

The chairmanship of

Jorma Ollila

November 2005

November 2009



### **The Legacy**

Jorma Ollila's chairmanship was characterised by unsatisfactory progress on EU institutional reform in the aftermath of the rejection of the Constitutional Treaty, as well as elusive agreement in the international trade talks. This situation gave rise to increasing fears of economic nationalism. Jorma Ollila perceived this development as a threat to the EU's Single Market; a threat that was further reinforced when the EU was violently affected by the global economic crisis and swift rescue action became necessary. In this unfavourable environment, Jorma Ollila pursued a comprehensive ERT approach putting single market issues and the economic future of the EU at the centre of activity.

Throughout Jorma Ollila's chairmanship, global issues played an increasing role on ERT's agenda. The EU's relations with Russia received much attention, as did the challenge of climate change - first the EU's response, then the worldwide approach. At the same time, an EU focus was maintained through an in-depth analysis of the contribution of ERT companies to growth and jobs in the EU, and pragmatic action to address a lingering skills gap in the area of maths, science and technology.

## Key Messages and Publications

### COMPETITIVENESS

- **Benchmarking Europe's Competitiveness** | November 2008
- **The Contribution of ERT Member Companies to Growth and Jobs in the EU** | May 2008

### EDUCATION AND EMPLOYMENT

- **Mathematics, Science & Technology Education Report: The Case for a European Coordinating Body** | September 2009

### ENERGY & CLIMATE CHANGE

- **Energy & Climate Change: Securing Europe's Energy Future, Maintaining Competitiveness and Tackling Climate Change** | July 2009
- **Achieving Secure, Competitive and Clean Sustainable Energy** | April 2007

### FOREIGN ECONOMIC RELATIONS

- **"Seizing the Opportunity: Taking the EU-Russia economic relationship to the next level" – An ERT view on the potential of the Common Economic Space** | May 2006

### The times

The rejection, in May 2005, of the proposed Constitutional Treaty in referenda in France and the Netherlands had unwelcome consequences for the European Union. The debate focused on the options for proceeding with EU institutional reform, regarded as crucial to ensure the EU's further functioning post-Enlargement, despite a lack of evidence that the latest rounds of Enlargement had actually led to significant impediments in EU decision-making. However, ERT agreed strongly that EU decision-making had to become faster and more effective, at least in the areas of importance to business. The institutional discussions culminated in the proposal of the Lisbon Treaty, which was finally adopted at the end of Jorma Ollila's chairmanship and entered into force just after Leif Johansson took over as ERT Chairman. As a result, Jorma Ollila's ERT chairmanship was characterised by a debate dominated by discussions on EU institutional arrangements.

This situation was unfortunate for several reasons. First, the world was going through a period of strong growth, especially in the emerging economies – China, Russia, India and Brazil were the economies at the forefront of business leaders' attention. Second, the institutional focus of the EU's debate distracted policy makers' attention from the implementation of the Lisbon Agenda, which was becoming more urgent in the light of global economic developments. Third, the institutional discussions did not fully recognise the significant transformation underway in the world economy. Fourth, in the absence of adequate progress in improving EU competitiveness, the threat of

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economic nationalism increased, posing potentially serious threats to the EU's Single Market. For multinational companies, operating around the world, the EU was losing its attractiveness as a future growth market.

Jorma Ollila's chairmanship was shaped by this worrying situation. On the one hand, ERT was strongly critical of economic nationalism, while on the other hand continuing to encourage governments to implement the Lisbon Agenda, and to take other measures to improve EU competitiveness. In addition, ERT continuously advocated progress in the Doha Development Agenda (DDA) trade talks, even though the agenda was already outdated and of limited practical interest to ERT companies. Nevertheless, the expectation was that agreement in the DDA would bring about further improvements in the global rules-based trade environment, and lay the ground for further improvements thereafter. The slow progress in the negotiations, held up repeatedly by various global factors, led to increasing frustration among business leaders.

