Ladies and Gentlemen,

During the last decade or so Europe has changed profoundly. Communism collapsed in Eastern Europe, while West Europe has come together. A new Europe is emerging. We need to be optimistic, but also to understand that not everything is perfect in the garden. What are the European issues and how do they affect cablemaking?

The people in this room are a self selected audience. The managers of the most successful cable companies. What does the future hold?

If we went onto the streets of Berlin and asked ordinary people if they recognised the names of any current or former cablemakers, then I think we would have a list that says:

Nokia

ABB

Siemens

Pirelli

Nexans/Alcatel

AEG and

BICC

These companies all have something in common, they have or are withdrawing from part or all of the cable industry. These are some of Europe's best-known and most respected companies. We need to ask ourselves: why they are leaving, and where they are going?

Are they right? What can we learn from their experience?

In this discussion I suggest we focus on two issues:

Firstly, the process now underway in Europe, mostly associated with the European Union, and the impact this is having on cablemakers.

Secondly, we shall discuss the natural evolution of the wire and cable sector. Let's step back from day-to-day concerns and try to get a birds-eye understanding of the industry.

I shall finish my presentation with some practical suggestions about how cablemakers can take their companies forward. This will be particularly focused on market research and competitor intelligence, which are my areas of knowledge.

Let me give a brief overview of the European Union. Unlike Knut Kuebler yesterday, we start not in the 1940s but in 395AD when the Roman Emperor Theodosius II divided his empire – east/west – between his two sons. One ruled from Rome, the other from Constantinople/Byzantium (today's Istanbul). This rift was further deepened in 1054 with the religious schism between the Catholic and Orthodox churches. With the single exception of Greece, ALL today's European Union members and virtually all probable member nations are culturally west of a line drawn 1,600 years ago.

A united western Europe fell apart with the decline of the Roman Empire. In the early Middle Ages Charlemagne and the Holy Roman Empire tried to put it together again in their image, followed by assorted Spanish, French and German regimes. These attempts at unification generally resulted in war and destruction. While Chinese civilisation has historically preferred a single government, we west Europeans have preferred our tribal chieftains.

What evolved into today's European Union started as a noble idea after WW2. The objective was to prevent conflict between the west Europeans – especially French and Germans – and it worked. War between west Europeans is now unimaginable.

Yet there are two conflicting views of how Europe should develop - Evolution versus Revolution. Historically the evolutionary model – the gradual and continual development of systems - has been highly successful. The European Commission, however, is in a hurry and have chosen the revolutionary model. In the light of historical precedent, this is extremely brave. Maybe foolhardy.

What about the economics? And what does European integration mean for cable makers? As with the political analysis, there are two viewpoints.

The European Union comprises a single market of around 350 million people: bigger than Japan; bigger than ASEAN; bigger even than the United States. While numerically smaller than China and India, the average European has a much higher income. A single European market means that the member states have removed barriers to trade between each other. Free trade is good news for everyone, enabling businesses to thrive and encouraging competition and efficiency.

Ireland is the classic example of everything that can be achieved. A small country with a market of just four million people suddenly found itself with an educated but low paid workforce as part of an enormous market. Money was invested in Ireland. The Irish, unlike several south European countries, used the money wisely and are now prospering. And good luck to them.

On the business front, trans-national mergers within the European Union have enabled European companies to compete on equal terms with their United States and Japanese rivals who historically benefited from larger domestic markets. We have seen major consolidation within the European cable industry over recent years. Also, of course, the process of tendering for contracts is more open than it once was.

The Euro currency zone has been operational since 1999. The currency being introduced here in Germany and eleven other European countries on the first of January will remove the last major impediment to the free movement of goods and services around the Euro zone.

A single European currency makes for simpler accounting for cablemakers. Around two-thirds of international trade comprises the transfer of goods within – not between - companies. Nobody has done a specific analysis on the cable industry, but it probably is around this level. This offers significant advantages to cablemakers addressing the issue of over-capacity. Within a larger single market they can close an inefficient plant in a country without effecting their ability to serve local clients. This may not, of course, be to the advantage of European Union citizens. Mexico has a free trade agreement with the United States and much American cable production is now outsourced to Mexico, which enjoys lower costs. Likewise in Europe, it may well prove that the long-term beneficiaries of the European single market are actually plants based outside the European Union, but with access to it. I am thinking of countries like Turkey and Central European states. This is good news for both the cablemakers and their employees in these lower paying economies. Less good news for the workers made redundant in the European Union.

