

# **EIRO-Comparative Studies**

Beitrag aus dem

Institut der deutschen Wirtschaft Köln

zum

European Working Conditions Observatory (EWCO)

## **Multinational companies and collective bargaining**

The case of Germany

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## **Content**

### **Abstract**

- 1 MNCs and collective bargaining: basic data**
- 2 MNCs and change in national systems of collective bargaining**
- 3 MNCs and the cross-border dimension to collective bargaining**
- 4 MNCs and the social partners**
- 5 Commentary**
- 6 Further References**
- 7 Annex - Questionnaire**

## Abstract

*A relatively high proportion of multinational corporations (MNCs) are estimated to be covered by collective agreements due to their size. However, their impact on collective bargaining can be distinguished neither from the general influence of larger firms nor from the impact of intensified international competition. Prominent cases show that MNCs, works councils and unions have made unobtrusive use of opening clauses in sector agreements, while some relocation decisions have provoked strong resistance on the part of employees.*

## 1 MNCs and collective bargaining: basic data

### 1.1 Proportion of private sector employment accounted for by MNCs

Data on the are not available. Even the total of number of MNCs in Germany is unknown. According to the European Works Councils database, in 2005 an estimated 1,753 German companies, 450 of which were headquartered in Germany, were affected by the European Works Council Directive (Kerckhofs 2006).

### 1.2 Breakdown of employment in MNCs between foreign-owned MNCs and home-based MNCs

The German Central Bank (Deutsche Bundesbank) only provides data on employment in German affiliates abroad and on employment in foreign affiliates in Germany. With respect to the latter, table 1 shows that the number of employees in foreign-owned companies in Germany rose overall by 5% between 2000 and 2006, despite a decline of 6.2% from 2004 to 2006.

Year	Employees (thousands)	Distribution of employees at foreign-owned companies by sector		
		Manufacturing	Wholesale and retail	Banking
2000	2,057	56.7%	18.3%	1.4%
2004	2,308	58.8%	16.2%	1.4%
2005	2,219	55.7%	16.5%	2.5%
2006	2,165	55.3%	16.5%	2.5%

*Source: Deutsche Bundesbank, own calculations*

Taking into consideration only employees liable to social security contributions, the proportion of employment accounted for by foreign-

owned firms increased only slightly, from 7.4% to 8.2%, between 2000 and 2006.

### 1.3 Level of collective bargaining coverage amongst MNCs

No data available. In general, larger companies are more likely to be covered by collective agreements. Given that MNCs tend to be larger than firms with sites exclusively in Germany, we can expect MNCs, and especially those subject to the European Works Council Directive, to be covered by collective bargaining.

With respect to foreign-owned companies, econometric studies suggest that there is no clear correlation between foreign ownership and the likelihood of being covered by collective bargaining. Whereas Kohaut and Schnabel found a negative correlation for companies in western Germany, there was a positive correlation for firms in eastern Germany (Kohaut/Schnabel 2003). Another study, based on a sample of establishments in Baden-Wurtemberg, did not find any significant impact of foreign ownership on the likelihood of being covered by a collective agreement (Arndt 2004).

### 1.4 Nature of the relationship between MNCs and sector agreements

See above. If MNCs are covered, they comply with the provisions in the corresponding agreements. According to Ellguth and Kohaut, in 2007, 2% and 4% of the establishments in western and eastern Germany respectively were covered by a single-employer agreement. However, many single-employer agreements refer solely or partly to the provisions of a corresponding multi-employer arrangement (*Anerkennungstarifvertrag*). One of the exceptions is the single-employer agreement at automobile giant Volkswagen, which offers better terms than those in the corresponding multi-employer settlement between the employers' association in the electrical and metal working industry in Lower-Saxony (Niedersachsenmetall) and the German Metal Workers' Union (IG Metall).

## **2 MNCs and change in national systems of collective bargaining**

### 2.1 MNCs as a source of recent change in the agenda and outcomes of collective bargaining

The collective bargaining system is in general characterised by a growing number of opening clauses, which have been more frequently implemented in collective agreements in recent years. This applies to

both manufacturing and services. However, it is doubtful whether this development has been driven only, or even particularly, by the demands of MNCs. Deviating working time arrangements, and even the suspension of pay increases, are generally regulated by works agreements (*Betriebsvereinbarungen*) if a works council exists.