## Time to step up Communications

### the need to raise public awareness

This was clearly not a time in which business could expect significant changes in the framework within which they were operating – neither at EU level, nor at global level. It was a time for pragmatic initiatives. It was clear that ERT needed to further step up its public communications activities to contribute to a greater awareness of Europe’s competitiveness challenges. The expertise of ERT companies’ communications specialists was tapped in a new Communications Advisory Team (CAT), chaired by Henning Kagermann (SAP) until 2009 and then led by Peter Löscher (Siemens).

As a first step, the actual contribution of ERT companies to the growth and jobs in the EU was examined in an in-depth study conducted by the Competitiveness Working Group, which concluded that ERT companies directly employ more than 2.6 million people in the EU, representing over 5% of employment in the three principal market economy sectors (manufacturing, utilities, and transport, storage and communication). Purchases by ERT companies sustained almost another 2.9 million jobs indirectly and were estimated to induce a further 1.1 million jobs through the consumption spending of this direct and indirect employment. As a result, ERT companies supported a total of around 6.6 million jobs in the EU.

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In a second step, EU Member States' economic performance required more public attention. ERT's Competitiveness Working Group had for many years been developing a small annual booklet showcasing key performance indicators and benchmarking national statistics against each other. This booklet had been reserved for internal use, but the decision was taken in 2008 to develop it further into an ERT publication, bringing together a benchmarking of indicators with a more explicit analysis of the need for action.

In a third step, more efforts were made to improve the promotion of ERT messages. ERT had never been an organisation looking for brand recognition, and this was not about to change quickly. But improvements were made to better allow ERT Members to promote ERT messages. The focus remained on getting the message across, rather than portraying the organisation as such.

## **Putting innovation at the core of EU competitiveness**

### **boosting the knowledge triangle**

ERT supported a renewed commitment to stimulate the knowledge triangle – R&D, innovation and education – an objective contained in the renewed Lisbon targets agreed in 2005. The Competitiveness Working Group, chaired by Baron Daniel Janssen (Solvay) until he retired from ERT in 2006, and then taken over by Gerard Kleisterlee (Philips), underlined the importance of the inter-linkages between

the individual elements of the knowledge triangle, coupled with an environment that stimulates entrepreneurial behaviour, risk-taking and the generation of new innovative business models were seen as essential elements of EU competitiveness.

ERT took a cautious approach to the creation of the European Institute of Innovation and Technology (EIT), underlining the need to avoid financial competition amongst various initiatives within the EU approach to strengthen R&D and education. But the EIT initiative reflected a recognition of the importance of strengthening the knowledge triangle in the EU; an objective that ERT strongly supports.

The issue of education retained ERT Members' special attention as a key issue for European competitiveness, as a shortage of people with skills in maths, science and technology was predicted. As one of the results of demographic change, the issue was dealt with in a new Working Group on Societal Challenges.

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## Addressing societal challenges

### tackling the future skills deficit

The new Societal Changes Working Group, chaired by Leif Johansson (Volvo), identified a shortage in qualified engineers as a key competitiveness issue. Skill shortages had led to an existing deficit in qualified engineers and this shortfall was anticipated to grow substantially over the next decade. The consequence of shifting demographics and a growing need for individuals skilled in mathematics, science and technology (MST), coupled with a proportional decline in students graduating with MST competence is creating a workforce deficit.

A misleading stereotype of scientists, engineers, researchers and other MST careers could also be found amongst youth, in addition to a sizeable gender disparity in MST careers.

Various aspects of declining interest in MST among young people were being addressed throughout the EU, but there had previously not been a strong focus on the role business might have in the problem and in the solution. ERT decided to explore the ways of increasing young Europeans' interest in MST education through a pragmatic approach. To help guide ERT in shaping an appropriate response to the problem a conference was organised, entitled "Inspiring the Next Generation" in October 2008 in Brussels. The event brought together high-level representatives from academia, business, government and the teaching profession, providing a platform to share experiences and gather feedback on a possible shared approach.

