Corporate Europe follows the Enron model

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The oft-repeated claim that fraudulent accounting practices are an American phenomena has been proved false. Three major European corporations are mired in financial scandals, every bit as politically explosive as those at Enron, Xerox and WorldCom.

Ruling circles are gripped by fear that the disputes engulfing Vivendi, ABB, and Elan are merely openers in a commercial crisis that will rock Europe to its political foundations. The European Union (EU) has called an emergency meeting of financial regulators and finance ministry officials for July 23, according to the *Financial Times*, "to protect European financial markets if a large company were to collapse because of financial irregularities." Frits Bolkestein, EU financial commissioner, warned that financial scams involving pensions and savings could threaten European stocks to fall "from billions of euros of capitalisation to peanuts in a flash."

Media attention has focused on French-based media-giant Vivendi, and the behaviour of its CEO Jean-Marie Messier. Vivendi was originally formed by imperial decree in 1853 as the water company, Compagnie General des Eaux. But during the 1980s and 1990s, the company changed its name to Vivendi and embarked on a debt-financed global acquisition spree which has included an education publishers, mp3.com, a mobile WAP portal, a Polish telecom firm, Canadian media giant Seagram—owners of Universal studios—and French TV company Canal Plus, among many others. Vivendi also retained its water and waste management-based interests.

In 2000 Vivendi claimed a 53 percent leap in profits to $2.27 billion. Shares soared to a peak of $300. The Seagram and US Networks purchases were intended to create a rival to AOL/Time Warner. At its peak, the company employed 380,000 workers.

The first hints of crisis emerged in October 2001, when a $613 million part payment for a third generation mobile telephony (3G) license owed by French subsidiary SFR was held up while the parent company announced its intention to sell a $4.15 billion stake in Rupert Murdoch's BskyB satellite broadcasting group. In March 2002, Vivendi posted a loss of $13.4 billion, the biggest loss in French corporate history, and revealed total debts of $18.9 billion, $8.6 billion of which fall due before the middle of 2003. The WAP portal Vizzavi's estimated value also fell from around $30 billion to zero.

Vivendi launched a rescue plan, attempting to sell its heritage water businesses and an Italian pay TV company, while using the Cegetel telecom firm to prop up its revenue. But difficulties with the sales escalated tensions in Vivendi's board between CEO Jean-Marie Messier, a supporter and ally of Socialist Party leader Lionel Jospin and forces close to newly elected President Jacques Chirac. In June this year, Messier was replaced by Chirac supporters Claude Bebear and Jean-Rene Fourtou, who were also said to be acting for the wealthy Canadian Bronfmann family. The Bronfmann's Vivendi holding, acquired when Vivendi bought Seagram, was rapidly turning to dust.

At the beginning of July, a *Le Monde* article entitled, "Vivendi's Opaque Accounts" accused the company of having tried, and failed, to hide $1.5 billion worth of losses. Shares fell 40 percent in one day and it emerged that Arthur Andersen, the firm that collapsed in the wake of the Enron scandal, was also responsible for Vivendi's accounts—giving rise to speculation on further nasty surprises.

By July 4, the company was scrambling to avoid a $1.76 billion default, its credit rating was reduced to junk bond status, and shares were down to $13.8 billion and falling fast. On July 9, the French stock market watchdog, the Commission des Operations de Bourse, raided Vivendi's offices.

As to ABB, this was formed in 1988 from the merger of Swedish Asea and Swiss/German Brown Bover & Cie. Originally founded in the mid-19th century as manufacturers of transmission lines, power stations and numerous forms of electrical machinery, the company merger created one of the largest engineering combines in the world. Within the last months, ABB won contracts for power supplies in Java, Algeria, Venezuela, Saudi Arabia, and is opening a research and development station in India. In 2000 it signed a contract with North Korea for the supply of two nuclear power stations, notwithstanding the presence on the ABB board of one Donald Rumsfeld, the current US Secretary of

Defence, who has publicly given the regime pride of place within President Bush's "axis of evil".

