

European Communities

EUROPEAN PARLIAMENT

Working Documents

1974-1975

24 October 1974

DOCUMENT 292/74

INTERIM REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the communication from the Commission of the European Communities to the Council (Doc. 261/73) on/multinational undertakings and Community regulations

Rapporteur: Mr Francis LEENHARDT

PE 37.160/fin.

EUROPEAN PARLIAMENT

CORRIGENDUM

to the report drawn up by Mr Francis LEENHARDT
on behalf of the Committee on Economic and Monetary Affairs
(Doc. 292/74)

1. The title of the document should read as follows:

INITIAL REPORT

instead of interim report.

2. Insert the following paragraph after paragraph 20 of the motion for a resolution:

'21. Instructs its Committee on Economic and Monetary Affairs to keep the situation in this field under review and to report back in due course;'

Paragraph 21 becomes paragraph 22.

9 December 1974

By letter of 29 November 1973 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the communication from the Commission of the European Communities to the Council on multinational undertakings and Community regulations (Doc. 261/73).

On 10 December 1973 the President of the European Parliament referred this communication to the Committee on Economic and Monetary Affairs as the committee responsible.

On 22 April 1974 the European Parliament asked the Committee on Social Affairs and Employment and the Committee on Development and Cooperation for their opinions.

The Committee on Economic and Monetary Affairs appointed Mr Leenhardt rapporteur on 11 January 1974.

It considered the draft report at its meetings of 21 February, 7 March, 29 March, 18 April, 3 July and 6 September 1974, and on 4 October 1974 unanimously adopted the motion for a resolution and the explanatory statement.

The following were present: Mr Lange, chairman; Mr Leenhardt, rapporteur; Mr Artzinger, Mr Bersani, Mr de Broglie, Mr Cifarelli, Mr Delmotte, Mr Hougardy, Mr Jahn (deputizing for Mr Burgbacher), Mr Kater, Mr Krall, Lord Reay, Mr Scholten, Mr Schwörer, Mr Spénale (deputizing for Mr Carpentier), Mr Starke.

The opinions of the Committee on Social Affairs and Employment and the Committee on Development and Cooperation are attached.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the communication from the Commission of the European Communities to the Council on multinational undertakings and Community regulations

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council (COM(73) 1930),
 - having been consulted by the Council (Doc. 261/73),
 - confirming its resolutions on the Community industrial policy (Doc. 277/73), control of mergers (Doc. 362/73), and the second report of the Commission on competition policy (Doc. 264/73),
 - having noted the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Social Affairs and Employment and the Committee on Development and Cooperation (Doc. 292/74),
1. Observes that multinational undertakings have, in the last decades, developed on an extraordinary scale;
 2. Notes :
 - that this development has had beneficial effects on productivity, technological progress, and management methods;
 - that by their size, their vast liquid assets and the concentration of their decision-making methods, multinational undertakings have, however, caused serious problems and dangers, for the solution of which international regulations are lacking, especially in the areas of employment, competition, tax obligations, international monetary relations and the security of supply of certain raw materials;
 3. Emphasises that this concern has for many years now been the occasion of detailed studies by a large number of expert committees set up by the United Nations, the OECD, ILO, NATO and the American Congress;
 4. Congratulates the Commission on having taken the initiative in attempting to prevent, with the aid of an appropriate legal framework, a development which is contrary to the objectives of the Treaties;

5. Approves, in broad outline, the measures envisaged by the Commission of the European Communities and presented by it as being in no way discriminatory - since they are directed against situations for which national undertakings or even private individuals might just as well be responsible - and as no more than a beginning, given the number and complexity of the problems to which appropriate solutions have yet to be found;
6. Regrets that the Council has not yet taken action on the two proposals for directives to eliminate the tax obstacles to trans-frontier mergers which were forwarded to it by the Commission more than five years ago;
7. Considers it necessary that in the work on fiscal planning aimed at saving taxes, account should be taken not only of internal transfer prices and licence fees but also of the contribution to the research costs of the parent company, the interest paid to the latter when the subsidiary company has not benefited directly from the loans paid for 'management services', the aim being to safeguard the interests of the host country, in accordance with general current practice;
8. Hopes also that the Council will discuss and express its opinion on the report on holding companies submitted by the Commission;
9. Approves the Commission's efforts to obtain a better knowledge of the flows of currency, capital and liquid assets incident to the transnational operations of companies and to seek, as part of the activities relating to economic and monetary union, a solution to the problem of disruptive movements of currency and capital;
10. Notes with satisfaction the set of measures envisaged for protecting workers against collective dismissal and the consequences of mergers, concentrations, restructuring, buying-up of undertakings or decisions to reduce investments;
11. Shares the Commission's desire to encourage the establishment of a trade union counterweight which would make a great contribution towards the solution of many employment problems and asks the Commission to draw up a proposal on European collective agreements;
12. Attaches great importance to a close watch being kept on oligopolistic situations as referred to in Articles 85 and 86 and to action to combat restrictive trade practices: export bans, market-sharing agreements, purchases linked to production factors including raw materials, restrictions expressly provided for in contracts for the transfer of technical know-how, the arbitrary fixing of the transfer price between parent and subsidiary company, and monopoly practices;

