Transnationals
in
public
services

Briefing notes

for current debates on
public sector issues

Public Services International - 1998

INTRODUCTION

The PSI series of *Briefing Notes for current debates on public sector issues*, of which this is one, examines some of the issues, challenges, facts and trends in a number of public services or on particular public sector themes. The *Briefing Notes* address basic general questions on why the public sector has become an 'issue' in recent years, the development of the public sector and challenges thrown up by privatisation and public sector reform. Where possible and relevant, each *Briefing Note* identifies strategies trade unions are developing or could develop to deal with these issues.

The series grew from PSI material, finalised in 1995, on alternatives promoted by public sector unions. Initially conceived as a PSI economic strategy alternative to neo-liberalism, this developed into *A public sector alternative strategy* which looked at the full range of issues subject to neo-liberal policy prescriptions (including deregulation, labour markets, the social wage, taxation, trade and labour standards, the macro-economy, employment and unemployment, etc.). That publication was quite dense and compact and it was agreed that PSI needed to do other things to extend this material. Part of that was the production of an educational programme, *Democratising the global economy*, aimed at helping trade unions work through the alternative strategy material with their members so that they could be on top of the reform agenda.

The PSI Public Sector Working Group decided to merge this work with other 'fact-sheet' material on privatisation, public sector reform, contracting out, structural adjustment and other issues relevant to debates on the role of the state and the modernisation of the state at all levels. In theory, this means that the *Briefing Notes* can cover as many topics as are relevant to public sector trade unions' struggles to modernise the state, to promote and defend public services and to defend public sector workers and their unions.

This is one of a set of *Briefing Notes for current debates on public sector issues* produced by Public Services International, PSI, the international federation of public sector trade unions. The introduction to this paper explains the content of the series. The papers are meant to serve several purposes: to help trade unionists understand some of the issues; to enable trade union educators to run short sessions on public sector issues with their members; to provide material for union leaders writing speeches or informational material for wider audiences; and for distribution to a range of interested people. Further copies can be obtained from

Public Services International
BP 9
01211 Ferney-Voltaire Cedex
France
Tel: +33 450 40 6464
Fax: +33 450 40 7320
E-mail: PSI@world-psi.org
Internet website: http://www.world-psi.org

At the stage this *Briefing Note* was finalised (June 1998), other titles in the series included:

- Public services and private interests
- The roots of privatisation
- Privatisation in transition economies
- International trade agreements and trade unions
- Restructuring the public sector: the New Zealand experience
- Transnationals in public services

- TRANSNATIONALS IN PUBLIC SERVICES

1. What is a transnational?

A transnational is a company that owns or controls production or service facilities in at least two countries. The size and scope of transnationals varies: some restrict themselves to one geographical or political region, while others have hundreds of subsidiaries operating around the world and generate an annual turnover equal to the GDP of an entire country. Some transnationals operate mainly in one sector, others cover more than one or even several sectors.

Significantly, transnationals (TNCs) are rarely stateless - they have a base in one country and share a national or cultural identity with it. Their attitude to doing business in the host country, particularly concerning investment funds and transfer of assets, may create problems both in terms of currency flows and their effects on the host economy and in terms of lessening certainty about their employment commitment in any one country, if they have a history of moving to countries which offer them better prospects. Their home-based industrial relations culture may cause problems for unions in the host country if that culture is markedly different.

The term ‘multinational’ is also used to describe the same type of company. Although there are differences of opinion as to why one term is more appropriately descriptive than the other, they are often used interchangeably.

Transnationals are important because they are powerful. Their power stems not only directly from their position as generally the largest producers or service providers but also in their ability to influence the structure and nature of markets. Transnationals have come to dominate manufacturing and production industries. Now, as a direct consequence of privatisation policies, a number of transnationals are beginning to play a dominant role in public services world wide. Because of this, public sector workers have every reason to know where and how transnationals operate, and what actions unions can take.

Transnationals cover a wide range of public services. There are three main categories:

- utilities - water, energy, telecommunications and transport;
- public services - environmental services such as refuse collection, health care, prisons, housing, social services, etc.;
- support services - cleaning, catering, information technology, finance, facilities security, etc.