That is the European argument. It is widely supported by an older generation of Europeans who developed against a background of world ideological conflict. It fits their world view. The economy is viewed as a machine, which can be controlled by levers and pulleys. A younger generation of economists see a more complex and subtle world.

They would argue that free trade means the removal of trade tariffs. The European Union was not conceived as a free trade zone. This understanding say that – as well as a political agenda - a number of governments appreciated their national tariff barriers were no longer viable. A liberal economist would say they should have abolished the tariffs and promoted free trade.

Instead the Europeans pooled unviable national tariff fences with those of their neighbours to create a larger, pan-national tariff area. This is a mechanism to prevent true free trade, not promote it. If this perspective is correct, and some would challenge it, then on the current course the European Union will become less competitive; less efficient; and a less desirable place to do business.

Switzerland and Norway do not belong to the European Union and their economies perform as well as their neighbours. I can't think of one benefit claimed to have been delivered by the European Union that has not also, independently, been achieved by these countries, not to mention places like Australia and New Zealand on the other side of the planet.

The institutions of the European Union are already so bureaucratic and undemocratic that the EU would now fail its own membership criteria if it applied to join! I am referring specifically to issues of democratic accountability and openness.

What we've seen is that politics, not economics, is driving European integration. The aim is to create a European force of equal strength to the United States. The irony is that for the Single Market to work effectively, there must be easy communications – inevitably meaning the English language – and free movements of people, further undermining the European nation state and – of course - creating a more American society. Will the French accept their language being downgraded? Will Germany and Britain willingly accept millions of south European immigrants? I wonder.

What does this debate mean for cablemakers? I would say that business interests take back seat to the political goal of – once again – trying to reunite fractious Europeans. I think – in many respects - cablemakers' day-to-day lives are easier in the European single market and currency. The European Commission, however, seems to favour more, not less, rules which may further encourage cablemakers to move outside its borders. This romance with bureaucracy partially undermines the entire point of a single market. Cablemakers do not have the political muscle of – say – small farmers, and will have less influence over the European authorities.

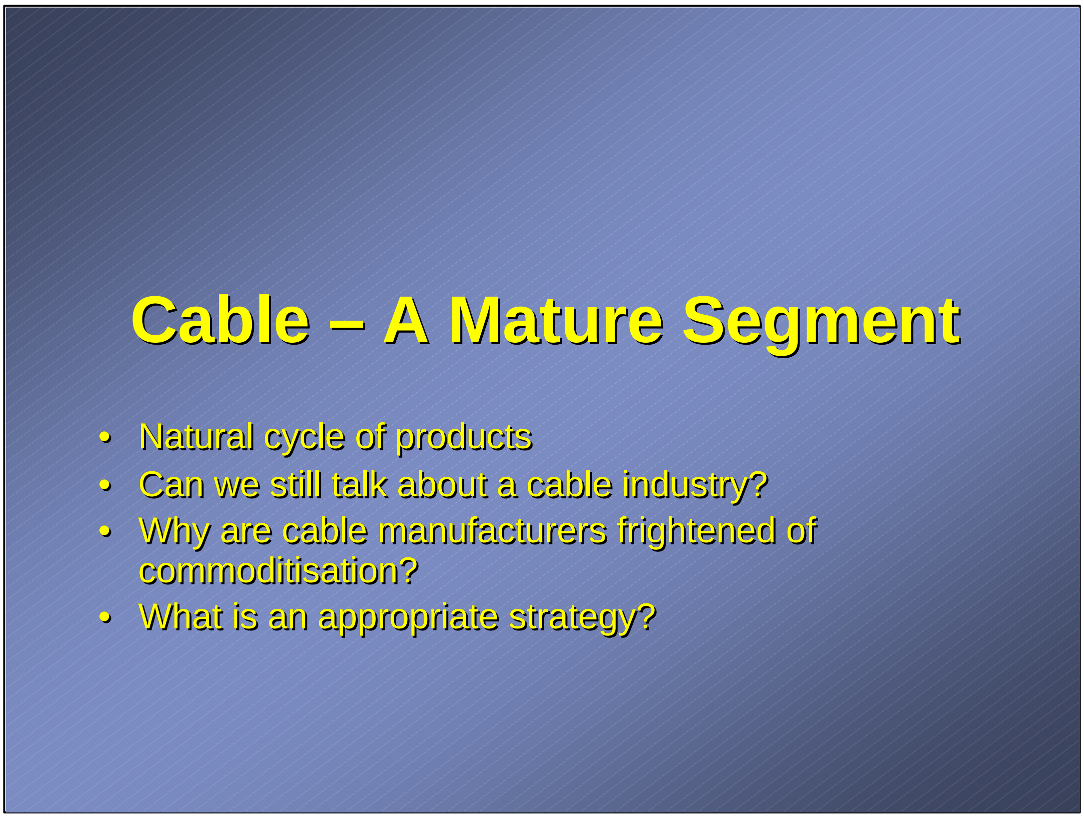
If we take cablemakers' experiences as a microcosm of the whole economy, what we see is that:

