries, the public debt was reduced to about 90% of GDP in 2006 thanks to a policy of fiscal discipline and continuing low interest rates. And if the government achieves its projected budget surplus of 0.3% in 2007, debt will be further reduced to about 84%. Meanwhile, the health care budget has been allowed to grow at an annual rate of 4.5%, made possible by alternative financing methods.

Finally, policies to increase purchasing power and social protection have led to increased consumer confidence and spending. This, in turn, is one of the major reasons why the Belgian economy has grown at a faster pace than the eurozone average recently. The National Bank of Belgium is forecasting 2.7% growth for 2006, and 2.2% in 2007.

NEW ROADMAP FOR FOREIGN INVESTORS

Because attracting foreign investors is a top priority for Belgium, it is essential that investors receive adequate public support once they have made the decision to invest. The Federal Public Service Economy has therefore published **Investing in Belgium**, a new brochure for foreign investors that describes the legal framework and local incentives for new foreign businesses in Belgium. There are plenty of useful tips too --including tips to lower your corporate taxes-- as the text is partially based on a survey among new foreign businesses in the country.

Investing in Belgium is available from the Belgian Embassy, and can also be consulted at the FPS Economy's website (www.mineco.fgov.be).

BRUSSELS AIRLINES LAUNCHED FROM "BRUSSELS AIRPORT"

Exactly five years after the bankruptcy of the Belgian national airline carrier Sabena, Sabena's successor, SN Brussels Airlines, and its low-fare competitor, Virgin Express, have announced they will merge under the name '**Brussels Airlines.**' Like its predecessors, Brussels Airlines will focus on regional flights in Europe and long distance flights to Africa.

The colors of the new company will be blue and red, and the planes will show a big "B" symbolizing Brussels and Belgium. This will mark the end of the famous "S" symbol, a highly visible remnant of the former Sabena. Booking is already available, but Brussels Airlines will officially start flying on March 25th, 2007.

The name of the new company fits together nicely with the new name of the national airport, which officially became **Brussels Airport** on October 19th (www.brusselsairport.be). Until now, the airport was lacking a real name. In fact, it had too many names, ranging from "Zaventem" to "Brussels International Airport" to "l'Aéroport National." As of October 19, all airport communication will be branded with "Brussels Airport, Welcome to Europe," accompanied by a new logo.

From May 7, 2007 onwards, **Northwest Airlines** will provide direct flights between Brussels Airport and Detroit. Initially, there will be five flights weekly, and from June 15th, 2007 there will be one flight daily.

MEGAPORTS INITIATIVE UP AND RUNNING IN ANTWERP

Ninety percent of the world's trade occurs via container cargo shipped in and out of seaports. The Port of Antwerp is one of the world's largest seaports and a major player in the container cargo business. Indeed, in 2005 the Port of Antwerp moved 6 million containers, one million of which went to North America. The volume of containerized goods was 74.6 million tons. Over the last 10 years container tonnage in Antwerp has risen by 42.5 million tons, or 165%. Containers are also handled by other Belgian ports, such as Zeebrugge and Ghent.

To ensure that the international container trade remains safe, the U.S. and Belgium have been cooperating for years on the Container Security Initiative. Through CSI, U.S. Customs and Border Protection (CBP) officials work with the Belgian Customs Service to establish security criteria for identifying high-risk containers.

On October 19, in Antwerp, Minister of Finance Didier Reynders and U.S. Ambassador Tom Korologos officially expanded the cooperation between CPB and Belgian Customs to yet another security project, the Megaports Initiative. This initiative, which was launched by the U.S. National Nuclear Security Administration (NNSA) of the Department of Energy in 2003, is designed to keep illicit nuclear and other radioactive materials out of the global maritime system. The program provided for the installation of radiation detection equipment in the Port of Antwerp and for the training of personnel to specifically check for nuclear or other radioactive materials. The combined U.S. and Belgian investment in this project total more than \$50 million.

This is the biggest Megaports project world-wide, covering ten container terminals across 33,370 acres. Responding to the challenges of fully equipping a port of Antwerp's size and activity level meant arriving at some innovative solutions that other countries may wish to emulate. Antwerp has become a world showcase for radiation detection technology as a cutting-edge secure port.

INTRINERGY GENERATES GREEN ELECTRICITY IN WALLONIA

Richmond, VA. based Intrinergy, a renewable energy company created in 2000, has wrapped up the acquisition of its joint-venture partner's interest in Valorbois, a renewable energy project in Belgium.

Intrinergy is in the process of constructing a new facility in Thimister-Clermont, near Verviers, which will gasify wood for the production of up to 4 megawatts of green electricity and 12 megawatts of thermal energy.

The power will be sold to a major utility, and the generated heat will be used by a wood pellet manufacturer co-located with the facility.

Intrinergy designs, builds, and operates gasification facilities that convert biomass feedstock into a clean-burning synthesis gas that can be used to generate heat, steam or electricity.

The new unit is expected to become operational in the second half of 2007, 24 hours a day and seven days a week. It will initially employ about 10 people.

www.intrinergy.com

BELGIAN-AMERICAN BUSINESS TRANSACTIONS

In the **United States**, the US Department of Homeland Security selected **IBA Rhodotron** Technology from Louvain-la-Neuve, Wallonia for its cargo inspection system designed to automatically detect nuclear threats. IBA's American subsidiary Radiation Dynamics will supply a customized "Rhodotron TT100 accelerator." The Rhodotron will be integrated as part of an X-ray system for the detection of hazardous products.