Some companies operate in several services and have done so for many years - the French water companies have always owned subsidiaries in construction and environmental services. Others such as ISS specialise in one particular sector. At present, large information technology (IT) companies - such as EDS, Cap Gemini Sogeti and Sema - tend fall into this category. But this is not a fixed position as companies grow by sector as well as geographically. For example, the American giant EDS bought one of the largest international management consultants. This gives EDS a greater edge in getting public contracts where an IT system is seen as an integral part of a new management structure. And Siemens, while maintaining its place as a manufacturing giant, has added IT facilities management to its portfolio. The tendency to branch out across sectors is becoming more prevalent and is increasing the transnationals’ capacity to control a range of services in any one country.

As privatisation advances, we find the same companies everywhere. The French, and to an increasing extent the UK, water companies are to be found wherever privatisation of water or public services is taking place. The same catering and cleaning companies recur in the contract services sector - as do information technology companies. In energy, there is a wider range of companies from the USA, France, Germany, Spain and the UK, most of which are active across the continents. In Asia-Pacific, Générale des Eaux (now trading under the new name Vivendi) and Lyonnaise des Eaux have won contracts in the two largest water privatisations in South Australia and the Philippines. There are 14 TNCs involved in three or more privatisations or in privately funding projects in electricity: six are European, five are from the US and three are Asian-based TNCs.

Transnationals are often associated with the major industrialised countries. However, deregulation encourages the growth of transnational enterprises from all regions. For example, the Russian company Gazprom now has at least one joint venture in every eastern European country, ensuring that gas purchases from Russia rise to a target of 100 billion cubic metres (BCM) per year by 2010, compared to 40 BCM in 1995. In addition, Gazprom has also formed companies with Bechtel and is creating a company in Hungary involved in a Greek project to build a 500 km pipeline to transport natural gas from the Bulgarian border to Athens. [*APS Review Gas Market Trends*, 19.8.96].

Transnationals are ready to take over virtually any part of public services. Générale des Eaux is the most dramatic example of this. In France, it operates in water, construction and environmental services, plus television, catering, bus and rail transport, motorways and electricity generation - and, now, education. In the UK, it operates water companies, hospitals, refuse collection services, waste-to-energy plants, housing management, financial administration, road and bridge building, car parks, cable television, mobile phone networks, railway franchises, and a privatised civil service agency. In the rest of the world, it is acquiring a similar range of contracts.

Transnationals working together

The growing involvement of transnationals in public services casts serious doubts on the arguments often used to support privatisation. Neo-liberal theory argues that privatisation will bring:

- more competition
- more private finance to benefit the public accounts
- less bureaucracy
- more flexibility and greater opportunities for the workforce
- more modern management practices.

The practice is:

- cartels, combines and corruption
- public guarantees for private companies
- avoidance of competition from the public sector
- little or no local accountability, leading to reduced regulation
- job cuts or reduced conditions of work.

In effect, these private companies demonstrate all the traditional arguments *in favour of* public sector provision and *against* privatisation. The evidence shows that they act together, rather than in competition; they combine resources to deal with large scale projects; they negotiate state guarantees against financial default; and the general public have little recourse when services fail.

How do transnationals expand internationally?

Transnationals may be companies which were established in certain public services in their home country and which then, on the basis of this experience, expanded to other countries as privatisation policies spread. Or, they may be companies that see an investment opportunity in a particular public service undergoing widespread privatisation. Transnationals frequently find advantage in working together on a contract or with local ‘partners’, which may be another business or a public authority.

International expansion is now a deliberate policy of most large companies, including those that are, at least in part, state-owned. This can be seen most clearly in the energy industry where public utilities like Imatran Voima Oy of Finland are beginning to follow the model established by Electricité de France (EDF) by building a regional base and moving into more distant regions such as Asia. In 1996 the French government ensured EDF support to continue developing "at an international level" [*Les Echos*, 20.6.96]. Some public utilities form groupings in preparation for expansion - a consortium of Dutch municipally-owned energy companies, for example.

