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Challenges for Multinational Companies: the European Perspective

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I would like to thank UBS for its kind invitation to join you in order to give what the programme described as “the European Perspective” on challenges for Multinational Companies.

I have to say, however, that I’m not sure that “the” European Perspective is truly accurate. I find myself in something like the situation of the Israeli premier, Golda Meir, when she said she merely headed the Government in a country with 3 million Prime Ministers and a special expert strategic policy advice role allocated to all taxi drivers.

A European Perspective is consequently a more accurate description of what I will offer you today …

As the European Union looks forward to May 1st 2004 and the accession of ten new Member States, I begin my perspective by saying that I am not one of those who believe that the fall of the Iron Curtain meant “the end of history” or the global triumph of liberalism, as an American academic mistakenly and glibly diagnosed at the time. Instead, I believe that conditions are much more complex, and that we are at one of those points in continuing history in which the international environment has some bright prospects – including enlargement of the Union – but is generally becoming less predictable, with the liberal values on which it has been based increasingly subject to new pressures and antagonisms.

In such conditions, it is clear to me that the international framework that has helped to promote unprecedented stability and prosperity in many parts of the World needs rather more than strengthening. It needs something like re-invention. And, since unilateralism is impractical and perishable even when pursued by the strongest State, the re-invention has to be multilateral in nature, purpose, and execution.

The reason for that is fundamentally simple: It arises from the fact that, while the international framework has substantially been unchanged for decades – accommodating even the seismic shift of the implosion of communism - the World has become increasingly interdependent. Now, in the early 21st century, economic, political, social, commercial and cultural mutual dependence is not merely a desire of political idealists or a dream from Wellesian science fiction, it is a fundamental fact of existence.

And since, by basic definition, multinational companies operate, employ, produce and sell in a global market-place, interdependence is a reality that cannot be ignored or circumnavigated like an inconveniently situated mountain range. Multinational commercial enterprises, like all rational political enterprises, therefore have a direct and pressing interest in trying to ensure that interdependence is facilitated and flourishes in a framework of a stable environment that is based on dependable rules that are fairly applied and provide for clear rights of appeal. Interdependence in such a setting will benefit multinationals and all who – directly or indirectly – buy from, sell to, work with, work for, work through, tax, tender to or from, and deal with them – that is, just about the whole of humanity. Interdependence without such a framework invites tension, upheaval and potential disaster.

Clearly, my perspective is substantially influenced by the nature and the product of what has been, and is being, achieved in the world’s largest barrier-free single market. The European Union was conceived as a means of proactive and legally supervised interdependence, and that is the role which it fulfils and will continue to pursue.
The continuing achievement of the Internal Market of the European Union is a prime example of that, and the attainment of the largest ever Enlargement of the Union gives another instance of managed interdependence. Both enterprises are clearly established, and both will continue to require sustained initiative and work. I will therefore focus on them before concluding with some reflections on how we begin to deal with the conditions following the WTO talks - or, more accurately, the divergent megaphone sounds - which ended in failure at Cancun.

In addressing these issues I will try to avoid introspection or Euro-centricity. Apart from the fact that – as history and contemporary experience shows - obsessively looking inward can cause blindness, I believe that the European Union has an obligation to play a significant global role. I also consider that many of the means of managing interdependence that have been evolved by the Union over nearly 50 years can be exported – at least in adapted form - to other regions of the World. Rules and systems that have been invented and accepted in modern Europe to overcome the ostensible contradiction between sovereignty and the common good are working. That reality should invite reflection by international organisations that are confronted with the fact that their rules were made in the last century, have not evolved significantly, and for the last century and therefore need to be refreshed and re-orientated for the new century.

**Development of the Internal Market and the European Company**

With the Internal Market, the European Union has created a unique model of promoting wealth creation and welfare development among sovereign democratic nation-states. The system is certainly not perfect, and it is definitely not concluded - but it has, without question, benefited individuals, companies and states. The removal of internal barriers to trade and movement a decade ago added € 165 billion to the GDP of Member States and helped to generate 2.5 million jobs that would otherwise not have been created. It increased the wealth of nations, companies and citizens and, with the introduction of the €uro, the Union has further decreased transaction costs, stimulated the transparency of the market place, and fostered rises in the volume and value of intra-trade even in a period of global economic go-slow.