As a rule, the handling of restructuring lies within the domain of works councils. When and how employee representatives must be involved in information, consultation and decision processes is stipulated by the Works Councils Act (*Betriebsverfassungsgesetz*). One of the act's provisions is that management and works council must negotiate a social plan (Sozialplan) for employees adversely affected by restructuring.

## 2.2 Changes associated with MNCs headquartered in particular countries

No evidence.

## 2.3 Introduction of new issues onto the bargaining agenda

No evidence exists on this issue.

## 2.4 New issues associated with MNCs headquartered in particular countries

Not relevant (see 2.3).

## 2.5 Role of MNCs in opening up greater scope for company negotiations

During the 1990s, many employers' associations suffered when increasing numbers of particularly small and medium-sized firms left or refused to join an association. Some employers' associations, such as that for the electrical and metal working industry (*Gesamtmetall*), have founded affiliated organisations whose members can benefit from the services provided by the employers' association but are not bound by its collective agreements (*OT-Verband*). In addition, many member companies, whether MNCs or not, have called for more flexibility in wage and working time arrangements in collective agreements. Therefore, the decentralisation process in the collective bargaining system cannot exclusively be attributed to the role of MNCs.

Issues such as guarantees for a specific number of jobs or maintaining the production facilities at a specific location can only be settled at the firm level, irrespective of whether the company is an MNC or not.

## 2.6 Recent examples of MNCs leaving a sector agreement or placing new operations or sites outside of the coverage of the sector agreement(s)

One recent case is Infineon, whose management announced on 12 December 2008 that the company was terminating its membership of the employers' association of the Bavarian electrical and metal working industries (Arbeitgeberverband der Bayerischen Metall- und Elektroindustrie, VBM). Infineon's decision was triggered by the terms of the collective agreement concluded in this sector on 12 November 2008. According to the board of directors, the outcome of this agreement imposed too heavy a cost burden on the company, which had therefore decided to leave the association in order to be able to align wages with the current stage of the sectoral business cycle. On 19 December 2008, Infineon's management and representatives of IG Metall started talks about the consequences of the company's decision on industrial relations. The Collective Bargaining Act (Tarifvertragsgesetz) stipulates that the provisions of the preceding collective agreement, which in this case expired on 31 October 2008, remain in place until and unless a new agreement is reached. A new agreement can be concluded between the firm and either a union or the individual employees. On 10 February 2009, IG Metall announced the suspension of negotiations.

Though Infineon is an MNC, this case is typical less of MNCs than of all firms which are reluctant to continue applying the standards of sectoral agreements. The Infineon case exemplifies a general negative attitude towards sectoral arrangements arising from the view of individual companies that the provisions of the sectoral agreement are not appropriate for their specific situation and leading to a decision to leave the system. See, for example, the recent industrial conflict at *Vacuumschmelze*.

The same caveat applies to those cases where parts of a company have been hived off as legally independent though affiliated entities, for example service units of manufacturing companies such as Daimler. No evidence exists that where this type of restructuring occurs it is limited to MNCs.

The most prominent case of new operations being placed outside the coverage of an existing agreement, albeit a single-employer agreement, is Volkswagen. In 2001, Volkswagen founded a specific production unit called *Auto 5000*, which still exists and is also, like the parent company's headquarters, located in Wolfsburg (Lower Saxony). The VW management, the VW works council and the union IG Metall agreed on a

special package of agreements only applicable to employees at this new VW affiliate. The remuneration of Auto 5000 employees was to be lower than the collectively agreed wages for employees at its parent company VW, to save operating costs and prevent this production line being relocated to sites in Portugal or Slovakia where production costs, at that time, were approximately one quarter and one tenth respectively of the German level. However, IG Metall succeeded in pushing through a provision that all *Auto 5000* employees were to receive an annual income at least equivalent to the minimum standards laid down in the multi-employer agreement for the metalworking industry in the area. Thus it was possible to retain production of the new van, the VW *Touran*, in Germany.

