

Board Europe

Volume 23 • Number 3/4
March/April 2008



Jean-Claude Trichet, ECB



Hans Wijers, Akzo Nobel



Paris Business Briefing

Take Your Pick:

- Economy*
- Society*
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To protect all three will require technology; innovation and strong productivity growth.

Sustainable development rests on three equally important pillars of performance: economic, social and environmental. To be sustainable, economic growth cannot come at the expense of society or the environment. But the equation also cuts other ways.

Between the environmental consequences of climate change, and the economic and social needs of the advanced and the emerging markets, the world is facing some hard choices. Should the rapidly developing economies be able to consume the increasing amounts of energy they require to generate wealth and improve quality of life – and thereby risk environment disaster? Or must we protect the environment first and foremost, and thereby deny billions of people access to a better life? How can we simultaneously safeguard all three pillars of sustainable development?

These were among the questions posed at the Paris Business Briefing held on 20 February 2008 by The Conference Board and the Chamber of Commerce and Industry of Paris.

“The question is whether the growth trajectory can be continued in an environment in which we are committed to carbon-emission reduction,” said Gail D. Fosler, President and Chief Economist of The Conference Board. Unless an answer is found, industry-intensive emerging markets such as China, “will not be able to continue their trajectory with greenhouse gas restrictions.” Nor, she warned, will the advanced economies.

The answer must come from technology and innovation to increase energy efficiency and stimulate productivity growth, said Bart van Ark, Executive Director of Economic Research at The Conference Board. “Why look at productivity growth? Because it is that part of growth in an economy that is sustainable. The other elements of growth – labor and capital – are ultimately not sustainable (over the long term) because they are subject to diminishing returns. When talking about sustainability, it is productivity growth that will provide the answer.”

Productivity growth is often perceived as a euphemism for cutting jobs, Ms. Fosler noted. In fact, efficiencies from technology and innovation help create wealth and therefore generate employment. But here a different problem emerges: the issue of intellectual property rights. In order to ensure that new technology and innovation yield benefits on a

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Bart van Ark



Erik Pointillart

Christian Balmes



ECB, Banque de France, Conference Board Debate Factors of Wealth Creation in Europe and Beyond

European businesses are disadvantaged by the lack of a single market for services, limited flexibility in labour markets, and insufficient progress toward removing structural barriers that raise the costs of restructuring, according to a panel of leading European economists, business leaders and central bankers. Recent good economic times in Europe are the result of global cyclical trends, not structural change, and will likely subside as global growth moderates.

This was the message that came out of a two-day meeting in Frankfurt sponsored by The Conference Board, the European Central Bank and the Banque de France. The conference, held on 16&17 January 2008, brought together top corporate executives, academics and central bankers to discuss the economic and financial factors that will drive productivity growth and the creation of wealth in Europe over the coming years.

Participants said the co-hosted meeting shows that ECB President Jean-Claude Trichet wants to develop closer ties with the European business community. "The notion of having a business voice that expresses what the business challenges are, in the business environment, is rare," says Gail Fosler, President and Chief Economist of The Conference Board. "European companies may, as individual firms, enjoy productivity advantages which erode because of the European institutional environment. If you take away the structural impediments, European productivity performance might be better than productivity in the U.S., where the structural environment is a net contributor to overall economic performance. These institutional qualities are a competitive phenomenon made all the more extreme by emerging market competitors. We need to begin to define the business case."

Need for structural reforms

From the business side, the case is clear: major structural reforms are essential if Europe is to maintain strong productivity growth – the primary driver of future wealth creation. Productivity is not just about efficiency. Indeed, the drive for constant restructuring is driven by the need for products and processes to remain innovative. The limited ability to keep that process at pace motivates firms to move resources out of Europe.

Most of the participants at the conference, representing both business and institutions, agreed that productivity growth in the near and medium-term would come primarily from the services sector, and that the European Union would need to create a true single market for services, just as it has for goods. Banking and telecommunications were among the sectors cited as examples of this need toward a more unified market for services. Europe is not capturing the scale economies promised by the single market.