Companies also enlarge and extend their range of activities by adding new subsidiaries, by buying existing private or public operators, and by creating new ventures:

- **Take-overs** - for example, Electricité de France bought ASA, the largest Austrian waste processing company; Rentokil bought BET to form one of the largest service companies in Europe; EDS bought AT Kearney, raising EDS’s share of the world management consultancy market from about 2% to 5%, representing an income of over US$500m; and, Générale des Eaux bought Educinvest, the largest French private education provider.
- **Buying public sector bodies** - in the UK, transnationals have bought entire local authority departments and government agencies. SAUR, for example, bought the direct service organisation of Brighton Council, and a subsidiary of Générale des Eaux bought the national Occupational Health & Safety Agency. In Germany, local authorities raise finance by selling shares in municipal companies, Stadtwerke. The buyers are mainly German utilities but also Tractebel, the Belgian transnational energy and engineering group. Municipal companies in Italy are also selling shares - Romagna Acque, the water company, became a limited public company and entered a joint venture with ENI and Générale des Eaux. As soon as Sweden's energy industry regulatory regime was liberalised on 1 January 1996, bidding for the smaller generating and distributing companies began from companies in France, Finland and Germany.
- **New ventures** - both electricity and water companies are setting up new ventures. For example, all the major German utilities - RWE, Veba and Viag - have set up telecoms ventures; all the major French water companies - Bouygues/SAUR, Générale des Eaux and Suez-Lyonnaise des Eaux - have entered the cable TV market, as well as expanding into telecoms; and the waste-to-energy business attracts energy companies and water and environmental services companies.
- **Joint ventures** - especially among the utilities, this is a favourite way of entering a market or a region for the first time, either with a local partner or another transnational. In Portugal, EDF (France) is a partner of National Power (UK) and Endesa (Spain) in running Tejo Energía. Aguas Argentinas is owned by four transnationals: Lyonnaise des Eaux (25%), Aguas de Barcelona (10%), Générale des Eaux (8%) and Anglian Water (4.5%); and even the World Bank has a 5% share. In the words of Générale des Eaux, “the world is so vast and expensive that it's good to divide risks, ally our abilities, and present ourselves together.” [*Financial Times*, 19.9.95]. The only way for transnationals to participate in the privatisation of Manila Water in the Philippines, because of local ownership requirements set by the Government was through joint ventures with local companies. United Utilities (UK) and Bechtel (US) were awarded the East Zone contract with Ayala (Filipino), while the West Zone contract went to Lyonnaise des Eaux and Benpres (Filipino).

Large water and energy companies tend also to have a construction and engineering division or subsidiary. So, even where water utilities are not for sale, the transnationals look for contracts to build, rehabilitate or operate publicly-owned treatment plants. [*Financial Times*, 19.9.95].

A number of companies have expanded by extending their range of services from their original base. Rentokil started as a rat catcher in Denmark and gradually took on services to the private and public sector, such as care of tropical plants, specialist hygiene and auxiliary medical services, office cleaning, ventilation cleaning, office machine maintenance and property services, operating in more than 40 countries. In 1996 it bought BET, a UK conglomerate. BET started in public services as a cleaning contractor, spreading into catering for schools, office services for the civil service, education and training and hospital management.

The hidden transnationals

Transnationals are assisted into privatised services by management consultant firms, many of which themselves operate transnationally. Management consultants have been particularly influential in countries undergoing radical political and economic change. Here they are contracted by governments or multilateral institutions, such as the World Bank, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), to advise on economic restructuring in general and on privatisation policy in particular. Their prescriptions for economic reform tend to be similar wherever they are, regardless of national considerations. Such standardised policies for public services create easy access for those companies that already run similar operations elsewhere - the transnationals.

Other transnational beneficiaries of privatisation are the world’s largest banks, whose profits have been boosted by their role as financial advisors to privatisation schemes and by increased levels of lending to public sector projects.

2. International trade agreements

The intensification of international trade agreements is paving the way for transnationals to enter into the public services of most countries.

The World Trade Organisation (WTO) started operating in January 1995 to implement the Uruguay Round, agreed after long trade negotiations (1986-1994) under the General Agreement on Tariffs and Trade (GATT). Membership to the WTO is not open - governments must first demonstrate their commitment to economic liberalism by implementing economic reforms, of which privatisation is usually a main policy.