In 2000, at the peak of the stock curve, ABB's market capitalisation—its total share value—was estimated at $25 billion, while shares were priced at $37. By October 2001 share prices had collapsed to $6, giving a market value of $4.16 billion, after the company had been forced to shift to what was termed "generally accepted accounting practices". This move revealed that 28 percent of what had been claimed as operating income was in fact from one-off sales. After corrections, the company showed a loss of $691 million and $6 billion of debts. In addition, the purchase of US based Combustion Engineering came with asbestosis liabilities of up to $3 billion.

This February it emerged that ex-chairman Percy Barnevik had been given, or had given himself, a severance package of $78 million, without the full knowledge of the ABB board, while fellow board member Goran Lindahl came out with a pension of $160 million. Exposure of the payoffs, huge even by US standards and awarded when the company was in the process of dismissing 12,000 workers, caused a furore in Sweden. Lindahl was forced to resign in disgrace from the Global Compact organisation, set up by United Nations Secretary General Kofi Annan to mollify anti-capitalist protest.

The exposure of Barnevik and Lindahl's handouts came during a feud between Investor—the family firm of the Wallenbergs—and billionaire Martin Ebner, who was posing as the friend of small shareholders. Barnevik was also the chair of Investor, which holds controlling shareholdings in a swathe of Swedish corporations, including Electrolux Gambro, Astra-Zeneca, Ericsson and ABB, by means of special shares with amplified voting rights. Ebner wants Investor broken up to maximise its components' share value and has bought up 12 percent of ABB shares.

By April 2002, ABB's credit rating was downgraded and the company faced a liquidity crisis. Although bailed out by the banks, ABB was forced to sell its financial services arm. At the same time, Barnevik, by this time pushed out from Investor, and Lindahl grudgingly gave back a portion of their payouts. Suggesting that more revelations are afoot, ABB earlier this week sacked several managers in its London office, claiming that they had covered up losses in the 1999-2000 period.

Irish based Elan was formed in 1969 as a pharmaceutical company, and diversified into the lucrative biotechnology arena. The company is developing a range of pioneering medical products, including treatments for multiple sclerosis, autoimmune disorders and Alzheimer's disease. At the peak of the speculative boom in dotcom and biotechnology stocks, its share price was $74.

Until last summer, Elan, which employs just 4,500 workers, was twice the size, by market capitalisation, of any other Irish company, at $22 billion. It is currently worth just £675 million. The company has also run up debts of $4.4 billion. A share price collapse, by 52 percent in one day, was triggered by rumours, later confirmed, of dubious accounting techniques. It was the most spectacular crash in Irish corporate history and alone accounted for a 16 percent fall in the Irish ISEQ market index.

What seems to have happened is that Elan entered into unusual agreements with up to 50 business partners. These "Qualified Special Purpose Entities" allowed Elan to sell future royalties accruing from its products, in return for cash payments that were then used to inflate current revenues. Chair and CEO, Donal Geaney, awarded himself a salary and bonus of $2.99 million. He has since resigned.

His interim replacement Garo Armen insisted, "there are no accounting regularities... that have come to our attention." On the other hand "people have said, and they're probably correct, that accounting has been aggressive, but it's been within legal bounds."

On July 11, the US Securities and Exchange Commission, as part of an investigation into Elan, subpoenaed Credit Suisse and Morgan Stanley, both involved in the special purpose entities scheme. A class action has also been launched against Elan by US investors.

On the face of it, little would appear to connect a French water utility-come media empire, a Swedish/Swiss engineering combine, and an Irish biotechnology company. However, all three, regardless of the commodities they actually produce, have based their operations on attracting speculative capital through over inflated share prices. Their crisis has not only exposed fraudulent accounting techniques, but also the naked theft and corruption of Europe's corporate elite.