The Prince of Orange and Deputy Prime Minister Maxime Verhagen with Conference Chairmen Peter Sutherland and Eli Leenaars
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CONFERENCE CHAIRMAN: PETER SUTHERLAND  
HOST COUNTRY CHAIRMAN: ELI LEENAARS

Note: European Chairman MARIO MONTI and European Member LUCAS PAPADEMOS -- initially scheduled to chair the conference and address the participants -- were retained in their countries, the former appointed (since confirmed by Parliament) as President of the Council of Ministers of Italy, and the latter sworn in as Prime Minister of Greece

PROGRAMME

THE HAGUE HILTON HOTEL

FRIDAY 11th NOVEMBER

19h00-22h00 Opening reception & dinner with Spouses hosted by the Mayor of The Hague at the Peace Palace

Welcome remarks during the reception by
Eli Leenaars, Dutch Group Chairman & European Treasurer; The Trilateral Commission; Member, ING Management Board Banking
Peter Sutherland, European Honorary Chairman, The Trilateral Commission

KEYNOTE SPEAKER: Jozias van Aartsen, Mayor of The Hague

SATURDAY 12th NOVEMBER

09h00-12h00 SESSION I on THE NETHERLANDS: THE CHALLENGE OF REFORM IN A COMPETITIVE WORLD

Chaired by H. Onno Ruding, Chairman, Centre for European Policy Studies (CEPS), Brussels; former Dutch Minister of Finance

09h10-10h10 FLEXIBILITY, SECURITY AND SOLIDARITY

Moderated by Alexander Rinnooy Kan, Chairman, Social and Economic Council of The Netherlands (SER)
Bernard Wientjes, Chairperson of the Confederation of The Netherlands Industry and Employers
Agnes Jongerius, Chairperson of the Dutch Labour Union FNV

10h10-10h35 Coffee break
10h35-11h50 INNOVATION AND SUSTAINABILITY

Moderated by Louise Fresco, University Professor, University of Amsterdam

Maxime Verhagen, Deputy Prime Minister and Minister of Economic Affairs, Agriculture and Innovation

Hans Wijers, Chairman and Chief Executive Officer, Akzo Nobel, Arnhem

Bjørn Lomborg, Director, Copenhagen Consensus Centre; Adjunct Professor, Copenhagen Business School

12h15-14h00 Luncheon at the Communications Museum hosted by the Ministry of Economic Affairs, Agriculture and Innovation

Keynote Speaker: H.R.H. Willem-Alexander, Prince of Orange

14h30-16h30 TOPICAL SESSION II on THE EU-MEDITERRANEAN NEIGHBOURHOOD: EUROPE’S RESPONSE TO THE “ARAB AWAKENING”

Chaired by Elisabeth Guigou, Deputy Chairperson and Member of the French National Assembly; Member of the Trilateral Task Force

Jordan:

H.R.H. Prince El Hassan bin Talal, Chairman, WANA Forum, (West Asia/North Africa), Amman

Tunisia:

Mustapha Kamel Nabli, Governor of the Central Bank of Tunisia

EU response:

Bernardino León, European Union Special Representative for the Southern Mediterranean Region, Brussels

18h00-19h30 Her Majesty Queen Beatrix of The Netherlands receives the European Members & Guests of the Trilateral Commission at Noordeinde Palace

20h00-22h30 Official dinner in the Ridderzaal hosted by Uri Rosenthal, Minister of Foreign Affairs (with musical entourage by Koninklijk Concertgebouworkest)

Keynote Speaker: Mark Rutte, Prime Minister

1 With presentation of the Trilateral Commission Report on Europe’s Response to the Arab Spring
SUNDAY 13th NOVEMBER

Chaired by
Vladimir Dlouhy, European Deputy Chairman, The Trilateral Commission; International Advisor, Goldman Sachs; former Czechoslovak Minister of Economy; former Czech Minister of Industry & Trade, Prague

08h30-10h30 EU SESSION III on EUROPE AND THE CRISIS:
“TOO MUCH DIVERSITY --- TOO LITTLE UNITY?”

Introduced by
André Sapir, Professor ULB, Senior Fellow, BRUEGEL, Brussels
Jürgen Fitschen, Member of the Management Board & of the Group Executive Committee, Deutsche Bank, Frankfurt/Main
Edmond Alphandéry, Chairman, CNP Assurances, Paris; Former Minister of the Economy & Finance, France

10h30-10h45 Coffee break

10h45-12h45 EUROPE & THE CRISIS (Cont.)

Panagis Vourloumis, Senior Adviser, N.M. Rothschild; former Chairman and Chief Executive Officer, Hellenic Telecommunications Organization (O.T.E.), Athens

Antonio Borges, Director, European Department, International Monetary Fund (IMF), Washington, DC

KEYNOTE ADDRESSES:  Paul A. Volcker, Honorary NA Chairman, The Trilateral Commission, NY; Former Chairman, U.S. Federal Reserve

Jean-Claude Trichet, Former President of the European Central Bank

Concluding Remarks by the Conference Chairmen

TC/WANA FORUM WORKSHOP ON EU-WEST ASIA-NORTH AFRICA RELATIONS
co-chaired by El Hassan bin Talal of Jordan and Stefano Silvestri
President of Italian Institute of International Affairs (IAI) in Rome
followed over lunch into the afternoon
Dear Fellow Commissioners and Friends,

I write to you as we meet in The Hague to review our current state of affairs focusing in particular on the Eurozone crisis and its implication for the furthering of our common European goal.

In June 2005, my predecessor Peter Sutherland wrote to us in the wake of the Dutch and French referendum results with the following opening: “Yet again Europe is brutally awakened to reality but this time it is neither a ‘salutary crisis’ of old nor can it be dealt with in a ‘business as usual’ fashion: the wake-up call compels us to hard thinking - as a European Group committed to furthering the European project”.

Six years later and for different immediate but similar reasons, Europe is at a crossroads and must make a choice on whether to continue to “muddle-through” its crises which are accelerating at an impressive and contagious pace or whether it will find the inner strength to muster the political will and decide -- decisively and in clarity -- the next stage of its unification process.

Paraphrasing Winston Churchill, we live today in the worst possible Europe, apart from all the other “Europes” that have been tried throughout the ages. Never has Europe been so united and its people so free, yet Europe is in peril. Is sharing a common destiny at times of an ever-growing global interdependence now being put to question? Are we losing confidence in the future of our continent?

December 2003 marked the beginning of an unravelling of the Union’s institutions with the three major founding member countries – France and Germany under an Italian EU presidency – outrageously disregarding the Stability and Growth Pact. This process has careened into these very days characterized by the absence of a common diagnosis on what to do: disintegration of mindsets is already underway. There is not even a lowest common denominator which could be the basis of a consensus to build upon as was the case at the time of the Founding Fathers which let Europe happen.

In addition, the discussions raging on a Greek default – partial or not -- and on whether this member country should or not remain in the Eurozone opens a dangerous door as to whether shared common interest still has a meaning in our Union.

This opens another set of issues, the identity dimension of Europe: would Greece or any other European nation no longer belong to “us”, to be cast as “them” outside the pale of our community?
Europe, I would submit, requires the urgent attention of a *damage limitation exercise* lest it self-destructs. The *costs of non-Europe*, an exercise undertaken successfully in the past, could be envisaged again and become a useful tool to our national politicians who have the duty to explain Europe to their fellow citizens.

*European governance* must likewise be addressed in order to disperse the institutional confusion which has instilled itself in the spirit of our populations. The markets remain sceptical of the technical measures’ efficiency and express their doubts month after month. This leads to questions such as to whether the current crisis will require a qualitative leap into a truly political union and its concomitant questions on devising or not new treaties. At the very least, work should commence on the rules of the game applicable to national ratification processes.

In this vein, we could envisage setting up a task force to address the *future of a credible European governance* in the light of the present crisis. We would inform our Trilateral colleagues at the next plenary meeting in Tokyo in April 2012. Indeed, developments in Europe are impacting directly on our relationship with North America and Asia as exemplified by the recent G20 Summit meeting in Cannes.

Should we accept a multi-speed Europe of concentric circles? What happens if the Eurozone fails ushering in a much larger process of disintegration? These and other questions need to be squarely up front in our minds while we discuss the “technical” issues -- and hopefully come up with novel ideas on how to confront the present danger.

To conclude on a more hopeful note: we shall gather with the Prime Minister in the Ridderzaal of The Hague. Let us recall this historic setting where sixty three years ago in May 1948 the Congress of Europe was held heralding a new chapter in Europe’s long history. Let us remain faithful to these heady days and be proud of the achievements garnered since. And let us look at the future with the same optimism as was shown by our Founding Fathers. Then, the challenges that a divided Europe coming out of a harrowing war had to face were hardly of less greater magnitude.

With warm regards,

Maria Hout
President Owada,
Mr. Sutherland,
Ladies and gentlemen,

It is my pleasure and honour to welcome you to The Hague, for this 35\textsuperscript{th} European Meeting of the Trilateral Commission.

To welcome you here today in the Peace Palace, a building which, more than any other, exemplifies The Hague's reputation as a city of peace and justice. As you know, the Peace Palace houses not only the Permanent Court of Arbitration but also the International Court of Justice, the highest judicial body of the United Nations and which, earlier this year, celebrated its 65\textsuperscript{th} anniversary. We are also particularly pleased to have among us this evening as guest of honour, the President of the International Court of Justice, Mr. Owada. The symbolism which our coming together here, today – on Armistice Day - of all days, also should not escape us.

The organisations housed here which, besides the Permanent Court of Arbitration and the International Court of Justice as I just mentioned, also include The Hague Academy for International Law and the famous library, represent a long tradition. A tradition associated with great thinkers like Hugo de Groot, Immanuel Kant and Bertha von Suttner.

The inauguration of the Peace Palace, almost a hundred years ago now, marked what the Leiden scholar of international law, Cornelis van Vollenhoven, in 1910 referred to as the ‘vocation of Holland’. Van Vollenhoven, a great advocate of the international rule of law, was convinced that the Netherlands should play a leading role in a supranational legal community. This was Holland’s vocation, as eminently demonstrated by Tobias Asser, among others.
Van Vollenhoven built his internationalist vision on the philosophical legacy of one of the founders of the Netherlands’ polity: Gijsbert Karel van Hogendorp. Van Hogendorp, the man who gave this country its constitution - after the United States, one of the world’s oldest still in existence - as long ago as 1816, wrote: “Welk een doodelijke staat bedreigt geheel Europa, indien alle de volken zich opsluiten binnen de grenzen van hun gebied, om alles in zich zelven te bezitten!” (which roughly translated means: “All of Europe will be threatened if the people shut themselves up in their own countries, just to keep everything to themselves!”): A remarkable observation, which even after almost 200 years has lost none of its topicality.

The current financial crisis has led to a growing tendency among some in Europe, including in the Netherlands, to turn their back on the outside world. A tendency I firmly reject. Our future lies in international cooperation and exchange, not in ‘splendid isolation’. The crisis surrounding the euro actually demands that we work together. We need more Europe, not less.

We can take as our example the pioneers who in the 1950s laid the groundwork which was to bring the countries of Europe together in a united Europe, and the tremendous growth in prosperity which was the direct result of this. Their starting point was a war-torn Europe. Our starting point, after more than 60 years of peace and progress, is so much better. Should we in those circumstances give up? Never!

And let’s be clear: how can we remain indifferent while elsewhere in the world people are yearning for justice, democracy and yes, prosperity? They must, they will, create their own forms of government.

But do we, who have enjoyed peace, justice and prosperity for so long, not owe it to ourselves to lend them a hand? To make sure that a revolution actually brings freedom, justice and peace and does not, as so often in the past, turn into a new tyranny. It is a matter of investing in all that will strengthen democratic movements, as well as the rule of law and civil society.

Let me quote Ashraf Ghani and Clare Lockhart to illustrate our final goal: “A world that is not principally governed by ‘right is might’ but which is governed by a system of coherent and enforceable rules which provide an environment in which communities and the men and women that constitute them can live in safety and with dignity to freely pursue the realization of their full potential.” End of quote. The struggle for freedom and justice is universal and has nothing to do with culture or religion. It is a global phenomenon.
The Hague has always been an international city. Other cities in the past were surrounded by city walls, but The Hague wasn’t! That openness has remained. This has always been our strength, and continues to be, even today. The Hague is at home in the world and, by the same token, the world is at home in The Hague.

It is this outlook and philosophy which is so clearly reflected in the goals of the Trilateral Commission. I therefore wish you a successful European Meeting here in The Hague, the city without walls.

Source: Official website http://www.denhaag.nl/
SESSION I

THE NETHERLANDS:
THE CHALLENGE OF REFORM IN A COMPETITIVE WORLD

PANEL I

FLEXIBILITY, SECURITY AND SOLIDARITY

Alexander Rinnooy Kan, Onno Ruding, Bernard Wientjes, Agnes Jongerius

SESSION CHAIRMAN - H. ONNO RUDING

It is my pleasure to chair the first session today on The Netherlands. I’m very happy that so many of you are still here and were not called back last night to your countries. So apparently you represent creditor countries -- I assume -- including my own country, The Netherlands!

We are here in The Netherlands, not in “Holland”. That is not the name of the country I want to inform you about it. Physically, we are in that part of the country that’s called Holland, which comprises, among others, Amsterdam, Rotterdam, and The Hague. Another misunderstanding that I would like to clarify is that Amsterdam is indeed the capital of the country, but The Hague is the centre of government, the centre of parliament, and also the residence of the Queen. So that is the situation as it is in this country.
I would like to recognise the presence tonight, at dinner, of many former Dutch members of the Trilateral Commission whom you may remember and will meet, and to mention specially Edmund Wellenstein, who is for those of you who have been members for many years a very highly regarded member -- was, and is. He cannot attend but he is very alive and interested at 92 years of age.

Edmund Wellenstein

I also briefly want to mention Max Kohnstamm, who as you know died a year ago. A Dutchman, he was the founding European Chairman of the Trilateral Commission in 1973. A great European, he deserves recognition.

Max Kohnstamm
Founding European Chairman, 1973-1975

1914-2010

Attention is focused on The Netherlands in this session. We will not dwell on statistics and all sorts of information and facts, though there will be a number of speakers during this
conference who will address various aspects of the Netherlands in this session obviously, which includes later this morning, also, one cabinet minister, and then, as was mentioned, at luncheon time, the Prince of Orange. The Crown Prince will address the conference, and tonight, of course, Her Majesty the Queen will. Then at dinner two cabinet ministers will speak.

We selected as the Dutch Group two subjects under the heading, “The Challenge of Reform in a Competitive World.” Competition is more important to us than to many others since we are among the most open economies in economic terms in the world. Competition is important. Competition also exists domestically, but that’s not our subject this morning. In the political sense, we have a minority government, but that may be explained tonight.

Of the two themes that we have selected, the first is “Flexibility, Security, and Solidarity” which will be chaired and moderated by Alexander Rinnooy Kan, my friend who is the chairman of the Social and Economic Council of the Netherlands. He is at the heart of our social model, our social-economic model, what some people call the Polder Model. But that’s a matter of words. This is where we have special experience, the way we have handled things since the Second World War -- and that was for those who attended the meeting also one of the themes of our previous meeting in 1997, indicating how important we consider it: Employers, labour unions, and the government all are involved in a special form of cooperation.

Then, the second session will be moderated by Louise Fresco, a professor at the University of Amsterdam and it will be focused on another subject that we consider important: “Innovation and Sustainability.” This is a matter of debate in many countries, but certainly in our country, and she will introduce that.

We could have added many other subjects that we consider typical or important to the Netherlands. For instance, not surprisingly to you probably, there is water and water management although I assume that the Crown Prince will address certain elements of that later today. Well, you know our fight against water, and our cooperation with water has produced a lot of wealth over the centuries -- the dikes, the canals, the rivers, and reclaiming land.

Some countries have too much water, others have too little unfortunately. We have too much, but we can handle it rather well. And, a reminder for those of you who come from higher countries, higher in the sense of geography, here you are safe in The Hague. It’s above sea level, if only a few meters. But elsewhere, where you arrived at the airport, or when you go to Rotterdam, you are down to minus eight meters below sea level. This is not a warning, but I think you better know! That is a fact.

The other fact is that this is the country with, on average, the tallest population in the world, at least if you look at countries, not at tribes. I know there are tribes in Africa that are tall. As a country, we are the tallest. I think there is a correlation between the two because those who were tall were able to survive when we were flooded, though that is not scientifically proven! But I think it must be likely! That I think is a good introduction for Alexander to take over, and moderate the first part of our session.
As you just heard, we are on our way to evolving to an eight-meter high plus society. This will take a few more years, but it’s certainly a pleasure to receive all of you, short or tall, and on this very special occasion, in the Netherlands, it’s a pleasure to moderate this session. We were hoping to receive all of you in the final days of a Dutch Indian summer. Rather, it feels more like the first days of a Dutch winter. In any case, we’re delighted to have you here.

As you will have noticed, the subtitle for this particular session is “The Challenge of Reform in a Competitive World.” I think that is one that was carefully selected, and a very appropriate one, probably for all of us. The European response to such a challenge, a challenge of competitiveness, is an important one. As much as our short-term interests are dominated by our short-term crisis, we all know that the quality of the European response in the longer run will determine the economic success, and the economic survival, of this continent.

We all know that to compete these days is a global task. We need to survive in a global marketplace, and a very competitive one at that. But at the same time I think we would all agree that the ingredients of a successful response could just as well be specifically European, and perhaps in a way that reflects a certain comparative advantage that we hold as a continent.

Markets of course don’t exist in isolation. Institutions -- the institutions that surround them and to some extent support them -- matter and can really make a difference. A famous saying from Jean Monnet cited quite recently by Jean-Claude Trichet goes, “Nothing is possible without men and women, but nothing is lasting without institutions.” Very true! And that of course applies especially to institutions that provide European citizens across the continent with a sense of involvement in their own future beyond the role that they can play as voters in national and European elections, or, if you will, as members of the European civil society.

Perhaps the very richness of that civil society, the richness in subcultures available to us along that line, is one of our comparative institutional advantages that we should cherish and cling to. Certainly I think the social dialogue between employers and employees is one of those institutions existing in many European countries -- and perhaps, in a way, in all of them,
though coming in many different forms and shapes dominated by local customs, local traditions -- and quite recently also established at the European level. We, I think, believe that the Netherlands may have an interesting case study to share with you here, and that is the reason that this is the focal point for our first session.

In the Netherlands, this certainly represents a very long history dating back to the early fifties, and very much created in the wake of the post-war spirit of national cooperation to rebuild the damaged economy as rapidly as possible. By any standard, I think this is a success story, here and in other parts of Europe. There was in the days that a social-economic council was created -- still one of the main vehicles for social dialogue in this part of the world -- an advisory body to the Dutch government which I am currently the chairman of and where employers, trade unions, and independent experts meet to try to reach a common perspective on the social-economic future of the nation. When they do reach such a common perspective, they present policy recommendations along those lines to the Dutch government.

These are policy recommendations that are only finalised if they have the full backing of each and every member constituency represented in the council. This sounds like a pretty big barrier to cross, and the surprise perhaps is that more often than not the system really works rather well. It produces -- and has produced on many occasions -- unanimous advice that given the size of the constituencies represented is taken very seriously by the government.

I think it’s fair to say that the tradition has contributed significantly to the Dutch economic track record of, let's say, the past thirty years, and that is a pretty good one, certainly one of relative stability and of effective gradual economic reform. One way or another, I think it is fair to say that the willingness to compromise has crept into the Dutch gene structure. I think it’s fair to say that on a number of occasions at least the meaningful consensus between employers and employees has laid the basis for political reform, a political reform that as such could command broad political and public support and was successfully implemented subsequently.

This sixty-year-old background, this sixty-year-old tradition, is really the background against which representatives of employers and employees have discussed the themes of this morning. There is a fundamental tension, for instance, between flexibility and security that all of us recognize, and that each European country has to cope with in its own way, the need for companies to be able to adapt themselves flexibly to a changing world in which they have to survive, on one hand, and the need for employees to be able to plan their future, and the future of their families in reasonable security and predictability. This is a difficult issue to resolve, a tough balance to find.

It has been a background against which we have reflected in many ways and on many occasions. For instance, on how to implement forms of solidarity across our economies, forms of solidarity also between successive generations, in implementing systems of social security, and systems of pensions that, at least so far in a process of permanent change, have stood the test of time reasonably well. We hope that the Dutch experience that I’ve summarized here very briefly could be helpful in advancing this important European debate on what is, I think, a challenge to every economy represented here.