13. Would like to see increasing and more thorough application of the procedures for exchange of information between the anti-trust authorities of the European Community and the corresponding bodies in the other OECD countries;
14. Supports the idea of cooperation agreements with the developing countries designated to encourage the kind of private investment best suited to their priorities, and to define long-term conditions for receiving these investments and possibly the provisions applicable in the event of transfer of ownership of industrial plants;

In this context, emphasizes the need for a legally-based exchange of information on the activity of multinational undertakings between the Community and the developing countries, in particular those bound to the Community by special agreements;

Considers that the Community should ensure that its policy on multinational undertakings, and in other areas, is compatible with its general policy towards developing countries;

15. Feels it essential that a better dissemination of information about the operations of multinational undertakings should be aimed at;
16. Considers that the collection and periodic publication of increasingly accurate quantitative and qualitative information about multinational undertakings over a certain size would constitute a particularly effective means of making their activities more transparent in future;
17. Would like to see the Commission regulate the specific content of annual accounts, ensure their uniformity and adopt the idea of requiring all undertakings or companies above a certain size, whatever their statutes, to publish their annual accounts, as provided for in the proposal amending the 4th directive on the annual accounts of limited liability companies;
18. In view of the world dimensions of the problems raised by the multinational companies, would like the Commission and the Council, while incorporating the provisions listed above in Community law, to take the initiative of undertaking negotiations with the governments and the various international organizations with a view to their universal application. The aim would be to arrive at a general agreement on taxes and investment, similar to GATT, and the creation of an international body responsible for its implementation and authorized to carry out investigations and make recommendations;

19. Expresses its belief that far too much time has been allowed to elapse before getting to grips with the problems caused by the unchecked development of multinational undertakings, and that in the meantime they have gained a considerable lead over public authorities and trade union movements in the internationalization process;
20. Approves, therefore, the broad lines of the draft Council resolution, which gives the Commission the powers it requests to intensify its work in all the areas which it specified;
21. Instructs its President to forward this resolution to the Council and Commission of the European Communities, as well as to the parliaments and governments of the Member States.

EXPLANATORY STATEMENTI - INTRODUCTION -

1. - In the introduction to its communication to the Council the Commission has set out in moderate but clear terms the reasons which prompted it to propose certain measures to solve the problems arising from the expansion of the multinational undertakings.

As it points out, one of the most striking features of economic development in recent decades has been the 'very substantial growth of large undertakings which have industrial establishments distributed in a number of countries'.

2 - This phenomenon has acquired enormous proportions. In his book on world inflation and multinational companies Mr Charles LEVINSON reproduces a table which classifies the hundred States or national undertakings in the world with the highest gross national product or turnover in 1969 (Source: Vision-Paris). This table is reproduced in Annex I. Of these hundred economic units 51 are multinational undertakings and 49 are States.

In the report which he presented on 30 October 1973 to the meeting organized in Washington between members of the American Congress and members of the European Parliament, Mr Sam M GIBBONS writes that the annual turnover of the multinational undertakings is at present 500 thousand million dollars, i.e. nearly a sixth of world production and more than the gross national product of Japan. Each of the ten major multinational undertakings has an annual revenue exceeding the GNP of two-thirds of all the countries in the world.

3 - The same author estimates that 50% to 60% of direct investments abroad are in the hands of American multinational undertakings, but he observes that European and Japanese investments abroad have increased rapidly: in the list of the world's 500 biggest undertakings published by the magazine Fortune there are at present 200 non-American firms.

The extraordinary growth of multinational undertakings over the past twenty years is illustrated by a table showing subsidiaries set up and holdings acquired by 187 American multinational companies based on a United Nations survey. This table taken from Mr GIBBONS' report will be found in Annex II.

4 - This development may be explained by the wish to gain new markets.

An investigation of 553 American undertakings made in the United States and published by Mr KOLDE in International Enterprise gives the following list of the motives most frequently quoted by the undertakings for investing abroad:

- to win markets by by-passing the restrictions imposed by import regulations 21%
- to reduce production costs 20%
- to control the distribution of products by applying the methods of the parent company 14%
- to compete more effectively with local producers 14%
- to dispense with intermediaries 11%
- other reasons 20%

This list seems incomplete and other enquiries reveal additional important factors: the wish to spread the cost of research over large-scale production, to spread industrialization and marketing risks, to site production in areas with favourable tax systems.

5 - The development of multinational undertakings is considerably encouraged by the fact that the subsidiaries are mainly financed by funds raised in the host country. Annex II to the communication from the Commission gives some significant figures: 'in 1969, the financial resources of American-owned subsidiaries are believed to have originated as follows: 15% from the U.S.A; 26% from non-U.S. capital markets; 56% from the subsidiaries' cash flows'.