The ECB president echoed this sentiment, that Europe remains "very segmented", with broad differences in taxation and other barriers. He also called for greater flexibility and mobility in the

labour market, arguing that this was one of the critical factors to future value creation in Europe today.

"Structural reforms in the labour market and the achievement of a single market are absolutely of the essence," Trichet said. "It will not be easy, but the opportunity cost of not delivering the structural reforms we are calling for is very, very important."

Several of the experts cited the aging of Europe's working population is a clear sign that measures must be taken soon. "We are going to face a huge shortage of highly skilled labour," warned Bart van Ark, Executive Director of Economic Research for The Conference Board, adding that to get around this problem, "companies will need to embrace innovation and technological change, to turn innovation into processes, products and services that can be sold profitably."

There was broad agreement that innovation was key to unlocking future productivity potential, particularly in Information and Communication Technologies (ICT). Both the U.S. and Europe have witnessed strong productivity growth in the telecom and IT sectors in recent years, but many of the experts said they now expect future gains in productivity to be found not so much in the ICT sector itself, but in ICT-using businesses.

Role at home and abroad

While the US and Europe ponder the prospects of slower productivity growth rates, the rest of the developing world is not standing still. "Half of economic growth is coming from the emerging world," Fosler said, adding that globalisation is driving "competitive dynamics in business practices, organisational practices, technology, management practices, and approaches to innovation. US and European companies have been the leaders, but we are now no longer alone in the competitive world."

The challenge, said Gerard R. Vittecoq, Group President of Caterpillar, is that emerging markets are "low cost but not low productivity, not low quality, not low skill. These are people who want to work. They see enormous opportunity. They have a winner spirit."

"It's not about European companies moving out of Europe," said Hans Wijers, Chairman of the Board of Management of Akzo Nobel. "There are still enormous amounts of money in maintaining your base in home markets. Yes, build capacity in new markets, but you need to keep your base. It's like using the accelerator and the brake at the same time – you accelerate in some markets, apply the brake in others. That's what it means to be in business today."

Photo above (from left to right): Joseph Ackermann (Deutsche Bank), Gail Fosler (The Conference Board), Martin Baily (Brookings Institution), Guillermo de la Dehesa (CEPR), Jean-Claude Trichet (European Central Bank)

Privacy & Data Protection Raise Challenges for Firms

By Lauren Baranowska

The legislative and reputation risks involved in privacy protection are evolving rapidly. With the increase of surveillance and electronic data-storage, privacy is becoming a hot issue for businesses. Consumers, meanwhile, are holding companies to high standards when it comes to protecting their personal data.

"Data protection laws are no longer just a European concern," says Stewart Dresner, Chief Executive of Privacy Laws & Business (www.privacylaws.com), an independent international privacy law information service provider. Globally, countries are adopting laws that define a right that personal data be kept accurate, up-to-date and safe.

"Privacy regulators' inspections and audits are becoming more methodical and coordinated, and the criminal and civil penalties for non-compliance with privacy laws are getting stronger," warns Dresner. In areas of the world with long-standing data-protection laws, investigators are working with other regulatory agencies to organize broad, sometimes even pan-European audits. Likewise, the costs of financial sanctions can be inflated by the negative publicity companies may face if confronted by a privacy violation.



Stewart Dresner

A recent survey conducted by Privacy Laws & Business found that half of its sample of major multinational companies had no data breach policy in place. This presents a major risk and could attract the attention of regulators who are less likely to audit when responding to complaints or sectoral problems, if they know that an organization has implemented and tested internal data protection measures, according to Dresner. A breach within the framework of a stated policy is much more likely to be viewed as an individual problem – without a policy, companies cannot count on that benefit of doubt, he says.

So, what should you do? Dresner urges companies to make this a priority. Appoint a privacy manager that reports to your general counsel and takes responsibility for creating and monitoring an effective global data protection policy. "Take a census of the personal data that your organization collects, processes, uses, stores and *disposes of*".