I’m very happy now to introduce the two speakers that will help us set the scene for that debate. Not coincidentally, they are the two vice chairpersons of the Social and Economic Council. First of all I would like to introduce you to Agnes Jongerius. She is the chairperson of the largest Dutch trade union, the FNV. She is also very actively involved in European
Indeed, today I will point out that cooperation is key in solving the economic and social crises at this moment. I think the issue at stake is that government and social partners must learn to work together because, if not, this unmitigated batch of cuts can lead to a very negative spiral and social unrest across Europe. You all know it’s not the best of times. We are facing the biggest economic crisis in Europe in its history.

Political leaders are trying to put an end to the turmoil on financial markets, but they are indeed divided to the core. The Euro-top addresses the crisis on a case by case basis, but the crisis persists. The Euro-top must balance different national interests but because of that, fails to make a lasting impression on market behaviour, and also fails to make an impression on the people of Europe.

And let me say, it has failed to make an impression on the workers of Europe. In recent years we have learned that quick fixes do not exist, and those decisions that have been made cause increasing unrest. Political leadership is questioned. Euro-scepticism is growing -- making the EU the scapegoat of the crisis -- and a new form of nationalism undermines the very existence of the Eurozone and the European Union. I call upon all of you to take this resentment very seriously and to take note of the feeling of the citizens of Europe. I call on you to act on growing resentment against European cooperation, on the enormous unemployment figures and on rising poverty figures.

I think today, you might say, consumers are losing faith. Workers fear the loss of their jobs, and we all know that tomorrow will be rough on employment. Precarious work collapses, and regular work becomes more precarious. And therefore this is not only an economic crisis, or a political crisis, but it’s also a crisis of people. It’s about millions of workers losing their jobs, and my members tell me about their fear for their income and their fear of unemployment. They talk about their fear of adjusting employment protection legislation. And I’m telling you that we need to do everything we can for them, and we cannot do it alone. I think that’s the message of this current situation: we cannot do it alone. All member states

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trade union movements -- a movement that is not over. So, I think this is a real opportunity for us to get a perspective on Europe from her point of view.

AGNES JONGERIUS
and all actors must work together. I think this crisis calls for an exercise of cooperation on all levels. At a European level, at a national level, social partners must be an integral part of any solution. I don’t want to promote the Dutch solution as the only one because indeed it is in our genes. Our Dutch pragmatic solutions are an exponent of our Dutch system of reaching compromises at a bargaining table, of our active labour market policies in combination with high level of social securities.

Let me give two brief examples. In the year 2009, together with the Employers Federations, we pleaded successfully for an introduction of transitional arrangements for payments -- a regulation that could prevent companies from having to lay off large parts of their workforce and a regulation that could provide not only income, but also training. Indeed our Dutch scheme applied to all workers in the company, permanent and temporary workers alike. This example started with the Dutch social partners taking their responsibility. So I will say again, we must focus on employment and security for workers.

Unfortunately, I don’t have the feeling that at the EU level the debate favours, not the interest of workers, but more the interest of businesses at the expense of workers. By placing greater emphasis on relaxing the rules of hiring and firing, on dismantling labour standards and job protection, on imposing tough conditions for social support, you have a recipe at the European level that’s quite different than the Dutch recipe.

Our concept of flex-security was first employed in the year 1999, when we prepared the Dutch Flexibility and Security Act. This act aimed to create a balance between employers’ need for a flexible workforce and the workers’ need for stable income and continuing labour market participation. We redistributed the risk of employment relations between employers, regular workers, flexible workers, and labour market intermediaries. Our flex-vets, the acts on flexibility and security, are a good sample of strong involvement by social partners in Dutch labour markets and policies.

The Netherlands, with its strong collective bargaining economy, is one of the top EU performers, and has the lowest rate of unemployment in the European Union. One of the major reasons for this success was, and is, the joint approach by governments and social partners to prevent crises from spilling over to the real economy. This is a success story for the Dutch collective bargaining model, with its core values, such as freedom of collective industrial organisation and collective bargaining.

But unfortunately EU institutions and the Troika appear not to value the background of this Dutch success story because it’s precisely the respect and defence of such core values such as freedom of bargaining and freedom of association which are under attack at this moment. Greece has been forced to make wide sweeping cuts to its systems of national collective labour agreements. Portugal has been forced to chip away at its employment protection legislation. The central systems of wage determination in Spain and Italy are under pressure. In many New Member States, worker rights and trade union rights are being infringed upon.

I must say that I cannot understand how their Council, how the Troika, how the Commission, appear to so easily set aside the added value of social partner involvement. How can they condone the fact that fundamental social rights, such as the right to collective bargaining, are set aside so easily? It’s precisely in times of financial and economic crisis that solidarity between countries, businesses, and workers must be strengthened and the opportunity must be provided to social partners to jointly assume responsibility and jointly contribute to social-economic recovery. I, for one, am more than willing to take responsibility as a trade unionist, as I do now, knowing that Bernard is also taking responsibility as seriously as I do. And I’m
asking you to make sure that the *value of joint social responsibility* will be taken aboard everywhere, at all levels, at national and European levels alike. I’ve said it already, but I’ll say it again: the crisis is an exercise to work together, to safeguard jobs and income.

**BERNARD WIJNTJES**

It’s a great honour for me to give you a short lecture today. As president of the VNO and CW, I represent almost 100% of the bigger corporations in the Netherlands, and the majority of the bigger SMEs. We represent industry, services, we are lobbyists but also participants in a discussion with our government over the economic and social strategy of the country. Although I am instructed to speak briefly on flexibility, security and solidarity, I cannot resist the temptation to say a few words about a few Dutch entrepreneurs, on the developments in Europe, and the position of the Netherlands and Europe in the world.

The Netherlands is one of the most international and open economies of the world. We have a history of innovation, a history of trade, and a history of openness to foreign influence. More than 400 years ago we were the first trading partner to Japan. Also 400 years ago we established a diplomatic relationship with Turkey, a country which together with the Netherlands was a safe haven for Jews who were expelled from Spain and Portugal in the 16th century. Already in the 14th century, business people from the northern Netherlands travelled to Moscow to buy and sell products -- the start of Baltic trade -- which really is the background of the origins of the Netherlands. In the middle of our Golden Age, more than 30% of the citizens of Amsterdam were immigrants. Some 50% of students in our universities came from abroad.

There has always been a kind of Chinophobia, mostly based on fear. Fear of strange habits, fear of losing habits, and fear of strange religion. *The Netherlands always overcame, and will overcome, these periods of intolerance.* Let me be very clear, the climate of euro-scepticism present in some political parties in the Netherlands is also based on fear: Fear of losing jobs and fear of a rat-race to the bottom. Of course I understand this emotion. Our responsibility is not to neglect these feelings, but to give a clear answer. I’m glad and proud that the Dutch social partners did this via a common open letter, from the Social and Economic Council to
the Dutch government in which we firmly expressed our support for a Europe based on economic fundamentals, but also for a Europe based on social friends.

The strength of the Netherlands has always been that the result of a dispute is a better one when both parties can claim victory than when one wins and the other loses. *The best compromise is the win-win option.* This means that both parties have to be reasonable and flexible. Although this is a strong tradition in the relationship between social partners in the Netherlands, it’s not easy. We have experienced in the Netherlands, and in many other countries, a period of populism. For populists compromise is weak and soft. Populism demands action and not reflection.

In this climate it’s not easy to find solutions for difficult questions. Nevertheless, *social partners agreed on one of the most complicated issues of today: how to keep our pension system apart.* It’s even more difficult to negotiate issues like flexibility, security, and solidarity.

Over the past six years, the social partners have tried to compromise on these issues but without result. In the Netherlands, *we have a legal system that forbids the dismissal of employees with an unlimited labour contract.* This means that the employer has to ask for permission from the authorities or he has to go to court. This is the background of the birth of temporary employment agencies fifty years ago. A company like Randstad is extremely successful in this market as a result of the lack of flexibility in the labour market in our country. To regulate the flexibility, the social partners agreed on a flexible security system, called flex-security, which is still a force. But, the world is changing very fast. Nothing is for sure. Long term plans are almost impossible. *Employers are afraid of long term obligations.* The Lehman crisis is the best example. Totally unexpectedly, the economy collapsed. Order books were empty overnight. Employers had to lay off people at enormous costs. *The social partners united forces to convince the government to introduce a temporary unemployment system,* copied on the so-called German Kurzarbeit, so employers could continue to keep their employees even in the most difficult periods. It was a great success, and is one of the reasons Dutch unemployment is one of the lowest in Europe.

Nevertheless, the Lehman crisis and the threat of new economic crises today as a result of the euro crisis make employers extremely careful of hiring new employees. So they use all possible escapes, such as temporary contracts, temporary employment agencies or payroll organisations. On the other hand, employers prefer employees that are strongly connected, and loyal to the job as well as to their employer. Employers invest in training of employees, which is less easy when the employees are hired through a temporary employment agency, although these agencies nowadays also invest more and more in training.

The conclusion is self-evident: *most employees want security. Most employers are prepared to offer less flexible jobs to their employees on condition that the termination of the labour contract is less complicated and less costly.* To reach an agreement between social partners on this issue is almost impossible because of the populism in some Dutch political parties and because of the promise of this administration to change nothing in labour laws.

Nevertheless, it is inevitable that we have to find a new system for labour contracts. Some years ago, we celebrated 100 years of labour contracts. We will for sure not celebrate the second centennial.
Q & A SESSION

A WANA DELEGATION PARTICIPANT put forward a personal question: are we not finding solutions for something that is no longer relevant? We have seen that telecommunications and other technologies are splintering the world. We are getting into a nomadic world where skills are carried by individuals and they sell their skills to the highest bidder. Now, if that is the case, how does this model of the fifties and the forties -- of social welfare -- exist under those parameters? I would like very much to be enlightened on that.

RESPONSES FROM THE SPEAKERS:

BERNARD WIENTJES

It's true that when I talk to my members, life is changing a lot. More and more contracts between employers and employees are made. But still there is a wish from employers to have some countering powers, to have an organisation on the other side of the table to make contracts for the people, for the employees. That’s because we still have a lot of, let's say, lower schooled people. For higher schooled people, in modern companies like IT companies, almost everyone has a high level of education. They in fact don’t need a collective agreement. They can look after themselves. I think my colleague can give a better answer than I do. This is the problem of course that in those companies -- the IT companies -- unions don’t play such a big role. But for us as employers in the way we operate in this country, we need unions. I touched upon this some time ago, and asked my members ‘what would you really prefer for the future? Negotiating just with a council in your company, with individual people, or with unions?’ And they still, 99%, preferred unions.

AGNES JONGERIUS

I think that’s part of the answer. A part of the answer to your questions is indeed that for employers the transaction costs of a collective agreement are far lower than having your separate negotiation with each individual employee because it’s not very cost effective, let me say. From my perspective, I think it is partly an issue of income distribution because I think a fair society also needs to look upon the way the national income is distributed across the whole of society. I think you’ll have a more pleasant society if income distribution is fair. Next to that, of course you can say, some of our core labour standards are the result of the post-war period. And the institutions, the ILO core labour standards, are a result of the post-war period. On the other hand, it’s the right to collective bargaining and the right to become a member of a trade union that’s at stake. It’s not an obligation to have collective bargaining or the necessity to become a trade union member. Of course, I would like all workers of the world to become members of trade unions, but I think it is an issue of human rights for people to come together, and together give weight to their own individual negotiating power.

MODERATOR - ALEXANDER RINNOY KAN

Let me just underline the reason that this system survives here and elsewhere is not at all an issue of charity. It is really at the end of the day the result of enlightened self-interest on the part of all parties involved. And in a way the outcome of the process is really what determines its survivability. So if you, for instance, take a look at global competitiveness rankings that are computed annually, and see how well the Rhineland economies where this philosophy prevails do in these rankings, then you will find that they really occupy many of the top positions there. This system has worked very well for this particular economy for a few decades and it could certainly -- if only from that perspective – do that for a few more.
**Q & A CONT.**

A **GERMAN PARTICIPANT** had two simple questions: First of all I want to congratulate you on your achievements. We all admire you. But as you said it is part of your genes -- the compromise willingness. So my question is: your system is fantastic, and there is an effort everywhere to copy it, but what is your suggestion if one party in the compromise efforts, whether it’s the employers or employees, refuses to compromise? What do you then suggest we do? Go to a crisis? Do you have any ideas on this? Question number two is as follows: I was very interested to hear what Agnes Jongerius has said about the fear of euro-scepticism. We all agree that the future of Europe is Europe. However, the only way to fight populism is to counterattack, and this is the role of governments, employers and trade unions. I am afraid that there is a tendency to leave this job to the parties, which is not right. But if we had a consistent campaign by trade unions, by employer federations, explaining that if we were to abandon Europe, we would not gain employment but lose it. The situation is why did you help Europe? Because we’ve felt this was the future for work. If we lose that, unemployment will increase. If the trade unions particularly were to explain to their members that by destroying Europe, you were destroying their chances for employment, I believe it would be a much more effective fight against euro-scepticism than any efforts by political parties.

**RESPONSES FROM THE SPEAKERS:**

**AGNES JONGERIUS**

Perhaps the second question is easier to answer -- although it’s also a very difficult problem -- than to answer the question of whether one of the parties doesn’t want to compromise. I think, on this first question, it’s partly an obligation for the political side -- for government and parliament -- to daily signal the importance of both parties' participation. I think if you look at the Dutch situation, next to the issue that compromising is in our genes, you also need a government which signals that they think it’s key that social partners are part of the solution instead of saying, 'I’ll do it on my own.' I think there is no easy recipe. But if you want to have the cooperation of social partners, they of course need the willingness to compromise. They also need a political system which takes into account the weights of both sides of the scale. So, in a way, I think it’s a balancing act for the parties involved.

On the question of euro-scepticism, I think indeed, whether in my union or sitting at a table at our European trade union confederation, euro-scepticism isn’t there. But people know very well for the Dutch situation, because we are an exporting country, that we really lose jobs if the European model is going to fall down and crumble. At the European level, there is also the big awareness that we need Europe to safeguard jobs and the income of people.

The other side of the issue is: do you have the conviction that jobs and the income of people are also at the table at a European level? Whether it’s not this Euro-top or the other, it’s never how do we increase employment for people or how do we increase social fairness for people. If we want to counteract the scepticism that is there, it should be clear that the fear of people losing their jobs, losing important public services, of the risk of falling into poverty, should be taken on board the European agenda. Otherwise, you can be a trade union leader and you can sign letters to the government and make public statements, but if people think our worries are not on board, then it’s too difficult to counterattack this scepticism.

**BERNARD WIENTJES**

Yes, first question, of course, you need patience. We don’t always have this patience. So, we try to go around the unions to make a deal with the government, sometimes with success, many times without success. It’s a question of negotiating. Another thing of course is that the system of the Netherlands to always try to reach a win-win situation has to do with our
background as business people. So, I always tell the unions take a businessman or woman for negotiating because they know how to negotiate. The other angle of course is that we have such an intensive social relationship in the country. We see it so often. When, for example, Agnes loses today, I know she wants to win tomorrow, so let’s make a deal where she can sell it to her members and I can sell it to my members. So it’s not only Dutch genes. It’s also a question of negotiating, a question of business, and a question of intelligent business.

The second point, of course, is a difficult one. Of course it’s very easy with one line to say to the Dutch public, “No more pennies for Greece.” It’s easy. Everyone applauds because it’s our money. But to explain that -- to support Greece -- means in the end to support the Dutch economy is more complicated. So we need people to explain that. We need people to explain that Europe protects not only our business, but also our fairness. If we were alone in the future, we would have no chance in the global world. We also need other people to say that, and we’re glad that we had this open letter from our social partners to the government in the paper. But we need our business leaders, we need you, we need people telling very simply to the world, that big corporations in the Netherlands and in other countries support the idea of Europe.

One line I used a few months ago, and it’s now used many times, is that exports of the Netherlands to a country like Italy is bigger than exports to all the big countries together. No one believed me when I said it the first time, but it’s true. Exports to Italy are worth almost 80-90 billion euros. To big countries it’s 60 billion euros. Our investment in south Europe is two times higher than in big countries. And now suddenly people understand. So we need clear answers on the populism problem. Again, it’s easy to say “No more pennies for Greece.” We need people like you to say simply and clearly what the future would be like without Europe.

**MIDERATOR - ALEXANDER RINNOOY KAN**

I really want to underline that your point is extremely valid. The battle against euro-scepticism is a common responsibility for all of us here. And of course especially so because euro-scepticism is so poorly founded on facts and disregards so completely what Europe has delivered to us over the past decades, and what it could still deliver in the future, with a complete disregard also for the damage that could result if we don’t handle that opportunity as well as we should. It is certainly true, and I’m very proud of this, that in the Netherlands the trade unions and employers have been solidly behind Europe from the very start. There has never been any trace of protectionism in the Dutch labour union movement, unlike, I’m afraid to say, many other countries. That, in a way, has been easy, but it’s certainly not enough. Right now as Europe is in difficulty, the full support of the business community and the trade union movement at the trade union level could be very, very helpful, and one can only hope that that strong support will emerge and materialise.

**Q&A CONT.**

**AN IRISH PARTICIPANT** asked a question related to the issue of migration. One aspect of euro-scepticism that is very evident, and is surprising perhaps in a country which has been so much at the forefront of a liberal agenda, has been the reaction to migration and free movement both within the European Union itself, and from outsiders -- increasing numbers of migrants coming from other parts of the world -- may have contributed in some way to the attitudes which have become evident in regard to euro-scepticism. And I just wonder what the comments of the panel are in regard to this issue.
We’ve seen the same phenomenon in another unlikely venue, namely in Denmark, in the rejection of Schengen. And I wonder whether this issue is an issue of concern to either side of this debate -- either the employer, or the employee side -- and what the reaction to it has been in terms of trying to advance the positive arguments, both in terms of demographics and in terms of economic growth. And the fact that free movement of people is a relevant part of the 1992 project. Just as free movement of goods and services has been valuable to the Netherlands, so too it must correlate to the free movement of people.

**RESPONSES FROM THE SPEAKERS:**

**BERNARD WIEN'TJES**

Yes, a very good question of course because really, it was unbelievable when you said twenty years ago that we would have this problem about immigration because we are the most open country ever. I told you about the fact that already in the 17th century some 30% of the people in Amsterdam were foreigners. So it has always been an open country, open for all religions, open for all ethnic backgrounds.

But the problem is: there has been a problem. During the fifties, sixties, and seventies, there developed in the big cities in the Netherlands a kind of unemployment, a kind of low schooled people. Most of them came as immigrants to the country, being low schooled or non-schooled. They had no jobs. This was the start of a problem that was totally denied by the elite of the country and by us too, by the employers too. Then we got this development, now it started I think 10-15 years ago, and I was the first man in the country who had the guts to say, “This is not good!” Then of course populism started, and now it’s difficult for us. We have to explain, we have to understand the feeling of the people -- that they are afraid of those kinds of people. But we cannot give in to them. We have to tell them again that this country has always been a success story because of immigrants in the past, and that we need immigrants in the future.

Of course, we have to be careful that we don’t get people in this country with no chance of getting a job because that’s not good for them and it’s not good for us. But we need immigrants. We talk about a shrinking society. We shrink less than other countries in Europe because our growth rate is a bit higher than other countries, but we will shrink, so we need immigrants in the future. So, it’s a question of us, the unions and employers, to convince others that immigrants are necessary. But it’s not easy because the fact that our populist party got 20% of the votes is because of this fear of these immigrants, and the fear of Europe. It’s a little bit the same because it’s not only immigrants from outside Europe, but also immigrants from Poland, Romania and Bulgaria. So it’s again a question of communication and question of accepting and listening to the people being afraid. But on the other side, for us it is extremely important to explain to them and to our companies that we will need in the future people from the world.

**AGNES JONGERIUS**

There are two different kinds of trends at the same time. If you look at immigration, which caused the biggest mushroom in public debate, it was the immigration from forty or fifty years ago, labour immigration, people imported from Morocco and Turkey to the Netherlands. It was a policy where we all thought they were only our temporary guests, and they would -- after working in Dutch factories -- go and return to their home countries. I think it was partly an issue of negligence about what was really happening that caused this mushroom in public debate, let’s say 10-15 years ago, because if people were first your guests -- they are really called guest labourers, guest workers. But if the guests didn’t go away after the party, but
stayed and brought their family over and you didn’t look into this problem? Then I think this issue -- the political elite not encountering this problem -- resulted in these populist parties.

