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INTRODUCTION: Around World War I diplomats and journalists referred to Turkey as the Sick Man of Europe. Turkey paralyzed in midstream between the old ways of the Osman Empire and the frightening new ways of modern Europe. Today, the Sick Man of the world is Europe, also politically immobilized, refusing to take on its new role as a unified coherent state and still denying its military, economic and political responsibility as the overall stabilizing element in Greater Europe and Asia Minor.

SLIDE I:

**THE GLOBAL
TRIAD**

Moreover, Europe's economic growth, our standard of living, our future quality of life is only partly in our own hands. Our fate very much hinges upon our future interaction with the two other players in the Global Triad: The United States and Japan/China.

It is now an established fact that the world economy is contracting towards the three centres of the Triad. What we don't know is whether we in the years to come will see trade and co-operation growing and prospering among the three economic giants for the benefit of the entire globe or whether the three economic communities will try to defend their standard of living by curbing imports and boosting exports, thus returning to a modern version of the "beggar your neighbour" policy in the 1930's. Right now the indications and signals are varied and conflicting but one thing we can be sure of and that is that the European Community is by far the weakest member of the Global Triad.

Let's have a closer look at our two main international collaborators or competitors as the case might be.

SLIDE II:

JAPAN/CHINA

A formidable new power is taking shape in the Far East as Japan and China move closer towards the obvious perfect economic marriage of convenience combining Japan's sophisticated technology, advanced management and global marketing presence with China's vast hard-working skilled labour force and enormous resources of raw materials and energy.

History has taught us never to underestimate China, and what we see now is not a bewildered and confused nation torn between a reactionary past and an uncertain future. The Chinese know what they are doing. They are test-marketing capitalism in the selected free trade zones with the objective of converting China to a modern capitalist society under a political iron hand, the role model of course being Singapore with its free market economy combined with a political structure which the Singapore government refers to as "guided democracy". For us Westerners the phrase "guided democracy" is a proof of the devious ways of the oriental mind. For the Chinese it is a pragmatic natural way of combining two conflicting concepts.

When I went to Red China for the first time back in 1970 in the wake of the cultural revolution, I got my train ticket into the People's Republic from the communist travel agency in Hong Kong. When I asked for a first class ticket to Canton, the girl sternly lectured me that "in the socialist state of China all classes have been abolished including the capitalist tradition of dividing up travellers in first and second and third classes".

Thus humbled, I meekly asked for just any available ticket to Canton whereupon the girl asked: "Would you like to travel on soft seats or hard seats ?" It turned out that my soft seat ticket was indeed wild first class luxury saving me from the cattle waggons in the hard seat section. There will also be plenty of hard seats and soft seats in tomorrow's socialist China.

The Chinese Wirtschaftswunder is lying on our doorstep. Today, in Western Europe we are exporting our labour intensive industries to Poland and the Czech Republic. In 10 years' time Poland and the Czech Republic will export their labour intensive industries to China.

SLIDE III:

USA

The United States is and will remain the main source of high tech development in the world. The diversity of the North American industry stretching from mining, energy processing, product development and manufacturing of everything from hairpins to spaceships and life-saving novel break-through pharmaceuticals provide the US with a solid and fertile base for developing advanced technology in almost every industrial field. The US science and high tech basis is much broader than the Japanese high tech platform. For instance, within the pharmaceutical industry, the science, research and new therapeutics produced in the United States are galaxies ahead of Japanese life sciences.

Moreover, looking at the United States as not only a collaborator but also a competitor for both the US domestic market and for the inner EC market, the US has strong advantages compared to the EC. Whereas we in the European Community is a loosely knit patchwork of different nationalities, cultures, monies and peoples, the US has the enormous advantage of having a common system of money, transport, language, communication. And although the Americans probably will deny that, they also have as a community and as a nation some basic common, cultural values which we in Europe as yet do not have.

Finally, traditionally foreign trade has been a rather insignificant factor in the development and growth of the American economy. Not anymore. The US politicians and industrialists know full well that the American economy must expand abroad to sustain growth and an adequate standard of living in North America. In the United States, 600,000 new companies are being created every year. Many of them fall by the wayside but still surprisingly many survive, and the majority of US export growth comes from small and medium-sized companies which shows the tremendous international potential of the American economy and American industry.

SLIDE IV:

**THE EUROPEAN
COMMUNITY**

So here we are, we Europeans, sandwiched between a rock and a hard place, and like any teenager, also the new Europe is an appalling mixture of bad news and goods news.