This event was followed by the publication of an ERT report which consolidated ERT's analysis of business' role based upon a review of related reports, the outcome of the conference and ERT's subsequent proposal for a European Coordinating Body. The objective of the European Coordinating Body is to increase interest among young Europeans in MST education and careers, by coordinating, leveraging and building upon existing school and business partnerships across Europe. The report was a call on the European Commission and Member States to make the European Coordinating Body a reality.

## Emerging global challenges

### domestic and global momentum to tackle climate change

As public and political concern over how the world should tackle climate change gained unprecedented momentum, business leaders were at the heart of the solution-making process.

Climate change and energy security continued to be pressing issues for European leaders and industry. The Energy & Climate Change Working Group, chaired by Bertrand Collomb (Lafarge) until May 2007, then by Jeroen van der Veer (Shell), provided extensive assessments and recommendations. ERT continued to support the overall objective of secure, competitive and clean sustainable energy and placed emphasis on the need to link all three components together to secure future EU wealth

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and well-being. ERT issued a position paper in April 2007, entitled “Achieving Secure, Competitive and Clean Sustainable Energy”, to highlight the pragmatic nature of ERT’s stance on the subject and identifying areas where work was necessary to make significant progress.

The European Union positioned itself at the vanguard of tackling climate change and the flagship initiative of the first Barroso Commission was the Energy & Climate Change Package, which brought together proposals to reduce carbon emissions, increase use of renewable energy and improve energy efficiency within the European Union. This proposal was swiftly supported by the European Parliament and Member States. The impact of the package for industry was wide-reaching, including changes to the EU Emission Trading System (ETS). The EU also placed emphasis on research and development in new technologies to support the transition to a low carbon economy.

Throughout this process ERT remained supportive of the overall objective of secure, competitive and clean sustainable energy, in conjunction with developing a low carbon economy and enhancing European competitiveness.

In conjunction with the domestic momentum supporting the transition of the EU to a low carbon economy, there was growing political momentum at a global level to tackle climate change. In the lead up to the UNFCCC international climate change negotiations in Copenhagen in December 2009, ERT published a report entitled “Securing Europe’s Energy Future, Maintaining Competitiveness

and Tackling Climate Change”. This report put forward the ERT vision for a comprehensive global agreement in Copenhagen and the actions necessary within the EU to secure the EU’s energy future and maintain competitiveness, including the acceleration of new technologies, the full realisation of energy options such as nuclear, and the implementation of energy efficiency actions.

## **Building stronger links with emerging economies**

### **working towards constructive EU-Russia economic relations**

The emerging economies – especially the BRICs (Brazil, Russia, India, China) – were at the forefront of business leaders’ attention. Their rapid economic development presented many opportunities for companies, but also reinforced the competitive challenge for Europe. Companies were in a unique position: they were expanding their business activities in the emerging economies, and could share their first-hand experience with EU policy makers. At the same time, they could support the further development of the emerging economies by sharing with them their experience with business conditions in other parts of the world.

A large share of ERT companies’ direct investments in the emerging economies was in Russia, reflecting that economy’s significant potential. ERT Members recognised the promise held by deeper economic integration between the EU and its largest neighbour, reinforced by geographical proximity

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and the complementarity of their economies. ERT Members were aware that the overall EU-Russia relationship must be constructive and reflect the mutually beneficial potential of stronger economic ties.

Under the chairmanship of Peter Sutherland (BP) the Foreign Economic Relations Working Group developed, in 2006, a policy paper on the potential of EU-Russia economic relations. The ERT Enlargement and Neighbourhood Policy Working Group, chaired by Antony Burgmans (Unilever) was also closely involved in the drafting process. The paper marked a positive contribution to a debate that appeared to ignore the potential contribution of closer economic relations. ERT underlined that the following few years would be decisive in securing Russia's long-term economic prosperity through economic diversification that would also deliver invaluable benefits to the EU in terms of creating an economically stable and prosperous neighbour.