On the issue of European migration, I do agree that the free movement of workers is indeed a worker’s right. And, if I should make a Marxist statement, borders are made by capitalists and not workers. The ability to leave a country and go work somewhere else is indeed a fundamental worker’s right. But the issue at stake, and that’s something we need to look upon at a national and European level, is if worker’s rights are used to undermine the worker rights of the host country, then you have this problem. So it’s not an issue of opposing the free movement of labour, but it’s an issue of let's not look away from the serious issues which are also at stake: people being underpaid and not being schooled and treated as real workers in the host countries. Then it’s not an issue of migration only. It’s also a way of looking at your labour relations at a national and European level. We know we need migration in the future, but it should be on fair and decent conditions.

Q & A CONT.

A BRITISH PARTICIPANT asked about income distribution in the Netherlands? I get the impression that it is less differentiated than, for example, it would be in Britain. If that’s correct, how was that achieved or maintained? Is there any element of regulation in there? Is it simply social cohesiveness? And how is it maintained in the global competitive market, which is normally used as the excuse for not maintaining it?

RESPONSES FROM THE SPEAKERS:

MODERATOR - ALEXANDER RINNOY KAN

The fact of the matter is that income distribution is relatively flat, by at least some standards, and perhaps more interestingly, it has more or less remained constant over the past ten years, which is certainly not the case in most countries.

AGNES JONGERIUS

I thought you were going to say that it was because it was one of the policy goals of the Social and Economic Council, which is also true. The fair income distribution -- it’s more or less also from the past fifty, sixty years -- is a goal upon which everyone agrees in general.

MODERATOR - ALEXANDER RINNOY KAN

I think the technical term is an equitable income distribution, whatever that means. But it’s certainly true that in the Netherlands there is a strong, broadly carried popular sentiment against uneven income distributions. I think Bernard occasionally has been engaged in difficult debates when of course the international pressure for much more unequal income distribution reached this very open economy of ours.

BERNARD WIENIJES

You know, of course, I agree. We have the most flat income distribution in Europe. But still, from the moment we published income, which is the stupidest law we ever passed in the country, at that same moment, the other one said, 'Oh, do you earn more than me?' So it was a rat-race not to the bottom, but the opposite. And this was not right. So then it happened, of course, that the question was raised: 'For someone who has the minimum wage, is 100 000 euros a lot of money?' Our prime minister has an income of 130 000 euros, which is an enormous amount of money for someone who has the minimum income. But for an average
businessman, it’s too low. We pay our government less than any other country in the world. It has to do with our flatness -- we have a flat country -- everything is a little bit flat here. During discussion in the country, we almost always laugh when we talk with unions about income divisions because it’s really very flat.

From the other side of course, like the question you mention, we are a very open and international business society. So we have to accept -- and I have to explain this many, many times -- that we can’t pay people in this country lower than the average. Perhaps it can be a little bit lower than the average, than the board room people get in other countries. It’s always difficult. In the past few years, it has been more concentrated on public jobs -- this means the government, of course -- but also companies where the government has the majority of the shares. It’s a discussion without an end. The problem now is that in this government, in this parliament, there is a strong wish to regulate income, which we of course fight fiercely against -- not to would be stupid. Of course, there’s this discussion over banks. There are people now trying, in parliament, to make regulations or laws for maximum bonuses, and maximum incomes even, for banks. This would be disastrous for the country. But, from the other side we are, again, a country of negotiators and business people, so our banks together decided to make a kind of standard, to moderate bonuses in the difficult times we now have.

But we will fight very, very hard against any kind of law to regulate income. On the other side, we have the highest marginal tax curve: 52% from a 50 000-euro income. There is no other country -- perhaps Sweden, I don’t know -- where if you earn more than 50 000 euros, on the extra, the government gets 52%. So it is also in the interest of lower paid people that we earn a lot of money for the management of this country.

**CHAIRPERSON - H. ONNO RUDING**

If you’ll allow me to add to the excellent answers given by my friends and colleagues, the arguments that we should use to promote Europe, or to take care of euro-scepticism, are, in the experience of many of us certainly in this country, that when you plead the case, you should stress the traditional values -- the principles that underlie European integration -- that we have been so familiar with for the past fifty years.

But today it’s more the other, maybe lower level, argument that you try to explain to the people. This is our national interest. As well, it is your personal interest as citizens of the Netherlands. Our national interest is not contradictory to European interests, and promoting European integration. That helps sometimes to convince the populists who are against it, but not always.
PANEL II

INNOVATION AND SUSTAINABILITY

Chairman - H. Onno Ruding

As I indicated earlier this morning, the second panel which we have selected as the Dutch Group is about innovation and sustainability. I will not introduce the subject because it will be moderated, as I have mentioned before, by one of our fellow members from the Dutch Group of the Trilateral Commission: Louise Fresco, a university professor at the University of Amsterdam. Louise.

Moderator - Louise Fresco

This session is about a subject that’s not usually discussed in the Trilateral, namely science and technology. Before you start yawning, because most of you have a social science background rather than a technical background, let me reiterate to you that of course science and technology have shaped our lives as much as have politics. Without the industrial revolution, without the green revolution, without vaccinations, there has been no human progress. So it’s very appropriate that in a session which overall deals with competitiveness,
we ask ourselves how do we get ourselves organised for the challenges of the future? I do not need to elaborate the challenges here. We all know about the increasing demands on our food resources, on our energy resources, on water, etc.

It is appropriate that Europe asks itself, 'How can we remain competitive?' The answer, and basic premise of this session, is that there will be no competitiveness without innovation. And there is no sustainability without innovation. That is our great approach here, and we’re very happy to present some examples from the Netherlands with some comments from an outsider, to show how this can be done. Because, if you think about the fact that China produces more engineers itself than the whole of Europe together, this is really a time when we should ask ourselves, 'What can we do differently? Can we really be innovative? Can we deal with these challenges, or are we just going to be a backwater also from a technological point of view?'

It’s clear that technology cannot function if it’s not in a legal and political framework, so we should also think about, for example, whether our taxation systems could become greener, or how our laws could be adapted. I think the best way, from an engineering point of view, to think about sustainability is a very simple one. It’s about reusing, reducing, redesigning, and recycling. It’s about using fewer resources to produce better and in a more sustainable fashion. This also requires investment. It requires law, as I said, and it requires policy.

Maxime Verhagen

From the Golden Age to a modern industrial policy

Much has been said about innovation and sustainability. But I’m not worried about originality today. As the great French filmmaker Jean-Luc Godard said: “Ce n’est pas d’où vous prenez vos idées qui compte, mais où vous les amenez.” -- “What matters is not where you get your ideas from, but where you take them to.”

We Dutch have always understood that. It was the key to our Golden Age. In the seventeenth century, the Netherlands was a technological paradise. We had state-of-the-art windmills, ships, pottery, paper and ploughs. Yet we did not invent them. We were a major importer of
knowledge. Our strength was that we *improved* technologies that *others* had developed. What made Holland great was not where we got things from, but where we took them to. Thanks to our open economy and entrepreneurial spirit. We still apply those lessons.

As Minister of Economic Affairs, Agriculture and **Innovation**, my focus is indeed on innovation. Innovation serves a double purpose. We need it in order to strengthen our economy and develop attractive, affordable, sustainable solutions for the challenges of today and tomorrow. Challenges as diverse as climate change, ageing, shortages of raw materials and energy, feeding nine billion people and, Mr Lomborg, combating HIV/AIDS.

**Sustainability**, to me, is both an end in itself and a means to an end. We simply *have* to tackle climate change and food issues. At the same time, new sustainable solutions will lead to more growth and competitiveness; which in turn will help us develop new, better sustainable solutions. So green and growth go together. I was presented with a good example when I visited DSM last week. Some time ago, the company introduced a new coating that makes glass in photo frames clearer. By taking that new technology a step further, they have now succeeded in enhancing the energy output of solar panels.

Growth is all the more important with budgets tight, the euro zone in crisis, the US economy struggling and emerging markets on the rise. The question, then, is how can government create the best environment to stimulate innovation? I am happy to have Hans Wijers as a co-panelist today, as he advocated a modern industrial policy thirty years ago in his doctoral thesis.

My argument is that we need a modern industrial policy to stimulate innovation. Before explaining exactly what I mean by this, let me take a brief look at modern Dutch history. And I am sure many of you will see parallels with developments in your countries.

**A short history of industrial policy**

In the nineteen fifties and sixties, we had a highly successful *industrialisation* policy. It led us out of the devastation of the war to spectacular growth and prosperity. Yet in the seventies and eighties, industrial policy came to stand for excessive government intervention and defensive policies. Direct support went to specific sectors and companies, from car-maker DAF to shipbuilder RSV. Those injections of taxpayers’ money strengthened neither the companies nor the Dutch economy. On the contrary, they stifled competition and reduced incentives for companies and people to adapt to changes in the global economy. This led to a dramatic shift in the nineteen eighties and early nineties. Government kept its distance from business. By and large, it steered clear of direct market intervention. Instead, it took generic policy measures to create the right conditions for business. Innovation was left to the market.

As Minister of Economic Affairs in 1994, Hans Wijers led a major policy operation to increase competition and deregulate the economy. Yet the government still had an industrial policy. As Hans argued in his thesis, government needs to have a vision of the future economic structure. It is not enough to create the right conditions for business and then just wait and see what plans companies come up with.
Dutch innovation policy in 2011

So where do we stand now? Well, my position is between government interventionism and deregulation. Holland has a lot going for it. We are number seven on the Competitiveness Index of the World Economic Forum. We are the world’s fifth-largest investor. And the world’s leading exporter of fruit, vegetables and seeds. Five Dutch companies head the Dow Jones Sustainability Index for their sector. And our researchers are top of the pile: we are second in the OECD in terms of scientific publications; second in the EU for patent applications; and fourth in the Times Higher Education rankings.

Yet we fail to make the most of that knowledge. Too many patents remain unused. Too little knowledge is leading to new products and practical solutions. Too little is being invested by businesses in Research and Development. Private investment in R&D in the Netherlands is at a low 0.8 per cent of GDP: Much lower than in other European countries.

Our innovation policy aims to change that. How do we plan to go about it? First, we are creating optimal conditions for businesses to invest and innovate. We are cutting red tape. We are replacing innovation grants to specific companies by fiscal measures that benefit all companies investing in innovation. And we are improving access to risk capital for smaller and medium-sized companies that want to invest in innovation. My goal is a substantial increase of private investment in R&D. We are also working on creating optimal conditions for sustainable development. The European Emission Trading System (ETS) is one example.

Second, we are focusing our efforts and money on the ten top sectors of our economy: Sectors that revolve around knowledge and innovation, ranging from energy, agri-food and water to life sciences, logistics and high-tech. These are all sectors in which Dutch businesses stand out in the world economy; Sectors that can both strengthen our potential for growth and provide sustainable solutions; Sectors where government can make a difference. We want to make the most of our entrepreneurial spirit and our open economy, like we did in our Golden Age.

I have said repeatedly that I am not worried about having too many Chinese investors. I am worried about having too few! Foreign investors account for about one third of all investment in R&D in the Netherlands. They play a crucial role in strengthening the top sectors of our economy: From the dairy company Fonterra of New Zealand and Danone of France to Fujifilm of Japan and Huawei of China. We still import knowledge and ideas.

Drawing on the lessons of our past, this government is also making a fundamental choice for ‘less government’ and ‘more society’. So far, I have signed sixty Green Deals with local private and public parties that want to save energy, turn sewage waste into energy or increase the number of electric cars. In the same way, my innovation policy is not top-down but bottom-up; because true innovation, fresh ideas and sustainable solutions come not from central government but from society. This is why I have asked businesses and research institutions in our top sectors for concrete proposals to strengthen competitiveness. They have also come up with proposals to increase sustainability – like making the transition to a bio-based economy. Five of our top sectors are joining forces to make that happen. We are now working on innovation contracts between entrepreneurs, researchers and government for each of the top sectors. These contracts will define what kind of research is done. And who pays for it. I am actively involved. But I will not tell sectors what to do. I believe they know best. We need growth in Europe!
We can only be successful if Europe is, too. It’s our loss that we neglected the E of the EMU. We would not be in today’s mess if we hadn’t. We now urgently need to strengthen the potential for growth and innovation in Europe as a whole. We need to speak with one voice to the outside world, stick to our agreements inside the Union, and complete the single market for services, patents and e-commerce. [The Single Market your previous chairman Mario Monti was already fighting for when he was Commissioner in the nineteen nineties.] We need to do all that to make Europe more competitive. If we do, it will help us pay for the development of attractive and affordable technologies to tackle the challenges of both today and tomorrow. For we need growth to be green.

Let me conclude. We are implementing a modern industrial policy in the Netherlands. It aims at both creating the right conditions for business and stimulating innovation in our top sectors, innovation that is key to sustainability. I won’t go so far as to say that a new Dutch Golden Age is about to begin. But we are continuing to apply the lessons from our past, welcoming foreign investors that bring fresh ideas and new insights, and encouraging initiatives from society itself.

HANS WIJERS

Just one week ago the United Nations welcomed the 7th billion inhabitant on this planet. It’s now only 12 years ago that the 6th billion inhabitant was born. Within the next 12 years we are moving to 8 billion fellow citizens on this planet and that will be over 9 billion in 2050. To put this into perspective, when I was born in 1951 there were only 2.5 billion. Some scientists predict doom and gloom: Will 9 billion people ruin the planet? Will scarcity of fresh water, land and raw materials result in war, hunger, disease, social unrest, mass migration? Is demography becoming our destiny? Will the planet be destroyed by the Population bomb?

History provides strong reasons for optimism: In 1798 reverend Malthus predicted that the world - with at that time less than 1 billion people - would not be able to feed itself due to population growth. Only a few years later the ancestors of the chemical industry developed a key innovation: the industry was able to capture nitrogen and to produce fertilizer: the Agricultural Revolution anno 1800. In the early 1900’s the famous Russian economist
Kondratieff noticed an important cyclical pattern: about every 60 years - the lifetime of a generation - a new industrial revolution evolves: Full deployment of the steam-machine around 1860 initiated the Industrial Revolution; 60 years later electrification gave a huge impulse to economic development; And again about 60 years later ICT has contributed to a transformation of our economy.

Allow me the following statements: (1) We do need a new technological revolution; (2) Humankind is sufficiently innovative to deliver on a new sustainable growth model; (3) You don’t need to be a clairvoyant to predict the characteristics of the required paradigm shift

We do need sustainability and innovation to meet human demands within the ecological limits of the planet

This chart sums up the challenge of sustainable development: meeting human demands within the ecological limits of the planet. It is a snapshot showing how different countries perform according to the United Nations Human Development Index (HDI) and the Global Ecological Footprint Network.

Countries to the left of the vertical line marking face a high need for human development:
- 1 billion people do not know during the morning whether they will have a meal that same evening;
- 2 billion people live on less than 2 dollar per day;
- 3 billion people are rapidly becoming the new middle classes, aspiring for better living conditions, housing, schooling, healthcare and transport.

Countries to the right of the vertical line have achieved a high level of development but place more demand on nature than could be sustained if everyone in the world would live this way. In order to move toward a sustainable future the world will need to address all dimensions of this chart – the concepts of success and progress, the bio-capacity available per person, as
Humankind is sufficiently innovative: think once again about the concerns of Malthus: today there is no doubt global food-production can serve more than 7 billion people. But with current agricultural technology, we would need 2.5 planets in order to produce sufficient food in 2050. So “Business As Usual” is no option: because we need to double food-production with only half of the ecological footprint. And now the good news: this is quite well possible! Research at Wageningen University proves that this is all achievable through more sustainable production facilities, more sustainable value chains, less waste and genetically modified crops.

Although I am certainly not a futurologist - it’s not outrageous to predict the key characteristics of the required paradigm shift towards sustainable and accelerated growth.

New business models should deliver triple P bottom line results:
- **People**: provide decent living standards to billions of new earth-dwellers
- **Planet**: reduce eco-effectiveness of resource use with a factor 8 – 10
- **Profit/prosperity**: contribute to sustained economic stability within the limits of a carbon- and resource-constrained world.

The need for Sustainable innovation provides huge business opportunities

An estimate developed by Booz Allen Hamilton suggests that over the next 25 years, modernizing and expanding the water, electricity and transportation systems of the cities of the world will require approximately $40 trillion - a figure roughly equivalent to the 2006 market capitalization of all shares held in all stock markets in the world!

Whereas today more than half of the population lives in cities, in the coming decades over 70% of the world's population will live in mega-cities, which should be SMART in every aspect: smart housing, smart transport, smart food-production and smart energy grids.
Housing and construction should become carbon- and energy neutral by 2050; transport should emit at least 80% less carbon.

Here’s how to reinvigorate our electricity, water, and transportation systems: by integrating sustainable technology, financing and design. Fortunately, several sustainable technological innovations will increase resilience around the world by making it possible to design new types of far more efficient infrastructure. For example, biocatalysts are making it possible to produce transportation fuels — ethanol, methanol, renewable diesel, biodiesel, and butanol — from inexpensive and widely available biomass feedstocks. Now the promise of thin-film solar collectors is beginning to be realized, making rooftop electricity generation considerably more efficient and affordable. Wind turbines suitable for individual building use are also beginning to come onto the market.

Energy efficiency has also sharply increased in the design of items as varied as buildings, cars and appliances; AkzoNobel contributes to this by producing intermediates for insulation materials, low friction materials, LED lighting, heat reflecting coatings etc. So the good news is that sustainable construction is not only something for tomorrow, we can start today.

**Dutch multinationals are leaders in sustainable innovation**

Dutch companies in a wide range of industry sectors are recognized as leaders in sustainable development and innovation, both in transport & logistics, finance, oil and energy, chemicals, electronics, retail and agriculture.

**Why are the Dutch so eager to embed sustainable development in their business strategies?** Probably since we are a country with a small home market and with a history of exploring the seas, we have learned to work across borders and to develop business across the globe, be it in the dual roles of tradesman and preacher-man. It probably has reinforced an entrepreneurial approach as a result of an early awareness of changing global megatrends.
Just a few facts: The Dutch government was always a strong contributor to *Overseas Development Aid*: with USD 6.5 billion dollar The Netherlands is the 7th biggest ODA provider in the world; however in 2010 Foreign Direct Investment was estimated to be a factor 150 higher at USD 950 billion – the 5th rank. That is the power of business.

**Business has great leverage for sustainable innovation across value chains.**

![Diagram](image)

The dual trends of resource scarcity and population growth, requires production processes at a much lower ecological footprint, in terms of raw material and energy use. Multinational companies have - through their supply chains and procurement power - significant and sometimes dominant influence on the way raw materials are produced in developing and emerging economies. Businesses can also significantly influence the way these materials are traded, processed and sold to consumers in end markets. This provides multinationals with a clear position to trigger market transformation.

For a coatings company like AkzoNobel 90% of the ecological footprint is generated either upstream with suppliers or downstream with end-users. Sustainable innovation therefore calls for an unprecedented supply chain transformation. This change is vital for sustainable growth of global industry and trade. In front running companies a fast change is taking place, as they start working on key supplier arrangements and shared research, in order to accelerate developing sustainable innovations (in AkzoNobel referred to as “Ecopremium” solutions) and creating shared value in countries of origin.
New coalitions – new opportunities

No matter how powerful they may be, multinational companies cannot create market transformation alone. In order to upscale and mainstream sustainable innovations, and to make sustainable production and consumption profitable, businesses develop new ways of cooperation across the value chain. In AkzoNobel we have about 30 Key Supplier Agreements - where we cooperate with key suppliers to deliver sustainable innovations to end users.

Governments can secure a level playing field and support sustainable business with legislation and financial instruments. If Europe agrees on a challenging carbon emission limits for cars, this will accelerate innovation. If the Dutch government agrees on energy efficiency labels for housing, this will drive very significant energy savings, stimulate economic activity, create new jobs and reduce the need for new power plants.

In a Green Deal with my fellow panel member Maxime Verhagen, AkzoNobel has offered to source all of its electricity - close to 2 percent of Dutch consumption - by hardwired renewable energy sources. The only Deal we need is a financial instrument: use the carbon credits for their original purpose: accelerate the transition to renewable energy.

Progressive NGOs focus on influencing consumer behavior and on new ways of cooperation with sustainability leaders in the business; as proven by a broad range of sustainable trade initiatives.

The finance sector and pension funds have a key role to play in designing new financing models, e.g. in enabling real estate owners to retrofit old building stock.
Obviously multinationals are keen to cooperate with universities to accelerate the development of profitable, sustainable innovations as well as to attract the top talents required for this market transformation.