- the European Union is becoming increasingly bureaucratic;
- genuine free trade is still a mirage;
- and the main beneficiaries of restructuring in the European Union appear to be their poorer neighbours as jobs are exported and cable imported.

Inevitably this puts downward pressure on the European economy and makes European cablemakers less lean than those in other parts of the globe.

Lets turn our attention away from the influence of the European Union and think about issues specific to cablemaking. A number of issues facing the industry - such as overcapacity - are entirely self-inflicted wounds. All of us – in our personal and business lives – have a tendency to blame our problems on others. We blame economic conditions like farmers blame the weather. A few years ago some cablemakers blamed the copper price; now a number are complaining about over-capacity. Yet in business, as in life, we often make our own luck.

Microsoft is one of the world's most successful companies today. Like Giovanni Pirelli in the 1870s, Bill Gates appreciated a particular industry was going to be huge, and got involved. They had good luck, but they also seized opportunities as they appeared. Microsoft bought DOS – the basis for today's Windows – from someone else. Likewise Giovanni Pirelli – the Bill Gates of his day - set up his business at the age of 24. Pirelli appreciated that rubber would play a major role in the development of modern industry. It was seven years before he made cable.



What lessons can we learn from this? I think that we should focus on application, not product. That is to say, we should be thinking about new technologies and materials. How can we use them to help our clients achieve their objectives? We need to be thinking about what sort of world we shall be inhabiting in a few years time, and what products we can make to serve the needs of that world. We also need to think about where we should be positioning ourselves within the cable market. Perhaps first, though, we should ask ourselves a more fundamental question? Do we want to even be in the cable market?

What is the experience of wire and cable? In the late 19th Century, to be a cablemaker was to be in the world's sexiest industry. An industry, that changed the world more profoundly than the Internet in our lifetimes. Wire and cable was the critical product for the electrical and telegraphic/telecommunications industry. Around 80% of all telecoms expenditure was on the cable. Everything else were peripheral components.

