



DEBATE

Nicolas BARRÉ, Managing Director, *Les Echos*

I would like to ask each of you, if you had to give the name of one big firm that really symbolises most the country you come from, which would it be? You are American, what would you say, Nelson?

Nelson CUNNINGHAM, President, McLarty Associates; former Special Advisor to President Clinton

Coca Cola, because it is happy.

Tadakatsu SANO, Attorney-at-law at Jones Day; Former Chief Executive Assistant to Prime Minister Yukio Hatoyama

I would be quite proud of Toyota.

Charles-Edouard BOUÉE, Chief Executive Officer, Roland Berger Strategy Consultants

I guess I have to name a French and a German one. For the French I would say L'Oréal because we are all worth it, and for the German I would say BMW because of their relationship with the machine and the way people embrace this.

Nicolas BARRÉ, Managing Director, *Les Echos*

These firms really have a strong nationality then?

Tadakatsu SANO, Attorney-at-law at Jones Day; Former Chief Executive Assistant to Prime Minister Yukio Hatoyama

I always thought very much of the Johnson & Johnson with the credo, because when they had a huge difficulty in the market when some people put the poison in -

Nelson CUNNINGHAM, President, McLarty Associates; former Special Advisor to President Clinton

The Tylenol, they poisoned the Tylenol capsules.

Tadakatsu SANO, Attorney-at-law at Jones Day; Former Chief Executive Assistant to Prime Minister Yukio Hatoyama

Yes. Johnson & Johnson has a very good credo, by that I mean mission statement and that is something that is very impressive. Johnson & Johnson actually, it is one of the companies that I like to say is really global and at the same time a good American company.

Nicolas BARRÉ, Managing Director, *Les Echos*

We would like to take a few questions, if some of you would like to make a comment on this.

Nelson CUNNINGHAM, President, McLarty Associates; former Special Advisor to President Clinton

While we are waiting for questions, let me make a somewhat provocative point about companies' nationalities. For years, when the American President goes to New York for the annual UN General Assembly meetings, he has stayed at the Waldorf Astoria Hotel, a great big hotel on Park Avenue. This year, the President declined to stay at the Waldorf Astoria, or was advised by his staff not to stay there. Why? Because the Waldorf Astoria had been purchased by a



Chinese company, and the U.S. government did not believe it would be wise from a security perspective for President Obama to stay at the hotel, given the Chinese government's possible access to it. They advised the President to instead stay at the New York Palace Hotel two blocks away. This is a fine choice, except that two months before the General Assembly meetings, the New York Palace was bought by the Lotte Group of South Korea. The President's advisors concluded that it was okay for him to stay in a Korean hotel, but not to stay in a Chinese hotel. I think that really shows the worst of how we brand companies with their nationalities in today's world. This decision was made for security and intelligence reasons, but I can imagine why in China it would be perceived as a hostile move.

Meir SHEETRIT, Member of the Israeli Knesset

There is a difference between a company which produces something and a company that deals with start-up of Internet or anything like this. Coming from Israel, which is very strong in the area of Internet and all those start-ups, today it is possible to transfer a high-tech company by just sending it through the Internet, they do not have to move a factory, or people or workers. They do not need anything. It is a knowledge matter, in fact, and there is big competition in the world to attract companies to come to build their own factories or employ people in different countries. I think one of the main things that influences where to go is the taxes. That is the reason why many Israeli companies which are making a lot of money in Israel and doing very well are listed not in Israel but in different other countries because of taxes, tax ability. I would like to ask you what kind of influence do taxes have over the possibility of being nationalised or to be just worldwide or to go to different places where there are tax shelters? I know the OECD is trying to make new rules to prevent the possibility of big companies using the possibility of low taxes in different places in order to prevent themselves from paying taxes to the governments of the countries where they are located. This also started in regular companies trying to avoid paying taxes to the state in which they are located.

Charles-Edouard BOUÉE, Chief Executive Officer, Roland Berger Strategy Consultants

On this point you mentioned the real question is: where is the value-added produced and where is the consumer? Because taxing the profit it is different from taxing the service and I think this is one of the topics that governments need to address. Back to your point about France, if you use the services of Apple and all the profits and taxes are going elsewhere, is that really providing a value for the country?