**In summary:** We require the leadership in business, government and civil society to turn words into deeds and plans into actions. Driving sustainability programs can deliver what we need: our countries do not thrive by doom and gloom. Sustainability and innovation can serve as a huge stimulus to drive employment, environmental protection and economic stability. Sustainable business is a key driver for entrepreneurship and optimism.

**Bjørn Lomborg**

One of the things that we can recognise, if we want to think about *innovation and sustainability*, is two things.

**What is it that sustainability really means?** Presumably, using the Gro Harlem Brundtland definition, it is that we live in a way that makes future generations to live at least as well as we do. Now, we’ve done that. In many ways that was exactly Hans Wijers' point. We have managed to make the world a much better place in virtually all indicators. We live longer, our kids are better educated, we have better food, we have less disease. We have a lot of things, and a lot of this has been brought about by innovation.

But, I think it’s also then important to look back and say, 'Well, what is it that we keep trying to focus on?' A lot of points were mentioned about food, water, and energy, but remember that if we look around the world, most of what we need when we talk about food, water, and energy is not innovation. *It's just simply getting the stuff that we already know how to work out to the people who need it.* There are still a billion people who don’t have access to clean drinking water. There are two and half billion people who don’t have access to sanitation. It’s not rocket science! We know how to do this, but it’s a matter of having enough money to actually *deliver* it.

Likewise, when we talk about food, we know that most places around the world do not live anywhere close to the level that we can produce at the very highest levels. So, in many ways,
what we need if we want to help most people get more food is to get more fertiliser, pesticides, and better yielding varieties out to the consumers that need it, especially in the Third World; likewise with energy.

Remember, we are incredibly obsessed with saying, 'We need to go green -- we need to cut our energy emissions.' Remember, 1.6 billion people go to bed every night with no lights whatsoever. For them it’s literally darkness when the sun sets. We have to remember most people in this world need the technologies that we’ve grown accustomed to over the past hundred years. They need simple clean drinking water and sanitation. They need the food opportunities that we have. And they quite frankly need more fossil fuels, not less.

But that of course leads us to say, 'Well how should we then lead on the evolution and innovation that’s going to make it possible for us to transition to a greener world?' That’s an interesting issue. I think in many ways what we just saw here -- and since Louise asked me to, I am going to criticize my two co-panellists so that we can have a slightly more exciting discussion -- but I think fundamentally if you look at what we talk about, then we say, 'I have sourced green energy! We’re going to buy certificates from the European trading system,' and then feel very, very virtuous that we are somehow contributing to being a little bit greener.

Well, let's just remember that although we are cutting carbon emissions here and there, fundamentally the world is on a very sharp trajectory in emitting more and more CO2. This is because of a very simple reason: fossil fuels underlie pretty much everything we like and pretty much everything we want in the world. That’s why it is very, very hard to cut. Now, we can of course say that we’re cutting here and there, and we are getting more effective, but overall we’re going in the exact wrong direction.

Yet, what is the solution that, for instance, the EU and the Netherlands have been focusing on? It is the solution of saying, 'Well we’ve got to cut our carbon emissions.' I think in many ways the global warming consideration is the great lens in which to look at how we tackle innovation and sustainability. We say, 'If CO2 is the problem, you’ve got to cut carbon emissions, and you’ve got to cut fossil fuels.' What we have to realise is that most people don’t burn fossil fuels to annoy Al Gore, or the environmentalists. They do it because it powers everything we like. So before we have technology that will enable us to do all the great things that fossil fuels allow us, but without the emissions of CO2, we’re never going to get anywhere.

That’s why we need innovation rather than focusing on cutting carbon emissions. Remember the EU -- the EU has the only climate policy outside of Australia which is not going to do very much -- has its 2020 policy basically cutting carbon emissions to 20% below 1990 levels by 2020. The total cost is going to be about 250 billion dollars a year for the rest of the century. That’s about 20 trillion dollars. That’s half the amount that you just talked about. That’s a huge amount of money the EU is going to put into cutting its carbon emissions throughout this century.

The net effect -- and this is all very, very uncontroversial as this is the average of all the macro-economic models from the Stanford energy models and forms the gold standard for these areas -- if you look at the climate model impacts, is that it will mean a reduction in temperatures by the end of the century by 1/20 of one degree centigrade. We’re talking about spending about 20 trillion dollars on a result that we won’t even be able to measure in a hundred years! Yet, most of EU policy is only about saying, 'Well, shouldn't we go to 30% instead of 20%?' Remember, the 30% will cost us 430 billion dollars a year, so it’s almost a
doubling of the cost. Yet, the net impact -- the extra impact towards the end of the century -- will be to reduce temperatures by 1/100 of one degree centigrade more!

Is that really the legacy we want to leave? I think this reflects the fundamental problem of saying, 'We want to cut carbon emissions,' to feel virtuous rather than focusing on what’s actually going to work. It’s not about us cutting a little. It’s about everyone having to cut a lot. That will only happen through innovation.

Right now solar panels are four to five times more expensive than fossil fuels, which is why they only survive in heavily subsidised regimes. What we need is, rather than putting up more incredibly inefficient solar panels now, to make those solar panels much, much cheaper. But we don’t focus on that. We focus on putting them up to feel good rather than spending money on research and development. All the discussion is on the subsidies and very little on the innovation.

There’s an argument in saying, 'if you spend a lot of money in subsidies you will get innovation.' That’s technically true. And you’ll probably get a tiny bit of it, but you fundamentally get a technical evolution of a very, very inefficient technology. If you’ll allow me a computer metaphor, imagine the computers in the 1950s. If we dramatically subsidised those computers, then 'yay,' we would have gotten faster and cheaper vacuum tubes. But that was not actually the evolution we needed. We needed the innovation of the transistors. We needed the innovation of the integrated circuits. Those are the things we should be focusing on.

**I would suggest to you that what we need to do is to change our vision from just cutting carbon emissions -- from just saying we want to be green -- to actually focus on investment in research and development.** That’s what I believe this discussion is going to be about. I help run something called the Copenhagen Consensus for Climate Change, where we asked some of the world’s top economists -- including three Nobel Prize winners -- what are the smartest ways to spend money on tackling global warming? Essentially, where do you get the most “bang” for an extra dollar.

What they told us was that if you spend money on cutting carbon emissions, even if you do it really efficiently, for every dollar you spend you avoid a couple of cents of climate damage. That’s a poor way to help the future. However, if you spend that same dollar on investing in research and development in green energy technologies, you will avoid 11 dollars of climate damage -- about 500 times more good. That holds the possibility for compromise, not only in Europe, but across the world.

We can spend less, and do much more to tackle global warming if we do it smartly. The trick, the metaphor, here is to say, 'Imagine if we, over the next two to four decades, could make technology focus on solutions that will mean that, for instance, solar panels will be so cheap that they will be cheaper than fossil fuels.' I don’t know if it’s going to be solar panels, but some technology. If solar panels were cheaper than fossil fuels over two to four decades, we would have solved global warming because everyone would shift over, not because they’re green, not because they felt compelled, but simply because innovation had made it cheaper.

*Innovation is the way that we can move forward and actually make a significant contribution to making this world sustainable.* That’s true for food, that’s true for water, but it’s certainly also true for energy. I would suggest rather than us talk about, 'Oh we need a greener economy, we need lots of subsidies,' what we need to focus on is innovation. That is really
about having smart ways to spend much less money on getting the investment going, getting the innovation, and then of course sustainability will come all by itself.

**Q & A Session**

**A Belgian Participant** did the same thing as Hans Wijers, and all that was recommended by the minister, which is to move for more innovation and competitiveness for Europe doing it in our own company, but also doing it with all my colleagues in Europe. We need innovation and notably young innovators who want to create and innovate, and to come into the global picture, not only making money, but creating success. How do you do it and do it well? In Belgium we don’t do it very well, but I hope we will do it better. How do you do it for young brilliant people to be really creative, innovative, and stay in the Netherlands, where the level of salary is flat? Flatness is the motto in your country, and where there’s a good consensus of employers and unions. But these young innovators, nowadays they often tell me, 'I prefer to go to California and Silicon Valley. I prefer to go to Shanghai. I prefer to go to India. It helps me. I’m going to have 10% gross per year. It will help what I will do.' How do you manage, in the case of the Netherlands -- which is similar to most of the European Union -- to have that creation of young innovators and that they stay here in our type of countries which I love like you do.

**A German Participant** thanked his Netherlands' friends very much for bringing up this beautiful issue of innovation. We spoke about international cooperation in many fields, but the real challenge in these years, as we see in all these discussions that we have in international politics, is how to create reasonable growth and how to cope with the challenges of a changing world. Climate, democracy, several fields have been mentioned. Now, if you compare where we stand with the issues of the government, we are not far beyond, yes? We started by wishing that 3% of our gross national product should be invested in research and development. This was a Lisbon idea. We are far below, and that is a real threat to the competitiveness of Europe in a competitive world.

We spoke about carbon emissions and as far as carbon emissions are concerned, we have decided in Europe that we are going to decrease them and that we are fighting in the world to cut them globally everywhere. Where are we now? The economic growth rate last year was 5.1% worldwide. Carbon emissions grew by 5.8% worldwide. So, we are not only not getting them down, they are even growing beyond the economic growth rate which we have. Thus, I think we have a beautiful vision: a government should have vision -- but implementation would be helpful as well. If we look around the world, I sometimes have the feeling that to a certain extent we are implementing our ideas in Europe -- we claim leadership in many fields in the world -- but not many follow us. What will be the next treaty after Kyoto? Where will there be the chance to develop the whole system in a way that will really be sustainable?

Let me finally say -- about the positive things that we are learning from each other, from our different cultures -- that as far as Bjorn Lomborg spoke about young entrepreneurs, we are learning from what the Americans did in the venture capital business. So, we are learning from different societies. But, to combine that in a global effort, to cope with the challenges which we can define well, seems like something that has yet to be done.

**A British Participant** mentioned the deputy prime minister quoting Jean Luc Godard. He said it didn’t matter where the ideas come from. The Chinese would seem to agree. They also don’t seem to mind how they get the ideas, and I’d be very interested in the panel’s views on the threats posed by the lack of respect for patents and the commercial cyber warfare which seems to be a growing threat to European growth and employment.

**A German Participant** delivered a wake-up call to his German colleagues in the German industries. We are currently famous as we were world champions in export. We are now number two behind China. But more than 50% of our exports is machinery, cars, chemistry, and pharmacy. These are all technologies which were developed in the first half of the last century, between 1900 and 1950. After the World War, we had some interesting innovations from our scientists, such as the fax
machine, and the iPod was scientifically developed in Germany. But Germany was never able to make a profit off these products. Other nations did so. If I look at our industry after World War II, there’s only one innovative company that was founded which has global importance, and that is the software company SAP. There is no other large company with world importance based on technology which was founded after WWII, and this is something that should really wake us up. We should increase innovation drastically to maintain the position we have in the global economy.

A DUTCH PARTICIPANT wondered why in the focus on innovation the subject of changing lifestyles and changing demand was absent. We have tremendous growth in energy consumption per person, and government policy should not be based on only the promise of new technologies and innovation. I’ve read already for forty-five years that we are on the eve of a breakthrough in our energy systems by nuclear fusion or other methods. We are still on the eve. It all has to be paid for. The world food problem cannot be solved only by changing agricultural technology, but also by changing income distributions and changing the relations of power and influence and government policy. I wonder whether we are wise in putting so much trust in innovation. Innovation is a blueprint in which you cannot live yet. Perhaps you could live in it in the future, but sound government policy now is based on what is affordable now and on what solves problem now. I agree with Mr. Lomborg’s statement that reducing CO2 emissions, with the current policies, is unwise. It won’t be very effective, and it won’t work. Maybe he can dwell on a different approach than the European Union’s approach, introducing a carbon tax. I would also like to hear something about how to change the major driver between all these problems, that is, the enormous power of consumerism.

RESPONSES FROM THE SPEAKERS:

MAXIME VERHAGEN

First, how do we stimulate young professionals to stay in the Netherlands? If we want to solve global problems, that is the wrong question. We need to stimulate young professionals and young people to innovate and to use their capacities. Whether it’s in Belgium or in the United States of America or in the Netherlands, it doesn’t matter. Of course, to have economic growth, to have enough income, and to have enough jobs for the future in our own countries, we need to have companies in the Netherlands. That’s the reason why we first invest or try to create a profitable investment climate to make it profitable for companies to invest in the Netherlands. We also have an active economic diplomacy to attract companies from elsewhere to invest in the Netherlands -- to set up their head offices, but also their research companies.

Second is that we, and that was the fundamental change in our industrial policy, bring together entrepreneurs with researchers, universities, knowledge institutes, and the government to see what is needed to also make it attractive to work and invest in the Netherlands. A question related to this: is there enough money available for innovation? Because when there is money available for innovation, then it is also attractive for a young professional to develop his capabilities in the Netherlands. Of course we need to do more.

There was also a reference to the goals of Lisbon -- the 3% of our GDP in relation to innovation. In the Netherlands, the main problem was not public financing of R&D. If we compare it with other countries, the problem was that companies, as such, failed to invest sufficiently in innovation. That’s why I’ve asked entrepreneurs and researchers in the nine top sectors of our economy to tell us -- the government -- what is really needed to promote innovation through private companies. They’ve put forward some very useful ideas. This has also led to a new approach, and it is also linked to the subsidy question which Bjorn Lomborg put forward on the table. We’ve focused in the past on subsidies, and it was not in an entrepreneur’s or company’s interest to invest because the subsidy was the only reason the investment took place. It was not due to the fact that a company thought it was useful.
Companies nowadays that invest in research in new products and services will pay less tax, so it’s profitable for them. There is far more venture capital available for new, fast growing business through this approach. We will train more professionals and specialists. We will set up a pragmatic lobby for our companies abroad. In this way, it will be in the own interest of companies to invest in innovation. I’m convinced that through this new approach the target -- although it’s still ambitious -- is more realistic than it was in the past.

This brings me to the question of subsidies, or grants, in relation to investments. I want to boost innovation. The last government spent, for example, 3 billion euros in subsidies on wind energy at sea. If we had spent this money on innovation, we would have had a far more profitable investment in the future. We should have invested in innovation so that it was cheaper to have this wind energy at sea. So I’ll change our grand scheme: what I’m now subsidising from government in relation to renewable energy is only the cheapest forms of renewable energy. It doesn’t interest me whether it’s solar or wind -- they get a fixed amount of money. The budget is far lower than it was in the past, and I get output which is far higher. This is exactly in line with the intervention by Mr. Lomborg.

On the question that we have to change our way of life, I’m convinced that in the past when the government was only focusing on changing the behaviour of people, it was not successful. In order to save the earth, the idea was, more or less, that a bureaucratic state had to impose laws, standards, rules, etc., on its consuming citizens. That, according to my view, is the politics of symbolism. For many people, the “greening” of society became remote, out of their hands: it was not their own problem. It was the problem of their government, and they only had to fulfil the regulation. In my view, that’s counterproductive and distracts from complete solutions, due to the policy of the green deals. I put together non-governmental organisations, researchers, companies, and governments -- so local initiatives, company initiatives, non-governmental initiatives, private initiatives -- and they put forward ideas which are much more effective. As they are owned by themselves, they also want to change their policy or their behaviour. To give you one example, we have the goal that 14% of our energy should be renewable by 2020. We had a lot of symbolism in the past and our renewable energy was at 4%. The measures taken to only subsidise the cheapest methods of renewable energy, and the green deals, put us now at 12%. So in a very short period we have had a remarkable change from 4% to 12%. Fine, this is not the 14% we agreed upon, but it’s much more effective than all the measures we’ve taken in the past.

Competition with China: I know the behaviour, or the experience, of a lot of companies which invest in China. They lose their knowledge. For example, the last time I visited China, they wanted to know the knowledge of our seed companies because we have outstanding industry and entrepreneurs in this field. If you want to make use of them, then you should also protect their interests because otherwise they won’t invest. So, we managed to have an MOU which guaranteed the knowledge of these seed companies should stay in the Netherlands. Otherwise they wouldn’t invest in China. You have to pick those elements where they need us instead of the other way around.

On patents, I think that for a lot of companies the main problem is not the issues with China. First, we have to solve the issues in Europe. We have discussed for twenty years a European patent and it’s still not here. As a result, our companies have to pay ten times as much on bureaucracy for having patents in all European Union countries than, for example, a company working in the United States. That was also the reason why during the Belgian presidency last year we tried to have a common approach by those countries who wanted to go ahead instead of waiting on Spain and Italy to give up the cultural aspect of using their own language.
If we could just start out at the general level, what we often fail to recognise is how far off we are from really beginning to have breakthroughs.

Let me take climate change. I mean, it doesn’t matter, and you can run the models. It doesn’t matter what we do the next decade, but what we do for the rest of the century. The Germans, building on what the minister said, have the biggest investment per capita in the world on solar panels. They’re very proud of it. The total cost is at about 75 billion dollars in excess cost and subsidies. The net effect is to postpone global warming by the end of the century by seven hours! You might argue that you could have spent that money better.

The point here is to say, 'What if you had spent that money on investing in research and development?' Yes, it wouldn’t mean you had all those nice photo-ops on your rooftops, but it would mean that perhaps we could move forward the date when everyone in the world changed over to cheap solar panels from 2035 to 2030. That would do an enormous amount of difference.

Let me answer a few of the questions. The argument from one of the questions that the EU very often claims leadership but it doesn’t seem like very many people want to follow. I think that’s a good argument. I would like to use the computer analogy to show you what we should be doing and what we unfortunately are doing. If you imagine yourself back in the 1950s, when computers were these huge things that very few people had, how would you make computers smarter, better, cheaper, and more affordable, into something that would become ubiquitous? The answer would obviously not be to say, 'Let’s buy everyone in the European Union a computer by 1960!' This unfortunately seems to be a little bit of the EU approach: 'Clear out the basement, here comes the computer!' It would have brought cheaper vacuum tubes, but it would not actually have gotten us anywhere.

There’s also some other arguments that are comparable: 'Let’s try to limit the other technologies. Let’s try to put quotas on slide rulers or tax typewriters to get computers going.' No, that’s not actually going to work either. What you need to do is get the innovation going so that in the 1980s Microsoft and IBM and Apple would want to invest their private capital in getting computers that we can actually afford. This is about recognising that it’s a long-term problem and it’s something where the government really does need to invest its money.

That’s also the answer on the worry of patents. What we really have to recognise is that the problem with global warming -- and I would argue, many other innovation areas -- is not really a question of patents but a question of the lead time being so long to get to the innovations that you cannot expect private companies to invest in it. If we want to solve, for instance, climate change -- solar panels are four times as expensive as fossil fuels -- even if you come up with the brilliant idea of cutting that cost in half, you still can’t sell it because it will be twice as expensive.

What you have to do is have a series of innovations that each and every one of those will not pay off. It’s only in the long-term end, in two to four decades, that it will actually pay off. Fortunately, this is not a question of patents. It’s exactly why governments need to spend money on research and development. That’s the exact same argument we use for medical research. Blue-sky medical research -- the stuff that gives Nobels -- is not the stuff that you can make money off of, and it’s not the stuff that’s important for patents, but it’s the stuff that’s important to power the future generation of developments that companies are going to get very, very rich on.
Two more points: shouldn’t we change our lifestyles? My answer to that argument is generally no. By all means, go ahead and try to tell people they should do with less electronic gadgets and they should turn off the lights, but our experience in the entire world across history is that people want more and they want more often. Yes, you get more efficient light bulbs, but we also know you have many, many more of them. We like it to be light. I honestly think it’s wrong to go down that road to try to get people to change their lives, not only because it will actually mean that we have less happy lives, but also because -- as we’ve just seen -- it’s very, very hard to do.

Again, if you will allow me a metaphor, if you look at India in 1970: We all thought that India was basically going to fail. India couldn’t produce enough food. It was not going to get anywhere. We were predicting mass starvation, episodes of hundreds of millions of people dying. That approach would have been to say to everyone in India, ‘Could you please eat a little less?’ I just don’t think that works. Of course the solution was to get high-yielding varieties of rice and other technology. That’s what works.

Is a carbon tax going to work? Is a carbon tax better than a subsidy regime? Economists probably say marginally so, but they’re really one and the same. Any economist who will say, ‘Yes, you should have a carbon tax equal to the damage of CO2.’ That’s about 7 dollars per ton. But you should also recognise that’s not going to have any significant impact. That’s about a euro-cent and a half on a gallon of gasoline. Obviously that’s not going to get people to stop driving. It will have a very marginal impact if everyone had it. Across the world, it would probably cut carbon emissions by about 10%. What we have to recognise is that the solution is not in a carbon tax or a subsidy regime, it is in innovation.