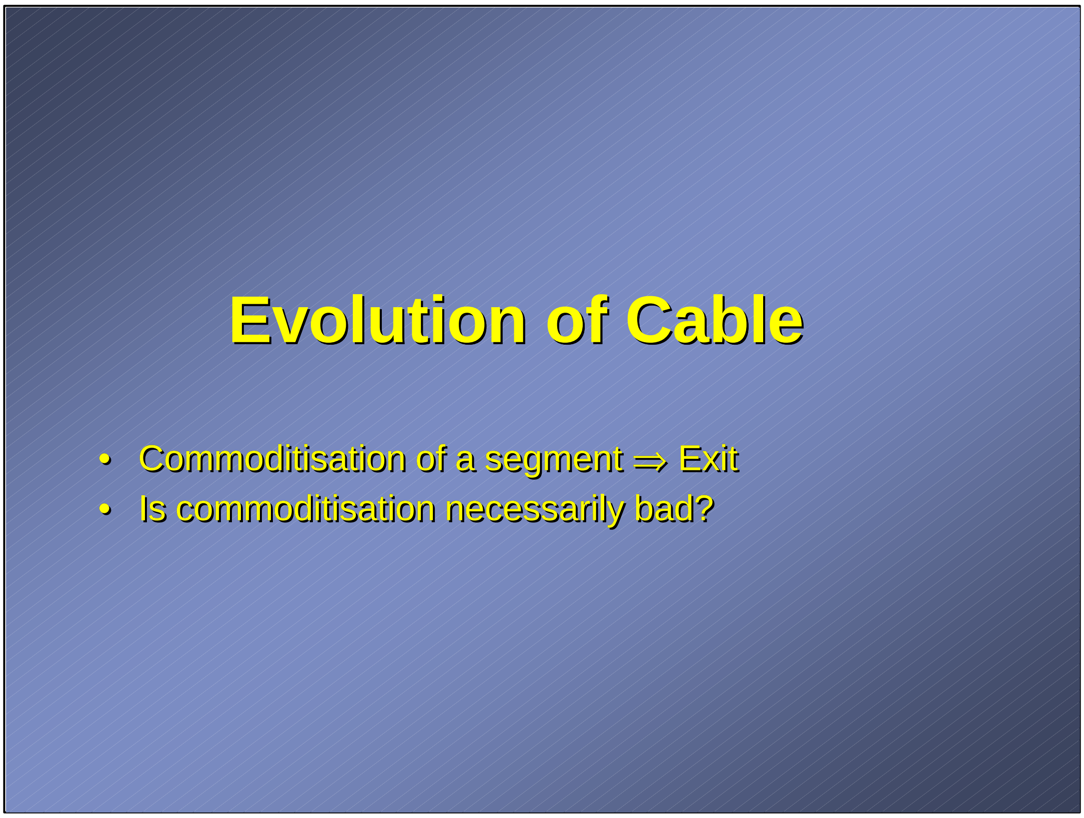
Most products have a natural cycle, and today the role of cable has evolved from core product to necessary component. The reason is really very simple. The focus of economic activity has shifted from making things to managing information.

Intelligence is crucial, and there's not much intelligence in a lump of copper. Wire and cable is important – our society could not function without it – but is of less relative importance than previously.

Today I wonder if we can still meaningfully talk about a wire and cable industry. It could be argued that - while there are still wire and cable manufacturers they are best understood as suppliers to other industries: telecoms, electronics, power, automotive, electrical power products, and so forth.

Each of these other industries is driven by its own dynamic. Cablemaking has evolved from being a major industry into being a supplier of components to other industries. This is only a bad thing if we allow it to be. Component manufacturers perform no better or worse than other companies.

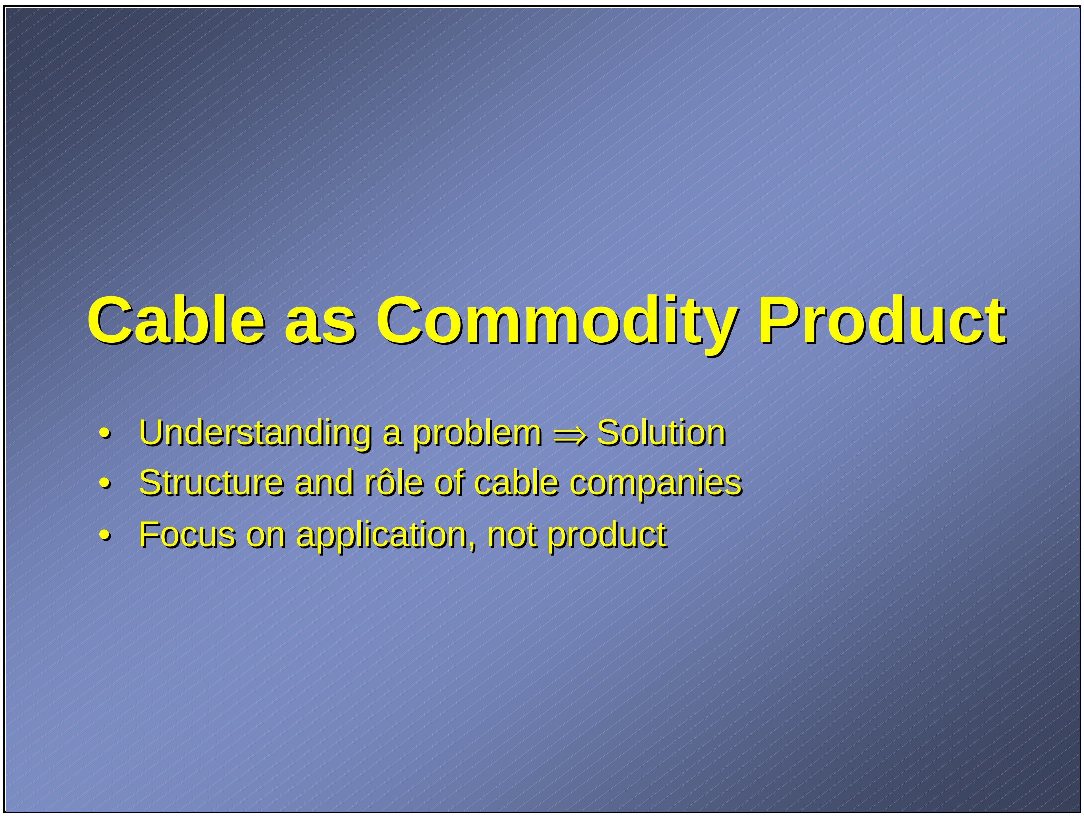
This line of thought says that cable has evolved from being a premium product, that is to say something of high added value, to being a commodity product, something of low added value. I think that some cablemakers have the mindset that they make only premium products. I think that defining cable as a commodity rather than premium product is the single most important point we are discussing this morning. It is a mistake for cablemakers to continue understanding themselves only as manufacturers of premium products.