## 2.7 Practice of 'double-breasting' by MNCs

Not relevant.

## **3 MNCs and the cross-border dimension to collective bargaining**

### 3.1 Evidence of MNCs using comparisons of labour costs, flexibility and performance drawn from company operations in other countries in the course of local company negotiations

The most prominent cases of comparisons between locations in various countries being extensively reported and discussed in the national media have occurred in the automobile industry and its sub-sectors. The amount of publicity is due, firstly, to the size of the affected companies and, secondly, to the specific production method employed in this sector which increases the competition between the various production sites. It is known as the 'platform strategy' and means that the production facilities which a manufacturer maintains at several sites are all able to produce the same standardised parts of a car, such as the chassis (Haipeter 2006). Moreover, these parts can also be incorporated into a number of different models aimed at different national markets.

Examples of the evidence for international comparisons in the automobile sector are as follows:

- On 12 July 2004, the management of Daimler announced that the new series of its Mercedes C-class might have to be produced at its plants in Bremen and South Africa from 2007 onwards if cost savings of EUR 500 million could not be realised in Sindelfingen. According to the management, effective working-time at the plant

in Sindelfingen was almost 5 hours less than the standard working hours (35) due in particular to special five-minute hourly breaks. Moreover, employees received special bonuses for working afternoon and night shifts. The dispute between works council and management had arisen some days prior to the announcement and employee protests had already resulted in a temporary halt in production. Negotiations began on 13 July 2004 and an agreement was reached on 23 July after two weeks marked by employee protests. The necessary deviation from the sectoral agreement was made possible by an opening clause only established that same February.

- On 6 March 2006, Ford announced a company-level 'alliance for jobs' which applied to both of Ford's German sites, in Cologne and Saarlouis. The settlement at Ford stipulated that the production of three model ranges would remain at the German sites. The plants at Cologne and Saarlouis were regarded as amongst the most productive factories in the car industry; however, the modernisation and retooling of the production facilities at both plants would require considerable investment in the next few years. The agreement between the management and the works council consisted of a promise by the company to eschew redundancies until 2011 in return for wage concessions by the employees. As Ford was paying wages above the level stipulated by the relevant sectoral agreement, the wage concessions could be realised by not implementing pay increases concluded in subsequent sectoral agreements until the latter had caught up.

The case of the former SIEMENS sites in Bocholt and Kamp-Lintfort (both in North-Rhine Westphalia), however, shows that comparisons of the costs and performance indicators at plants in various countries, eventually resulting in the conclusion of company-level agreements to retain jobs, are not restricted to the automobile sector.

Generally speaking, there is no recognisable geographical focus. Comparisons can be worldwide but depend in every case on the locations of a company's various existing or potential production facilities.

In general, an outcome of negotiations at the company level which deviates from the standards stipulated by a sectoral agreement depends on the scope of the opening clause included in a sectoral agreement. Usually, the employees trade a reduction in collective standards for a guarantee by the employer which rules out lay-offs, promises further

investments or maintains specific production lines at the affected site. That these are typical features of agreements at MNCs, too, is shown by the two examples mentioned above. As described in section 3.1, concessions by the employees involve either the temporary suspension of collective standards or a reduction in firm-specific standards until then exceeding the level of the corresponding multi-employer agreement.

### 3.2 Evidence of threats to relocate operations influencing the agenda and outcomes of local company negotiations

See section 3.1

### 3.3 Evidence of MNCs seeking to introduce so-called 'best' practices and/or corporate policies from their operations in other countries in the course of local company negotiations

No evidence available.

### 3.4 Employment of posted workers

Data are not available. In general, it can be assumed that employees of German MNCs who are posted to sites abroad receive effective wages which are higher than both the collective standards at the German establishments and those applicable at foreign sites.

### 3.5 Transnational negotiations at either European or global levels

With respect to wages and working time, neither have German MNCs engaged in transnational negotiations with the unions in various countries nor are transnational institutions, such as European Works Councils or even a type of global works council, legally entitled to conclude binding agreements.