The WTO governs trade in almost all goods and services, including the public sector. The Government Procurement Agreement of the WTO applies to purchases and service contracts above a certain threshold in value, based on the level of the government authority: central, state or municipal. As in the private sector, foreign suppliers of goods and services must be given no less favourable treatment than national suppliers. However, the agreement does not prohibit the loss-leader approach of foreign transnationals. For example, as part of its strategy to enter the Polish energy market, MEAG, a German energy distributor, worked with Zaklad Energetuczny Jelenia Gora, a regional power distributor. This is something which large cash-rich companies can do and which many poor countries find irresistible in the short term. The Government Procurement Agreement was pushed onto the agenda by the richest countries, those whose own home-based transnationals benefit first and foremost.

The WTO is part of a worrying trend in the elimination of domestic control over social, economic and environmental policies, as international agreements press harder for the elimination of any form of discrimination against foreign 'investors'. In April 1998, the OECD temporarily stopped negotiations (until October 1998) to finalise a global investment treaty, the Multilateral Agreement on Investment (MAI), that would further eliminate barriers to foreign investors in the OECD area. Trade unions have expressed concern over the extent to which the MAI could hinder government policy objectives. In the case of privatisation, the MAI, on the basis of the early 1998 drafts, could:

- oblige member governments to allow foreign companies into all stages of privatisation, thus weakening political control over the provision of public services;
- prohibit special share arrangements, acting as a barrier to some forms of public-private partnership, which the government might prefer to full-scale privatisation;
- broaden the definition of investment by including "rights conferred pursuant to law or contract", such as concessions and licences, which are important in the assignment of public utilities to private companies.

However, TUAC, the Trade Union Advisory Committee to the OECD, believes that many aspects of these objections could be resolved by extending the scope of general and national exemptions. It is essential that governments achieve the appropriate exemptions from the outset because once in place, the MAI cannot be rolled back, only extended for even further liberalisation. At the stage that the MAI negotiations went into recess in April 1998, this is what governments were beginning to do - to such an extent that free-traders were complaining that the whole purpose of the MAI was being undercut.

If a MAI text acceptable to most governments is adopted, it is likely to be an instrument to extend the power of transnationals over governments, weakening democratic processes and undermining the negotiated rights of workers.

Regional agreements such as the Asia Pacific Economic Co-operation Agreement (APEC) provide additional avenues for TNCs. APEC has general policies for infrastructure and specific policies for energy, including electricity. The emphasis in these policies is on facilitating private investment to meet infrastructure needs; removing cross-subsidies in pricing between different groups; and producing standardised or harmonised forms of regulation. These will contribute to the pressures for privatisation in the APEC economies and will have a substantial influence on how privatisation is implemented, through the impact on pricing and regulation.

3. The implications for workers

Privatisation often means that jobs are lost, work is intensified and pay and conditions are lowered. However, when the private employer is a transnational company, there are opportunities for trade unions as well as disadvantages, since TNCs, even if they seek territory which gives them maximum flexibility, also have an interest in political and financial stability, certain guaranteed levels of social and technical infrastructure and specified levels of skill and education in their workforce. This can sometimes open up an economy and society to more freedom and negotiating which unions can exploit.

Transnationals behave differently in public services than in manufacturing, because in general they cannot threaten to relocate services to another country - they must be done on location. A growing exception to this is the outsourcing of administrative or information technology services, especially data processing.

Nevertheless, there are certain basic bargaining requirements for most employees of public service TNCs. Unions need to find out who the employer is and what its global and/or national strategic and negotiating position is. In this respect, contact with unions with members in subsidiaries in other countries can be helpful and indeed crucial. Here, international trade union organisations have an instrumental role in supporting workers in transnationals. PSI actively supports and funds the collection and analysis of information on key transnationals and on trends in public service sectors world wide. PSI facilitates the international exchange of information among affiliated unions about transnational employers. This is done through its regular publications and in response to 'urgent action' requests for specific information about a company. PSI also produces information to help unions interpret new legislation and government economic policies and to develop their own tactics, strategies and alternatives.

International trade union alliances: the case of European Works Councils

In regions where employees share common labour standards and work within a regional company strategy, the logic of inter-trade union co-ordination is greater. For example, European Union legislation mandates the establishment of European Works Councils (EWCs) in companies employing at least 1,000 workers in the member states of the European Union and which have at least 150 employees in at least two separate states. As transnational involvement in privatised services grows in Europe, more and more companies in the public sector will be covered by this directive.