That brings me to the last point: ‘We need innovation, we need to get people energized.’ The problem is, when you look at the Google guys, the Microsoft guys, and Facebook people, they all created new and exciting stuff. They created stuff we had never seen before. That’s why it was so exciting. But imagine if we actually managed to do the stuff that means we could produce energy without putting out CO2. If we actually manage to get solar panels to be cheaper than fossil fuels, and if we manage to get windmills to work so that they can power the world the whole time, if we manage all those really, really difficult tasks, we would just have the exact same situation as we have now: ‘I have power in my outlet, yay!’

It’s not actually going to work. It’s not going to energise people by itself to solve this problem. What we need, and that’s part of the solution to what I think we need to do for innovation, and that’s the answer to the last question of what should the EU do. We need to not just ramp up investment in research and development, but we also need to direct that research.

I would propose we take a page out of the Bill and Melinda Gates' foundation playbook. They asked a question of the blue-ribbon panel, ‘What are the most important questions we want to see solved?’ And they only fund those. I think we should do the same thing for energy. We should say, ‘What are the hundred things we would most want to see developed over the next decade?’ I don’t know. I’m not a technician. I don’t know what those would be. I would love to see someone come up with algae that could actually produce off-shore oil. Wouldn’t it be cool if we could grow our own oil at a very low cost? Or self-assembling solar panels?

There are lots of different ways we could imagine that, but we should set up x-prizes for those hundred issues and that would energise researchers. We should say, ‘Who can be the first researcher to get to that point to have an x-prize for, as an example, self-assembling solar panels in 2020? In 2030? In 2040?’ It would be incredibly cheap. Ten million dollars for each
issue would be a billion dollars. Given that we need to spend 100 billion dollars in research and development every year, it would be a fraction of the total cost, but that would be the thing that would energise everyone.

Let’s have the EU spend less money overall, but spend it much smarter in investment, research and development that would be a huge increase in the total spending on R&D, and use x-prizes as a way to energise researchers so that they will want to focus on saying, 'I want to be the guy who solves x-prize 87,' and actually end up helping us powering the rest of the 21st century.

HANS WIJERS

The problem is you embrace a word like green economy. Then say, 'I don’t like that, let’s embrace innovation.' But they’re all container words, and there are no silver bullets in stimulating that. If you move from green to innovation, the question becomes, 'What drives innovation?' And of course there’s no silver bullet to that either because it’s not only about subsidies for researchers. Fundamentally, research and development is driven by companies seeing in a competitive arena an opportunity to out compete their competitors. That’s where the vast majority of R&D has to go, and goes.

Now, why has Europe not reached the 3% target? I’ll give you one example. One of the big drivers of R&D is the pharmaceutical industry. It tried, by all means, to reduce prices in Europe and as a consequence all the R&D moved to the United States. There were tax regimes that absolutely did not stimulate innovation in the IT area. It has to do first of all with a sound macro-economic environment. You can forget all these stories about R&D if you don’t have sound macro-economics. You see that over and over and over again.

Then you have to protect intellectual property, absolutely. Protecting intellectual property in this world isn’t the easiest thing because this is also the era of transparency. When you talk about transparency, in the end, there’s so much transparency you cannot protect intellectual property anymore, so there’s an end to that as well.

What drives R&D and innovation is competition -- I’m convinced about that -- and sound macro-economic policies and protecting intellectual property. That’s what it’s all about.

Now, R&D has to partially happen at universities. That will never change. The fundamental R will not happen by business. It will have to happen at universities, and governments have to fund it. It is not driven by today’s fashion, but by a longer term vision. The problem of many of the research programs funded by governments, including European programs, is driven by fashion. Every European investment plan is a big marketplace where all the national fashions are being sorted out. You go for four years, and then there is a new fashion. It’s not a longer term view regarding how we have to allocate money.

How do we stimulate our business, then? I agree, by the way, that subsidies are not usually efficient. Again, because the mechanisms to allocate subsidies are also subject to fashion. Tax incentives are much better. But they have to be used consistently. Not every government -- like in The Netherlands, but also in other European countries -- has to change course every two to three years, because you don’t give consistent signals to the economy and people forget about it. You cannot just rely on private R&D. You need a government that provides long-term stimulus.

I agree very much with remarks about lifestyles. I just came back from India. If I talked to our people in Bangalore and told them to change their lifestyle, they would laugh at me. But here,
and maybe more focusing on areas like obesity and things like that, tax is superior: low tax is key, for your sons and mine. But there also has to be a climate that stimulates entrepreneurship. Let’s be honest, Europe is very good at one thing in particular and that’s regulating, regulating, regulating, rather than liberalising its economy. If you look at the service economy in Europe, we have not made any progress. If we were to liberalise our service sectors like we have the industrial sectors, we would have far more innovation.

On complaining about the old-fashioned element of his German economy: That is extremely fashionable! You need the chemistry, you need the capital goods industry, you need your car industry. Be proud of it. There are a lot of innovation opportunities. Don’t think that innovation is only about IT and iPods and what have you. Many of the innovations that we need will happen in the chemical industry. You need the chemical industry. That’s where I’d like to leave it.

MODERATOR - LOUISE FRESCO

Let me just add a few final comments. What we should be aware of, or what we haven’t touched upon, is that there is a movement in Europe which is quite anti-technological and anti-innovation in a selective manner. Just think of the subject of bio-technology, for example. We are not yet good at showing how important innovation is for our future. The public, in fact, is in some ways even anti-growth. As if growth’s ghost is the only thing that damages the environment. So, it’s very important for us to see the linkages between innovation, science, and technology -- and growth and the environment -- and to get them up in a comprehensive manner.

I hope we have shown to you that, at least in the Netherlands, we are making an effort to approach this in a comprehensive manner. To get the government, industry, the universities, and also the NGOs to master the kind of energy that exists in a densely populated country, threatened by water, being under the sea level, that having to use its land in a multifunctional way, because there is so little land, in itself creates an atmosphere of energy, and hopefully also of innovation. Combine that with what we said before, an economy which is open to migration, open to new ideas, open indeed to young people from everywhere to contribute to what we feel is important, which is innovation, innovation, innovation.

CHAIRMAN - H. ONNO RUDING

This concludes Session I about the Netherlands, which I think was helpful for your thinking.
Last May I was in Greenland, one of the most fascinating places on earth. I was there at the invitation of the World Wide Fund for Nature, with a select group of scientists and entrepreneurs. The aim of the expedition was to get an idea of the **changes and challenges facing Greenland and the Arctic**; and to explore possible responses to them, together with local people. The mission was given the name 'Sila'. In the language of the Inuits, this means 'the force of life'. Sila refers to the elements, to weather and nature, but also to people's inner lives. Have you ever been to Greenland? I can recommend a visit. But if you go, do it properly. Go trekking, with good boots, hauling your belongings on a sledge. And sleep in a tent, in the freezing cold. Descend into a glacier crevasse and be enchanted by the magical blue light. But above all, listen to what the people you meet along the way have to tell you. I still don't know whether the Inuit really have a hundred different words for snow. But love for their country, for the Arctic and for their way of living shines through everything they say.

Apart from words, I also listened carefully to nature. Because in Greenland nature talks. Nature determines how far mankind can go. Nowhere else in the world is that as clear as in the Arctic. Lying in your tent you can hear the ice groaning - a sign that somewhere nearby a piece is breaking off. The iceberg that sank the Titanic nearly 100 years ago had broken off from one of Greenland's glaciers. Nowadays that process, the ice calving, has speeded up. In the past few years, the melting rate has about doubled: more than was forecast in the IPCC's last report. In the past ten years, the same glacier, the Ilulisat glacier, has doubled its rate of retreat. It is now retreating at the rate of six kilometres a year. That is 70 centimetres every hour!

**Greenland’s icecap is melting. That is having a great impact on nature and on the population.** People can no longer live from traditional hunting and fishing. Farming, up to now hardly an option, is becoming possible in the south, leading to paradigm shifts which are hardly possible to absorb within one generation. It were those hunters and fishermen that have been living in the harshest possible environment for thousands of years that first started noticing serious changes in the environment as early as the nineties. They couldn't explain
them, they certainly did not contribute to them, but they noticed them and realised it was serious and a grave threat to their very existence.

We are feeling the consequences in the rest of Europe, too. Melting ice caps are causing sea level to rise - affecting our coasts and low-lying deltas, exactly where we live and work. However much debate there may be on the causes and pace of climate change and the feasibility of reducing CO2 emissions, one thing is clear: adaption to the effects of climate change is an economic and social necessity we cannot avoid.

So, is the news all bad? No, not at all.

Melting ice also presents new opportunities for the people of Greenland. Opportunities they want to seize. A new Arctic ocean is forming. There will be new shipping routes. And mining companies are looking eagerly at the potentially enormous Arctic reserves; oil and gas in particular. We, the energy addicts, are potentially looking at decades if not centuries more of fossil fuel reserves to satisfy our addiction. And the Inuits see their chance to develop and emancipate their population and see themselves being catapulted from the ice age to the 21st century. But imagine something going wrong in this vulnerable area. An oil spill like the one we witnessed in the Gulf would be an unmitigated disaster. So, nature conservation organisations are highly concerned about plans to exploit reserves of fossil fuels.

You could say that Greenland is caught between a rock and a hard place, caught between the major oil companies and the environmental active NGOs. Trapped between those with annual budgets way exceeding anything the Greenland government could even dream of, unless of course we help them carefully develop and explore their vast natural resources in a sustainable way.

In fact, we are all trapped. These insidious processes are affecting Greenland sooner and more visibly than elsewhere. But the whole world faces an increasing shortage of the three prerequisites for human life: water, food and energy. And the three are becoming more and more closely linked. Water, food and energy form the three sides of a triangle, with politics and emotions at the centre. The linkages between the three are becoming tighter and tighter.
Decision-makers who deny this are taking a great risk; because, no single actor has the solution to prevent or accommodate these shortages.

There are many places where climate change, food security and energy security meet. For example, half of the cost of providing water must be attributed to energy costs. Significant quantities of water are needed to generate hydropower, and as cooling for thermal power. And the production of bio-fuels is now beginning to compete with agriculture for the use of water.

As chair of the United Nations Secretary-General's Advisory Board on Water and Sanitation (UNSGAB), I look at these issues through a watery lens. Water is essential to life, and is the lifeblood of farmers. It has long been taken for granted. But not any longer. Water is becoming scarcer. Demand is rising. More land is turning to desert, and droughts are becoming more severe. The prospect of conflict over scarce water looms large. At the same time, elsewhere in the world, flooding is taking a heavy toll on lives and livelihoods. The Bangkok floods have been on our TV screens for many weeks already. And we face the challenge of coping with water stress. We need stronger governance, and integrated water resource management.

The fact is that three-quarters of the world's water is used by farmers. Industry uses less than a fifth. Domestic and municipal use is a mere tenth. The water crisis is therefore primarily an agricultural crisis. Put simply, this means that we have to change the way we produce our food. The world population is growing, and is concentrating in urban areas. Diets, especially in Asia, are changing. A kilogramme of meat takes 16 times more water to produce than a kilogramme of wheat. Water withdrawals for energy production are also on the rise. We are facing a world with fewer crops and less water, one that is vulnerable to climate change in ever-changing ways. It is time for action. Agriculture must become more water efficient. We need to grow more food with less water, and treat the water we use so that it can be used again. By revolutionising our approach to waste water, we can help create a food-secure future. There is no such thing as waste water, only water wasted.

In this complex, rapidly changing world, it is a great temptation for countries like Greenland to exploit their oil and gas reserves as fast as they can. Who can blame them? And don't Greenland's 56,000 inhabitants deserve it? Can we deny them the right to economic development in the 21st century?

There are no simple answers. So we need to be extremely creative. According to the late Steve Jobs, 'Creativity is just connecting things'. At this time when Europe is faced with financial, economic and debt crises, we might think that we have enough problems of our own. Also, people might have the impression that Europe is being pushed off the world stage. We need to forcefully contest such views. Europe represents a quarter of the world economy. Europe is taking the lead in addressing and tackling global issues, like climate change. Europe remains a main supplier of ideas in all fields that are of importance to the future of the world. The world needs Europe. We have every reason for self-confidence. Our great strength is connecting things -- for Steve Jobs, the essence of creativity.

That particular strength will be direly needed during Rio+20, the UN Conference on Sustainable Development, which will be held in Brazil next June. Making connections will be key to the conference: connections between economic development and a clean environment; between food security and water management; between energy security and energy conservation; between prosperity and wellbeing; between people and their habitats.
Rio+20 will focus on the greening of the global economy and ensuring quality of life for the people of the world, today and tomorrow.

If we fail, we will have much more than 'just' financial, economic and debt crises at our hands…Green growth can only be achieved if we have the courage to move forward together, with an open and creative mind because it is often the unexpected combinations that help us on our way.

I experienced this very mind-set when I was in Greenland. Citizens, scientists and nature conservationists are increasingly working together there along with multinationals, government and NGOs to map out their difficult path to the future. With the help of Sila, that Inuit force that drives life.

In the Netherlands, such a holistic approach involving all stakeholders is part of our DNA. Not always quick, not always easy but often the only effective way to combine technology and social engineering when it really matters. And with water, food and energy, it really matters. Creative initiatives can often be found in unexpected places. I hope that your visit to the Netherlands will give you new ideas because we need new ideas and new connections to use our scarce resources in a way that is equitable, efficient and sustainable and because we care about the future of our planet and our people.

Source: Official website at http://www.koninklijkhuis.nl/
This session is intended to address “Europe’s Response to the ‘Arab Awakening.’” You may remember -- those of you who were here in The Hague in 1997 -- that at the time our Trilateral Commission had expressed high expectations coming out of the Oslo Peace Process, with notable protagonists from Israel and Palestine present, including messages forwarded from Prime Minister Netanyahu and President Arafat. Today we return to the region with new high expectations as we look to the “Arab Awakening” with renewed optimism.

We are honoured to have our Trilateral colleague from Jordan with us, Prince Hassan, who will also be co-chairing Sunday’s lunch into the afternoon which is a joint Trilateral-West Asia-North Africa forum. It’s a workshop on Europe’s response to the Arab Spring, so we will have further discussion on our topic of this afternoon under the chairmanship of Prince Hassan.

Governor Nabli from Tunisia will give us the latest developments from his country after the recent elections, which were followed very closely all over the world because the Tunisian spring was, and remains, very remarkable. Of course, Tunisia is a country close to our hearts and which spearheaded the Arab Awakening at the beginning of the year. Unfortunately our Egyptian speaker Amr Hamzawy had to cancel. He is running in the coming parliamentary elections and had to stay in Cairo. We are privileged, I must say, to have a strong delegation from West Asia and North Africa as guests to our conference and who are invited to participate -- actively, of course -- in our discussion.

Trilateral has undertaken a special initiative to prepare a report on Europe’s response to the Arab Spring, which you have all received in advance, and is in your dossier. So, we have undertaken this special report and I will tell you now very briefly what are our main findings of the report, which include policy recommendations for EU leaders, including to Ambassador Léon, whom I thank for being here as well. Ambassador Léon is, as you know, the new EU Representative to the Southern Mediterranean, and it shows how much the
European Union is conscious of the need to have a special focus on this very important region.

So, what are the main policy recommendations of this report? Mainly four points: First, the EU response to the Arab Spring is still wanting. This is the diagnosis that we made when we met in Rome in late September with Mario Monti, Andrzej Olechowski, and a few other members of our group. We think that Europe must show greater ambition and combine both short-term answers to urgencies with a longer-term vision. We think that Europe should match big vision with effective projects to give a historical response to a historical situation. That is the call, of course, in the Arab Spring: for dignity, respect, and freedom.

The second point is that Europe should offer a selective opening of its borders and abandon the “Fortress Europe” mentality that has prevailed until now. We submit to our discussion two proposals: offer access to our internal market, especially and for the first time agricultural and textile products, and develop a Mediterranean Schengen agreement for transient mobility, with the aim being to replace permanent migration by circular and transient mobility -- this requires huge investments in the southern countries of the region -- and to create jobs.

On the third point, this new offer should rest on criteria that we think should be defined by the European Union, as was the case for Central and Eastern European countries with the Copenhagen Criteria, which were the criteria which had to be met before becoming members. We proposed a build-up, what we called the Barcelona Criteria, which would rest mainly on democracy, human rights, the rule of law, market economy, and joint ventures in investments. Of course it is up to the Arab states to make their own choices, but all of the states of the southern regions should be invited by the European Union to join bilateral discussions with the European Union.

Fourth, our final objective should be, besides these bilaterally reinforced relationships, to progressively build a multilateral framework beginning with a standing political committee that would be led on the European side by the EU special representative.

The final aim would be in the medium and long term to have a vision of a new Euro-Mediterranean community joining the European Union. The southern countries that will not
join the union, but who will build a multilateral entity will create a Euro-Mediterranean community.

This is roughly what we submit for your discussion, first to our guests on the panel and then to all of our members. These being only our first projects, we will take into account the reactions and proposals of our guests, and your reactions as well, and then will go back to work and submit to the Trilateral members a new report in the end.

**El Hassan bin Talal**

I want to start by saying -- for those of you, who don’t know what the “WANA region” is, or how it came about – that I attended the MENA conference in 1994. At that time I implored my late brother King Hussein, Shimon Peres, the then foreign minister, and Prime Minister Rabin, 'please let us develop a region into which projects can fit.' Unfortunately -- Madame Guigou referred to the Copenhagen Criteria -- at that time we had the Copenhagen Shopping List. When we went to the European Union and spoke about thirty-five billion dollars for a decade of infrastructure development, from Morocco to Turkey inclusively, and we meant the development of infrastructure, water, preventing migration, and encouraging people’s will to stay, the answer was “first come, first served”: back to the Copenhagen shopping list! So, today when you mention criteria, I think subjectively on what has happened in terms of the region.

The three phases since the 1950s started with a post-colonial phase. The second phase was the nationalist phase: from neo-conservatism, the Muslim Brothers and through state socialism. The third phase now is in terms of the birth of the Islamist movements. I think it is important to bear in mind that people want to be heard authentically. This is why I think the governmental process of Barcelona, the European neighbourhood policy, and more recently the Mediterranean Union does not respond to the demands of people who want to close the budget deficit as sincerely they want to close the human dignity deficit. In that regard I would like to suggest that we embrace -- in the words of Shirley Williams -- politics where people matter: that anthro-policies and anthro-politics are hugely important.

I say this as a member of the International Commission for Democracy in Transition. I just came from Budapest, from the Central European University, and I’m deeply impressed by their schools of governance and public diplomacy. *I hope that a moment will come when we can bring this concept of democracy in transition to a region where we have witnessed centripetal movements,* in Syria and Jordan, if I may add, that is to say, villages and rural
communities expressing their dissatisfaction at the price of the cost of living. The fact that the centripetal movements are challenging the state, army and the civil service is partly because we simply cannot make ends meet in terms of the inflationary pressures that exist, with the result that our more leaderless nations, or leaderless uprisings, may have a fundamental strength.

But we also find there is a _key weakness in that there is no coherent vision_. There is a lot of sloganeering, but there is no coherent vision what change people want. This is why the Arab Spring has in a sense been aborted in the minds of policy-makers in different parts of the world. But by aborting this Arab Spring, I think that we are also witnessing the aborting of trust between people and government in different parts of the region. Egypt, of course, was a centrifugal movement. It started in Cairo, was hot-housed in Cairo and pushed out.

I would like to suggest that in both instances the concept of reconstruction and development has been mooted by the European Bank for Reconstruction and Development on the basis of SMEs. I think it’s arguable to suggest that all of the economy is made up of SMEs. Not only the shareholders on the board of EBRD who suggest that we should be reaching out to people in the region are justified in that, but I think the time has come to ask _why is it that we cannot create an ABRD, an Arab Bank for Reconstruction and Development._

The WANA region includes all the Arab countries, and those desirous of inclusion. I can’t speak for Israel because effectively Israel is involved in an Israeli-Palestinian particularity of negotiations, and it’s up to them to decide on what regional issues they are interested in joining. Today we have -- as Stanley Fischer knows, as I was saying to our Cypriot friends, 'when are you going to become oil sheiks?' -- this extraordinary find of gas in the eastern Mediterranean. Over and above that, my Israeli friends tell me, 'we don’t need your water anymore because we can extract 800mcm from Mediterranean water.' I don’t know how true that statement is, but I just want to say that we are missing the point somewhat if we’re going to say, 'we don’t need the region' in terms of stabilisation.

