

THE IMPACT OF MULTINATIONAL CORPORATIONS ON  
THE EUROPEAN ECONOMIC COMMUNITY

Speech by: ALF C. JÖNSSON

Special Assistant to the Head of Delegation  
of the Commission of the European Communities

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The literature on multinational enterprises has become extremely abundant. Of course, it should not astonish anybody that specialists have quite a number of definitions for this phenomenon - international enterprises, transnationals, multinationals, etc.... and describing them as geocentric, ethnocentric, and so on.

I am not going to enter into all these definitions, I just want to give one rather general notion of what I think is the best and broadest definition of a multinational. It is a company which controls or manages productive and/or commercial activities in several countries - in other words, a multinational enterprise is one which permanently exercise economic activities in different countries under some form of coordination.

This definition excludes enterprises of the following two categories:

- 1) large-scale export-import houses
- 2) local enterprises where only the ownership is foreign.

Here you will note that multinationals thus defined comprise all units engaged in international transfers of one kind or another. A multinational not only moves

capital when, for instance, it acquires subsidiaries, or investments, or repatriates benefits, but it also moves a number of other goods sometimes temporarily, sometimes permanently, such as R and D and other know-how.

Finally, the multinationals have a very considerable part of world trade. It is estimated, for example, that in recent years more than a quarter of the exportations made by the multinational enterprises situated in Great Britain were destined for their own subsidiaries.

I am now going to look into the importance of the multinationals. The development of the multinationals has mainly taken the form of direct investments abroad and here, especially direct American investments all over the world. Later, I will give you a few figures on direct investments, but for now I will merely stress that the importance of the multinationals is much greater than is indicated by direct investment figures. These statistics only give book-values and we all know what they are worth. The statistics are estimated - since they are only listing the directly controlled investments of the multinationals - to show only between 25 to 50% of the controlled assets. For 1969, for instance,

It was estimated that the book-value of direct American investment in the European Community (the original six countries only) was ten billion dollars, and that this in reality represented industrial assets of the order of not less than 40 billion dollars controlled by U.S. enterprises.

It is only for U.S. enterprises abroad that a relatively precise statistic is computed: this is not the case for the rest of the world. A 1968 estimate of the book-value of the holdings of the multinationals outside their mother-countries produced a figure of a hundred billion dollars. The 1970 figure was a hundred and fifty billion dollars; this corresponds to a turnover for the same year of at least 300 billion dollars.

In comparison, one could mention that the 1970 value of total world trade, including internal European Community trade, was 290 billion dollars. The same year, the GNP of France, Italy and Benelux was of the same size - this latter figure is simply an illustration, since I know that you cannot fairly compare trade turnover and GNP figures.

In this respect, I would like to add that the 150 billion dollars mentioned for 1970 is a very conservative

estimate, since it was only the book-value and again only concerned multinationals' holdings outside their home countries. If you multiply by 3 or 4, you will get the assets, and you will most likely have to double this figure again if you want to include the activities of the multinational in its home country. This again tallies with the sum of the production total of the 150 largest multional enterprises which for 1970 was of the order of 5 to 600 billion dollars.

As for direct American investments abroad, I will give you a few figures:

In 1950, the book-value was estimated at 11,8 billion dollars.

In 1972, this figure was 94 billion dollars.

During the same period, American investment underwent a complete reorientation. At the start, investments went primarily into the supply of raw materials and basic products - which in fact meant that most of these investments were made in the LDCs. This changed in two directions during the fifties. A larger proportion of investments went to industrialized countries - specifically into Western Europe - while the object of investment changed from extraction to manufacturing.

The European Community of the then Six was the zone which attracted most of the investments; undertakings in the United Kingdom, for instance, were relatively neglected:

	<u>1950</u>	%	<u>1972</u>	%
E.C. (Six)	637	5,4	15.745	16,8
U.K.	847	7,2	9.509	10,1
World	11.788	100	94.031	100

For some years we have also had a counter-flow in the form of direct European investment in the U.S. From a book-value of 3 billion dollars in 1950, it has risen to some 14 billion dollars in 1972.

In certain European countries like Belgium the importance of multinationals is particularly pronounced. According to a Belgian National Bank study, the net investment in Belgian industrial enterprises from multinationals, in the period from 1964 to 1967, is estimated at 35% of the total. It must be added that in the traditional sectors such as textile, paper and leather, American enterprises have not shown any interest in investment. On the other hand, in the chemical industry, foreign firms in Belgium account for 45% of the employment, 72% of the added

value and 55% of the exports. In other European countries, the influence of multinationals is less, but entire industries both in the U.K., Holland, etc., are under foreign dominance.