EWCs are for information and consultation between the employer and worker representatives from across Europe. Although the EWC does not have a collective bargaining role, it does give representatives access to potentially useful corporate information. In addition to that provided by management, representatives may receive:

- information from trade unions in other parts of the company in other countries
- information and analysis from independent researchers paid for by the EWC.

This information can enhance a trade union's own perspective on the company and the sector, and add weight to their side in negotiations with local management. Moreover, the contacts established between union representatives can form the basis of an invaluable network information exchange.

An EWC, or the trade union network established through it, can also form the basis for a *world* company council. In manufacturing, world company councils have been a useful way of exchanging information internationally on pay and working conditions, especially health and safety issues. Therefore, when public service employees share the same transnational employer, an opportunity is created for trying to raise employment standards world wide.

Some unions express concern about the development of these new bodies because of the dangers of Works Councils members being co-opted by the TNC management or the possibility of a fractured union membership giving more power to the councils than to the trade unions in the workplace.

International corporate guidelines

Over the years, transnationals have been generally unresponsive to attempts by international organisations, such as the UN and the ILO, to formulate codes of conduct, even where these are of a non-binding nature. Whereas the UN and ILO have each dealt with transnationals as either corporate entities or employers, the OECD Guidelines for Multinational Enterprises cover all the main aspects of corporate behaviour, including labour issues. The uncertain state of the MAI negotiations at the time this publication was written means that it is not clear whether any guidelines in the final text will entail voluntary or binding commitments by OECD governments to encourage their observance. However, they will at least serve as a useful reference for national trade unions to understand the complexities of dealing with a transnational employer. In this respect, the guidelines have general applicability beyond the OECD.

TUAC, which has contributed to the formulation of the guidelines, especially in the attempt to include a labour clause, sees a disturbing trend in transnationals seeking to avoid compliance with recognised labour standards as a means to securing competitive advantage. This is evident in the newly privatised public services taken over by transnationals.

4. Transnationals' finances

Privileged access to finance

It is often suggested that the transnational utility and public service companies transfer their own capital by investing in projects in other countries. In practice, however:

- they risk little of their own shareholders' money;
- they raise most capital by borrowing from banks, including public institutions like the World Bank;
- the cost of capital raised by transnationals is higher, since they do not always have the comparative good credit ratings which governments generally have and this can result in higher prices to the service users, mainly the public.

The cost of so-called 'private' finance ends up being borne by the public, through:

- higher price levels, e.g. for water or energy;
- user charges for services that used to be free or low-cost, e.g. for education and health care;
- higher public spending and taxation, e.g. for roads;
- guarantees given by governments to companies, e.g. to buy output regardless of cost;
- guarantees on loans by the Multilateral Investment Guarantee Agency, a World Bank affiliate set up to reduce investment risk to foreign investors in developing countries.

The benefits of publicly funded projects to the transnationals work both ways: multilateral lenders prefer the involvement of large companies because of their good credit ratings, and the transnationals can borrow more easily from their own banks if the involvement of lenders like the IFC or EBRD is assured.

The relationship between banker and contractor may also have other dimensions. For example, when the IFC oversaw the privatisation of the Manila water system in the Philippines, part of the funding came from the French government and the agreement stipulated the use of French consultants. It was not a surprise, therefore, when the consortium involving Lyonnaise des Eaux got one of the contracts. [*MWSS: Anatomy of a Privatization Deal*, ANGOC, 1997].

There is an alternative

The leading companies do not want to risk their shareholders' money, they expect the multilateral banking institutions to put up most of the funds. But this needn't be the case. Contrast the finance arrangements by two water companies in Central Europe: one is a transnational, Lyonnaise des Eaux, with a number of contracts in the region; the other is a public sector water company in Slovakia, Vodohospodarska Vystavba (VV) - see below.