A report drawn-up by the Senate sub-committee on multinational undertakings for the years 1966-1970 also shows the resources of foreign subsidiaries of American undertakings as having originated in the case of manufacturing industries as follows: 26% from amortization, 27% from profit re-invested after tax, 35% from funds raised outside the United States and 12% only from capital contributed by the parent company.

A further point is that foreign subsidiaries have the advantage over local competitors of being granted credit facilities in the host country on the strength of the parent company's reputation.

6 - It is generally agreed that multinational undertakings make a positive contribution in the matter of productivity, technological progress, management techniques and the internationalization of the economy. The problem lies in the extraordinary power of these undertakings, which discovered the benefits of supranationality before countries and trade unions, gaining a considerable lead over them as a result. In his letter to Cardinal ROY of May 1971 Pope Paul VI wrote: 'National frontiers are yielding before the pressure of new production techniques and we see new economic powers appear - multinational undertakings - which by their concentration and the flexibility of their resources are able to adopt strategies largely independent of the national political authorities, and consequently escaping control in terms of the common good. By extending their operations these private bodies may lead to a new and abusive form of economic domination over the social, cultural and even political sectors. This excessive concentration of resources and power is acquiring a new and well-defined shape.

7 - The operations of multinational undertakings have already been causing concern for many years, particularly in the spheres of employment, competition, fiscal equality, the monetary tensions and economic independence of developing countries. Many expert committees have been set up by the United Nations, the OECD, the ILO, NATO, the American Congress and the International Chamber of Commerce.

They reveal a recognition of what Mr Robert LATTES in a speech to the Centre de Recherche des Chefs d'Entreprise meeting in Paris last December called - 'the increasing inadequacy of our traditional political, legal and institutional structures and powers in face of the operational and management techniques of the multinational undertakings. There is therefore a widening gulf between the effective situation created by the operations of these undertakings and our present system of control and arbitration'.

Mr LATTES quoted a recent UN report showing that, unlike the government, these undertakings are not directly responsible before an electorate and suggesting, therefore, that institutions and procedures should be created to guide these undertakings in the exercise of their power. The same report asserts that, while these undertakings may indeed increase the level of exports, employment and technology of the host country, they may also prejudice the government's priorities, tax systems, and the distribution of income, and so undermine the state's national sovereignty and power to pursue its objectives, thus representing a real threat to social and political development.

8 - Concern has been aggravated by the behaviour of certain oil companies which came to light during the recent crisis, as well as by events in Chile. It may be recalled that Mr Salvador ALLENDE made the following declaration to the UN on 4 December 1972: 'States are witnessing interference in their fundamental political, economic and military decisions by worldwide organizations which are independent of any state, and which for most of their activities are not responsible to any parliament or any institution representing the public interest'.

9 - The Commission of the European Communities, which has also been studying these problems, was prompted to take action by a memorandum from the Danish government on the subject of multinational undertakings incorporated in the declaration of the Paris Summit Conference. This declaration stated that the Community institutions should draw up an action programme in the sphere of industrial policy. In the introduction to its communication to the Council the Commission expresses its belief 'that it will be impossible to find solutions and allay anxieties in this area unless suitable counterweights are introduced at Community and international level so as to re-establish the conditions for a balance between the parties concerned'. In the belief that the Community presents the degree of effectiveness and cohesiveness necessary to form the framework into which such a counterweight can be introduced the Commission has thought it useful to present a number of proposals to the Council.

II - TAX PROBLEMS -

10 - Foremost amongst these proposals is the development of international assistance and cooperation relating to information, supervision and recovery of tax. The Commission in fact wants to tackle the problem of tax evasion. This expression is often criticised. However, it does not imply fraud. National undertakings commonly take advantage of disparities between tax systems. As one of their managers has said, there is no reason why they should willingly pay more tax than the law demands - that would be 'throwing money away'. They therefore practice what is called 'tax planning' in order to save money.

11 - In his book 'These Multinationals which govern us' Mr Christopher TUGENDHAT describes the manipulation of transfer prices which are considered the most flexible instrument available to a multinational undertaking. As the Commission emphasizes in Annex II to its communication, prices charged in a group's inter-company transactions and fees for industrial property or management can be used to reduce the tax assessment basis or consistently move profits to countries with favourable tax systems.

12 - In some countries the tax and customs administration are suitably organized to discover artificial prices and determine the normal price, but in others this is not the case and these states consider that they suffer undue losses of tax revenue while domestic undertakings complain of distortion of competition.

13 - In its report on the tax system of holding companies last June the Commission of the European Communities presented suggestions to the Council concerning tax arrangements. These suggestions are equally valid for multinational undertakings.

The Commission is seeking to eliminate disparities in taxation creating distortion on the capital market and to restrict tax evasion within the Community, but action confined to holding companies within the Community would inevitably provoke a movement of capital towards third country tax havens. For this reason the Commission recommended in 1967 that similar action be taken by the Community in regard to all tax haven countries. At that time the Council did not think it appropriate to take such action. In its report the Commission stresses the urgent need for firm political action.