In 1966, it was estimated that the American industry controlled the following E.E.C. economic activities (the Six):

- refineries: 33%      information processing 80%
- automobile industry 25%
- chemical industry 12%
- electronics 16%

The reasons for the development of the multinationals are of course multiple. In a number of cases, the first multinationals developed before the Second World War to secure the supply of raw materials. This was, for example, the case for certain oil multinationals and for companies like Unilever, United Fruit, etc.

In the post war period, the orientation was different, and the investments were primarily directed toward already industrialized countries or those on the point of being industrialized. As the multinationals were developed as large manufacturing companies, they of course led to an enlargement in world trade. In 1953, trade between industrialized countries represented 37% of

total world trade. In 1973, reciprocal trade between industrialized nations had risen to 52% of world trade. At the same time, the part representing trade between industrialized and non-industrialized countries fell from 20 to some 12%. This means, in other words, that trade in manufactured goods between highly developed countries developed much faster than the trade in raw materials.

This evolution has been considerably stimulated by regional integration efforts such as the creation of the European Community and the European Free Trade Area. The existence of the European Community has provoked the biggest reduction in tariffs, not only in intra-European trade, but on the world level.

This European fact has undoubtedly contributed to the development of direct investments abroad between industrialized countries. It has contributed in another fashion too. According to American studies into the motivation of American investors abroad in the period 1960-61, U.S. investors sought new and rapidly expanding markets. In the majority of the industrial sectors, more than half of the enterprises were guided by the expansion motive. This was distinctly more important than the wish to hurdle the tariff barrier. This latter was only a



decisive factor for 16 percent of the enterprises.

Another element was of course the factor of cost: production costs for a number of products were cheaper than in the U.S. On the other hand, this factor was probably outweighed by higher general costs such as royalties and transportation.

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The development of the multinationals is of course linked to concentration where the advantages are:

- 1) the possibility of securing cheaper and better supplies of raw materials;
- 2) the maximum utilization of commercial networks;
- 3) the possibility of procuring capital where it is available at the cheapest rate, and using it where it gives the best yield.

Beside these advantages, which are purely the advantages of concentration, some specific commercial factors advantageous to multinationals should be mentioned:

A multinational permits the rapid distribution of the technology, inventions and know-how - it is undoubtedly in this field that American enterprises have played the largest part in the modernization of European industry. Without U.S. know-how and technique, I do not see how a

European car, chemical or electronic industry could have developed to its present stage.

Another factor in favour of the multinationals is their great geographic mobility: they are as a rule the first to respond to industrial politics, for instance, in the field of regional development.

Talking about politics, I here want to stress that the development of multinationals is largely linked to and due to a number of international developments which no one wants to destroy: a growing international cooperation in the economic and monetary field, the liberalisation of trade, the circulation of capital and people, the vast growth in the means of communication and in the capacity of directing big units in a coordinated way.

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We must not hide the fact, however, that the multinationals at present also represent a number of negative features, some of which are the consequence of their direct advantages. This is the head and tail of the same coin.

The effective decisionmaking process is often taking

place abroad. This creates the impression of colonization in the receiving country and has a bad psychological effect on its population. As an example, a Belgian subsidiary of an American company was forbidden to export agricultural machinery to Cuba by its parent company, because of the U.S. embargo of Cuba.

At the same time labour unions find their actions threatened, since the effective decision power in cases of conflict will often be outside their reach. There is even the fear that a tough conflict might result in the removal of the industry to another country. Multinationals have used such black-mail a number of times.

Along the same lines it can be mentioned that multinationals through their investment and rationalization programs can have penetrating effects on individual countries or regions.

Another disadvantage resulting from potential mobility is that a multinational has great bargaining power vis-a-vis national authorities for obtaining maximum benefits.

It is, of course, equally true that different forms of tax evasion can be organized by multinationals utilizing different tax systems etc. etc. Furthermore, from time

to time, the politics of the bigger multinationals are in direct contradiction with the political, economical and financial policies of their host countries. The multinationals are able to develop global strategies, while on the other hand neither unions nor governments have the sufficient "countervailing" power - due to national frontiers.

To further proposals for dealing with the negative effects of multinationals, the Commission of the European Communities has made a study issued last November.