***The transnational - loans from a public sector bank*:** The EBRD is a public sector bank of the EU to aid development in Central and Eastern Europe. Its first loans for public services are going not to the newly democratic institutions of those countries, but rather to transnationals based in its own member states of Western Europe. In July 1995, the EBRD agreed its first financing of private investment in municipal services and infrastructure in the form of *"a $90m equity and loan facility with Lyonnaise des Eaux to support the French utilities and communications group's planned $300m investment programme"* in the Czech Republic, Hungary, Poland, Romania and Slovakia. [*Financial Times*, 31.7.95].

The EBRD was also involved in negotiations with German, UK, US and Austrian utility groups for similar 'multi-project' financing facilities. Multi-project, in this context, means activities carried out by a single company across a number of countries - so it is the *companies'* projects which are being financed, not the countries'.

Mr Jacques de Larosière, president of the EBRD, sought to justify the loans by saying that "*given the extent of inefficiency and under-investment*" in municipal and environmental services in Central and Eastern Europe, private sector participation in their financing and management would *"bring major benefits".* But it is the EBRD that is putting up the finance, and they could have chosen to finance the public sector projects instead of the transnational's. The cost of that finance will be borne by the people living in the transnational's domains, who will pay water charges to cover the interest on the loan *and* a profit margin for the company.

This is not an isolated example. A year later, in 1996, the EBRD signed a framework agreement with another French company, Générale de Chauffe (a subsidiary of Générale des Eaux), for the sum of US$50m over four years to help it extend its network of Esco energy services companies to all the countries of Central and Eastern Europe. [*Agence Europe*, 15.11.96].

In Brazil, for example, the Inter-American Development Bank (IADB) president Enrique Iglesias said about Latin America that *"around 25 percent of IADB loans already bypass governments and go straight to the private sector, and the bank will seek greater integration with companies without requiring state guarantees.... Roads, water and power were three sectors the bank saw as targets for higher private sector involvement."* [*Reuters Latin America*, 21.8.95].

***The public sector company - raising finance on the market*:** Slovakia's own water company Vodohospodarska Vystavba (VV) has not had any loans from the EBRD. In 1995, it raised a government-guaranteed syndicated bank loan of US$125m over five years. The interest rate was slightly higher than for a western government, or probably even for a transnational like Lyonnaise des Eaux. [*Financial Times*, 23.8.95]. But it is a fixed rate, much lower than in the past. Other Czech and Slovak bodies have raised similar loans, including the Czech electricity company CEZ. They are exploiting a borrowers' market, with banks keen to lend.

As with the EBRD loan to Lyonnaise, the cost of the interest will be borne by the people of Slovakia through their water bills. However, that cost will not include the profit margin of a transnational; it will be fixed and predictable, and any profits made by VV will stay in Slovakia.

The world of international public sector finance is a small one. Shortly after the EBRD agreed to its first deal with Lyonnaise des Eaux, Thierry Baudon, deputy vice president of the EBRD, joined Lyonnaise des Eaux as managing director of international project finance. Baudon joined the EBRD in London in April 1991 from the World Bank, where he had been division chief for Eastern Europe, Middle East and North Africa.

Indeed, the history of privatisation and international consulting is littered with ethically questionable stories of people who have been involved in putting together a proposal and then very coincidentally land up working for the body which gets the consulting contract, the banking contract or the delivery contract.

What financial benefit?

It is not at all clear what financial benefit there is to local people of financing services through transnationals. In the case of Aguas Argentinas in Buenos Aires, about half the 7,500 staff were made redundant in the first three months after privatisation. This cost the company US$50m in severance payments, whereas the long-term cost to society of paying unemployment and increased sickness benefits to the 3,830 staff who became unemployed is not accounted for in the equation.

Such companies then require people to pay - through charges or taxes - for the interest plus a profit, which will likely be exported to the parent company. If finance is equally available for a public sector solution, then there should be a clear advantage to society from the private sector option before it can be countenanced.

The transnationals claim, with some justification, that they can raise money more easily from international lenders. But governments, even of small or developing countries, can also borrow at competitive rates and keep the service in the public sector.

Transnationals' profit and the threat to regulation: the case of the Energy Charter

Any attempt to regularise such a complex and fast-changing area as the European energy industry should be for public benefit. Seemingly, the European Energy Charter provides a framework for east-west trade in primary energy sources, investment and technology transfer in the energy sector. Yet, it is also an international agreement that allows the free flow of capital in the energy sector.