III - MONETARY PROBLEMS -

14 - The Commission wishes to obtain more information on movements of capital accompanying the transnational operations of these undertakings. It is anxious about the disturbances created by short-term capital movements which are partly attributable to operations by the multinational undertakings.

It must be borne in mind that the liquid assets of these undertakings are very considerable, being estimated at the end of 1971 at 268 thousand million dollars, i.e. twice total world reserves.

The multinational undertakings reject the charge of speculation: they claim that their operations are designed to protect themselves against exchange losses. As Mr TUGENDHAT points out in his book, the multinational undertakings are favourably placed to bypass at least in part the most stringent restrictions on capital movement. In particular, they can force a subsidiary to delay or advance payments depending on how they assess the strength of the currency of the host country. As the Commission observes, the national undertakings are swept up in the trend and themselves accentuate the speculative movements.

IV - PROTECTION OF WORKERS -

15 - The Commission wishes to give workers adequate guarantees in respect of security of employment. It therefore proposes that the Council shall act on the proposals concerning mass dismissals and the protection of workers' existing rights in the event of mergers or rationalization. It wishes to encourage the creation of Community wide joint committees for specific sectors and the development of European collective agreements. It also wishes to secure workers' rights to information and to participation in management in the context of the European Company Statute.

16 - These are urgent matters, some mass dismissals are quite frequent. Workers resent the fact that they cannot negotiate effectively with the managers of subsidiaries. Decisions are taken in the parent company without prior notification.

Mr Robert LATTES has stressed that multinational undertakings have a trump card against trade union claims or the measures or wishes of a state, that is, the chance of playing off one subsidiary against another, one state against another: 'they are free to counter the effect of a strike, for example, by transferring production from one subsidiary or country to another'.

Similarly Annex II of the Commission's communication points out that greater flexibility of location has as its logical corollary equal flexibility of disinvestment.

17 - In the face of this threat to employment workers have begun to unite. A European Confederation of Unions has been established to organize their common action. The Commission considers the setting up of a trade union counterweight 'as essential for a balanced solution to this problem'. How could this counterweight be effective if in several countries in the Community workers are denied the right to demonstrate their solidarity by striking 'in sympathy'?

V - MAINTAINING COMPETITION -

18 - The European Parliament has always laid great stress on the need to observe the rules on competition laid down in the Treaty of Rome. This was shown in the recent debate on Mr Helmut Karl ARTZINGER's report on control of concentrations between undertakings, after which Parliament adopted the draft regulation under Articles 87 and 235 which establishes the incompatibility with the common market of merger operations making it possible to obstruct effective competition and lays down the obligation to give prior notice of merger operations.

19 - Table 2 annexed to this document shows that in many countries multinational companies have grown by buying up existing undertakings, which arouses more resentment than the establishment of new plants.

The Commission rightly recommends in its communication the adoption and enforcement of good conduct rules concerning public take-over bids. It proposes that Community rules should be drawn up concerning, in particular, stock-exchange operations and that the Member States should lay down the conditions to be satisfied by such operations for them to comply with the economic and social aims of the Community.

20 - Governments have been slow to act, as Mr GIBBONS writes. He suggests that a great deal of harm has already been done: competition has been distorted, prices have risen and quality has deteriorated and it is, he says, high time to act to make up lost ground.

The Commission's undertaking to maintain active surveillance of oligopolistic situations in accordance with Articles 85 and 86 is very welcome.

Because of their enormous size and preponderance in the key sectors of industry multinational undertakings may be only too easily tempted to 'abuse dominant positions'.

VI - CONDITIONS OF ESTABLISHMENT OF MULTINATIONAL COMPANIES IN DEVELOPING COUNTRIES -

21 - The Commission expresses its concern to ensure that investments by multinational undertakings of Community origin are closely compatible with the economic and social aims of the host countries.

In the interests of world peace and prosperity the differences between the revenues of industrialized and developing countries must be reduced. Therefore, as Mr MARGOT, rapporteur of the Economic and Social Committee, writes, the investments by multinational undertakings must be integrated 'in a Community development policy not exclusively geared to seeking profit and power'.

22 - In its communication the Commission proposes the following measures:

- the appropriate application of the economic and social provisions included in the proposals, concerning a system of guarantees for investments in third countries, already adopted by the European Parliament;
- the effective application of Community rules concerning transfer prices and licence fees;

- a development cooperation policy conceived in such a way as to encourage those private investments best suited to the priorities of the host country and to lay down, within the framework of long-term agreements, the conditions of reception of such investments, and possibly rules concerning the transfer of ownership of industrial installations.

VII - GOOD CONDUCT CODE -

23 - The idea of a good conduct code is rapidly gaining ground: it would be drawn up by multilateral negotiation, and should establish rules for investment aid, ways of fixing transfer prices, rules governing competition, social norms to be respected in the matter of trade union rights and ILO conventions.

