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March 7 2012

Is the City good for Europe?

CHECK AGAINST DELIVERY

The perspective of the European Parliament, as one of the rapporteurs of the supervisory package (ESRB) and of the "6-pack"

Thank you for the invitation.

I am glad to have an opportunity to discuss directly with Mr Hoban and if I may, I shall do it in a candid manner.

I am aware of the importance of the financial sector in the economy, and especially of the City of London as the first financial center in the world, not only for the UK but also for the EU as a whole.

The existence of a successful financial center in the EU is obviously one of our common strengths; it can provide growth in Europe and raise the influence of Europe in the World.

Let's be clear. I do not belong to those people who want to weaken the City.

In 2010, at the beginning of my mandate, I visited the City. I met Stuart Fraser, the Remembrancer Paul Double, and many interesting people. They told me it was the first time a French MEP had made such a trip on her own initiative.

But the crisis has made it clear that we have entered a new phase.

Firstly, a remark that concerns all EU countries, eurozone or non-eurozone.

We are in the same macro-economic boat. Because of the looming recession, we should make the real economy the priority, in order to support sustainable growth. And don't be naïve. It requires a strong input from the financial sector (a good allocation of capital) but also another conception of return on investments, and in the end, profitability for some market players.

Some figures show that all the financial activity is not oriented towards growth and the real economy.

- "Finance" represents 4 times the world's GDP.

- The profits of financial institutions in the USA represented, before the crisis, up to 30% of the total profits of all companies, even though the added value of these institutions to the total American GDP was in the order of 8% (in comparison to 3% in 1950).
- The returns on the capital of large global financial institutions have increased to surpass 20% on average, that is to say almost twice the amount for the non-financial sector.
- The leverage of banks (credit multiplier of own funds), before the crisis, reached unseen proportions (leverage ratios of 50 to 100 times, in contrast to historical averages which were ratios of close to 10 to 20 times)
- Securitisation, that is to say the capacity of banks to extract their credits from their balance sheets to sell them on the market has broken all previous records (about 5 trillion \$ securitised in 2006 against 1 trillion in 2000).
- The shadow banking system (parallel, non-regulated banks: hedge funds, dark pools, GSE, money market funds) represent approximately 16.000 billion assets, which is greater than the regulated sector (13.000 billion).
- The notional amounts of derivatives has exploded (700.000 billion \$ of OTC derivatives in June 2011 - that is an increase of 18% on the first half of the year - compared to 100.000 in 2000) and constitutes a mass which is not linked to the underlying economic elements (the notional amounts of CDS alone represents about 40% of global GDP).¹

In this context, one thing is clear, and has been stressed in the excellent Turner report two years ago: a light touch and self regulation are not enough.

We need rules – of course proportionate, as you stressed yourself recently - but binding rules - and the smart supervision of a sector that is, thanks to technology, evolving quickly and might fall out of the control of human minds.

Secondly, the links created by the euro will trigger an irreversible shift in political powers.

And therefore we need to clarify if we still believe in the Union, if the common perspective is to further develop the single market, with a level playing field and some mutual obligations, or if we consider the nation the ultimate stage of political organisation.

In London recently, in the framework of the so called *Franco-British Colloque*, I heard people from the financial sector not hiding their preference for the UK to leave the EU, or at least to take some distance from it.

¹ Source: Jaques de Larosière conference at Paris Dauphine University, 16 February 2012

They looked at the future of the City of London as a place disconnected from the rest of Europe, well regulated in the fields where the British tax payer might be obliged to pay the bill, but less regulated in the other fields.

A kind of super sophisticated "off-shore centre", close to Europe, benefiting from it, but isolated from it.

Something like an island...

I know, it is not the position of the British officials but the official position is ambiguous.

I take some very concrete examples:

1. The first one is governance.

Some UK officials, yourself in a speech in The City recently, underlined the "flawed governance" of the Eurozone.

I have enough experience in European matters - I was already member of the French FCO in 1992 - to know that in Maastricht, with John Major, and in the following intergovernmental conferences, the UK has often defended positions that aimed at blocking the evolution toward a more integrated – a less "flawed" - governance.

In December, David Cameron asked for something in exchange for the support for the fiscal compact i.e. to the set of the rules strengthening the governance of the eurozone.

It was a very inappropriate demand, rather than to say blackmail.

According to the EU treaty which the UK is part of, (article 3. 4) *"the Union shall establish an economic and monetary union whose currency is the euro"*.

The euro is the currency of the EU, of the whole EU.

25 Member States are members of the Eurozone or committed to join.

The UK and Denmark have made the sovereign choice not to join but they only build a small minority.