First the good news:

Although the European market as such is not growing right now, we do have within the EC the largest single market in the world.

Moreover, the European industry is now waking up, realizing that an enormous cleaning-up and trimming process is necessary if we are to compete successfully with the Japanese and US industries.

And now at last, we have got the high octane fuel for integrating and reshaping the European industrial structure since within the EC we have now obtained free transfer of money, technology and human resources. This was agreed upon in 1986 when the European Inner Market was created, and that resolution will prove to be much more important to Europe's future than the treaties of Maastricht and Edinburgh, both of which, I believe, will end up as trivial footnotes in EC history.

The German chancellor, Herr Kohl, has often warned that the price we Europeans will have to pay for lack of unity is a Europe developing at several different speeds, and this is what is happening right now. In the years to come, we shall see how the stronger nations or rather the stronger regions irrespective of the national borders will separate from those who cannot cope with the pace and the speed of the élite regions of Europe.

Finally, we are seeing the Maastricht unification process falling apart. Industrial Europe and also industrial Japan and industrial US have lost patience with the European politicians and they are now busy forming one European market place of their own, irrespective of what the politicians are doing or not doing.

SLIDE V:

**EUROPEAN MERGERS
AND ACQUISITION
ACTIVITY**

In order to maintain its lion's share of the European domestic market, and also with the objective of expanding its trade internationally, European industry is busy sharpening its competitive edge. An accelerating industrial integration is taking place, cutting down the number of larger manufacturers in almost every industrial field. The tools are several hundred annual major mergers, acquisitions and asset stripping operations.

This graph will show you that Europe's industrial integration has separated completely from the political process. In 1990 and 1991, most EC political initiatives were frozen. Nothing happened because West Germany was in the process of digesting East Germany, leaving the rest of the European political leaders with intellectual and political constipation due to the fact that once again they would have to deal with a greater Germany, an 80 million people strong Germany. During 1990 and 1991 we saw mergers and acquisitions within the EC to the tune of 330 billion US\$.

Now, why was that ?

The answer you will find in the next slide.

SLIDE VI:

**A COMPARISON
WITH THE US**

The President of a large American investment bank presented this slide to a closed group of European industrialists at the recent World Economic Forum in Davos. When the full impact and consequence of his message dawned upon the executives present, dead silence fell upon the room.

The size of the US and EC markets are more or less the same. There are more people and consumers in Europe but the US market is much more coherent, much more one single market than Europe is right now.

On the screen you see 7 selected industries but it could have been 27, 37, or 67 for that matter because the structure is everywhere the same. This is the reason for the European merger and acquisition wave. This is the reason why the leading American investment bankers are moving their merger and acquisition divisions to Europe to be closer to the action. As one investment banker president told me recently: "In the US we are just picking the bones now. We are through with the process, you are right now starting up in Europe". And he concluded: "During the next 10 years the EC industry will be a slaughterhouse and a greenhouse, both of which are fine with an investment banker".

What he was saying was that in the US there used to be a lot more manufacturers within each industrial business bracket than today, and what he was also saying was that in 10 years from now there will not be 40 producers of batteries in Europe but more likely 5. Not 16 manufacturers of locomotives but 2 or 3 - and so on.

The future has already begun. We know that before the end of this decade 75 % of all retailing of food will be controlled by not more than 8 supermarket chains throughout the EC. Today, already 50 % of all food retailing are being controlled by only 5 supermarket chains within the Community.

This is also the background for the Volvo-Renault merger.

This is why SAS, KLM and Swissair will have to be merged into a larger business unit than today in order to survive and compete, and this is also the reason why a large number of banks, insurance companies, pension funds, breweries, transport companies will disappear as independent companies and organisations over the next 5-10 years.

SLIDE VII:

**DO YOU PERSON-
ALLY BELIEVE ?**

The Copenhagen based executive search company J-B International recently conducted an in depth Nordic survey on this oncoming industrial integration. The survey is especially interesting because several thousand Nordic CEOs were interviewed, giving us a solid and reliable trend of the expected development.

And what do we see ?

Well, although the Norwegian industry is nothing to write home about, the Norwegian CEOs are so inflated with industrial chauvinism that their perception of reality is somewhat blurred. It is much more interesting to note that a third of both the Swedish and the Finnish companies, being outside the EC, are convinced that they will have to step into industrial alliances in order to survive.