Many multinational undertakings, disturbed by the adverse criticism arising from the behaviour of some of their number, would apparently welcome such a code. For example, Mr AGNELLI indicated this in his statement to the 'Group of Leaders' last November. As Mr LANGE, who represented the European Parliament in the discussions with a delegation of the US Congress on multi-national undertakings, has pointed out the necessary legislation could be embodied in an international agreement which would supplement GATT and an international secretariat could be set up with responsibility for seeing that this code was observed and empowered to make enquires and recommendations and, possibly, supervise arbitration. The Commission does not seem averse to such ideas, since in the paragraph on conditions of reception it expresses the wish for general adoption of most of the measures envisaged in this document throughout the industrialized countries, in other words as far as possible in the Member States of the OECD'.

24 - It may be objected that a code without obligation or sanction can be of little value, but that would ignore the need for multinational undertakings to safeguard their reputation on the home market.

In his book on multinational undertakings Mr Raymond VERNON stresses the obstacles to such a scheme. But he observes that multinational undertakings would undoubtedly find it easier to submit to constraints imposed at international level than the mass of unilateral decisions by national governments with which they are threatened at present. 'The capital imbalance between the multinational undertakings and the national governments can be tolerated up to a certain point, but beyond that a balance has to be restored'.

VIII - BETTER PROVISION OF INFORMATION -

25 - The Commission has clearly grasped the importance of improving information on operations between the multinational undertakings. It recommends the widest possible distribution of an annual report including information on the following:

- funds invested, re-invested, and transferred to the country of origin;
- the origin and composition of the capital;
- the number of jobs created and abolished;
- declared profits and taxes paid, as percentages of the turnover;
- expenditure on research and income from licences.

The above would be broken down into the country where the parent company was established and all other branches of the group.

26 - In its memorandum the Danish Government stressed the need to press on with the work relating to the proposal for a 4th Directive on annual company accounts. In its communication the Commission expresses its conviction that these measures will contribute towards attaining the necessary degree of clarity and comparability.

IX - CONCLUSION -

27 - This explanatory statement has only touched on the countless problems raised by the enormous increase in activity of the multinational undertakings. Its aim has been, above all, to analyse the disquiet which has led the Commission to propose definite action by the Council on an issue on which Europe should give a clear lead.

We might be criticized for not defining the term 'multinational undertaking'. The Commission has not thought it necessary to do so, since the many definitions suggested by experts vary, generally according to quantitative criteria (percentage of turnover outside the country of origin, number of countries in which the undertaking operates, etc.)

Annex II of the communication suggests that the simplest answer is to define the multinational undertaking as one with production facilities in at least two countries. As an additional factor the subsidiaries invariably have a separate existence in the host company and are subordinate to the decisions of the parent company.

28 - Despite political differences, fairly general agreement should be possible on supervision and control measures providing a suitable legal framework for the activities of multinational undertakings to protect the Community against undesirable effects.

The considerable delay in this matter has certainly resulted in the disappearance of a great many national undertakings which have been at a severe disadvantage owing to the fact that they paid more tax, and had less capital available, that the risks were less widely spread and they lacked the necessary reserves to compete in the price war. They have fought an unequal battle.

29 - The problem of prices would warrant separate treatment. A striking feature of multinational undertakings, quite apart from their dominant positions which weaken competition and encourage price increases, is their massive self-financing capacity. Gains in productivity are rarely accompanied by a reduction in prices and the energies of these undertakings are directed towards accumulating capital and gaining power, which is an additional inflationary factor.

30 - The Commission has made it clear in its communication that these proposals are only a starting point and that, in view of the complexity of the problems, progress will be slow. The Commission has stressed that Community action can only be fully effective 'to the extent that identically inspired rules are imposed at world level with a view to ensuring a homogeneous framework for the operations of multinational undertakings, whatever their origin and their geographic field of activity'.

It is, however, to be welcomed that the structure of public law in the European Communities will allow them to establish the bases for controlling the activity of multinational undertakings in order to reduce the friction and conflict evident throughout the world and to arrest what Mr TUGENDHAT calls 'the erosion of the economic sovereignty of the nations'.

The 100 top 'GNPs' in 1969 (excluding communist countries and international merchant banks) - in millions of dollars