The Commission study deals with seven areas:

- a) protection of the general interests, i.e. the interest of the general public;
  - b) protection of the workers' interest;
  - c) maintenance of competition;
  - d) takeover policy;
  - e) inducements offered multinationals under regional policy, etc.;
  - f) protection of LDCs;
- and
- g) an improved Commission information apparatus concerning multinationals.

Under the label of protection of the general interest we first and foremost have fiscal problems.

As you will be aware, each country within the Community has different fiscal systems which make it difficult for the Community to propose a specific ruling for multinationals and which create complexities for the operation of the multinationals also.

The solution to this problem is therefore for the Community as such to try to harmonize its fiscal system.

Under the label of the protection of the general interest there is of course the problem of tax evasion. Due to differences in taxation among member states, the multinational company will - of course - try to take advantage of such differences. By tax evasion we mean any device which can be used in order to take advantage of the differences in contradiction to the general scope of the fiscal systems involved. In this field, the Commission proposes a further study of the problems of tax behavior and of the holding company system so as to get a better picture of what proposals are needed.

Another problem under this heading is transfer pricing. The Commission here proposes to try to get some kind of a common concept of how to deal with transfer pricing. A further problem arises from the movement of capital, of license fees, management fees, and royalties, and the interesting possibilities for monetary and financial operations which can be conceived through manipulations

in this area. Under the same heading comes the other side of the picture which is the guarantee or security of supply: where, we notably think of energy supply, especially oil.

This is a critical area in which the Commission unfortunately has not so far been able to advance any proposals which could obtain a consensus among the member states. Further, there is public interest in the question of the monetary policies of the multinationals and their dealings on the short-term capital market. No instrument has so far been devised or proposed. What the Commission has asked in its paper is that the Council of Ministers should approve the creation of instruments to deal with the problem of the multinationals in the measure that this problem relates to short-term capital movements within the economic and monetary union.

In the field of state aid, member states have so far had what I would term an auctioneering attitude, to induce multinationals to set up in their own territory. Here the Commission proposes to deal with the problem through the rules for the regional fund.

As far as the protection of shareholders and other interested parties - for instance, creditors - in the operation of multinationals is concerned, the Commission

is aware that uniform rules should be set up so as to protect shareholders and creditors in takeover bids. This was just the first of the seven areas.

In the field of protection of workers, it is felt necessary to provide workers with the rights they have already obtained in cases where decisions are taken by a multinational entailing collective dismissals or in cases of mergers that might jeopardize the security of the individual worker.

Some machinery will be instituted for the protection of workers. The Commission is trying to push the existing proposal for a European cooperative status, a so-called Eurocompany as the best remedy.

The question of maintaining competition should be seen together with the question of takeover policies. You will all know how ambivalent the problem of antitrust and competition policies are in Western Europe. The Community bound by the Rome Treaty to maintain competition. The Commission has proposed regulations whereby a merger proposal has to be examined by it, to see that it does not frustrate prospective competition.

As far as takeover policy is concerned, one of the main aims is to try to protect the workers' rights. The

Community has become alarmed by the rate of the increases of takeovers and has felt it necessary to harmonize the policy in the field of company takeovers vis-a-vis the individual member states.

The proposals seek to provide the Community with a sort of embryonic equivalent of the U.S. Securities and Exchange Commission.

In passing, I would also mention that in the fields of stock exchange operations, publicity for the balance sheets of the companies, of course, would demand that member states get together and secure coordination by the different stock exchange authorities to deal with the problem. What we are trying to produce is a unilateral jurisdiction for these problems. This is in itself a neutral thing, which only means that for instance U.S. multinationals - instead of having to deal with many authorities - would be able to deal with only one, covering the whole Community area.

In the field of public information, there is a need to compile more statistics, notably about the financial flows relating to multinationals, so as to be able to suggest some sort of financial regulation - how to deal with multinationals and how to cope with the age old problem of hot money.



As far as the developing countries are concerned, what we really want to try to elaborate is some sort of code of behavior for European based multinationals to deal with developing countries in ways that are fair to them. At present, the most cogent proposal that will eventually come through seems to be a body of regulations relating to the security of workers in cases of mergers, regulations concerning tax evasion and regulations dealing with disturbances on the short-term capital market. What is however important for you to remember is that the European Commission is willing to negotiate these various problems in all areas, and is negotiating them in the OECD. They are also going to be negotiated in Geneva and in the U.N. They are dealt with in the twice-yearly meetings which are held between the U.S. and the E.E.C. and which are being instituted also with Canada. The basic principles for the Community will be non-discrimination between foreign based investments and European investments and reciprocity.

Thank you.