Lets look at the general strategy of the major cablemakers over the last fifteen years or so. Winding wire/magnet wire was always semi-detached. When installation cable became a commodity product – incidentally, one of a number of events that facilitated the telecoms and Internet explosion – several cablemakers quit the segment. I remember one cablemaker describing commoditisation as though it were a plague to be escaped. Is it? Or is it just a different set of market conditions?

Of the companies that remained in the market, further reorganisations saw them divided into telecoms and power divisions. Some sold off their power cables. Indeed, as we saw earlier, many of the household names sold their cable operations altogether.

If we step back, what do we see? Wire and cable is becoming a commodity product. All industries have natural cycles. There is no shame about making a commodity product. Companies selling soap powder and sugared water are respected international brands with higher capitalisation than most of us here assembled.



Actually, if we look at the figures, we see that the highest growth in wire and cable has often been in those segments that first became commodity items. My point is that, properly handled, this ‘disaster’ of commoditisation may be the biggest opportunity cablemakers have ever encountered. Perhaps at a future Congress we could usefully examine those small- and medium-sized wire and cable makers who have made a success of commodity markets. Maybe they have the recipe for future success.

This is, of course, an easy statement for a consultant. He does not have to deal with the everyday issues of production and distribution costs. This is correct and, in truth, I don’t have a simple answer. I can only say that my experience – in managing a company that writes reports, and what can be more labour intensive than writing? – is that the process of understanding a problem and identifying the options, often helps reveal a solution.

Avenues that may be worth investigating include how products are brought to market. A number of the main players in the European electronic components market are marketing companies, as much as manufacturers. Of course, those cable manufacturers who are relocating capacity outside the European Union will then be using their European offices primarily for marketing. It is not always essential for the marketer to also be the manufacturer. Your most valuable asset is not your plant, but your relationships with your clients.

I would be interested to hear how delegates view their companies.

Are you, for example, a company that makes telecoms cable, or a company that enables telecommunications? A company that makes power cable, or a company that facilitates the transfer of electrical power? Nokia, before choosing the focus on wireless telecoms, was also Europe's sixth largest cablemaker. They were focused on application, not product, and this helped them to make some good decisions.

Perhaps some of the recent decisions by a number of companies to quit cable may not have been based on either application or product. Instead it was a decision driven by accountants. High tech is – or was - more profitable than cable, therefore exit cable and transfer capital. This has a sound theoretical logic but, as we are seeing, the real world does not always follow the theoretical model.

Cablemakers – as component manufacturers – are not strongly positioned to offer turnkey projects. Perhaps, after years of divesting cable operations, engineering companies may decide to start buying them back again.