Many scandals have erupted from documents improperly shredded or computers left with data undestroyed. And remember, these issues apply to all today's technology – not only desktop computers but also PDAs, USB disks and mobile phones. Recognize that most audits are spurred by employee or customer complaints and that a proactive approach is the best way to mitigate privacy risks.



REACH Extends its Reach

What CFOs and Others need to know about the new EU legislation

The European Union's REACH legislation went into effect in June 2007, but only now are companies beginning to realize its full impact. Put simply, REACH (Registration, Evaluation and Authorization of Chemicals) requires companies to assess the risks and hazards of the products they sell in Europe that use chemicals. Board Europe spoke recently with Michael Penman, a former ExxonMobil manager and head of Penman Consulting BVBA, a Brussels-based firm specializing in regulatory issues for the chemicals and petrochemicals industries.



Michael Penman

First, why should non-chemicals companies pay attention to REACH?

Everybody is somewhere a user of chemicals, from food manufacturers to aerospace companies. If I'm a steel maker, for example, I might think that I'm not affected, because REACH is about chemicals and I make steel. But if my steel coil uses a chemical coating, then I'm subject to the same regulatory requirements as the maker of that coating. In short, I now have to go back to my suppliers and make sure that they are compliant with REACH, and my customers will demand the same of me. The consequences of REACH will be considerable for most companies doing business in Europe.

What does REACH require companies to do that they did not have to do before?

They now have to demonstrate positively the safety aspects of all the chemicals they manufacture or use, throughout the supply chain. The burden of proof has transferred from the regulatory agency to the industry. The regulatory community used to say 'we're going to come look into what you are doing'. Now they say: 'prove it to me'. Today it's the company that has the burden of proof that their products are safe. This is a major change.

What is it about REACH that makes it particularly onerous?

Firstly, it's the sheer scale of the regulation. It covers everything from the manufacturing side to the downstream uses. The second thing is that it requires people to provide much more information than before, and thirdly, they have to talk up and down the supply chain. There is a

lot of disclosure required, a lot of potentially confidential information. If you don't do it right, you could be giving away a lot of sensitive information.

What happens if companies don't get it right?

The beginning of Article 2 basically says 'no data, no market'. If you do not provide all the required information for safe use, you are not allowed to market the product. First, this affects your own products that you put on the market. But you are also relying on third-party suppliers, and you have to ensure that they are compliant so that you can continue to use those substances that are critical to your manufacturing process. If the supplier of the coating fails to get it right and has to withdraw from the market, then you as the maker of steel coils will no longer have the coating you need.

Do you expect to see shortages of low-volume chemicals because of REACH costs?

There will be times when people won't like the costs, and they may opt out. It is like any market situation, there will be winners and losers. But I think the market will sort this out. People who do badly because they can't control the costs will tend to disappear, and others that can control costs will take their place. The important thing is not to 'sleepwalk' into these costs.

Do companies need to take action right away?

This year there is a requirement to notify the European Commission for what they call pre-registration, for anything you may have to register in the future, and if

you don't do this now then later you will have to do a full registration straight away. So action is required now. But it's important not to overdo that process. Companies need to do a careful analysis of what they really need to register, rather than simply registering everything. Cost management is very important here. You have to build it into your business model, or it could affect your relationships with your customers, your suppliers. You have to make sure it doesn't impact your business.

Does REACH require highly specialized knowledge?

Yes, the regulation is very technical. A lot of companies will need help. The technical guidance runs to thousands of pages, and it obviously involves environmental, toxicology, exposure sciences. Most companies have never done this sort of thing before, such as analyzing exposure aspects. If you use a dangerous substance, you need to understand how exposure affects risk, and this is very technical.

Could this also be an opportunity, a way to gain competitive advantage?

For companies that get this right, there is a potential benefit, working with customers and suppliers, being able to demonstrate technical competence, managing your supply chain better. The costs will be vast. This will make it difficult for foreign companies to bring things in to Europe. For medium-sized US companies, it will be difficult. They will need legal representation in Europe. Otherwise, they might not be allowed to market their products.