I would emphasize the importance of WANA in the sense that we still have Iranian members, Turkish members, Afghan members -- one of whom was unable to participate -- Pakistani members, and we’re looking for the first time at the European’s way, if you will, of west Asia, the Eurasian rim.

My question to you is, _much of the wealth of WANA is stored in foreign portfolios abroad_, and I wonder _when the first portfolio manager is going to start investing in the region_. I would suggest that in terms of the creation of an Arab Bank for Reconstruction and Development what is important is that this comes in a context -- which I envisage along with many of the WANA participants -- as a _regional Bill of Rights_: proscribing all forms of discrimination, recognising the right to life, emphasising the concept of engendering citizenship, as we did in the Legal Empowerment of the Poor Commission with Madeleine Albright. A few months ago we presented our report, and we spoke of the importance of making the law work for everyone. There is the beginning of a context: a commitment, particularly at the time when the Arab League is stumbling and the organisation of the Islamic conference is something of a cipher. I say that with some regret because I just came from Doha -- from the Islamic Academy of Science, which I helped found 25 years ago -- but I don’t see a science diplomacy developing in our region yet.

As far as _water_ is concerned, if you want something definable to focus on, the Mumbai-based strategic foresight group -- in consultation with WANA -- has suggested near and long-term policy instruments to _transform the water crisis into a blue peace_. The report that has been
presented on that basis speaks of the importance of a regional water council. I have been asked whether I would be interested in supporting this council. Of course I would. Both in the context of the Rift Valley, as it passes from the Gulf of Aqaba to Turkey, but also maybe as a second branch to look at the eight Nile basin countries. I heard Dr. Farouk El Baz from Egypt the other day, speaking of the importance of a north-south axis in Egypt west of the Nile River which could possibly relieve some of the urbanising pressures on the sides of the Nile River.

*People are beginning to think in supra-national terms.* According to Madame Guigou, the EU today imports 50% of its energy from the region and this will be 70% in 20 years. So, we look with interest at what is happening in Libya, and what is happening in Libya is something on which I am not qualified to comment. We had the Libyan participant who was detained, unfortunately -- detained in the metaphorical, not physical sense. We would have learned more, but I suspect that the situation according to a Turkish colleague looks a little bit like the situation in Iraq with the subdividing of zones of interest, of corporate interest, and so forth. But the fact remains that oil is going to flow from Libya, which would be a pleasant alternative to the Gulf region, and its hinterland -- that is countries like my own being threatened with instability in the coming future.

As far as the instrumentalisation of stability -- I referred to the Arab Bank for Reconstruction and Development -- I’ll also ask, parallel to that, what about Islamic institutions? Hundreds of billions of dollars are doing well: 'Money in the bank,' as it were in western capitals. Yet, when you say 'Islamic banking' in our region, or 'Zakat' for that matter (alms) -- on the basis of an accountable organisation, Al-Waqf foundations, as well as many other examples -- it seems to me that traditional Islamic institutions are being torn out of the region by all sorts of persuasive methods. I would like to see this process reversed.

In fact, we have been working on a Zakat fund for something like 20 years now, and initiatives have been taken in Malaysia. Maybe a time will come when we look at our global tables of gross expenditure, on original thinking, research and development and see greater emphasis being placed on keeping our students in our part of the world. You might like to know that in most countries in our region a full 30%, I am ashamed to admit, of students are there on merit alone. The remaining 70% are there on patronage.

So we ask ourselves, 'Why is there instability in the region?' I would say that in terms of the Arab Spring, the basic issue that has not been addressed -- within the overarching issue of the Palestinian and Arab-Israeli conflict -- is the issue of political economy. By this I mean refugees, IDPs, DPs, and stateless persons. Not only Palestinian, but broadly defined in the context of TIM: territoriality, identity, and migration. The minute this issue can be addressed in the context of stabilisation, as with the thirty-five billion I mentioned at the outset of my remarks to encourage people to stay, is the minute we will be on the right path.

Thirty-five billion was found within weeks to create Homeland Security, so it’s very easy, it seems, to find these figures to keep people out, to build walls between us and the rest of the world. But it is extremely difficult to suggest a stitch in time. Now is the time to develop a WISE partnership, the W standing for water, the I for imbalance in population resource equations, the S for social and economic development -- and here I would invite NGOs to partner with us, in the way that Pax Christi Holland has done for people in need in the Czech Republic, Poland, and Hungary, for example -- and the E is for Energy and the Conservation of the environment. Water and Energy are twins.
I hope that the transition to democracy, which has been the case that my colleague and friend Mr. Nabli will be addressing in Tunisia and Egypt, will lead to a peaceful transition. I hope that the mitigating measures in Jordan, Morocco, and Oman -- where leaders are taking initiatives and undertaking reforms -- and the preparedness of Libya, Yemen, Syria, and Bahrain can be taken into consideration. The stakes are very high, the stakes of stability versus chaos.

My last thought is, 'can we make the right decisions in the right time.' Two of your members are now about to form governments or have formed governments. We don’t look to a similar future, but I do think that it is time that people who are overwhelmed with problems are given some sane advice.

**Mustapha Kamel Nabli**

What I want to talk about is giving you a sense of what I thought the recent experience of the Arab Spring -- with particular attention to the regional experience -- and what did I learn and what we should learn from that experience. Then I’d like to draw some implications from that about the type of relationship that should be created with the European Union and the response of the EU to the so-called Arab Awakening. I will talk about what I thought the Arab Revolution tells us, whether it is in Tunisia, Libya, Egypt, Syria, or elsewhere, and then I will talk about what the recent elections in Tunisia tell us. I’ll then talk about what the recent experience as a whole over the past ten months in Tunisia tell us. What are the lessons we could draw from that experience. From there, I will say a few words about what kind of possible implications it has on the EU-Mediterranean relationship.

*What do the Arab Revolutions tell us?* I think the main thing they tell us is that no matter how harsh, how long-serving, despotic, kleptocratic and repressive regimes may be, they are deeply vulnerable to the yearning for a few basic values: dignity, fairness and freedom.

*Dignity,* because the revolutions really tell us that there was a rejection by the people of not being treated as people with equal rights and views worthy of respect by their rulers. There was a rejection of being humiliated constantly by the arrogant behaviour of kleptocrats who have no shame -- stealing and exhibiting their ill-gotten wealth publicly. There was a rejection of the status of young men and women who are educated but see no prospects of a fulfilling job or life. This is a sense of the dignity that people are looking for but not finding. They’re yearning for fairness, as reflected in the rejection of unequal opportunities for a better quality of life, for jobs, for quality education. This inequality of opportunity may be reflected in the
digital dimension in some cases, it may be reflected in social classes and social groups sometimes, and maybe it has some other dimensions in specific cases, maybe ethnic, maybe something else.

*Fairness* -- it is about the rejection of wealth being acquired unfairly through corruption and nepotism. That’s what is happening on a grand scale, all over the place. Finally, the yearning for the value of *freedom*, as reflected in the rejection of absolute unaccountability; the exercise of power which benefits a few but does not benefit the majority; a demand by people to express their views as free citizens who can influence public life.

The yearning for these values was strong and the pent up demand was very strong and pervasive, but long repressed.

Some people have been talking about the *paradox of the Middle East*. How can you have so much repression, but so much stability for so long. It wasn’t explainable. I think repression had something to do with it. This repression was so strong, but the pent up demand for these values was so strong as well, so strong indeed that it was ready to explode. And then explode it did. It did so peacefully when possible and atrociously violent when not. These are the lessons I draw from the revolution itself, from the facts of what happened, starting in December 2010 and January 2011.

Let me fast forward. *In Tunisia*, 10 months later, we had elections. We had elections two weeks ago. *What did the results of the elections tell us?* They can say many things, but I will limit myself to three.

They tell us first that *holding fairly open, transparent, and free elections is possible*, even after five or six decades of political repression. But that means the values I was talking about are not just general things. People mean it, and they had the chance to express themselves. They came out to very actively exercise their rights and showed that these elections could be non-violent with strong participation. They were really embracing what they thought the revolution was all about.

*Secondly, the results of the elections* -- and that’s the more interesting part -- *are very puzzling* to many and puzzling to me as well. I’m trying to understand what the results tell us. They tell us that the public was searching for balance, a balance between two things, a balance between a deep desire to break fully and irreversibly with the past autocratic and despotic regimes. This meant that the main winners were parties which most clearly advocated a break with the past. The three main winners were the ones who most clearly articulated a break with the past. At the same time, *people were trying to achieve the goal of breaking up with the past while preserving some sense of stability and security*.

What does that mean? For those of you who followed what happened, one of the characteristics of the election was the number of lists. There were hundreds of lists. I think there were 1,600 party lists that were represented for votes. In a given district there could be fifty, sixty, up to ninety-five lists competing. When you look at the results of the elections, only a very few got any seats in a given district. Out of ninety, fifty, or sixty only four or five lists would make it, which means that people felt that they should vote for parties closest to their views but have enough size to be able to govern and bring stability back. They tried not to disperse their votes all over the place and have an unmanageable situation, which meant that almost all independent lists flunked. Most of the parties, especially the unknown or small parties flunked and did not get any seats. Only a very few, actually five or six, got a significant number of seats. It is this balance that people were trying to achieve, this message
that we want to break with the past but we don’t want to go to chaos or an unmanageable situation.

*The third lesson* I learned from this was that the election showed a deep split within society between two alternative views about the relevant political and social model that the country should have: a conservative view that is anchored in the past and in religion, and a modernist progressive view that is not. But neither of these views has an overwhelming majority and the population seems to demand that a consensus, or balanced, view be found. The public did not give any of these views a clear majority to go its way. The people seemed to be telling us, ‘you guys, you should find a balance for us. We don’t want any of the views to predominate.’

The lessons from these recent elections are clearly consistent with those that I was talking about, the lessons from the revolution, namely, the yearning for dignity, fairness and freedom. But they also pose huge challenges going forward of how to achieve this new model and anchor freedom, democracy, fairness, and dignity in the future. These are some of the lessons that I personally drew from the elections.

I want to say a few words about *what do the months of transition tell us*. It’s been ten months already since the collapse of the old regime on January 14th. There are lots of economics I could talk about, but since I’m not talking as the central bank governor today, I won’t talk about economics and numbers. This is mostly about politics.

Beyond the lessons from the election itself, and the revolution, what have we learned through this ten-month transition period? Again, I want to emphasise the point I made earlier that despite decades of repression and autocracy, a rich political life has actually emerged and which is learning how to come to agreements and compromise – “à la the Dutch”, or how we talked about the Dutch spirit of compromise this morning.

It’s amazing for me to see how, on many occasions, political fights come to the brink of collapse, but afterwards people find a compromise, come to the table and agree on something. This has been done without excessive political violence. I want to mention something which may not be obvious to many. Since January 14th, there has not been a single casualty from political violence in Tunisia, not a single one. Not a single person has died because of the political climate. There have been deaths for other reasons -- crimes -- but in terms of political violence since the collapse of the old regime there has not been a single person who has been killed because of that.

This has been accompanied by the emergence of a strong and dynamic civil society. Associations and NGOs are thriving. They’re like mushrooms. They’re popping up all over the place. But they’re active as well. This is the first lesson from the transition. It’s very important that people take their freedom very importantly and try to exercise it.

However, that process has come with some very heavy economic costs -- and I’ll just say a few words about economics -- because of the disruptions and disorder, especially during the first phase, but also indirect costs because of heightened uncertainty, the ensuing collapse of domestic and foreign investment, and the lack of confidence in the future. A simple measure for that, though there can be other measures, is that the cost has been about 5% of GDP for this year, 2011, and maybe more in 2012. In respect to the European response, and the rest of the world, I would say this cost has been exclusively borne by the Tunisian people. There hasn’t been much support from outside to mitigate this cost or to help us bear this cost.
The third and most important point I would like to make is that the most difficult challenge of this transition has been, and still is, how to manage the expectations' gap. Let me explain. One of the main drivers of the revolution, or the factor that has fuelled what has happened, is the large existing gap between the expectations of young, higher educated people -- men and women who aspire for good jobs and a better life, but are faced with a reality of high unemployment rates -- and long lines waiting for jobs. These can be up to ten years or more. We have young people who at thirty-five or forty have not had their first job!

![Mustapha Kamel Nabli and Bernardino León](image)

The expectation gap between what people were aspiring to and what they lived through has been one of the drivers. The paradox is that this expectation gap increased after the revolution. The factor which fuelled the revolution has become even more relevant today. On one hand, people were expecting the revolution would make life easier and give them a chance, so their expectations were even higher. But the reality is even worse because growth has collapsed -- we have zero growth -- and unemployment is zooming higher. The unemployment rate increased from 13% in 2010 to 18% in 2011, and that was in May. It might be even higher today. The big challenge for policy-makers is how to meet this challenge of the worsening expectation gap. Things are getting worse before they are expected to get better, and governments are hard pressed to deal with that. That’s really the most difficult part.

These are some of the lessons I thought I could share with you about the recent experience of what has been happening.

Now, what implications do these lessons entail and how may these lessons impact the way we think about the Euro-Med relationship? I think there are a few lessons and a few implications. Let me start by saying that I find myself mostly in agreement with the ideas and proposals which have just been presented by Madame Guigou about the new board approach to the Euro-Med partnership as a response to the Arab Spring. I won’t go into the details -- there are some things I agree with more than others -- but this may make a few points that go beyond those proposals, and that they follow from what I just said about the lessons.

First, let me emphasise that the yearning for dignity and participation is not limited to domestic matters. It applies and spills over to international matters and relations as well.
This is not only about the issue of the visa system, which is a sore point in the Euro-Med relationship, and the humiliation North Africans -- and others -- feel when they go through the process of getting a visa to Europe, and paying a high fee for it. I've resented it myself on more than one occasion. But I'm not going to talk about that. It is also about being part of the process of designing the relationship itself, and I want to echo what Prince Hassan has just said on this matter. Let's remember when we look at the EU-Med relationship that it has tended to be designed and cooked up in the north. It has tended to be offered as a ready meal, ready to be consumed by the south. Whether this was the Barcelona Process in the 1990s, the New Neighbourhood Policy, or whether it is the recent Union for the Mediterranean, there was no process of participation in the design of the relationship. It was designed externally and offered as such. This has implied that -- and I said this many years ago -- there has been a lack of ownership and commitment in this relationship. One of the main reasons why the Barcelona Process lacked success was the lack of ownership and commitment by the governments and the people attached to it because they did not feel they participated in it. It follows that a sound EU-Med relationship needs to include and factor in the interests and the views of their southern partners. This is more important now than ever. Perhaps it was possible to have had this relationship before because you could talk with dictators, negotiate with them, and people would accept it or not. They were not heard anyway. This is not going to be possible anymore. People are going to ask to be part of the design of the process and the content, and to make sure it is in their overall interest. This should be remembered now and in the future.

The second point about the relationship that I would like to call attention to is that the process of transformation in North African countries -- as was presented in the paper presented by the commission -- is different from that of Central and Eastern European countries in that it is not anchored with a clear view, or vision, of where it is going. Beyond striving for the broad values that I was talking about -- democracy, freedom and dignity -- it is not very specific. This means that the process is not going to be linear and that domestic politics will take some time to converge on a new social and political model.

As I was saying, the elections in Tunisia show that society is split. It means Tunisians aren’t ready yet to agree on a common view, or vision, of society. This has implications for the EU-Med approach of criteria that we have talked about. It means that it’s not easy to put criteria on the table, and say, 'you can take it or leave it.' That’s not the way it’s going to be because people are going to be trying to figure out what they want themselves. It’s not like you’ll give them a manual and people will say, 'ok, I’ll take this and you take that.' People are going to be working it out and it is going to take time. This implies that the EU-Med approach has to be adaptable and allow for a lot of flexibility as we go forward.

This brings me to my third and last point about the lessons and implications for the EU-Med relationship, which is that from the perspective of the southern Mediterranean, any corporate strategy has to have its core focus on jobs. The interest and ownership of the southern countries can be insured if they see the partnership as helping them to deal with their central challenge, at least that of jobs. Any partnership which is not built and centred on that is not going to go very far.

This would mean dealing with a number of issues which are difficult, including direct investment, technology, training and education of workers, how to meet market needs, managing migration that is mutually beneficial, and I think someone mentioned circular migration. It’s these issues that have to be at the core of any response, and any partnership, as we go forward. This is the central core issue of development. It is critical for the development
and stabilisation of democracy, dignity and of reaping the benefits of the revolution. If the EU partnerships are not seen to be instruments to achieve those objectives, they’re not going to go anywhere.

These are, in my mind, a few implications that what has been happening in North Africa -- and beyond, in the Middle East as well -- mean for the relationship between Europe and the southern Mediterranean. I think they are going to have far-reaching implications. It’s not 'business as usual' anymore. I think the core values on which what has been happening are going to have implications, and the process of transformation that is domestic is going to have international implications, certainly for the main neighbour Europe. And, I think we should really start thinking through new ways of doing business and different ways of building this relationship as we go forward.

**CHAIRPERSON - ELISABETH GUIGOU**

Bernardino Leon has the very difficult task of answering a few of the main questions that both Prince Hassan and Governor Nabli raised. Mainly, it seems to me, apart from the need to have an urgent response to the need for jobs -- implying investment and joint-partnerships -- they need to develop effective projects on water, energy, etc. The call for dignity in international relationships, mainly between Europe and the southern Mediterranean, is a call we hear everywhere in the southern Mediterranean countries. It is very important because one of the main failures of what has been done unto them is seen in these southern countries to be the fact that it was an unequal partnership, with Europe putting the papers on the table and stating its offer without the possibility for a real discussion. That’s certainly one very important point.

The second, of course, is that such equal partnership inevitably goes -- not only with effective projects, investments, good money coming and fuelling a special bank, etc -- but also with a greater mixing of populations. This is a very difficult thing for Europe to do to change its immigration policy. To open its borders, even selectively, but still have a different approach to the question of migration.

**BERNARDINO LEÓN**

*We live in world of perceptions*, and there are two widespread perceptions which I would like to address this afternoon. One is that the Arab Spring is turning into an Arab Autumn or even an Arab Winter. The other is that *Europe is blocked by its internal problems*, by economic
crises, and it’s not addressing -- not paying attention to -- this so-called Arab Spring. None of them are true, and none of them are fair.

I’ll try to answer to address these two perceptions by answering two questions. Number one: *how does Europe see the region and what is taking place in the region?* Number two: *what is Europe doing?* Elisabeth Guigou, in talking about the first perception -- whether Europe is responding or not responding -- implies that Europe is not answering. So, conversely to Governor Nabli, I will challenge and disagree with some of the proposals.

*How does Europe see the region?* Europe has a sense of responsibility. It knows it has to share. Whatever the outcome of what is taking place, it has to share it with the main political actors in the region. Europe has a sense of time and a sense of urgency. We know we have to answer now. Therefore, it has a sense of priority. We know that we will not be able to do as many things as we have done in the past in the world, but we have to address this one, and we need to mobilise the resources to address this one. Europe has developed strategies, tools and a strategic approach to address the Arab Spring.

It has been said by Governor Nabli and by Prince Hassan, in a quite detailed way, what is happening in the region. It’s a total redrafting of the politics of the Arab and Muslim world. In parallel to this redrafting, *we should also redraft our mindsets of how we see the region.* As it was said before, autocracy is behind but it is not clear where we are going. In most of these countries revolutions took place or there has been a decision to bring about political reform. Fortunately, not all countries are suffering revolutions. Some of them are in an evolutionary phase, which is very important for Europe.

These are the common points, but the rest are differences, differences between the ones in revolution and the ones in evolution; between republics and monarchies; between the ones that decided to move and the ones that decided not to move so quickly. Algeria is one example, perhaps, because of its recent past of violence -- a traumatic experience. Syria is another example where there is a terrible regime repressing people calling for change. There are many differences which require a differentiated approach.

*Economy will remain a main challenge* for most of these transformation processes. The international community has to keep in mind that in order to accompany and contribute to these changes, it will also have to address these economic challenges. We can also take into account that there are other actors. It’s not only the Unites States and Europe. We have emerging countries like Turkey and the Gulf countries that are participating very actively in these processes. And this is good news.

*How is Europe responding to what is taking place?* First of all, we prepared and issued a strategy in *communiqués in March and May.* We have taken an overall regional approach. But let’s be clear that an asymmetric approach is required. It’s what in Europe we call a ‘more for more’ approach. It will not be the same answer for a country like Tunisia, which is in a full transition process, as it will be for Jordan or Morocco, which are evolving in a political process, or Syria, which is doing exactly the opposite.