Let's draw some conclusions from what we have discussed so far:

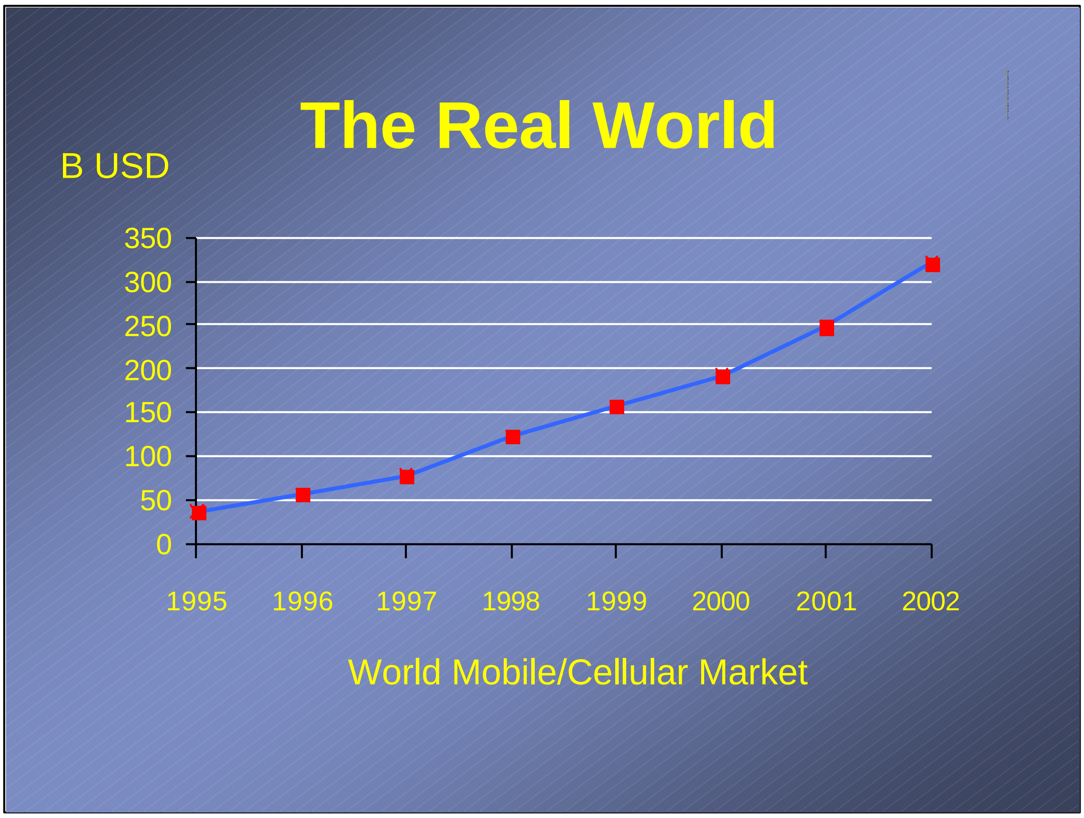
Firstly it can be argued that the institutions of the European Union may be as much part of the problem, as they are part of the solution, at least as far as cablemakers are concerned. The European Commission is on a political quest and, perhaps, will only be sympathetic to business in so far as it supports these political objectives.

Cable is becoming a commodity item. Depending on how we address this issue. It can be either a good or a bad thing. A number of leading companies have decided they can get a better return on their money elsewhere and have quit the market. Much of this capital was re-invested into telecoms and high-tech – markets that have since nose-dived – so let's not be too quick to dismiss cable.

Paul has given a somewhat pessimistic view of the European cable industry. I think it is an accurate snapshot. Clearly the gold rush years of the 1980s and the massive expansion in telecoms in the 1990s are behind us. Cable is a large, mature and fairly steady industry. An industry that has been around for almost 150 years, and will probably still be here in the twenty second century. The current problems are merely an episode, not the end of the story.

What can companies do immediately? If we are moving from an Industrial to an Information Age, then clearly information management is important. At the very least we need a good understanding of where we are and where we are going. We can usefully think about three areas:

Firstly: Where is the industry going? I have put forward some ideas but I think there is no single truth. Traditionally, in any form of forecasting - from economics to the weather - the safest bet is to assume that tomorrow is most likely to be like today. Unfortunately for us, change itself is the defining feature of the current situation. Companies that remain focused on how their clients use – and want to use – cable, as well as closely following new applications should secure a competitive advantage for themselves.