## **4 MNCs and the social partners**

### 4.1 Employers

As already reported in section 1.3, larger companies, and therefore presumably MNCs, are more likely to be covered by collective agreements. Coverage automatically results from membership of an employers' association which is involved in collective bargaining.

In general, it is said that larger companies exert a larger influence than small and medium-sized firms (see, for example, Lang 2007, 267; Haipeter/Schilling 2006, 96). For instance, larger firms make

disproportionately high contributions to the organisations' budget and they can also provide additional personnel resources specialised in industrial relations issues. Though MNCs can be regarded as key players, this role results mainly from the impact of their size. In general, however, the employers associations strive to balance the potentially different interests of large, medium-sized and small companies to prevent firms opting out.

Organisations such as the American Chamber of Commerce in Germany (AmCham Germany), do not intervene in industrial relation issues.

Generally speaking, the lead negotiators are the general manager and the chair of the employers' association. The chair, who as a rule is elected for a specified term, is the owner or the general manager of a member company. However, these lead negotiators are assisted by a bargaining committee whose members are recruited from both the professional staff of the association and experts, managers or owners of the member companies. MNCs are usually involved in the bargaining process in this way.

According to a questionnaire sent to 400 affiliates of foreign-owned multinationals in 2001, managers were at that time concerned about the role of the unions and the sustainability of the collective agreement system. However, as the flexibility of collective agreements and the scope for adapting collective standards to the needs of a specific firm by means of opening clauses have increased over the years, a new survey made today might reveal a more positive assessment of the collective bargaining system by foreign-owned companies. Moreover, no evidence exists that being an MNC significantly increases the likelihood of leaving a sector agreement.

Generally speaking, MNCs can benefit from applying collective standards as much as other companies can:

- Reference to collective standards can lower the transaction costs of negotiating wages, working time and other working conditions;
- Unions may not call strikes until a collective agreement covering the company has expired;
- Where the degree of unionisation in a company is disproportionately high, joining an association can augment the company's relative bargaining power and even bias it in favour of the employer.

## 4.2 Trade unions

The unions have agreed to opening clauses in some industries over the last few years. These clauses allow temporary deviation from binding sectoral agreements and, from the union's point of view, serve to prevent the unchecked decentralisation of wage formation and working time regulations.

Over the last few years, unions have themselves striven for the inclusion of issues such as continuous vocational training and partial retirement schemes etc.

If a company has cancelled its membership of an employers' association, unions generally attempt to reach a firm-level agreement that applies the standards already settled in the sectoral agreement. In the case of Infineon, negotiations have been suspended. In other cases, such as Vacuumschmelze, the unions called industrial action to force the company to apply the sectoral agreement. However, the likelihood of achieving this result depends critically on the degree of unionisation in the firm in question. In general, the degree of unionisation is higher in larger companies in the manufacturing industries.

Usually, the unions attempt to reach specific agreements for the facilities affected. See section 2.6 for cases where a specific settlement was concluded.

By law, works councils in establishments with more than 300 employees are entitled to engage a consultant to assist the employee representatives when a company announces substantial restructuring. Moreover, unions have themselves demanded more transparency in international comparisons. For example, IG Metall has called for the application of uniform accountancy rules in all countries across the world. In addition, MNCs are expected to comply with internationally binding codes of conduct to prevent a race-to-the-bottom.

Prompted by the Nokia case, Berthold Huber, chair of IG Metall, demanded in an IG Metall press release (in German) on 18 January 2008 that relocation decisions should require a two-thirds majority on the supervisory board of large German companies.

In a few cases, such as AEG/Electrolux in 2006, the unions have striven to achieve a collective agreement specifically regulating the closure of a plant resulting from a management's decision to relocate production (*Sozialtarifvertrag*). As the AEG/Electrolux file also shows, the

negotiations can be accompanied by massive industrial action not only at the locations affected but also at sites in other countries.

In general, NGOs are not involved in industrial relations.

In some industries, the unions have been successful in concluding framework agreements with single employers that stipulate Europe-wide or even global working standards at their various sites. IG Metall is one such union.