Meanwhile, the Belgian company **Material SA**, a manufacturer of engineering and software for composite materials and filament winding technology, is creating a new office in Utah. The company has signed a cooperation agreement with Skinner Creative Inc, a creative consulting company to become Material's new sales and engineering centre for North America. The new site will be called Material USA and was necessary due to the increasing demand for more complex applications in the composite industry.

Finally, **Barco** signed a contract with Honeywell to deliver high valued screens for the American company's business jets.

In **Belgium**, drug manufacturer **Janssen Pharmaceutica** is investing 130 million euros in the construction of a new molecule factory at its production site in Geel. The American parent company, Johnson & Johnson, chose Geel over 69 other locations. J&J says it chose Geel because of its favorable logistical location, the high level of innovation, high productivity and the proximity of the research division in Beerse.

According to Managing Director Ajit Shetty, the introduction of the fiscal goodwill system of the notional interest deduction --which allows companies to reduce their corporation tax by a factitious interest on their net assets-- and the 25% reduction in payroll tax for researchers in the pharmaceutical sector, played a decisive role.

The new factory will produce active ingredients for new medicines currently under development and test the production of medicines.

RNA-Tec, based in the Flemish city of Leuven, has been acquired by **Integrated DNA Technologies (IDT)**, a world leader in life sciences. RNA-Tec and IDT are both acknowledged experts in the production of synthetic DNA and RNA, the carriers of genetic information. They deliver their products to biotech and pharmaceutical companies, universities and research centers.

RNA-Tec will now bring a pool of eminent and suitably experienced scientists to the IDT team. The acquisition will further facilitate IDT's planned expansion into the European market. RNA-Tec was set up in 2000 as a spin-off company of the Katholieke Universiteit Leuven.

BELGIUM SUPPORTS JAMES BOND

James Bond wouldn't be convincing if he relied on second-rate products. That's probably why the producers of the latest Bond movie 'Casino Royale' turned to Turnhout-based playing card manufacturer **Cartamundi** to design and produce the playing cards and the poker chips that play an important role in the Bond film.

Poker cards are the leitmotiv of the new film, and the production of playing cards is one of Cartamundi's main activities. In fact, the company produces more than 10 billion cards annually, representing 30% of the global market. On October 5th, Cartamundi --Latin for 'cards for the world-- announced the acquisition of the Robert Yaquinto Printing Co., based in Dallas. The company is one of the leading card and speciality printers in its market, and it is Cartamundi's largest acquisition to date.

The two production sites of Yaquinto in Dallas will be added to the Cartamundi location in Kingsport, Tennessee. Cartamundi (www.cartamundi.com) also has production units in Germany, Poland, the UK, and Brazil, as well as offices in the Netherlands, France, Spain, Hungary, Switzerland, Sweden and Singapore.

Meanwhile, the new **Ford Mondeo**, which will be exclusively produced in the Flemish town of Genk from February 2007 onwards, will also play a guest role in the next Bond film. The new Mondeo was unveiled at the 'Mondial de l'Automobile' car show in Paris, but 007 will test the new car himself during some blood-curdling chase scenes, shot in the Bahamas, at speeds up to 150 miles per hour.

SECOND BIOTECH INCUBATOR IN GENT

The Flemish Biotechnology Institute VIB will invest more than \$ 6 million in a second biotech incubator. A few years ago the first VIB incubator in Gent was the first of its kind on the European continent.

The new incubator was opened by Flemish Minister for Science and Innovation Fientje Moerman. The Minister also announced that the Institute will receive a 20% increase in annual funding of up to € 37.5 million for the next five years.

Like the first incubator, located right next door, the new incubator will offer infrastructure for young innovative biotech start ups to grow for a period of up to seven years. Experiments with biological materials require specific buildings, equipment, and licenses, which often place a heavy burden on the new companies. The concept of biotech incubators with flexible office and lab space for multiple small companies was invented in the United States.

VIB expects the new incubator to supply up to 120 new high tech jobs. The formula certainly seems to be a success: more than 90% of the available space has already been rented out, and a third incubator is in the works near Leuven. Many start-ups in the incubator have thus far been spin-offs of the VIB, but the idea is explicitly to attract subsidiaries of foreign companies as well. Last year the Japanese probiotic specialist Yokult opened a local research center, and conversations with other foreign investors are ongoing.

www.vib.be

BELGIAN STOCK EXCHANGE TRIPLES IN VALUE SINCE 2003

The New York Stock Exchange may be reaching new records, but the Brussels Stock Exchange is not lagging far behind. Those who invested on the Brussels Stock Exchange in March 2003 have seen the value of their stocks on average stocks triple since then.

On November 15 the Brussels Bel-20 Index reached 4273 points, three times higher than the low point of 1426 points of March 11, 2003. The average return on investment, more than 200%, was about 20 times higher than the return on a regular savings account.

Can't get enough of Business Memo? Earlier editions are available online, at www.diplobel.us.

The Embassy's website also lists other Investment Office publications, such as

***Fact Sheets about various aspects of the Belgian economy**

***Setting Up in Belgium: a pocket guide for the business executive.**

***Corporate Directory: an overview of the Belgian corporate presence in the US**

***CD-ROM: Belgium: Gateway to Europe, with testimonials by US business executives**

Hard copies of all publications are available from Bart Deelen, Business Development Manager, at bart.deelen@diplobel.fed.be

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