Stimulated by such success, the Union must continue to further develop the internal market. The new Internal Market Strategy adopted by the Commission in May this year sets out the priorities for doing that and they include further dismantling of trade obstacles, especially in services, reducing administrative burdens, and expanding procurement opportunities. And it is obvious that the objectives of the Lisbon agenda to make the Union “the most competitive, dynamic and knowledge-oriented economy in the World”, can only be properly converted from rhetoric to reality if we continue to strengthen, deepen and judiciously liberalise the internal market.

In particular, as far as ownership and financing structures are concerned, industries that are traditionally the last bastion of the State as a shareholder have a long way to go. Telecommunications, some transport modes, and much of energy - the so-called network industries - still have to get out from under the flag.

Since liberalisation, several of the network sectors of the European economy have achieved sustained price reductions and they employ 2½ million more people. If the process continues systematically, there are greater gains to be won.
The Commission therefore uses all of the instruments at its disposal to monitor, to safeguard and to deepen market opening - not for any ideological reasons relating to ownership, but for pragmatic reasons relating to jobs, investment, quality and productivity – and the social dividends that depend upon them.

These efforts must and will continue essentially for three reasons:

First because, in many product and service sectors, the national market-model is - at the very least - a constraint on potential inside and outside the European Union and, consequently, an impediment to growth and security and not a means of preserving either.

Second, because it has been possible to ensure that the benefits of the internal market have gone to people, businesses, regions and countries and, based on that reality, the economic, technological, knowledge, employment and growth initiatives set out in the Lisbon strategy must be pursued with greater diligence and enterprise by the countries of the European Union. If they are, Europe’s potential can be realised and – apart from other benefits – multinationals here will put down deeper roots and other capital will be magnetised by the available skills and the evident vitality. Delay or dithering in pursuit of the Lisbon objectives will have the opposite effect.

Third, because Europe will not increase its overall international competitiveness at the necessary pace and scale if the structure and size of markets in Europe facilitate and protect the creation of national rather than European and international champions. Governments that are still not entirely willing to make the most of the internal market if that means substantially transforming national companies into European enterprises may be motivated by the belief that they are fostering security. Regrettably, they are more likely to be storing insecurity.

The Commission has continued to strive to ensure that companies and consumers can reap the benefits of the internal market. But it remains a fact that, in legal terms, there is - as yet - no such thing as a European multinational or, more precisely, a European company in the sense of an entity that operates under European law rather than the law of an individual Member State. As many here will know, the consequence is that companies which operate in the Single Market today have to comply with a multitude of duplicative rules, testing and certification requirements, and reporting systems. For various reasons – mainly I believe, different traditions of political and economic governance that are strongly ingrained in Member States – it has taken us over three decades to come to the a statutory agreement on a set of rules that will finally enable the European Company to be born around this time next year. The innovation will essentially allow companies to operate with one set of rules and a unified governmental management and reporting system, and without a complex system of subsidiary laws and procedures. Among other positives is the fact that this Single Market legislation will provide a substantive reduction in operational costs, estimated at up to €30 billion a year.

For the very same reasons that it took EU Member States 34 years to adopt a proposal which the Commission first made in the 1970s, the European Company Statute is not a perfect piece of legislation and it will not facilitate all of the improvements that are desirable and – in the Commission’s view - necessary. The diversity of business taxation regimes that have an impact on the Single Market will, for instance, continue to be a vexatious issue, but hopefully not for a further third of a century.
Enlargement and the IGC

In sum, what multinationals can expect from the European Union is a market – soon to be enlarged to the East – with a very large consumer base, with stable and improving rules, and with a policy Institution – the Commission – that is consistently seeking to promote a governance structure that is dedicated to further facilitating transparency, competitiveness, innovation and sustainable growth.