1. United States	931.4	35. CHRYSLER	7.0	69. Algeria++	3.2
2. Japan	164.8	36. South Korea	7.0	70. Morocco	3.2
3. West Germany	153.7	37. MOBILE OIL	6.6	71. SWIFT	3.1
4. France	137.8	38. Thailand	6.3	72. South Vietnam++	3.1
5. United Kingdom	108.6	39. Colombia	6.1	73. MCDONNELL DOUGLAS	3.0
6. Italy	82.3	40. Indonesia+	6.0	74. UNION CARBIDE	2.9
7. Canada	73.4	41. UNILEVER	6.0	75. BETHLEHEM STEEL	2.9
8. India	39.6	42. TEXACO	5.9	76. BRITISH STEEL	2.9
9. Brazil	39.4	43. Egypt+	5.7	77. HITACHI	2.8
10. Australia	29.9	44. Chile	5.5	78. BOEING	2.8
11. Mexico	29.4	45. ITT (+ GRINNEL)	5.5	79. Libya+++	2.8
12. Spain	28.7	46. Portugal	5.4	80. EASTMAN KODAK	2.7
13. Sweden	28.4	47. New Zealand	5.3	81. PROCTER & GAMBLE	2.7
14. Netherlands	28.4	48. Peru	5.1	82. ATLANTIC RICHFIELD	2.7
15. GENERAL MOTORS	24.3	49. GULF OIL	4.9	83. NORTH AMER. ROCKWELL	2.7
16. Belgium-Luxembourg	22.9	50. WESTERN ELECTRIC	4.9	84. INTERN. HARVESTER	2.6
17. Argentina	19.9	51. US STEEL	4.7	85. KRAFTCO	2.6
18. Switzerland	18.8	52. Israel	4.7	86. GENERAL DYNAMICS	2.5
19. South Africa	15.8	53. Formosa	4.6	87. MONTECATINI EDISON	2.5
20. STANDARD OIL NJ	15.0	54. STANDARD OIL OF CALIF.	3.8	88. TENNECO	2.4
21. FORD MOTOR	14.8	55. Malaysia	3.7	89. SIEMENS	2.4
22. Pakistan	14.5	56. LING-TEMCO-VOUGHT	3.7	90. CONTINENTAL OIL	2.4
23. Denmark	14.0	57. DU PONT	3.6	91. UNITED AIRCRAFT	2.3
24. Turkey	12.8	58. PHILIPS	3.6	92. BRITISH LEYLAND	2.3
25. Austria	12.5	59. SHELL OIL	3.5	93. Kuwait	2.3
26. ROYAL DUTCH/SHELL	9.7	60. VOLKSWAGENWERK	3.5	94. DAIMLER-BENZ	2.3
27. Norway	9.7	61. WESTINGHOUSE ELECTRIC	3.5	95. FIAT	2.3
28. Venezuela	9.7	62. STANDARD OIL (Indiana)	3.5	96. FIRESTONE	2.3
29. Finland	9.1	63. BP	3.4	97. AUGUST THYSSEN-HUTTE	2.3
30. Iran	9.0	64. Ireland	3.4	98. TOYOTA	2.3
31. Greece	8.5	65. GEN. TEL. & ELECTRONICS	3.3	99. FARBERK HOECHST	2.3
32. GENERAL ELECTRIC	8.4	66. ICI	3.2	100. BASF	2.2
33. Philippines	8.1	67. GOODYEAR TYRE & RUBBER	3.2		
34. IBM	7.2	68. RCA	3.2		

(Source: Vision, Paris.) + 1967. ++ 1968. +++ 1969 Estimation

From: 'World development and the multinational companies'
a study published by the United Nations in August 1973

Table 36. 187 American multinational companies: how they have become established in their host countries.
(number of branches and percentages)

	Number of branches			Acquisitions (a)			Percentage of total acquisitions		
	before 1946	1946-1957	1958-1967	before 1946	1946-1957	1958-1967	before 1946	1946-1957	1958-1967
<u>Developed countries</u>									
Canada	537	414	639	158	187	370	29.4	45.2	57.9
Western Europe	1,105	693	2,754	256	194	1,193	23.2	28.0	43.3
Southern hemisphere (b) .	152	185	511	30	57	240	19.7	30.8	47.0
Japan	17	43	198	5	17	53	29.4	39.5	26.8
<u>Developing countries</u>									
Western hemisphere	508	735	1,309	110	157	477	21.7	21.4	36.4
Asia and Africa (c) ...	103	176	491	17	23	109	16.5	13.1	22.2
TOTAL	2,422	2,246	5,898	576	635	2,442	23.8	28.3	41.4

Source: Centre for planning, forecasts and development policies of the economic and social affairs department of the UN Secretariat, from the book by James W. Waupel and Joan P. Curhan 'The Making of Multinational Enterprise' (Boston, 1969).

- (a) The term acquisitions denotes the purchase by American companies of national companies formerly under local control.
- (b) Including Australia, New Zealand, South Africa and Rhodesia.
- (c) Excluding Rhodesia.

OPINION OF THE COMMITTEE ON SOCIAL AFFAIRS AND EMPLOYMENT

Draftsman : Mr HÄRZSCHEL

By letter of 22 April 1974, the President of the European Parliament requested the Committee on Social Affairs and Employment to deliver an opinion to the Committee on Economic and Monetary Affairs on the Communication from the Commission of the European Communities to the Council on multi-national undertakings and Community regulations (Doc. 261/73).

The Committee on Social Affairs and Employment appointed Mr HÄRZSCHEL draftsman on 6 May 1974.

It considered the draft opinion at its meetings of 30 May and 20 June 1974, and adopted it at the latter meeting by 9 votes to 1, with 1 abstention.

The following were present: Mr Bertrand, chairman; Mr Härzschel, draftsman of the opinion; Miss Lulling, Mr Albertsen, Mr Gunne, Mr van der Gun, Mr Pâtre, Sir John Peel, Mr Rosati, Mr Schwabe, and Mr Wieldraaijer.