Transnationals can repatriate profits made on foreign investment back to their home countries to be used for investment elsewhere. The European Energy Charter threatens the regulation of utilities because it allows transnationals to absorb the financial transactions of their foreign subsidiaries into their overall group accounts - they do not have to be presented separately. This means that at a national level, the utility regulator has no basis on which to scrutinise the company's financial activities. The regulator cannot relate investment and profit levels to agreed criteria for the maintenance and development of the utility infrastructure and service system and for ensuring at least an adequate service to consumers. The European Energy Charter is a charter of concealment for the transnationals.

5. Transnationals and politics

Commercial power gives transnationals political power, enabling them to influence government policy. Transnationals continue to mount forceful campaigns, formally and informally, in support of deregulation and liberalisation policies of which privatisation is a major feature. A close relationship with their home government also gives them access to decision-makers in other, sometimes less powerful, governments.

As a result, transnationals both influence and benefit from privatisation policies at home and abroad. Their commercial interests are served through chains of influence that help explain why large public sector contracts tend to be held by major transnationals based in the most developed market economies.

Firstly,

- large transnationals have strong links with their respective governments, and in some cases are themselves partly or wholly state-owned;
- transnationals are seen as important contributors to their home-base national economy, so governments go out of their way to help them grow and become more profitable;
- whether privately or publicly owned, the activities of transnationals in other countries are often seen as a useful extension of the home government's foreign policy;
- transnationals may benefit from the influence their home government still holds over a former colony, France being perhaps the most striking example of this;
- official development assistance policies may use privatisation as a criterion for donating or lending funds to third world countries, and more directly may be used as a means of channelling resources to home-based companies, a practice generally called 'tied aid'.

Secondly,

- governments of the most powerful developed market economies determine the economic policies of the key multilateral financial institutions, such as the World Bank, EBRD and the regional development banks;
- these multilateral institutions are responsible for imposing economic policies, of which privatisation and direct foreign investment are at the centre, on the vulnerable economies of the developing world and Central and Eastern Europe.

Moreover, large transnationals are highly experienced in arranging contracts in their favour. This experience is a powerful factor in areas where:

- authorities are relatively unused to dealing with such skilful operators on large-scale projects;
- authorities do not have the same level of technical expertise to assess the long term effects of a proposed contract or project;
- the dominant internal and external political forces are behind privatisation, which is promoted as **the** key to economic development.

Development aid is a powerful tool for influencing the structure of new or reformed public sector structures. For example, the US government is involved in the development of local authorities in Poland and Slovakia. In 1996, an agreement worth US$45m dollars was signed for the development of local government in Poland by the year 2000. Its main purpose is to collect information on the finance, technical and legal infrastructure in five key areas: education, health care, welfare, culture and transport. [*BBC*, 6.6.96]. In the same year the US government opened a centre for assistance to local government in Bratislava, Slovakia. [*BBC*, 15.2.96]. Which US transnationals will benefit from these initiatives?

Corruption

Corruption or practices which seem less than ethical often go hand-in-hand with government contracting and privatisation. Too frequently reports emerge of more infringements of legal and moral codes in all areas of public services and in many countries. Because of their size and economic power, large transnationals are more able to manipulate privatisation policies to their advantage and to collude with existing power bases.

Corruption is not the preserve of any particular country, or group of countries. Those countries with the longest record of privatisation have experienced major corruption in an increasingly wider range of contracts and sell-offs, and corrupt practices by contractors have been exposed in all levels of government and public authorities. Major developed economies such as France, the UK and the USA have all experienced similar problems with contractors.

Privatisation now forms a central plank of economic policies in developing countries undergoing structural adjustment programmes, Central and Eastern European countries in transition and in newly industrialising countries with a market-oriented approach to economic development. Transnationals, usually based in one of the powerful developed economies, are in a unique position to benefit from these policies. The concerns about corruption in countries with weak legal or supervisory systems have led to increased action by, for example, the OECD, in instituting international mechanisms to combat corruption and bribery.

Corruption is a serious problem for public services. Firstly, it makes the service far more costly than it would be otherwise. Secondly, it perverts democratic processes and rational decision-making.

Strong measures are needed to deal with corruption. It is not controlled by competition policies, as corruption is not necessarily connected with cartels and price-fixing rings. It is extremely difficult and expensive to police.