In the first years of the euro, because Blair was himself keen to join, we accepted to have a informal organization of the eurozone / EU with the participation of the countries **not YET** being part of it in the decision making process.

It is good not to exclude the partners that are about to or might join soon.

It is good not to split the European Parliament or the European Commission.

But what are we supposed to do with a country that would definitely decide not to join?

In my constituency, SMEs or agricultural producers consider that the UK is free riding: benefiting from the single market, while keeping the possibility to devalue. Being inside and outside.

The same is true, if I may say so, concerning financial regulation. The spirit of the de Larosière report was to make sure that after the crisis the EU has a single rule book and a single supervision. The negotiation was tough.

In recent speeches you said “jurisdictionS must retain the right to apply higher levels of regulation to ensure financial stability in their own marketS”

I know the ECB and the ESRB do share this vision but as the rapporteur of the ESRB regulation and as I said publicly to Mario Draghi, many MEPs do not recognize their “baby” anymore.

Nor is it the spirit of the Monti report from May 2010; and David Cameron signed a letter recently with Mr Monti in order to promote the single market benefiting from the existence of the euro.

If each country cherrypicks what it likes in the single market, it is the end of it.

Of course one can imagine some flexibility, but as an exception to a clearly defined common rule. Timing is essential. If you want new rules (implementing the Vickers proposals) ***before*** the EU adopts CRD4, how can you argue that you are adding some concepts to a common rule?

2. The second is financial support.

Your Prime Minister asked several times for a “big bazooka” to stabilize the Eurozone; some British MPs recently criticized the size of the ESM or EFSF during our interparliamentarian meeting.

I do not remember that the UK has ever made a generous offer to help.

If the City does represent such a part of the financial business in Europe, if it is “the world’s largest foreign exchange market”, as you stressed yourself, one could have imagined that the UK could have a less national, a more open and long term vision of its interests.

I am absolutely convinced that the British interest, in the long run, is to remain in the EU, to at least be as cooperative as possible with the eurozone and one day to join.

To conclude, as a French person, coming from a country that also has a long History and a strong belief in its sovereignty, let me add that I can understand your concerns.

The French officials are ambiguous too. But they are wrong too. They underestimate what is happening worldwide.

Here, if I may be provocative, let me make a remark on the G 20 and other intergovernmental bodies

They are useful fora to discuss with each other, to exchange views; the meeting of the G 20 at the heads of state and government level has helped to avoid protectionism and diverging decisions in the middle of the financial crisis in 2008 / 2009.

But, they are not very efficient. They do not deliver enough.

They raise the level of expectation of the populations - for example on tax heavens - but do not provide the changes they promised.

Of course, this is far from only a British problem. The French or the US election campaigns, to take these 2 examples, are focused on an old fashioned vision of sovereignty.

The national political elites, worldwide, still believe in a system that has never delivered sufficiently and will not.

Tommaso Padoa Schioppa used to compare the illusion of self regulation of the markets with the illusion of self regulation of Member States.

The world needs a supranational rule of law.

May I remind you that Jean Monnet did create the European Economic Community with supranational institutions like the European Commission and the European Court of Justice for pragmatic reasons: because he knew, after his experience at the League of Nations (one could say now the UN) that a decision making system based on vetoes and unanimity is irrelevant.

It is not idealism, it is realism. All the records show that it does not work: since the supranational Bretton Woods System broke in 1971, the global currencies are floating. There is no order in this field.

And you have yourself underlined in your previous speeches, the risks of extraterritorial effects of US rules for example; how can we avoid this dangerous phenomenon with competing sovereignties?

Finally, I would appreciate a stronger involvement of the UK, with its long democratic tradition, in a reflection on the multiplication of technical bodies without any democratic

legitimation, like the Financial Stability Board, the Basel Committee, the International accounting Standards Board, the International Swap and Derivatives Association.

If, in the name of democracy, the Nation States pretend to remain the “holy” actor of international life but at the same time give up their responsibilities to democracy, many pending issues will remain unsolved and the citizens deluded.

And one day we might die, or our children might die because we stuck to an old fashioned vision of national sovereignty instead of tackling climate change.

Of course, we are far away from the City now. But not that far.

I wish the British to stay in Europe, to engage themselves more, to bring their tradition of democracy and their talents in order to develop Europe and to contribute to a better world.

For the young generations, to be part to such a challenge might be more exciting than just making business in the City and earning a lot of money.

Maybe the End of the Murdoch empire might be the beginning of a fair debate in the UK on what Europe is.