Tadakatsu SANO, Attorney-at-law at Jones Day; Former Chief Executive Assistant to Prime Minister Yukio Hatoyama

I think we discussed the issue of transfer pricing about twenty years ago, and now it is still a very hot issue. The issue is mainly about trading goods but now, the real production cost or the value of "goods" is less than 10%. The rest is distribution or information or the sum of intellectual property rights and so on. You can create many other companies and in some way you can establish and transfer your address not only into a tax haven but also lightly taxed countries. That is one of the issues that the European Union is now talking about. To behave each fairly to other and not to give such kinds of incentives to such globally operating companies. I think that is the one of the ways to solve the question, but as I said, even the transfer pricing of goods itself does not completely capture transfer pricing in services, in financial services, information technology services, or any other services. Invisible. It is not so easy. I think that is a very good question that the governments have to tackle, too. Not letting the global operations be completely free from some kind of a burden that they should pay.

Tatsuo MASUDA, Visiting professor at the NUCB Graduate School

I have a very simple question. There are companies in the energy field like national oil companies. Talking about Aramco and Gazprom. They are a quite interesting category, like Statoil from Norway or Petronas from Malaysia. They are operating all over the world and it seems to be quite a good corporate system and they are good global citizens. Could you call them global companies or still national oil companies? Just in the case of Statoil from Norway and Petronas from Malaysia. Thank you.



Charles-Edouard BOUÉE, Chief Executive Officer, Roland Berger Strategy Consultants

That is a tough question. For me, they are national by origin with very strong roots. But they are global by ambition. So let's make a distinction between the globalised company and a company which is global by ambition but national by nature. I think these companies are national by nature.

Nelson CUNNINGHAM, President, McLarty Associates; former Special Advisor to President Clinton

And, when you look at where these companies' profits go, their profits are almost entirely directed back to government functions, whether through an investment fund or direct government spending or through very high taxes that help support government entities. So, I would call such companies national actors.

Tadakatsu SANO, Attorney-at-law at Jones Day; Former Chief Executive Assistant to Prime Minister Yukio Hatoyama

I am not a tax lawyer so I cannot say this as an expert, but as you know I think there are permanent establishments for many of the global companies where they have some subsidiaries or a distribution centre or sales unit in one country, but many times they try to avoid permanent establishment status. A business with permanent establishment status can be taxable, especially if it is your headquarters. If you can avoid that kind of PE status you do not need to pay taxes, just pay cost and fees in that country. Many of the global companies or globally operating companies try to have detailed advice from tax lawyers, not like me, on so-called inversions I do not know what Statoil are doing but we can say that those companies are globally operated but very patriotic.

Nicolas BARRÉ, Managing Director, Les Echos

Clear in many cases like Gazprom or others. Yes, Sir?

Sebastiaan DEBROUWERE, President of the King's College London Students' Union

Sebastian from Belgium. It is a really interesting discussion for developed economies, I guess, and for the whole of the elements we have been touching on. What I am wondering about a little is it different for developing economies because if you look at things like investments in Africa by huge Chinese corporations, does the nationality have a different role or is it more about security at that point, and less about economics?

Nelson CUNNINGHAM, President, McLarty Associates; former Special Advisor to President Clinton

I would say that many Chinese investment projects are really designed just to acquire mineral resources for Chinese markets. If the Chinese are investing in a mine, for example, they are not doing so with the intention of selling into the global markets, but to sell back to the Chinese market. I see that type of investment as being directly self-interested on the part of the Chinese. You see the Chinese promise to go in and build a football stadium in an African country, and they bring in all the cement, all the steel, all the workers and all the machinery from China. Then when the project is done, they take it all back to China, and have not employed a single African worker. This is a different type of globalized investment than we have seen in the past.

Charles-Edouard BOUÉE, Chief Executive Officer, Roland Berger Strategy Consultants

We had the chance to support some of these Chinese companies in their African development. As a French person, and knowing the story of France in Africa, I think they are doing it in a very different way, as you can imagine. For everyone in this room, the way we manage is pretty much parametered by the way we were legally trained, within the country we operate. So when it came to Africa, our Chinese client was thinking, 'Okay I have a stable government; I want to get mining rights so I am going to give him whatever he wants'. Of course, then he asks for a stadium. This is a real case. Our team came to the village; it was a big mine, and it was a huge stadium. Why? Because the mayor or whatever we call it, wanted to see again the 1998 final between France and Brazil in his village, so they built a 30 000 seat stadium which is now full of dust and that will never host any game. So when you are a global company, you are learning really the hard way because you are trying to operate the way you are in America, Japan or France or China.



You are arriving in the middle of nowhere, in the emerging market, and you are trying to apply your own rules and very often it fails because you have a lack of understanding of the local environment.

Nicolas BARRÉ, Managing Director, *Les Echos*

We have one more minute for one more question. If not, well, thank you very much.