There are however three simple and effective measures already available to deter and hamper corrupt practices by contractors.

- The first is to ensure that there is always an in-house bid from the public sector: get an independent estimate of the cost of the contract or prepare one in-house. Independent audits or accounting evaluations of all bids should be a standard requirement.
- The second is to find out if there are any legal powers - such as the European Directive on Public Service Contracts - to exclude contractors who have engaged in 'unprofessional' conduct or criminal offences. It is the simplest and most powerful sanction against contractors. In the USA, some authorities are building in ‘bad boy’ clauses, which allow them to exclude corrupt contractors.
- The third way is to write into contracts a clause binding the companies to observe internationally recognised codes of conduct, including core ILO labour standards. This will also enable the authorities to sue a contractor for any breach of these codes.

Despite all these efforts, charges of corruption have rarely curbed the ability of large TNCs to win more and more public sector contracts. Siemens, one of Europe’s largest companies, has been involved in corruption scandals in several countries world-wide but continues to win huge contracts.

However, trade unions must try to take the initiative against corruption. Where the employer is a transnational, international co-operation among unions is a basic starting point.

6. What can be done?

Where transnationals are involved in privatisation, opportunities for trade unions to work together internationally are created in the following ways.

International information exchange

Information on the finances and activities of a transnational company held by a union in one country can be used by a union in another to help save jobs and services. Unions should be able to request (or get by other means) information and analyses on:

- company finances, structures, investments, boards of directors and cross-ownership;
- links with political parties and state or quasi-state organisations;
- its full range of activities, current policies and proposed market/expansion strategies;
- its position in regional and world markets.

The company structure itself often forms the basis for international trade union co-operation. Employees of subsidiaries in the same division - waste management, for example - operating in different countries can share information and give support to save or improve jobs and services.

Internationally, unions can rely on other trade union organisations for information and support. For example, they can request information on specific companies from PSI, regional trade union committees and their affiliated unions. Some unions are represented on international consultation bodies such as European Works Councils and the small number of World Company Councils which have been created. These are useful forums for information exchange, joint action and transnational bargaining strategies. If no such body exists, unions should find out what their rights are and take any possible action towards getting one established.

Where unions and governments have developed alternatives to privatisation and maintained local or regional control, information should be shared. Knowledge of these initiatives can help others devise their own strategies. In all cases, examples of failures can be as valuable as successes for learning how to deal with the transnational employer.

Taking up union issues internationally

In Manila Water, one of the main union concerns with the privatisation has been the failure of the two consortia which won the contracts, both involving TNCs, to fulfil the commitments written into the privatisation plans to give security of employment to workers who transferred from MWSS when privatisation took place. These issues have been taken up directly in Europe with French parent companies by PSI and by PSI-affiliated unions in Britain.

Tackling transnationals: lessons from the private sector

In the private sector, a number of high-profile transnationals have been the subject of concerted international corporate campaigns on issues of workers' rights, women's rights, human rights and environmental protection: Levi-Strauss, Coca-Cola and Control Data are some examples where international action has resulted in some improvements. Although many of the core issues for public service workers are the same as in the private sector, campaigns for public services cannot rely on international support in the same way. International corporate campaigns frequently focus on engaging consumers abroad in some form of retaliatory action, such as a boycott of goods. Such tactics cannot so readily be applied to the case of exploited hospital workers, for example. Nevertheless, workers transferred into the private sector through privatisation can learn from the large body of experience gained from these campaigns.

The consumer link

The link between employees and consumers of public services can form the basis for an effective coalition, especially on core issues such as quality of service and access to information. As consumers of public services, workers also have an interest in maintaining good services and in knowing how the public finances or user fees are being accounted for, and they should have the right to the information that would enable this.

In the United States, consumers have "the right to examine ... every cost and service document in the possession of the utility or the regulator" [*Secrecy, Democracy and Regulation*, G. Palast, in *Consumer Policy Review*, July 1996]. Consumers and employees of American utility and service companies in other countries should have this right too. As trade unionists they should also have the right to information to protect and improve their jobs and working conditions.

[The material for this publication was written by the UK-based Public Services Privatisation Research Unit]