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Discussion after the Speech of Charles M. Ludolph

Discussion

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Discussion After the Speech of Charles M. Ludolph

QUESTION, *Professor King*: You mentioned five proposals. What are the effects of these proposals in terms of cost competitiveness? Also, what are the broad effects of EC 1992 versus the Canada-U.S. Free Trade Agreement on human competitiveness?

ANSWER, *Mr. Ludolph*: Essentially, the European Community Commission is, in its social policy branch, labor dominated. It was not designed that way. There was no policy choice. It is just the way the portfolio has evolved.

Also, more importantly, Ms. Popindreu, the Labor Minister for the European Community, is Greek and very interested in social protection, as are most of the southern EC representatives. I expect that all organized employers and business interests will have an uphill battle to get these competitiveness proposals watered-down.

In Europe, business is essentially multi-national. Plants or laborers are traded in order to overcome already high levels of social protection. These proposals should close those loopholes but they will also raise labor costs. I think we will see that by 1991.

With EC 1992, North America will still have export opportunities since Europe will still be a very open marketplace. Also, Europe has grown faster than North America for the last two years and will probably continue to do so at this rate for the next three years. Therefore with an open market, higher growth and a reasonably well-heeled population, the potential for North American exports is very high. Interestingly enough, the potential for European investment in the United States is also very high.

Generally foreign investment is good for wages and job skills. Job opportunities also follow this investment choice. Therefore, acceleration of European investment into the United States as a result of 1992 is likely to occur. So, the program will be good for U.S. human resources.

QUESTION, *Mr. Wong*: When the social charter reflects on training, labor mobility and the portability of qualifications, we are concerned with more training. How will the social fund implement and pay for such programs?

ANSWER, *Mr. Ludolph*: The social fund is a fairly new concept in the European Community. Diminished demands for agricultural subsidies in the European Community has generated new revenues for the fund. This change is due to stricter agricultural program discipline and changes in exchange rates, both of which will generate capital within the existing European Community budget to directly support the unification of the industrial sector.

Two EC growth programs in the research and development stage are funded by the social fund. These budgets are not sufficient without member participation, but at this higher federal level, the money would be coupled with European member state programs targeted at specific aspects of vocational training.

QUESTION, *Professor King*: Will industry across frontiers impact bargaining for countries with plants in various European Communities? Do you foresee much change for those divisions as a unit?

ANSWER, *Mr. Ludolph*: I do not see much change. I think employers would like to see bargaining only at the national level. They do not want to see EC-wide collective bargaining. They probably will not contribute such collective bargaining, except in major multi-domestic or multi-national enterprises.

EC-wide collective bargaining was part of the original eight labor proposals. Three of these proposals were struck down, one of which concerned EC-wide collective bargaining. This was done over the objection of both member state governments, as well as employers. We will not see this in the near term.

QUESTION, *Mr. Marlais*: Will there be a shift of manufacturing plants among the EC countries as in the United States based upon certain member states offering better package deals to manufacturers?

ANSWER, *Mr. Ludolph*: That has been slow in coming. In 1985, everyone expected that the first change in the unified, internal market, would come in companies like 3M that have eleven plants, or eleven autonomist subsidiaries in the twelve countries, that would be able to confine their production to three or four plants to serve all of Europe. However, no European employer or company wants to close a plant and risk the outcry from organized labor until the social dimension controversy is resolved.

Therefore, for the last five years, not a plant has closed without objection from member states. There are several cases in France that are famous for the objection that was raised. The Gillette plant was one of the most famous for U.S. interest. Gillette tried to close the plant in Strasbourg and was not allowed to close it. It was an attempt to come to grips with the unified market.

Distribution has already been rationalized. Subsidiaries, operations, inventory and warehousing are quickly becoming unified. Since these areas do not have a large labor component, they can be rationalized quickly. There has been a fifty percent decrease in distribution costs since 1986. Production will not be rationalized until this eighteen month period is over. At least in the next six months we will see how to handle labor in production facilities. At that point, you will probably see people making decisions on what they can and will close to avoid redundancies.

QUESTION, *Mr. Langmack*: We know that for manufacturers the environmental issue is in the forefront. We also recognize, in the Euro-

pean Community, the various components have different rules as to what a corporation must do to protect the environment. I wonder, in this whole area of costs, to what extent would an agreement on what is required to protect the environment be useful?

ANSWER, *Mr. Ludolph*: Environment is all the rage in Europe, and it is politically charged. The European Community has taken some steps to harmonize a regional approach to the environment, particularly in solid waste, water and emissions, however, the program is still in its infancy.

Although you can expect that during the late 1990s there will be a harmonization of environmental rules, beyond the transportation of hazardous waste and the harmonization of solid waste. Controls of water and air will also be proposed and implemented by the end of the decade. However, as a result, manufacturing costs will rise, because not only is Europe a dirty place, but it is also a low-cost environment for manufacturing, since there are few controls on the environment. That means that environmental costs overall will probably rise on a harmonized basis to levels much like those in North America.

QUESTION, *Ms. Baker*: Is there still a plan to develop rules under which a European company can be created and what is the status of that plan?

ANSWER, *Mr. Ludolph*: A company can incorporate, as a European company, under a new legislative proposal. This law would preempt all national or member state law of corporate practice. That would be significant. There would also be some tax benefits. There is also a very strong provision for worker participation.

So, the benefit of becoming a unified company is that it would be subject only to European Community law, thereby eliminating some costs of incorporation. However, a company must allow workers to have some level of participation in its management and decision making.

This proposal is currently being considered by the European Parliament, which is a fairly advanced stage. It contains worker participation rules, which would preview what the ultimate decisions would be on the larger stand-alone statutes on worker participation. A European community statute probably will not be passed until everyone has resolved how all labor participation will be handled in the context of all major European legislation.

It will take another six months to resolve the European Community statute issue because the commission, the member states, labor unions and employers must decide on what minimum level of participation should be allowed in all member states.