GENERAL OBSERVATIONS

1. In order to understand the phenomenon of multinational undertakings as comprehensively as possible, it is advisable to make the scope of the definition as wide as possible. Hitherto, no generally acceptable theoretical description has been formulated. The American political economist Raymond VERNON describes a multinational undertaking as : an undertaking with a turnover in thousands of millions, a foreign oriented management, a high proportion of foreign business and production centres in at least six countries. This definition covers 187 undertakings in the USA and about another 100 in the rest of the world. In recent years, they have been growing twice as fast as the world economy as a whole (by 10% per year). They are linked with each other by numerous cross-connections¹, and the number of decision centres is contracting further - according to a 1967 estimate by the US economic magazine 'Fortune', down to 60 undertakings. The world markets for cars, oil, chemicals, electronics and foodstuffs are each unassailably controlled by a dozen multinationals.

2. These points must be borne in mind in considering the document submitted by the Commission, and in doing so, the Committee on Social Affairs and Employment must pay special attention to the problems of the work force and of consumer protection as well as to the influence of the multinational companies on the total economy, which affect all strata of the population of a given state. The observation must be made here that it is doubtful if the proposals contained in the document would really make the international concerns any less uncontrollable than they have been in the past.

3. Faced with the geographical, economic and political flexibility of the multinational companies, the range of action open to the nation state is severely limited; although the home country is strengthened by the imperial size of its multinationals, since they limit the economic independence of other states where they have subsidiaries; they are not acting illegally in doing so, but merely making use of their international apparatus which the national competition and the nation state do not have, especially as their aim is generally comprehensible: the long-term profit maximization.

4. In the pursuit of this goal, tensions arise between it and other goals of the state which do not suit the undertakings, such as : environment protection and participation in key industries. Another of these goals is the provision of an optimal supply of goods to the population by, for example, improving and cheapening consumer goods using technically advanced production methods. The achievement of these aims is hindered by the uncontrollable acquisition of power through capital accumulation, since it is not the development of new products, but production differentiation, which takes up some 90% of expenditure on research and development.

¹Subsidiaries; consortia; common owners from decartelization of firms.

In the attempt to evade competition, non-affiliated companies are sometimes ruthlessly crowded out by internal market and market-sharing agreements, and the internationalization of the work force robs workers of their traditional weapon, since in wage negotiations, the multinational undertakings take advantage of wage differences in the various countries and use them to exert pressure when they plan investment.

5. The large scale exporting of jobs enables local labour to be used in less-developed countries, with a minimum of integration in their national economy. Despite the formation in 1966 by the International Metal-workers Federation of a committee on multinationals for the automotive industry, and other similar institutions, the trade unions have not yet managed to achieve any success in controlling deflections of production and investment which distort conditions of competition.

This is largely due to differing national organizational structures and ideological conflicts, which put great limitations on the influence exerted by international trade union bodies. General security of jobs and of acquired rights in the event of mergers and amalgamations must, therefore, be regarded as a priority aim.

6. The control mechanism of the free market economy, the market price, no longer has a function when costing, calculated growth, and profit and investment planned by firms in oligopolistic markets replace supply and demand. Constantly rising rates of inflation, which particularly affect low income groups, are part of the uncontrollable result of this situation. As a consequence, one of the hitherto most important means of state guidance of the economy, national money and credit policy, becomes ineffective.

Public economic policy thus affects labour-intensive branches of industry which have become marginal, while it is no longer able to control an increasingly capital-intensive economy controlled by the multinationals.

CONCLUSIONS

The Committee on Social Affairs and Employment :

1. Welcomes the Commission's initiative in submitting to the Council a draft resolution on measures to be taken by the Community in order to resolve the problems raised by the development of multinational undertakings;
2. Thanks the Commission for the valuable information it has brought together in its document;
3. Is of the opinion, in view of the facts presented, that the measures indicated in the document still offer too few concrete starting points and possibilities of action;
4. Fully recognizes the positive aspects of the activities of the multinational undertakings, such as the creation of jobs and carrying out of research work;
5. Emphasizes the need for special measures to protect workers affected by mergers and take-overs, in order to safeguard their acquired rights, and in this connection welcomes the fact that the Commission has put forward concrete proposals for the safeguarding of workers' interests in the event of mergers, amalgamations and large-scale dismissals, and urges the Council to adopt these measures as soon as possible;
6. Points out in this connection that the rights of workers must also be harmonized in the widest international context;
7. Demands appropriate measures for the safeguarding of the public interest;
8. Is of the opinion that, for example, the price manipulations that are open to a whole range of large undertakings - as experience during the oil crisis has shown - have greatly contributed to the sharpening of inflationary tendencies, which, as is well known, affect people with fixed incomes most severely. In this connection it should be noted that in capital-intensive industry pricing policy is primarily a function of rising investment requirements, not of wage costs, and that the answer to the problem of inflation must therefore be sought by way of control of multinational financing methods;
9. Urges the Commission to devote special attention to the structural effects of technological growth, and to take appropriate measures to maintain full employment;

10. Sees in the implementation of co-determination and democratic control, even on a national scale, a possibility of limiting the misuse of power by international concerns; urges in this connection the rapid adoption of the European Company statute and of the Directive on harmonization of company structure (Fifth Directive).