Of course we share the need for a new regional approach, but now the case for each country is so different -- it’s so heterogeneous -- that it is very difficult to know what this new approach will be. We need to learn on a case-by-case basis. We are doing so while keeping in mind the principles mentioned before, and I will dwell on this point later when I explain the different task forces necessary for the different countries.
Europe has developed tools after these strategies were approved, and then were approved by member states and institutions. We decided, first, to appoint a special representative -- and I was honoured with this appointment -- and, second, to create a tool and instrument, which are these task forces that we will have with these different countries to address the specific needs of each one. Thirdly, and most importantly, we agreed on a very important financial response to the needs of these countries.

I wonder when some people say 'Europe is not responding' whether we have done enough to explain the answer of the European Union. I will tell you just one figure. The budget before the revolutions and political transformations started, for the southern region, was 5.7 billion euros. After the revolutions started, we decided to agree on a number of instruments. Now the budget is 11 billion, practically twice what it was before. To this 5.7 billion you must add 1.2 billion for the Neighbourhood Budget, 1 billion from the European Investment Bank, 2.5 billion from the European Bank for Reconstruction and Development, 330 million for the Spring Program, 22 million for the Civil Society Facility, and 66 million for the Erasmus Mundo program. From € 5.7 to 11 billion, this is the financial answer from the European Union.

We have decided to work case-by-case, and the instrument to do so is the task force. Applying this principle of 'more for more,' we first decided to go to Tunisia, a country which is developing faster. Applying also the principle that Governor Nabli mentioned -- co-ownership -- we didn’t organize a taskforce for Tunisia: we organized a task force with Tunisia. Before we decided what content this task force would deal with, I travelled with my team to Tunisia, met with those responsible. I met Governor Nabli in early August. And we decided the goals of this task force together. The Tunisian government and the European Union invited the different people who participated in the task force -- some of them are here today -- and every point was agreed upon by both sides. We have distributed the conclusions of this taskforce, and you can see that some of the elements that have been mentioned here today. Recall that this meeting took place on September 28th -- more than a month ago -- and most of the points that have been mentioned here today are addressed in the documents you now possess.

First of all is job creation. This is the main priority, as you will read, in the document. Number two is regional development, including issues like water, which has been mentioned by Prince Hassan, or agriculture. Number three is private investment. Governor Nabli, you are right when you said that we have to approach all the points you mentioned, but this is a shared task. We have to do it. This is why the European Union invited a number of very important European companies to travel with us to Tunisia to address this private investment and job creation issue. But the CEOs reminded you that you also have to do things, like approve a number of legal measures. You share the duty of reform so that these private investments can take place in a different environment. It’s a shared task.

Fourth is asset recovery, which is also one of the priorities that Governor Nabli asked of me in our meeting in early August and for which the European Union created a high-level committee with the World Bank and Swiss authorities. The Swiss president was invited to attend this task force. But, we also addressed infrastructure, energy, and water. We agreed that mid-term challenges like a new trade relationship, new agriculture opening and mobility need to be met. The European Union, which does not have the competence on visas, very clearly asked member states to facilitate the distribution of visas and to be more open to people travelling from the south.

The most important point, and this also addresses what has been said before about dignity, is that we need a new kind of long-term relationship with these countries. The Euro-Med
network that was agreed upon with Morocco is not enough now. For these countries which are changing and becoming democracies, and Tunisia is the best example, we need a new kind of relationship. It has to be very ambitious. Of course, membership is not possible, but it has to be very close to that.

We have to reflect together, but, as we say in the document, it has to respond to a “logique d’intégration”. So we’re very ambitious and we are aware that for all the countries in the south that will achieve a successful transition to democracy, a new kind of relationship with the European Union is needed. Therefore maybe the European Union needs to communicate what it is doing better, but these various specific figures I have mentioned -- this work we are doing, for which I was appointed only in late July -- we are moving very quickly.

We understand that Europe has to respond very quickly to what is taking place. For this reason I am very grateful to be here today because I understand that part of my job, and part of the responsibility of the European Union, is not only to address the challenges in the south, but also to explain what it’s doing, to listen humbly to new ideas and proposals, and I’m sure that today your interventions will provide many such good new ideas.

**Q & A Session**

**A DUTCH PARTICIPANT** asked a question concerning the situation in Syria, which was not dealt with explicitly. The question is how to help reform Syria? When we talk about the Arab Spring it is not difficult to make general statements, but when we come to specific situations like this one it becomes difficult. They have two large organisations in and around their region: the Arab League and the Conference of Islamic States. What could the member states of the Arab League and the Conference of Islamic States do to help the population of Syria? Could they, for instance, cancel or freeze the membership of the Syrian regime in both organizations? I’m asking given what has happened after the urgent requests by members of the Arab League to the Assad regime to stop the brutal suppression. Things are going on like before and I haven’t heard any message from either organisation.

**RESPONSES FROM THE SPEAKERS:**

**BERNARDINO LÉON**

Well, number one, what you do to help reform is a difficult question since there is no consensus in the Security Council on how to address the Syrian situation. Some big powers, namely China and Russia, oppose a dropped resolution which has been tabled by the European members of the Security Council and the United States. But consensus is growing in the international community, and the good news is that the Arab League is becoming more and more active in Syria. It has tougher language, and today -- just a couple of hours ago -- it agreed to freeze Syrian participation in the organisation. So I can give you this good news. This doesn’t come as a surprise. The Arab League Secretary General Arabi has been very bold in dealing with Syria. He was the first secretary general of the organisation who issued, when he couldn’t get a consensus for a joint communiqué, his own communiqué. It was the first time in the history of the organization that a secretary general put pressure on Syria. I think this is very good news because if we have strong support from the region, and the European Union and the United States remain sound on this issue, sooner or later there will be an international consensus. Then, China and Russia will have to support this resolution and we will be able to address reform in Syria. The Arab League has agreed upon not only that, but also something else which is very important: to recognise the opposition. That is a very important point.
EL HASSAN BIN TALAL

I would like to present the view of a non-governmental organism. I don’t represent an organisation or a government -- I don’t have the luxury of following the news in the region. But I just want to say that as far as Syria is concerned let us assume for the sake of hypothesis that the regime has lost control. Is the solution then going to be -- by implication if not by declaration, as my colleague Emissary Leon is suggesting -- that if the ratcheting up of pressure on Syria is conclusive, that is to say including the Arab League and possibly even Russia and China, does this mean that intervention in Syria is going to resolve any outstanding problems?

My deep concern is that we are at a crossroads in the region. We’re talking about the “Arab Awakening”. That crossroads, it’s as I said, a centripetal movement in Syria, it's either going to divide or subdivide the region. It was said when Syria entered Lebanon that the reason was that Kamal Jumblatt, the father of the current Druze leader, was interested in the creation of an independent Druze entity, possibly extending into the Golan. That the Kurdish question is still a problem for Turkey is very clear, and again, American voices have suggested arming the Syrians in the northeast of Syria. On the Maronite question, the word on the street today is 'les chrétiens à Beyrouth et les alaouites aux cercueils.'

I just wonder whether all of this is going to lead to stabilising Syria. I would rather suggest that even at this eleventh hour -- even with the freezing, which can be unfrozen -- that taking the calls for reform in Syria at face value, and calling for the expediting of that program, is still an alternative to listening to Syrian opposition voices. These voices, largely outside Syria, are calling for action which may result in the dismemberment of not only Syria, but may also by extension spill over the borders into Iraq, Lebanon, and Turkey. I’m basically talking about the potential of crossing the wires with this whole question of the Iranian threat and Iranian influence through Syria into southern Lebanon, Hezbollah, and the threats to Iranian targets. I’m just wondering whether in trying to address the issue -- and I put forth this hypothesis whether or not we’ll see it happen, and I live just next to Syria -- we will do the exact opposite of what is called for: the start of a stabilisation process. For that matter, let us ask ourselves, where has foreign intervention led to full stabilisation?

[Chairperson - Elisabeth Guigou informs the conference that Syria has just been either expelled or suspended from the Arab League]

Q & A CONT.

AN EGYPTIAN PARTICIPANT hailing from journalism stressed that the uprisings in Egypt didn’t only take Europe by surprise. They took us, the Egyptians, by surprise as well. After the initial euphoria we realised that we weren’t prepared for the changes that came about. We have elections in two weeks’ time -- less than two weeks -- and none of the political parties are well prepared, except for the Muslim Brotherhood, which is the only organised group. Our state institutions have yet to be purged of corrupt elements. We need to build strong institutions, and we have yet to see a free press and independent judiciary.

But there is also good news coming out of Egypt. The political activism in the country is unprecedented. Everyone wants to be on board to build the new Egypt, women included. Labour and trade unions are being formed. We, the journalists, have come together to form a free journalists movement to counter state propaganda. With the leadership vacuum we find that people are taking matters into their own hands to try to resolve their own problems. You saw the example of the popular committees that were formed at the time when the security vacuum was in place.
How can Europe support the transition to democracy? I totally agree that Europe needs to see the Arab Awakening as an opportunity. It should be a starting point for a new chapter in our relations based on mutual respect and partnership. Europe needs to realise that Egyptians, and other countries that have had an Arab Spring, have found their dignity and will no longer be dictated to by anyone. Democracy has to be home-grown and tailor-made to suit each country’s own specificities.

There is no one-size-fits-all, and we needn’t reinvent the wheel, because there are lots of very successful projects that Europe is already implementing. We just need to build on these models of success like educational reforms to teach tolerance and acceptance of the other, developing SMEs which are the backbone of the Egyptian economy, the opening up of European markets to goods and services because exports will provide the jobs we need for our youth (30% of the population). Regulated migration is another area. So far the youths that have been coming to European shores looking for better opportunities are mostly unskilled. So, vocational training would go a very long way to make sure that our youth can compete in the global market.

Supporting such initiatives would mean a win-win situation. Finally, there is a lot of mistrust and anger directed at European governments and at the US administration for supporting dictatorships in the Arab world for decades and caring little about the needs and freedom of the people. Europe now needs to prove that it is the friend of the people, not the autocratic regimes. It needs to adopt a consistent set of values in dealing with all the countries across the Arab world, not one way with one country and another way with another. It needs to do this through civil society empowerment without any strings attached. There are other parties that are waiting, and very willing to jump in -- China, Iran -- while Europe is busy dealing with its own economic crises. You may miss the chance if you wait and worry about the rise of Islamism. The best way is through helping us improve the lives of the people and deepening democratic values, but allowing the people to draw their own roadmap.

A FRENCH PARTICIPANT recalled a meeting a couple of months ago with women from all parts of the world, and mainly from the Arab region. There was a journalist, a woman from Iran, and she said something which was very important to us -- and I’ll ask you the question in return: “Don’t make the same mistake we made in Iran because we fought for democracy, we fought for freedom, but we didn’t speak for the voice of the woman.” What you have to do is to ask for the liberty of choosing your job, the possibility to buy a house or car alone if you want, and to have the same human rights as a man.

A GERMAN PARTICIPANT had two remarks. The first is that we Europeans should still realise that we have a different interest in that region -- a much more comprehensive interest in that region -- than other players in the world. I think the European Commission realises that but not all member states do. Now look at all the others players. The United States has a very increasingly focused strategic interest. It’s focusing on the Gulf, it’s focusing on Israel and its neighbours, but already in the Libya campaign it has shown that it would like to leave the Mediterranean -- or the rest of the Mediterranean -- to the Europeans. It doesn’t want to fully engage all the people with all the countries. It’s a selected interest.

The same goes for China and India. The Chinese may have increased trade with the Middle East tenfold over the last ten years, but their interest is purely economic. They are not going to engage in trying to build institutions or build rule of law in that region. The only partner that has a comprehensive interest, a strategic interest, a security interest, an economic interest, a neighbour interest, a developmental interest, and probably even a cultural interest is Europe.

I’m not sure that with all the correct things which Ambassador Leon said that the Europeans have actually embraced -- member states and the Commission together -- what their special responsibility here is. I don’t see all the member states already subscribing to all the things you have in your communiqués and what you have in your task force results. Things like more free mobility, about admitting young workers to get professional experience in European firms, for example, and then helping them to get back to their own countries to start a business, perhaps with a loan from European banks. These are things that would be important and that could help a lot. They have a lot of young engineers who have no professional experience. We have a need for young engineers. We could help
them get their professional experience in Europe and then go back to Tunisia and Egypt and set up shop. With some financial aid, it wouldn’t be too costly for us. I don’t think member states have already embraced this.

I don’t think member states have embraced -- and I’m not so sure about the Brussels institutions -- that we would have to work with actors and develop something like a trust with actors which we don’t know. We are all afraid. If I look into the European press, there is a lot of fear with regard to the election results first in Tunisia and now in Egypt. The question is always: will some people win who we don’t know? We are ignoring that the main problem is with people we haven’t known for too long. All the monarchs and presidents we know in detail, but the real task is to develop trust with actors we don’t know.

I’ll make my secondary remark and question very short. Syria was already mentioned, and I want to follow up on what was said. I must congratulate the Arab League that for once it is ahead of the United Nations Security Council. Who would have given a dollar to the Arab League one year ago here among us in the Trilateral Commission? I wouldn’t have. I thought it was a dead body and that it wouldn’t get political. Today the Arab League is actually ahead of the United Nations Security Council, imposing sanctions on a member country for human rights abuses, something the Security Council is not able to do.

My question -- I differ a little bit with someone who I respect a lot, Prince Hassan, we have known each other for some time. I don’t think anybody in Europe would like a re-division of the Middle East and we would all love Bashar Assad to lead reform in his country, but he has chosen otherwise. I think there will be patterns of change, where some countries -- and I think Syria is one of these countries -- where change is resisted violently by the regimes whether we like it or not. Here, change will only come about violently because the regimes resist it with violence. My question to our two Arab participants is what do you expect Europe to do for Syria or with regard to Syria?

For a **Spanish Participant**, it is obvious that the European situation is affecting its capacity to develop foreign relations in a very aggressive and generous way. Bernadino Leon has given us a very good explanation of what Europe is doing, and he was only appointed a few months ago. It proves that Europe is always convinced of the need to do things there. I’d like to ask the three speakers how they would compare the European reaction with the United States’ reaction because we are playing in the global world. Specifically I would like to ask Bernadino Leon, who also knows the Unites States very well, to what extent would it be important that Europe and the United States would coordinate the relation with the region in all aspects, including economic help, cultural relations, and all that. If that will be done, the synergy between Europe and the United States would dually help that idea. The second issue is the wariness in Europe about the rise of Islamism. We can discuss this for hours, but it is a problem. There is a race with Islamism. I would also like to have some comments on that. What will the effects of that race be?

**An Italian Participant** agreed with most of what is in the report the group has submitted to the session and made three brief points. One is do we realise we have no time left? Very little time, certainly not enough for planning international organisations or complicated formulas like those we have seen put together up until now. I’m very much afraid that parts of the old regimes in the countries where the Arab Spring has taken place will almost inevitably exploit the population. With a lack of visible results, eventually some of the Islamic forces that may be present in the region, and are very active with their social works, will come back full circle creating a new and different authoritarian regime. I would very much suggest that we do long-term planning. This is typical of diplomats, of economists, of political scientists. But, at the same time, we give the utmost priority at being visible in reaching the populations. Therefore, we cannot use the old and time-honoured government-to-government or EU-to-government development cooperation because the administration in the countries where the uprising is taking place is not exactly the counterpart we wish to have, especially in consideration of our strict legal regulations. Why don’t we use the EBRD, the formulas that have been invented already: micro-credits, NGOs, the discredited Barcelona Process… Vocational training is the only thing that they have been able to design within the university programs -- that is the only
thing they’ve been able to undertake. Two brief additional remarks. One is immigration. Please, don’t frighten countries that will have to put any agreement to a referendum! So let’s be very careful about we bring home to our respective parliaments and public opinions. Lastly, “bi-lateral” is very good. Countries are all very different, their needs are very different, but the first priority should be to tell our counterparts to talk to each other. Up to now these countries have spoken to each other through us, which is unhealthy, especially if we want to promote regional cooperation.

A FRENCH PARTICIPANT welcomed Bernardino Leon with great interest and confidence: his position carries a sort of supreme responsibility for the whole of this relationship of cooperation between Europe and the southern countries of the Mediterranean. The problem we have now is a very complex problem of management. What I read from the report was that a new system of cooperation should involve only those countries which have started a democratic transition. Does that mean we set aside the Euro-Mediterranean system, which is already so complicated, or the Barcelona process? How is this going to be built? And, how can we avoid what we call in French political jargon “l’usine à gaz”. This is something that is completely impossible to manage leading to almost four sets of rules: the Barcelona system, the Union for the Mediterranean, the Neighbourhood Policy, which is something else, and now maybe we want to have a new set of ventures which should really goes only to countries which have undergone the revolution. To solve the impossible knots that we will encounter is to name a “dictator”, a “tsar” of the Mediterranean. Is that tsar Bernardino Leon?!

A PALESTINIAN PARTICIPANT noted the obvious: while listening to the EU representative, there is a realisation of the importance of the issue of the Arab Awakening or the notion of perception within Europe. Most of the efforts so far have not proved that they can realise a fuller achievement of Europe vis-à-vis the region. It is about time for Europe to know its mission within the region and identify it irrespective of being reactive or trying to conduct business as usual, i.e. coming up with solutions for employment, immigration, etc. The way the international system is heading today and -- perhaps as a Palestinian -- as an outcome of Palestinian efforts to bid for statehood within the UN, it’s about time for Europe to define its positioning not only vis-à-vis the Mediterranean region, but also vis-à-vis the global geo-political system. As a Palestinian, I would like to remind you that even if we are taken by all the changes happening in the region, there is a basic issue of a value type of perception, and for what Europe upholds vis-à-vis democratic governance values. The efforts that Europe can do, if it is convinced that it can do, are to influence a durable peace in the region while providing Palestinians with the right to self-independence. Because, as a Palestinian, seeing all the efforts happening to help Tunisia and Egypt -- which is very important -- it is extremely important to be genuine in our efforts to have a real partnership and a real international community that is based on dignity and durable peace.

CONCLUDING RESPONSES FROM THE SPEAKERS:

EL HASSAN BIN TALAL

May I just go back to our German colleague and reciprocate my respect for his views. I asked a hypothetical question in which I said, 'have we considered the consequences of action to be taken in Syria?' I asked the same question at the time of Iraq’s invasion of Kuwait. By the way, at that time, the Arab League was also ahead of the Security Council, but the Security Council took the law into its own hands, if that’s not a contradiction in terms.

We would love to be able to resolve regional issues on a regional basis but the fact that Qatar is in the chair today of the chairmanship of the League has led to many questions raised about Qatar’s role in Libya. Are we seeing an intervention in Syria where all the consequences have been studied? Are we seeing an intervention whereby the Turkish model in Kurdistan, where in the middle of intense military exercise and bombing campaigns, the Turkish military working against Kurdish rebels on the one side introduced hundreds of Turkish companies into Iraqi Kurdistan, including the majors. They were setting up business within Kurdish territories in Iraq. So, in fact, the Kurdish leadership said to the Turks, 'invade us economically.' The consequence of that has been very clear. The Kurds now, prime ministers
who were once completely unwelcome in each other's capitals, are now regularly visiting each other. Reciprocal embassies have opened up, and Turkey has for the first time been using the term Kurdistan and the Kurdish government has totally clamped on and denounced Kurdish rebel fighters.

Now, if there is some kind of a regional agreement to which we are not party -- whereby how the wars' end is the question -- I might feel a little more comfortable about the possibility of intervention. But in the absence of any such agreement, if the domino theory is going to bring in Hezbollah, Sadrists in Iraq, or an attack on Iran, then I think this issue has to be discussed in a conversation, in a small group, with all due respect. It is not an issue to be discussed in a plenary of this kind.

For my last remark about human rights and the package to which you have all referred -- of doing it differently to build trust -- I would suggest that engagement must be strategic. It must consider leveraging value added of authentic partners but also in developing themes. Can you bring the social charter from Central and Eastern Europe? Can you bring a water and energy charter into the discussion? So that we can all begin to apply to the same terms of reference in a region where unfortunately the only terms of reference are the two elephants in the room: oil and weapons. People do not count. Yes, Turkey counts, Israel counts, Iran counts, and the United States count. But we Arabs don't deserve enemies. We're doing a very good job of it ourselves.