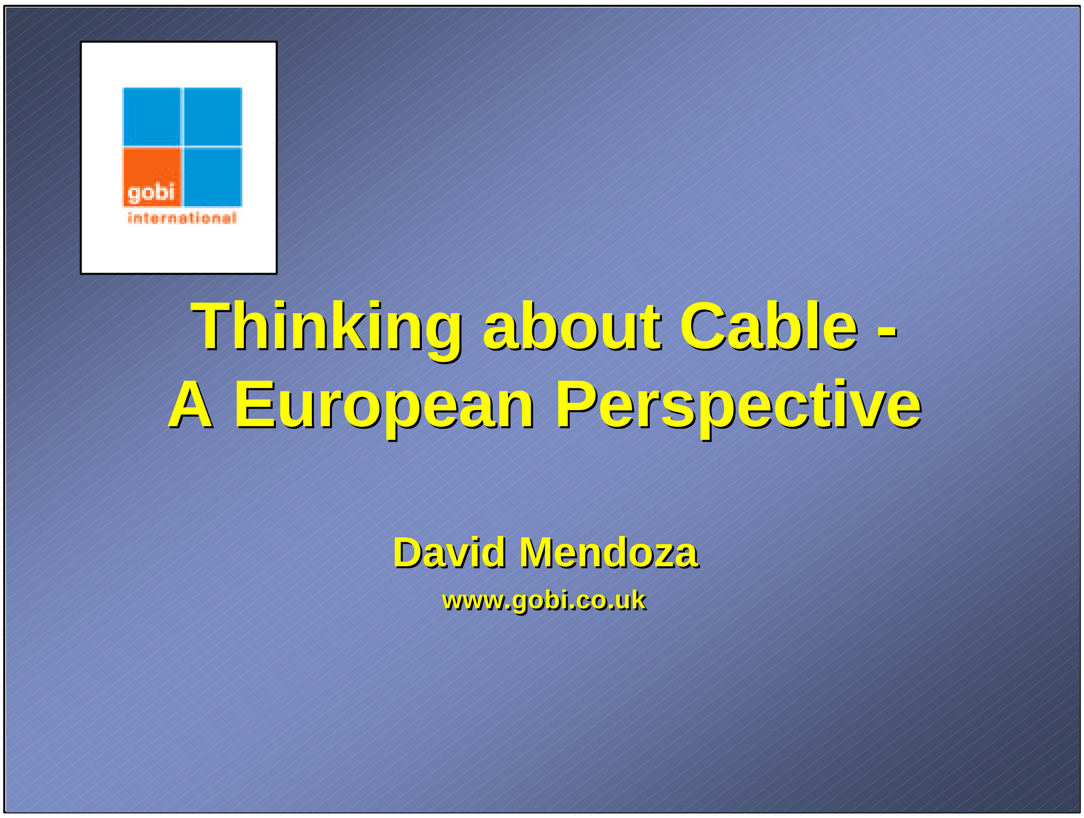


Secondly: Competitor analysis. See what your competitors are doing. Try to understand their logic and think your way onto their heads. If there is a McDonalds restaurant, Burger King will always seek to open one opposite. In many markets imitation can be a good strategy because it can help neutralise a good move by your competitor.

Thirdly, I am a great believer in looking at numbers.

The graph shows the growth of the world cellular/mobile telephone market from 1995 forecast forward to 2002, measured in billion US Dollars. I am sure a number of people in this room have studied this market, maybe bought expensive research reports on it. The graphic above does not resemble the understanding most people have of the market. Most people saw sharply rising polynomial curves, perhaps because that is what a small army of researchers, analysts and experts told them to see. Their estimates appear to have little connection with the real world. The graph above is based on published, public domain figures. That is to say, anyone can go down to the library and find it. Very few people did. The graph shows extremely strong – although not stratospheric – steady growth.

Most mobile telecom players invested on the basis of highly inaccurate information and the rest, as they say, is history.



We have covered a lot of ground in less than half an hour. We have critically examined both sides of the European debate, considered how the cable market is developing, and strategies to address this. These are important issues. In such a short discussion we have only been able to skim the surface. I hope I have persuaded one or two people that the future of cable may not be all bad, and I would like to thank all of you for listening.

Thank you.