German unions believe that collective bargaining should continue to be carried out at the national level, emphasising only that bargaining aims should be based on uniform principles across Europe so that wage policies are to some extent internationally coordinated and wage-dumping can be prevented.

## **5 Commentary by the NC**

The demarcation between the influence of MNCs and the general impact of international competition on the collective bargaining system is blurred. This applies particularly to the export-oriented sectors in manufacturing. The decentralisation process observable in Germany's collective bargaining system over the last decade cannot exclusively be attributed to the influence exerted by MNCs. However, as MNCs tend to be larger companies their voice is, of course, clearly heard when the employers' associations' bargaining policies are determined.

## 6 Further references

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## 7 Annex - Questionnaire

A relatively high proportion of multinational corporations (MNCs) are estimated to be covered by collective agreements due to their size. However, their impact on collective bargaining can be distinguished neither from the general influence of larger firms nor from the impact of intensified international competition. Prominent cases show that MNCs, works councils and unions have made unobtrusive use of opening clauses in sector agreements, while some relocation decisions have provoked strong resistance on the part of employees.

### 1. MNCs and collective bargaining: basic data

1) MNCs account for a significant proportion of private sector employment in many European countries. Please provide the following information according to availability:

a) proportion of private sector employment accounted for by MNCs, and recent change (e.g. since 2000)

c) proportion of service sector employment accounted for by MNCs, and recent change (e.g. since 2000)

2) Please provide any available information on the breakdown of employment in multinationals between foreign-owned MNCs and home-based MNCs

3) What is the level of collective bargaining coverage amongst MNCs, and how does this compare with levels of collective bargaining coverage within the private sector? In the absence of precise figures, please provide an estimate of whether it is higher or lower than the average in:

i) the private sector overall

ii) manufacturing

iii) private services

4) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, are MNCs covered by sector agreements? What is the nature of the relationship between MNCs and sector agreements?

a) If Yes, do they mainly conform with the provisions specified in these agreements?

b) If No, do MNCs conclude their own company agreements? If so, what if any relationship do these company agreements have with the sector agreement?

5) In countries characterised by single-employer bargaining arrangements for the manufacturing and/or private service sectors, to what extent are MNCs regarded by other employers as pattern setters for wage negotiations?

### 2. MNCs and change in national systems of collective bargaining

1) To what extent have MNCs been a source of recent change in the agenda and outcomes of collective bargaining in respect of any of the following issues. Please distinguish between manufacturing and private services:

a) payments systems? If so, please elaborate and give examples.

b) working time arrangements? If so, please elaborate and give examples.

c) flexibility arrangements (other than working time)? If so, please elaborate and give examples.

d) handling restructuring? If so, please elaborate and give examples.

2) Are any of these changes associated with MNCs headquartered in particular countries? If yes, which countries?

3) Are MNCs introducing new issues onto the bargaining agenda? If so, what are these new issues? (Examples might include equality and diversity practices; environmental issues; new employee participation practices; teleworking.)

4) Are any of these new issues associated with MNCs headquartered in particular countries? If yes, which countries?

5) *In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, what has been the role of MNCs in opening up greater scope for company negotiations? Please distinguish between developments in manufacturing and private services.*

a) are company negotiations mainly confined to issues on which sector agreements

i) provide openings and/or a framework?

ii) establish minimum standards or conditions?

b) are there company negotiations on issues which are not addressed by sector agreements? If yes, please give examples.

c) are there any instances of company negotiations resulting in breaches of provisions in sector agreements? If yes, please give examples.

6) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, are there any recent examples of MNCs:

i) leaving a sector agreement? If yes, please give details.

ii) placing new operations or sites outside of the coverage of the sector agreement(s) which apply at existing sites? If yes, please give examples.

7) *In countries characterised by single-employer bargaining arrangements for the manufacturing and/or private service sectors, is there any evidence of the practice of 'double-breasting' by MNCs? (Double-breasting is when companies recognise trade unions for collective bargaining purposes at longer established sites, but not at more*

recently opened ones.) If yes, please indicate the extent of the practice and provide examples.