ERT actively advocated its views with policy makers, and quickly realised that the business community at large could make useful contributions to the debate on EU-Russia relations on a more regular basis. To achieve this, ERT lent its support to the EU-Russia Industrialists' Round Table (IRT), and accompanied its transformation into a business dialogue forum bringing together company leaders from the EU and Russia. As the IRT began to contribute constructive business views to the regular EU-Russia Summits, no further public ERT messages on EU-Russia relations were necessary. ERT continued to support the IRT with advice on how to further reinforce the business voice in EU-Russia relations.

## Giving continued support to EU Enlargement

### keeping up support after the 'big-bang Enlargements'

Following the EU Enlargements in 2004, the ERT's re-named 'Enlargement and Neighbourhood Policy Working Group' remained very active under the chairmanship of Antony Burgmans (Unilever), supporting accession negotiations with Turkey and spearheading ERT's focus on the European Neighbourhood Policy (ENP). It participated in the drafting of ERT's position on Russia, and continued to support the Business Advisory Councils (BACs) in South-East Europe.

Following the 2007 round of Enlargements, the Working Group was disbanded and its activities split up. The remit for continued activity in the area of the European Neighbourhood Policy (ENP) was transferred to the Foreign Economic Relations Working Group, while the support of the BACs passed to a newly created Business Advisory Council Coordination Team led by Wolfgang Rutenstorfer (OMV).

The Coordination Team's remit was to put in place clear guidelines governing the relationship between ERT and the Business Advisory Councils, which are independent entities enjoying ERT support. In addition, the Coordination Team was in charge of fostering contacts among the individual BACs. The BAC in Slovakia was closed as its existence was no longer seen as necessary post-accession. Conversely, the Hungarian European Business Council (HEBC) remained very active and continued

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to be very successful in making respected contributions on domestic developments in Hungary. The Bulgarian BAC was reinforced and started to operate on an ad-hoc basis. The Turkish Business Enlargement Council (TEBC) – the only Business Advisory Council chaired by an ERT Member, Bülent Eczacıbaşı – remained a committed contributor to Turkish economic development and the country's EU accession process.

Following the completion of its remit and the consolidation of the activity of the ERT-supported BACs, the BAC Coordination Team was disbanded, while ERT support for the BACs continued to be ensured on an ad-hoc basis by the ERT Secretariat.

## **Strengthening EU Competition Policy**

**reform for the future benefit of consumers and business**

ERT's long-standing dialogue with EU and national policy makers on the topic of competition policy continued. The economic crisis further reinforced the need for it, and it has become increasingly evident that a strong and relevant policy framework in the area of EU Competition Policy is essential to ensure that the EU can achieve its goals. In particular, ERT feared that some of the successes achieved by EU Competition Policy in ensuring the good functioning of the Single Market could be jeopardised in times of economic crisis.

The ERT Competition Policy Working Group commissioned a report with the overall objective of identifying areas where a need for reform may be necessary to ensure that the EU Competition Policy framework can work effectively in the future.

The report was conducted by Professor Lars-Hendrik Röller, the former chief economist for DG Competition. Following a systematic examination of EU Competition Policy, including the major recent reforms and initiatives in the areas of merger control, antitrust and state aid, the report identified areas where there is a need for reform for the future benefit of consumers and business.

The report was prepared in advance of the new European Commission taking office and was published soon after Jorma Ollila stepped down as Chairman of ERT, in March 2010.

## International Accounting Standards

### **mutual recognition of international financial reporting standards**

With the support of Alain Joly, ERT continued to express concerns on reporting financial performance to the IASB (International Accounting Standard Board) in respect of the proposals on reporting financial performance, which forms a key part of the project towards convergence of international accounting standards.

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On the mutual recognition of IFRS and US Accounting Standards, the Commission agreed in 2005 for EU recognition of US standards with no guarantee that the US will reciprocate. The situation would be reviewed in 2007 depending on the offer from the SEC (Securities and Exchange Commission).

The European Commission had agreed that EFRAG (European Financial Reporting Advisory group) should be the main provider of advice to the Commission on the application of international accounting standards. A Memorandum of Understanding was established including EFRAG's funding provisions. The CFO Task Force proposed that each country should establish a single vehicle to gather channel contributions to EFRAG and the IASB.