The example of the internal market illustrates the fact that the Union has developed the capacity and the Institutions needed to stimulate and shape change and to benefit from it - not perfectly, but profoundly. Now, one of the biggest challenges coming from the imminent enlargement is to ensure that the Union sustains this capacity. With a 66% increase in the number of Member States, this Enlargement is obviously different in scale from any other. It is also different in its nature: the least prosperous regions of the enlarged Union will have a GDP per capita of only 31% of the total EU average; the most prosperous regions of the expanded EU will be 10 times richer than the poorest region, the total GDP of the 10 incoming countries is about the same as the combined GDP of Denmark and Belgium or about 1.5 times the GDP of Switzerland; and Enlargement will also create new outer boundaries for the Union and new neighbours to the East and to the South.

Those realities plainly mean that, for Enlargement really to be successful, the Intergovernmental Conference which opened in Rome last month must be able to establish a European Constitution with Institutions and Rules that strengthen the Community Method of decision-making and provide Europe with a more coherent voice in international affairs. If that is achieved, the European project – and, with it, the benefits of the internal market - will gain the vigorous impetus that is needed to close the social and economic gaps that exist among regions in Europe by advance across the whole Union. No one can or should seek greater equity by reduction of standards and performance. The only acceptable way anywhere is up. If the efforts to improve coherence and co-ordination were to fail, of course, political and economic fragmentation - with all of the accompanying disabilities - would be a real risk.

Those stark alternatives mean that it is imperative to gain recognition for the reality that the acceding countries which endured totalitarian rule for 45 post war years, and gained or regained their sovereignty only a dozen years ago, can encounter problems in joining a process which has taken 50 years to mature in Western Europe. The challenge is huge. But since the Community proved to be the most successful peace process in history, it is possible to be rationally confident that the Union will promote stability and prosperity across an interdependent continent with a speed and breadth that could not be achieved by any other means. I offer the anticipation of progress with certainty, but without complacency: The positive prospects provide no guarantee of pleasant destiny - they will always have to be worked for. And that reality is underlined by the development of what I believe to be a changing and more challenging international environment.

Development of International Trade post-Cancun

In many respects, I believe that - while persistent low growth in most Western European economies continues to require attention and action - the European project, and, in particular, the internal market project, is developing satisfactorily.
However, conditions in the wider World provide a growing number of reasons for concern, not least because the rules and conventions of some of the main global co-operation and governance Institutions now appear to be less stable and dependable than they were even a few years ago. The United Nations and its associated system, and the World Trade Organisation, require particular attention. Plainly, they were the product of the post Second World War settlement, although it took 50 years to turn the General Agreement on Trade into the World Trade Organisation that John Maynard Keynes originally proposed at Bretton Woods. Equally obviously, the construction of the UN Institutions was shaped mainly – and understandably – by the forms of threats and crisis experienced by the founding generation. Now, they should be adapted to the changed and additional demands and perils of this young century.

On the WTO, one of the conclusions to be drawn about the Cancun meeting is too obvious to need repeating: A successful round that resulted in further general progress with judicious gradual but continual liberalisation of World Trade would have benefited all WTO members. By that token, the breakdown at Cancun means that – in an interdependent World that needs progress – everybody loses.

Essentially, it is also true that failure at Cancun arose not from a classic North-South divide, but from the inability of four sections of the World - two from the North and two from the South - to agree upon means of common advance. The Group of 21 represents a block of larger southern countries wanting to make their presence felt in an international forum which was conducted at a time in which they consider themselves to have been particularly marginalised. The Least-Developed Countries, meanwhile, feared erosion of the trade preferences that they already have, and their systemic poverty means that no further disadvantage could be tolerated. And to complete the deadlock, the US and the EU have well-known differences on a number of significant issues. Far from being the result of a sudden and unforeseeable North-South split, the failure at Cancun was the product of divergences between at least four large regional blocks that could be – and were – anticipated, even though their visceral seriousness was not fully understood in all places.

In the wake of Cancun, two particular questions pose themselves to me and to others:

**First**, can a 148-member Ministerial Conference, in which each Member has the same rights and obligations, offer a realistic possibility of universal agreement on the negotiated concessions that are definitively necessary for a multilateral system to function? Unless the World is repeatedly prepared to settle for a Common Denominator that is so low that it is invisible, realism suggests that the answer is “No”.

