

Originally published in French in La Tribune, 2 April 2007

NICOLAS VERON

Halliburton: Pariah or Precursor?

The news came one Sunday. On 11 March Halliburton, the oil giant and one of the 100 top US companies, decided to switch its headquarters from Houston to Dubai. The group remains American as before in terms of incorporation and tax status. But its chairman David Lesar will have his office next to the Persian Gulf. Never had such a thing happened before.

Halliburton is certainly a special case. Few companies are involved in so much controversy. To name but a few: longstanding financial links with the Bush family and with Vice President Cheney, who was its chairman between 1995 and 2000; accounting irregularities; asbestos liabilities; a huge contract with the US army, without a tender and with widespread suspicions of overpricing. But does all this explain the move to Dubai? This is far from certain. Memories of the Cheney era are fading. Kellogg, Brown and Root, the subsidiary which built the notorious Camp X-Ray at Guantanamo and is reported to employ 30,000 in Iraq, is being sold off. But the main interest in Mr Lesar's decision to leave home is not the various reasons behind it. It is the fact that such a decision, previously unthinkable, is now possible at all.

Headquarters are on the move. In the past, changes were caused by political upheaval, such as the division of Germany (Deutsche Bank went from Berlin to Frankfurt, Allianz and Siemens from Berlin to Munich), or the return of Hong Kong to China (HSBC left for London in 1993). Today, other factors drive mobility. The internationalisation of companies makes them less tied to their territory of origin. Information technologies make it easier to manage at a distance. Cultural homogenisation make moves less of a trauma: no reason for Mr Lesar to take courses in Arabic. Even without the CEO changing address, headquarters functions are more and more dispersed around the world. Four of the eleven members of Nokia's executive board are based in the US. IBM's head of procurement is in Shenzhen. Goldman Sachs' head of administration is in London. Some top executives have several offices on several continents. Companies' national identities may remain strong, but the concept of a single location of decision-making is slowly disappearing.

The Halliburton case might also serve to shake up other bits of received wisdom. It is often heard in France that the US, in contrast to its free-market discourse, is more protectionist than Europe. This cliché is highly debatable. True, Uncle Sam can be wily, or merely defensive. The US Congress prevented Dubai Ports World from buying American port terminals. But who could imagine, say, the autonomous port of Marseilles being sold to Saudis, or the CEO of Technip switching his office to Qatar? The purchase of Lucent by Alcatel, of Chrysler by Daimler, and of Amoco by BP are there to remind us that national twitches remain less pronounced over there than over here.

Another lesson, in spite of the chaos in Iraq, is the emergence of the Persian Gulf region. This goes well beyond the stir caused recently here by its purchase of top brands such as the Louvre and Saint-Cyr. With immigration to help, the Gulf has the most dynamic demography in the world, is gearing up fast and attracts more and more high-value-added jobs and decision-making centres. The French mock its lack of culture. But remember what Stendhal, in *La Chartreuse de Parme*, quipped about the US: 'in America, no opera'. The US has caught up since then. And the oil price is not about to collapse.

Ten years ago, all companies in France's leading CAC 40 index were French. Now it is only nine in ten: Dexia is Belgian, Arcelor Mittal is incorporated in Luxembourg, and so are EADS and STMicro in the Netherlands. So should we expect all national champions to desert their native soil? The reality will no doubt be less clear cut. Most of the big groups will remain, but will threaten to leave in order to obtain tax or legal wiggle room which they would not have dreamed of a generation ago. This regulatory competition will be huge and irresistible – even if the states of Europe were to show a united front, which is not the case. More broadly, the mobility of headquarters is overturning the traditional relationship between companies and jurisdictions. One may regret this trend, or welcome instead the attendant efficiency gains. But failing to recognise it would be a risk we cannot afford.

Nicolas Véron is a Research Fellow at Bruegel.