It was decided that the financial support of EFRAG by ERT Companies would cease ahead of 2007.

In 2006 the IASB was still in full rotation with a determined agenda which they were keen to fulfill. They were entering a new era as far as accounting standards and financial statements were concerned. For some issues IASB was going into a conceptual framework that would radically alter the way in which accounting standards and financial statements should be executed. It was the intention to include financial statements that reflect the fair value of companies.

At the May 2007 Plenary session Alain Joly announced that Leif Johansson agreed to take over the chairmanship of the IAS Working group. He further explained that Jon Symonds had done a commendable job in heading the CFO Task Force by engaging stakeholders and sensitizing users to the issues. A CFO meeting including the members of the IAS working group was organised on 4 July 2007.

In 2008 the chairman encouraged the work of the IAS working group to ensure that the best standards govern ERT Member Companies which would lead to harmonization with US and Japan based on mutual recognition. The IAS working group continued to make the argument against fair value accounting and follow the question of a European carve-out in this area. For the funding of EFRAG, ERT members were encouraged to support the creation of a viable national funding mechanism that guarantees continued contribution of the business community to the process.

Due to a lack of results with the IASB and the tiresome nature of the exercise it was decided to close down the IAS Working group but it was agreed that the CFOs of Member companies should meet once a year to ensure that the topic is reviewed regularly.

## The global economic crisis hits

### ERT contributes to identifying the way forward

In autumn 2008, Europe was hit by the worst economic crisis that ERT Members had ever experienced. As the crisis unfolded extremely rapidly, ERT passed first-hand information about the situation to policy makers even before it became visible in macroeconomic data. This helped to illustrate the urgency of crisis relief measures.

The crisis exacerbated the challenges Europe faces, while temporarily disorientating political and business leaders. At the same time, the Lisbon Agenda was about to expire, the EU began to operate under the new Lisbon Treaty, and a new European Commission entered into office under the second mandate of José Manuel Barroso, a few months after the end of Jorma Ollila's chairmanship. In order to contribute to the emergence of a coherent way ahead in this context of uncertainty, ERT decided to develop a vision for a competitive Europe in 2025.

The ERT Vision was developed in an intensive process bringing together ERT Members, strategy and business planning experts from ERT companies, and external stakeholders from the policy-making community and civil society. The overall project relied on the contributions of more than 200 participants.

In its Vision, ERT placed strong emphasis on the need for a coherent policy approach that put emphasis on sustainable economic growth while implementing policies that could effectively address future trends and challenges by basing themselves on the opportunities offered by the Single Market. It underlined in particular that sustainability must be understood as a multi-faceted concept, covering environmental aspects as well as sound economic, financial, education, social security and pension systems. In addition, it underlined the importance of optimising the use of raw materials, water and food, and a secure energy supply as key elements to ensure Europe's sustained competitiveness.

The Vision also underlined the importance of Europe's position in the world economy, of putting innovation at the centre of European competitiveness, strengthening the focus on people, education and culture as drivers of productivity, and underlining the need for a further review of EU governance.

The launch of the ERT Vision reflected the continuous evolution of ERT's approach to communications, with a large-scale public launch event attended by Miguel Sebastián, Spanish Minister of Industry, Trade and Tourism, as well as Mario Monti, a long-standing acquaintance of ERT with the task of proposing further steps to José Manuel Barroso in view of consolidating the EU's Single Market.

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The printed publication was accompanied by an interactive website that also provided the possibility to track progress on the delivery of ERT recommendations, for the first time putting in place a mechanism that would publicly benchmark the performance of policy makers. This step was particularly to be seen in the context of the failed Lisbon Agenda, where lack of implementation at national level had been the main culprit for non-delivery, reinforced by insufficient progress monitoring. Now, ERT was attempting to step up the scrutiny on those who had the power to secure that Europe remained an attractive place to live and work in 2025 despite the increasing competitive pressure from abroad.