**Second**, are we confronted only with a setback, or with a seismic change that will propel a regional trading approach across the World? The reply will obviously have an impact on the economic conditions of hundreds of millions of producers, on the life or death chances of hundreds of millions of the poorest in the World, and therefore - by direct implication - on the opportunities of multinational companies in the global trading system. There is no conclusive answer to that question yet but there are few issues that deserve more urgent and enlightened consideration by political leaders across the World. And since largest economic size must, in logic and justice, carry largest obligations the strongest nations must show greatest speed and sagacity. Superpower carries super responsibility.
Like all but the most doctrinaire and arrogant for whom everything is simple, I cannot – at this juncture – do more than pose the questions and join others in trying to develop workable answers.

I can, however, tell you which kind of regional approach the European Union will continue to pursue.

It is true that the European Union has favoured regional free-trade agreements among less developed and emerging countries, in particular among the 77 African, Caribbean and Pacific countries that are signatories to the Cotonou Treaty with the Union.

However, those arrangements have their roots in historic connections and obligations and were never intended regionalise trade. Instead, the Union and the APC countries regarded regionalisation to be a vital component of a multilateral trading system, and an essential facility which enabled the Treaty countries to make their voice heard internationally through the benefit of experience in local regional entities. I believe that our approach is still fundamentally correct – whether multilateralism continues to function generally (as it should) or whether it falters (as it should not).

The idea of Economic Partnership Agreements among ACP States, and between their regional arrangements and the EU, also - obviously - has a political aspect. It will come as no surprise to you that I will not be recommending the genetic cloning of the EU in an attempt to produce replicas in the different regions of the globe. There is no one size that fits all. However, there are features of the European experience which are capable of adaptation and which appear to be already taking root in other parts of the world. What we therefore have in mind, particularly in Africa, is enabling stability and growth through regional agreements that will also provide trade benefits to ACP countries. Negotiations on these agreements started in September 2002.

In the meantime, the Union has continued to open its markets. We have offered zero tariff, zero quota access to the European market to the least developed countries in the so-called “Everything but Arms Initiative”. We have worked hard with the pharmaceutical industry to waive WTO licensing rules for countries without the manufacturing capacity to produce medicines for serious health problems. And we have made numerous and justified concessions in the context of the Doha agenda.

None of these steps are individually or collectively guaranteed to achieve economic transformation. But by enhancing co-operation and opportunity in a sustained and practical way – sometimes substantially, sometimes more modestly because 15 Member States with diverse interests have to give agreement – we are trying to operate the mixture of audacity and pragmatism which characterises the so-called Community Method. That combination, and the processes which it fostered, has brought the European Union from its origins in post war weakness to its present substance and future potential. The evolution can be cumbersome and the slowness irritating. But – to use Sydney Webb’s phrase – I’ll accept “the inevitability of gradualism” as long as the cumulative effect is progressive, liberating, and productive. The objective evidence shows that it is.
Conclusion

As ever – maybe more than ever – multiple challenges face politicians and commercial enterprises of all sizes. In past ages, neglect might have provided a refuge. In a more fragmented, slower moving World, many problems and crises were less communicable. Now neglect offers no escape: in an increasingly interconnected planet, it usually means that the challenges simply get bigger and more complex, and meeting them becomes more costly.

Since interdependence is an intensifying reality, therefore, the only rational choice is to try to manage it through more democratic and efficient systems and Institutions that are capable of setting transparent workable rules and of anticipating and adapting to change. In this, as in much else, the future belongs to those who prepare for it. That applies to the current and the enlarged European Union and to the international system as it has so far developed. At all levels, all leaders need to be creative and constructive in the establishment or reform of Institutions and systems, and there is assistance in that task which comes from the experiences and the example of the integration process in Europe.

Multinationals meanwhile, obviously have as their prime purpose the generating of dividends for shareholders.

As I do not have to tell this audience, however, that prime purpose cannot be a sole purpose without being self-defeating. The challenges posed to multinationals by the combination of interdependence of global activity and instability in global governance cannot be met by simply pressing on with commercial ambitions without regard for the surrounding conditions.

I know that you are first and foremost in the business of making money and I do not confuse the responsibility of politicians with that of industrial leaders who have shareholders to account to. But I also know that the European project could not have been successful without the active help and the – sometimes reluctant – understanding of industry. Your pressure for strong regional and international Institutions with the legitimacy that only democracy can bring, will be essential in the management of interdependence.