However, the only Nordic member of the EC, Denmark, is much closer to the heat of the oven, and this is why 54 %, more than half, of all Danish industrial companies believe that their only chance of survival is to become part of a larger and more powerful industrial unit. We are 8,000 industrial companies in Denmark, and that means according to the CEOs' own statements that more than 4,000 would have to be acquired or merged or stripped of their assets and sold in order to have any future at all.

A slaughterhouse and a greenhouse. What we see is nothing less than an industrial revolution sweeping over Europe these years.

As risk managers you will have an awful lot to manage in the years to come so you will be doing fine. But the unemployment in the wake of this industrial restructuring will be staggering, toppling millions of jobs ranging from blue collar workers to chief executive officers.

SLIDE VIII:

**VALUE
MANAGEMENT**

What type of executive will be spearheading the restructuring of Europe's business community?

It will probably be the same executive profile that prevailed when the same thing was happening in the United States. The value manager who as steward for his shareholders and their funds has to earn his right to manage the assets under his control, and that right is earned only when the manager realizes the highest possible value from those assets. The value manager is characterized by an ability to adopt a raider's view of the business and he should be capable to act on any opportunity to create incremental value.

The value manager is someone that a lot of you present here today will meet over the next few years.

Bon appetite.

SLIDE IX:

RED TRAIN

Now in the light of all this, how can we describe European integration ?

Well, this is how politicians view the unification process within the EC. The politicians see themselves as the locomotive, the powerful engine that pulls the vital sectors of the European national and international community towards a common goal: Business, education, health care, environment, defense, currency, foreign policy and so on.

This is also how the politicians would like the voters to perceive the current development, namely that although the integration process might move only slowly ahead because of all the obstacles, still the authority and the responsibility lie firmly in the hands of Europe's political leaders.

But this is not what is happening in real life.

SLIDE X:

TWO TRAINS

In real life Europe we have two trains moving at different speeds on two different set of tracks and maybe even in two different directions.

Below we have the political choo-choo which I guarantee is stopping at each and every station along the tracks, slowly manoeuvring some of the overlying political issues into place such as joint EC policies concerning environment, to some extent education, defense, Eastern Europe, foreign relations, international trade agreements and so forth.

On another, and independent set of tracks, we have the fast moving bullet train of the European business community, integrating and reshaping our main industries to cope with both the defense of the European domestic market shares including the new domestic market in East Europe and also with the necessary EC business expansion into the markets of the two other players of the global triad: Japan, China, Southeast Asia and the United States.

This is not a development that we in the European business community are happy about. As a matter of fact, we would like to see the red train model I showed you before where our political leaders are the guiding light and our pathfinders into a dangerous and unknown future. We are not blaming the politicians that they could not deliver in time. It just happened that way. But we in industry cannot wait. We have to defend our companies, our work places, our market shares, our standard of living, everything we have built up during the past generation.

So what kind of Europe would that lead to ?

SLIDE XI:

**BERLIN - PARIS -
VIENNA TRIANGLE**

An increasing number of industrialists believe Europe will look like this when we move beyond year 2000.

Have you heard about the blue banana ? The blue banana is a banana-shaped concentration of bluish lights in the industrialized and densely populated areas of Northern Europe as seen from a satellite on a clear night, stretching from mid England over northern France, Benelux and into the Ruhr district in Germany. Especially, the British like to think of the blue banana as the scientific, technical and industrial nucleus of modern Europe because it includes Britain.

However, the blue banana is nothing more than an optical illusion, and a much more realistic future European growth centre lies within the triangle Berlin - Paris - Vienna, also often referred to as Japan in Europe, because within this triangle we have a population of about 100 million people, somewhat less than Japan. And we also look at the densest and biggest concentration of high tech industries and universities compared with any other region in the world.

More and more heavyweight industrial leaders in Europe are becoming interested in promoting the concept of a European scientific, industrial and academic nucleus, a centre of intellectual and industrial power that will canalize industrial strength, science and growth into other industrial regions of Europe not being inside the triangle, such as the industrial areas in northern Italy and in Scandinavia. This plan might materialize irrespective of whatever happens to the Maastricht treaty. It reflects a regional priority based upon industrial, scientific and academic excellence with no regard whatsoever to national borders and national interests. This is business EC.

If this plan is to materialize, it requires enormous private investments and regional public investments in state-of-the-art communication systems, transport facilities, infrastructure and information technology apart from the investments required for the individual businesses and universities.

What's Prague doing there, one may ask ? Well, because it seems that the European business community expects the Czech Republic soon to be re-instated in its earlier glory and central position in Europe.