### 3. MNCs and the cross-border dimension to collective bargaining

1) Is there evidence of MNCs using comparisons of labour costs, flexibility and performance drawn from company operations in other countries in the course of local company negotiations? If yes, please give examples when answering the following:

i) in which sectors does this typically occur?

ii) what is the geographical focus of the comparisons (e.g. western Europe, eastern Europe, Asia, worldwide)?

iii) what is the impact of these comparisons on the outcome of local negotiations?

2) Is there any evidence of threats to relocate operations influencing the agenda and outcomes of local company negotiations? If yes, please give examples when answering the following:

i) in which sectors has this occurred?

ii) what are the destination countries / regions of the global economy for any threatened relocations?

iii) what has been the impact on the outcome of local negotiations?

3) Is there evidence of MNCs seeking to introduce so-called 'best' practices and/or corporate policies from their operations in other countries in the course of local company negotiations? (This may arise through the use of benchmarking.) If yes, please give examples when answering the following:

i) in which sectors does this typically occur?

ii) is the process linked to the use of comparisons of labour costs, flexibility and performance or other Human Resources policies (if so, please specify)?

4) Do MNCs employ significant numbers of posted workers (e.g. amounting to more than 5% of the workforce)? If yes,

i) in which sectors does this typically occur?

ii) are these posted workers covered by local sector and/or company agreements?

5) Are there any instances where MNCs headquartered in your country have engaged in transnational negotiations at either European or global levels? If yes, please provide details of the MNC(s) concerned and the issues addressed.

### 4. MNCs and the social partners

#### 4a. Employers

1) Are MNCs affiliated to the main employers' organizations at cross-sector and sector levels?

2) To what extent are MNCs regarded as key players within the main employers' organizations at cross-sector and sector levels?

3) Are MNCs also organized in country-of-origin specific associations (e.g. American or German Chambers of Commerce). If yes:

Do these associations intervene on industrial relations issues? If yes, please provide details.

4) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, what influence do MNCs exercise over sector negotiations? For example, how far are MNC personnel involved as lead negotiators for employers' organizations?

5) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, what, if any, kind of reforms to sector agreements are MNCs proposing? For example, are they pressing for:

i) limited reform, with modest extension of scope for company bargaining within sector agreements? If yes, please give examples.

ii) extensive reform, under which sector agreements are confined to establishing *either* minimum standards *or* a basic framework governing a few key issues? If yes, please give examples.

6) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, is there any indication of the advantages or disadvantages that MNCs perceive in continuing to be party to sector agreements?

#### 4b. Trade unions

1) How have trade unions responded to the impact of MNCs on the agenda and outcomes of collective bargaining? Please give examples.

2) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, how have trade unions responded to attempts by MNCs to broaden the scope of company negotiations? Please give examples.

3) In countries characterised by multi-employer bargaining arrangements for the manufacturing and/or private service sectors, how have trade unions responded to any attempts by MNCs to:

i) leave sector agreements? Please give examples.

ii) place new operations or sites outside of the coverage of the sector agreement which applies to existing operations? Please give examples.

4) In what ways have trade unions responded to the use by MNCs in local, company negotiations of:

i) comparisons of labour costs, flexibility and performance?

ii) threats to relocate? Please give examples.

5) Are there instances where trade unions have targeted specific MNCs because of public, media or political interest in their practices? If yes,

i) have they involved political exchange, involving mobilization of popular sentiment against foreign companies as political leverage to gain concessions from government (e.g. the cases of Alstom in France and Alitalia in Italy)? Please provide examples.

ii) have new industrial relations actors, such as NGOs, been involved in such campaigns? Please give examples.

6) Are trade unions in MNCs engaged in compiling their own cross-border comparisons of working conditions etc. at sites in different countries? If yes, please give examples.

7) Are national and local trade unions involved in European-level negotiations with MNCs on any issues? If yes, please give details.

8) More generally, do trade unions have policies aimed at developing the cross-border and European-level dimensions to collective bargaining in MNCs?

5. Commentary by the NC