11. Is of the opinion that, in order to maintain the ability of the trade unions to offset the power of the multinational undertakings, the Commission must take the appropriate initiative at European level and introduce joint committees based on sectors or areas of production to work towards the conclusion of European collective agreements;

12. Urges, in the interests of workers and consumers, undertakings to adopt policies which are more transparent and open to publicity, thus making much fuller information available; and expects the possibility of compulsory registration of major investments to be investigated as well, as such registration could have a considerable effect on the number of jobs available and bring about permanent changes in the role of the worker;

13. Recalls in this connection the world-wide radius of action of these undertakings, which cannot be adequately countered without internationally coordinated policies;

14. Points out that in view of developments over the past few years rapid action seems advisable in order to restore the competence of all public bodies and to protect workers and consumers.

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The Committee on Social Affairs and Employment requests the Committee on Economic and Monetary Affairs to take this opinion into account in its deliberations and to include the above conclusions in its resolution.

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Draftsman : Lord REAY

The Committee on Development and Cooperation appointed Lord Reay draftsman of the opinion on 9 May 1974.

It considered the draft opinion at its meetings of 25 June and 3 July 1974 and adopted it unanimously at the latter meeting.

The following were present: Mr Achenbach, chairman, Mr Knud Nielsen, vice-chairman; Lord Reay, draftsman; Sir Douglas Dodds-Parker, Mr Flämig, Mr Glinne, Mr Härzschel, Mr Laudrin, Mr Nolan, Sir John Peel, Mr Romualdi and Mr Spénale.

1. The Committee on Development and Cooperation notes that the European Commission, after acknowledging the difficulty of reaching a definition of what constitutes a multinational company, selects for their own use "an undertaking with production facilities in at least two countries". This definition has the charm of simplicity, but from the point of view of the interests of developing countries, which are the concern of this Committee, this definition is too broad to meet the principal point at issue. The problem is posed not so much by the fact of a company having production facilities in two or more countries, as by the resources and the power commanded by those companies which provide the majority of the investment undertaken in developing countries.

There is no doubt that multinational companies can do a lot of good in the countries in which they are established. One has only to think of the transfer of technical knowledge, the training of personnel, and the capital investment involved to understand why developing countries usually welcome it when a multinational company wishes to set itself up on their soil.

2. However, the balance of power between the multinational company and the government of the host country, can under certain circumstances also be exceptionally unfavourable to the latter. Such countries frequently lack the trained personnel, the financial resources, and the developed bureaucracies to regulate adequately the activities of such companies, to influence their policies, and in consequence to plan with greater security their own national economic development. This state of affairs, apart from being in itself undesirable and a source of friction, also provides the opportunity for such companies to abuse their power.

This problem has been known for a long time, but has never been tackled properly. We believe that lack of action damages the reputation of multinational companies. Accordingly, we are of the opinion that the Community should now take an initiative on the international level towards the formulation of a code of conduct for multinational companies. However, in view of the considerable difficulties in the way of reaching such an agreement on a world level, and because the Community is the seat of multinational companies, we believe that it might be possible for such a code of conduct to be formulated by the Community to cover the activities of its own multinational companies, at least where investment by them

in developing countries is concerned. The developing countries and the multinational companies should of course be invited to enter discussions to present their view of the problem and the difficulties they consider they face, and to declare the circumstances and the conditions in which the developing countries would continue to welcome foreign investment by such companies.

3. Your committee is surprised that the Commission, in the proposals it has drafted for the Council, should conclude with the demand for further information on the subject. The European Parliament managed to arrive at this conclusion in July 1972 ¹, and in view of the request they then made for a study of the subject, would not consider it inappropriate for the Commission to be asked to account for its delay in acting on the Parliament's request. We should also like to point out that the Commission, if it is still in need of information, does not require a decision of the Council to authorize its collection.
4. We consider that it has become increasingly necessary for the Community to maintain consistency between the objects of its development policy and its policies in other fields. This is obviously important in the case of its policy with respect to multinational companies, owing to the political and economic impact they have in the developing world. It is not therefore enough for Community institutions to take, as the Commission states it, "the necessary initiatives to ensure that multinational undertakings in their operations shall respect the economic and social aims of the Community." Steps must be taken by the Community to ensure that they respect the reasonable economic and social aims of the developing countries themselves.
5. For the reasons specified above the Committee on Development and Cooperation requests the committee responsible to incorporate the following paragraphs in its motion for a resolution:
 - (a) Stresses the need to collect adequate information on the activities of multinational companies in developing countries.
 - (b) Considers that the Community should ensure that its policies in the field of multinational companies, as in other fields, should be consistent with its overall development policy.

¹ O.J. C82, of 26.7.1972