**Governor Nabli**

Let me pick up very quickly two or three points. On different women’s rights and Islamism as a whole, in Tunisia, they already exist. It’s a matter of defending them, maintaining them, and expanding them. That is the big topic of the day. How can we insure that with the Party which has an Islamic background, women’s rights will be preserved and protected as we go forward? In regards to Islamism and so on, I think we have to live with it. We have tried a solution, which is to repress, and this has not worked. We have to do it an open democratic way, and work to make sure it is something that we can manage. That’s why I’m saying Tunisia is an interesting example because it is different from others in that the Islamist view is not an overwhelming majority. That being so, coming to a good compromise to preserve rights, including the rights of women, and managing the rights of Islamism will contribute to its potential for success. But this is not guaranteed. It is essentially going to depend on what we do as Tunisians inside the country. That is where the support from outside might be timely, when needed. Here, it’s not time, it’s too early. Maybe history will say this in the future.
Ten months after the revolution, I must say that support from our side, from Europe or the US, has been wanting despite what Bernardino Leon says. I talked about the cost that we had to bear this year is in the order of billions of dollars. It’s a three to four billion dollar cost. We have never had anything of that magnitude. The European Union support has been on the order of 100 million, that’s about it. We’re not talking in the same language. We are bearing huge costs. I can go into the details of the cost, and why and so on. It’s not the responsibility of the European Union, and I agree with that, but it’s an issue of what you can invest it in. If you would have invested better during the transition period, maybe the election results could have been slightly better, or different, let’s say. I don’t know. History will tell us some other day.

The fact of the matter is, during the past ten months, we have been left to deal with our problems on our own. People were thinking, 'should we wait until a new government comes before we invest?' I was saying it in January! I was saying, 'don’t wait! Maybe it will be too late if you wait and a new government forms after the elections.' But, that’s a fact of life, that’s reality, and we have to deal with it.

On the last point about immigration, about the whole 'do not frighten,' this and that, Europe has to make up its own mind. Either you have a purpose or you don’t. If you have preconditions -- such as you can deal with that question and that question is open, but that other question is not open for debate -- then we cannot talk. I know European countries have their own problems. They have their own extremes, and they don’t want migration and so on. But we have our own extremes. Yesterday we put them in jail. Today they’re going to be in power. You cannot put them in jail anymore. You have to deal with them and live with them. That’s why I was saying partnership in building the relationship is of the essence. We have to find a common interest. If everyone puts up red lines -- boundaries about what we can and can’t talk about -- then we know what the outcome will be. There won’t be any cooperation. Then we’re heading in the direction of conflict and things of that nature. We have to find common ground, and that is why we have to deal with that.

I appreciate what Bernardino Leon is saying about the new approach of the European Union task force. That’s a good first step. I’m not saying it’s not. But it’s far from what is needed. It’s the first good step in the right direction, but it has to be much deeper and the real issues need to be put on the table with broader participation.

BERNARDINO LÉON

Thank you. To Prince Hassan on the topic of Syria, the international community is aware of the challenges in Syria. It’s a puzzle. It’s a very complicated country. The Kurds, the Shias, the Sunnis, the Alawites, the Circassians, the Armenians, the four groups of Christians, the Jewish population. It’s probably the most complicated and complex society in the Middle East. But we have to find a balance because the regime has to know that if it continues to ignore the calls from the international community, then we cannot afford such a regime to continue.

EL HASSAN BIN TALAL

Forgive me for interrupting. I started my intervention by saying, 'assuming the regime has lost control.' Is intervention on its own, without -- as I tried to amplify later -- consideration of how wars’ end, going to bring the desired results? We’re neighbours of Syria. Anything that happens there it will probably be our soldiers who are going to be called in, among others. It might be Gulf soldiers, maybe Moroccan soldiers; maybe that’s the price of the Deauville
Summit. We have to be soldiers for democracy. If we’re going to be fighting and
dying for something -- our boys, they’re the ones who matter -- what are we
going to get out of this whole exercise? Are we going to subdivide the whole
region into something new? This is why I say a regional social charter, a
regional agreement. Please help us help ourselves.

BERNARDINO LÉON

No, I can’t answer. You’ve seen the example of Libya. I was one of the ones
who advocated for intervention in Libya provided that we had consensus in the
region, consensus in the African Union, in the Security Council, and the
European Union. We had the full consensus and we intervened. There were
many, many comments about not preserving the integrity, about this intervention
being an intervention for oil. I can tell you as a Spaniard that one of the main
companies extracting oil in Libya -- when Gaddafi was still leading the country -- was a Spanish company. It took Spain 48 hours to decide on the intervention.
This is a matter of principles and values, and it’s very clear to all of us that the
territorial integrity of these countries is very important. No one will question
that. We have to be aware that the regime has had many opportunities until now,
many roadmaps, many chances, but if it does not lead the transition....

EL HASSAN BIN TALAL

… If the moderator will forgive me again...On Libya, I was sitting next to
President Nasser and King Hussein in 1969 when a lieutenant named Muammar
Gaddafi drove three rickety British-made armoured cars past Wheelus U.S. Air
Base with everyone waving to him, and we all knew that this was with the
approval -- obviously -- of the Anglo-Saxons who were on the soil there. When
the F-111s came over the UK, Mrs. Thatcher asked me, 'Were we wrong to
allow them to refuel?' I said, 'you were wrong in not going in to finish the job!'
(1986 US attack of the Libyan airfield after the West Berlin disco bombing)
The aberration of Gaddafi -- and I was never on good terms with Gaddafi, I
never bowed to Gaddafi as many Western leaders did -- is because of oil. That is
what is perceived. As far as Syria is concerned, the Fertile Crescent is the issue.
It is now a futile crescent. Lebanon, Syria, Jordan, these are the countries that
are closest to Israel and that have the finest education in the region. Every time
we make a step forward, it means war. We have to be slapped down again into
the Stone Age. So I’m just asking a strategic question. When will we
conceptualise a fertile crescent, hopefully including Israel that can develop a
stable regional reckoning for the future? Unfortunately, at the moment, it isn’t
bi-lateral or unilateral. It’s almost mini-lateral. We’re talking about Kurds and
Druze, etc. It’s a Byzantine solution. We’re all on the road to Damascus, so to
speak, but are we going to get there?

BERNARDINO LÉON

Very humbly, Your Highness, the answer is up to you. It’s up to the people in
the region. If we have learned something from history, it’s that we cannot
impose solutions from abroad. So the answer is in your hands.

EL HASSAN BIN TALAL

With all due respect, sir, when the Hashemites came on their way to the Arab
Revolt on the way to Damascus, we were stopped by a European initiative called
Sykes-Picot.
BERNARDINO LÉON

You can find many examples. Particularly for every country, one can find ten different examples, but what is clear today....

EL HASSAN BIN TALAL

I would love to march to Damascus, but I would like to know what the end of the journey is. That’s all I’m asking.

BERNARDINO LÉON

A Spanish Participant asked something important, which is whether we are coordinating with the United States. I’m just arriving from Washington. Two months after I was appointed, the United States decided to appoint a similar interlocutor, which is something important to us. Ambassador Bill Taylor is now appointed to follow Arab transitions, and we are coordinating on five aspects: 1) political coordination, 2) economic support, 3) reaching out to new actors in the region, i.e., Turkey, Qatar, the Gulf states, etc. 4) coordinating our initiatives, Libya is one example of these initiatives, and 5) investment. Private sector investment is perhaps the most important element because the United States and the European Union can do a lot in that regard, because as it has been said, job creation is the most important challenge.

On the Islamists: A few weeks ago we initiated a dialogue with Islamist parties. We have to listen to the programs, to the proposals. There are a lot of perceptions about the Islamists, but no one knows where this is going to lead. What we’re hearing, from Tunisia, for instance, is that private investment is welcome, tourism is the main economic source in the country, and tourism will remain as it was in the past. Let’s give them a chance. You cannot ask for democracy and criticise the result of the elections. The only thing we can do is to try to work together so that there will be successful transitions to democracy, like what is going on in Turkey. By the way, Turkish Islamists learned a lot from Tunisian voices in the past, so this can be an interesting experience.

To a German Participant, nobody said this was going to be easy. What I was told when I was appointed was that we have to work with member states, with EU institutions, to make this possible. I agree on how you describe the international community, but I will tell you there is at least one actor which has similar interests from all points of view -- which is Turkey -- and we’re working a lot with them. Regarding the question of what you can expect from the European Union on Syria is on one hand working for an international consensus and on the other hand non-stop pressure on their regime.

On the money approved for the task force in Tunisia, for which the conclusions are on the table, is four billion euros. The rule was that not a single euro could be mentioned if it was going to be a pledging exercise. This is money that is at the disposal of the Tunisian government -- for the Jasmine Plan -- and also for the transitional period, which is from 2011 to 2013. It’s not 100 million euros, it is 400 million euros, and vocational training is the most important of the programs in the plan.

On migration, I think we have to do a lot of pedagogy, but we cannot be scared of these countries if these countries are changing and if the citizens of these countries are succeeding in their fight for dignity. We have to understand that things cannot continue as they have been until now.
“I’m not a dictator. I don't intend to be!” But we’ll work very hard to change, and you are right. It’s not in my mandate. But what is in my mandate is that there will be an asymmetry, and you’re right that there will be an asymmetry. To very specifically answer the question, the 5.7 billion euros which were in the budget for the traditional cooperation -- Barcelona, the neighbourhood, etc, the new resources, up to 11 -- these are for the countries that are moving. There will now be two asymmetric budgets. The principle is 'more for more,' so for countries moving like Tunisia, Egypt, Morocco, Jordan, and hopefully Libya, there will be more resources. But this isn’t going to be deducted from the cooperation we have in previous schemes.

To Governor Nabli, one of the main challenges is managing expectations. One of the expectations we also have to manage from the international community is that in this framework we cannot do as much as is expected. But, I think four billion -- which is 400 from the EU, 200 from member states, 600 in grants, and the rest in very low interest and long grace-period loans -- is a very generous answer from the European Union. When I talked to some colleagues in some members states, and I said, 'we mobilised four billion for Tunisia,' they answer that they’d like me to mobilise that amount for them too! It’s a first step. But, for the transitional period of 2011-2013, I think it’s a very important answer from the European Union.

**Chairperson’s Conclusion - Elisabeth Guigou**

We see that we need more investment, both public and private, in very strategic themes like energy, water, education, social and economic development. Maybe, if we improve that, we would have a better answer to the very delicate question of migration. We should probably learn lessons from what Germany developed with its eastern neighbours in the 1980s when it decided to improve investment in eastern countries both to create jobs there, but also to create jobs in Germany. I think we should learn from that to create better integration.
Ladies and Gentlemen,

Growing interdependence is a fact of life of the contemporary world. It transcends and influences national systems. It requires new and more intensive forms of international cooperation to realize its benefits and to counteract economic and political nationalism.

I am sure you recognise these words – the opening lines of your own founding declaration of 1973. I quote them because it’s striking how relevant they still are today. More relevant than ever, one could argue, even though now, nearly four decades after the Trilateral Commission was set up, the world looks completely different.

Back then, in 1973, we faced the real dangers posed by the Cold War and a global arms race which took on absurd proportions. It was the time of ‘ping pong diplomacy’ between the United States and China. And of the oil crisis and the alarming report by the Club of Rome. The US had just broken the link between the dollar and the price of gold. And Europe did not yet have open borders or a single market, let alone a common currency. That was all in the future.

Now, nearly four decades later, the younger generation only know about the Iron Curtain from their history lessons. The same goes for the Dutch guilder, the Deutschmark and the Italian lira. Now, the means of communication are almost unlimited and the world is more of a ‘global village’ than ever. In the past few decades we have also seen ‘the end of ideology’ and the rise of democracy and free trade. It’s a slow but on-going process, and there’s no turning back. You talked about this earlier today in your session on the Arab awakening.

Because of these developments, countries and regions are growing closer, economically, culturally and socially. China and Russia are no longer the closed societies of the past. India, Brazil and others are asserting themselves as fast rising economic powers. And Europe? Well, despite the current problems we are facing, Europe can certainly point to great achievements in the brief period after the fall of the Berlin Wall. It took in a large number of new member states. It brought about the free movement of people and goods within the EU. And it
introduced the euro. We have all gained from these achievements; And especially a country like ours, because foreign trade has been our bread and butter ever since the 16th century.

Which brings me to my central message tonight: *our still-growing interdependence demands a certain kind of behaviour from countries and their political leaders.*

In the famous words of Winston Churchill, 'The price of greatness is responsibility'. This means that countries and regions that want to enter the global market and play a role on the international stage have to realise that influence is a two-way street. Besides self-interest, there is always a common interest and a shared responsibility. Take for instance stability on the financial markets. The financial and economic crisis of 2008 and what followed made absolutely clear that in today's world, everything is interconnected. When a small part of the American mortgage market sneezed in 2008, the entire global economy caught a severe cold. And it has still not recovered.

So I believe that China and Europe have every right to call the US to account for its enormous national debt. And that the international community is right to encourage Russia to join the World Trade Organization. As we are right to ask China to let the Yuan be freely bought and sold. And yes, by the same token, it is only logical that the rest of the world is keeping a close eye on Europe, and is insisting that we fix the problems with the euro as soon as possible.

The Dutch position is clear. Our long international tradition obliges us to play an active role on the world stage. This tradition is almost tangible, especially here in The Hague, the home of the Peace Palace and the legal capital of the world. We feel the same sense of responsibility towards Europe, perhaps even more keenly. Remember that the Netherlands is one of the six founding nations of the European Union. Back then, in the first post-war years, the prevailing mood was 'No more war!' /'Nie wieder Krieg!' Now, some 60 years on, our minds are focused on the euro and the economy. You will talk more about that tomorrow with a number of leading actors. Unfortunately I can’t join you, so if I may I will have my say now.

Europe and the euro have been on a rollercoaster ride. And let’s hope that the decisions we took at the summit of 26 and 27 October will mean no more looping-the-loop. What we need now is realism and decisive action. Of course, from the perspective of international law and culture, European cooperation is still an ideal worth striving for. That hasn’t changed since the Second World War. But what Europeans want most from their leaders now is practical
and concrete prospects of economic growth and prosperity; Of stable pay and pensions; And a future for their children. I firmly believe that this is Europe’s core task.

Let me put it this way: for Jean Monnet, Robert Schuman, Konrad Adenauer and their generation, 'Europe' was all about securing a lasting peace. A goal they achieved by joining up Europe’s national economies. By turning their backs on mutual suspicion and protectionism, and embracing mutual profit. For our generation, the priority should be to safeguard and expand our existing prosperity. We can achieve that by taking the next step on good governance and moving forward on a European growth strategy.

Mark Rutte and Jean-Claude Trichet

And you know what they say: 'Never waste a good crisis.' So now is the time to make sure that we never again see a repeat of the current problems with the euro. That's why the Netherlands proposed appointing a European Commissioner for budget discipline: a man or woman with a mandate to act if euro countries fail to stick to the budgetary agreements in the Stability and Growth Pact, the SGP. Under our proposal, countries in that situation would face increasingly severe and automatic sanctions. Because we have all seen where slack financial discipline leads in a currency union. Never again! That's our message. It’s time we took the 'S' in SGP seriously. So, I'm pleased that the Dutch proposal has been well received and that we can now take steps to put it into practice.

At the same time, we also have to get serious about the 'G' in SGP. Because having budget discipline without getting our economies to grow would be like buying a shiny new car with a scooter engine. It would look good, but it wouldn't really get you anywhere. That's why, in recent months, the Netherlands has consistently stressed that Greece and other countries not only need to get their budgets in order, but also need to carry out structural reforms to boost their economies, like measures on pensions and taxation. In our country we have made a start by raising the pension age in stages from 65 to 67. These are not popular measures, but they are urgently needed. And as I said earlier, besides our own interests, we also have a shared responsibility; countries are entitled to hold their European partners to account.

In addition, Europe as a whole must have a concrete agenda for growth, to boost prosperity and employment. Only recently I wrote a joint letter on this subject to Manuel Barroso and Herman van Rompuy, together with my Swedish and Finnish colleagues Fredrik Reinfeldt and Jyrki Katainen. We believe we should take action soon. For example by completing the internal market for services across the EU and finally reaching agreement on a European
It can be done and it can be done quickly. And to be frank, I don’t think Europe can afford to just wait and see. There's work to be done.

Ladies and gentlemen, that is the Europe to which the Netherlands will continue to be fully committed. Because sixty years of cooperation proves that we are stronger when we act together than when we go it alone. It shows that Europe is a practical instrument we can use to improve the lives of people step by step. The same people that Jean Monnet spoke of when he famously remarked 'We are not bringing together states, we are uniting people'.

I would like to propose a toast to that idea: to the friendship between the people of our beautiful continent and to shared European success in the future.

Source: Official website at http://www.rijksoverheid.nl/
EU SESSION III
EUROPE AND THE CRISIS:
“TOO MUCH DIVERSITY - TOO LITTLE UNITY?”

PART I

SESSION CHAIRMAN - VLADIMIR DLIOHY

We have a session which is going to cover the whole morning. The title is “Europe and the Crisis,” and the subtitle is “Too Much Diversity - Too Little Unity?” The title is very proper. We are considered to be in a crisis. Yes, the general perception is that given the integration and common currency ambitions we discovered in recent years that Europe indeed has too much diversity and probably too little unity. Personally, I’m of the opinion that this is not a currency crisis, definitely not in the whole EMU, and I know that I’m speaking as a citizen of a country which is still outside the common currency area.

Already before the outbreak of this crisis and before the outbreak of the financial and economic crisis in 2007 and 2008, Europe was suffering to some extent from a lack of competitiveness and productivity, a fact that was appreciated by its leaders. Europe launched an effort to improve this, but who today remembers the so-called “Lisbon Strategy”, which promised that by 2010 Europe was going to be the most productive, efficient, and competitive area in the world.

At the same time, already before the crisis, we observed a long-term accumulation of debt. As a matter of fact, as early as 2006 Standard & Poor’s published a very nice graph which showed that ceteris paribus -- all other things being equal -- that all of the city-countries by 2040 would have only speculative ratings, ceteris paribus obviously. That warning was issued by Standard & Poor’s in the framework of the discussion of long-term demographic trends, so from an entirely different angle from which we discuss the crisis today. But I think I should warn of the fact that even before the outbreak of the financial -- and later economic and euro -- crises, the Eurozone and Europe had their own
problems which led to the huge increase in that. Only then came the so-called euro-crisis, which I will not comment on because we will have excellent speakers who will comment on the nature and potential solutions to it. The crisis has also obviously been exacerbated by the third problem: an exogenous shock in the form of the financial and economic crisis. So, in Europe we are struggling with three different problems: the long-term increase of indebtedness, the problem of the Eurozone, which is linked to our subtitle, and the exogenous shock the Eurozone received in the form of the financial and economic crisis.

**ANDRÉ SAPIR**

Let me just give you the gist of what I want to discuss. I’m going to follow the title of this session and discuss whether indeed there is too much diversity and too little unity. I will start by looking at the EU as a whole, the EU27. Essentially, I will discuss the situation there before the crisis and will argue that Europe has handled the diversity rather well, but that the crisis has shown that indeed there may be -- or there are -- problems of too much diversity, in particular for those countries that are inside the Eurozone. I will make the distinction between the EU as a whole, where I think there are fewer problems with diversity, and the Eurozone, where indeed there are difficulties associated with too much diversity.

I will start by discussing what many people have discussed. We know that there’s a lot of diversity. If we measure economic diversity simply in terms of dispersion of income or consumption per capita, we know that at least since the 1980s, when the Southern European countries entered the EU, later with the addition of Central and Eastern European countries, there’s been a lot of economic diversity. Yet, we weren’t looking at this diversity as a problem before the crisis. On the contrary, it was viewed that Europe indeed had the capacity to take on, in its midst, more and more diverse countries and create the conditions for their convergence. If you look at a recent report published a couple of months ago by the World Bank devoted to growth in Europe, the main theme of that report is that indeed Europe has been what they called a convergence machine.


[Graph showing consumption growth in Europe and the rest of the world (1970-2009)]

Source: World Bank (2011)
Their story is very much based on the two graphs that are here. What these graphs show in the horizontal axis -- the left part being Europe and the right part being the rest of the world -- is the level of consumption per capita in 1970. What it shows in the vertical axis is what the growth rate was in each of the countries of per capita consumption in the period from 1970 to 2009. On the left side, a negative relationship means they started with lower income; they grew faster. This is the specificity of Europe that is very different from what happened in the rest of the world. In Europe we had convergence. Lower income countries were growing faster than richer countries. As new waves of lower income countries entered the EU, they were able through the conditions created by Europe -- essentially the Single Market, but also some of the regional policies helping convergence -- to do what was not happening globally, which is convergence.

We know globally that there are a number of countries that were able to grow, but if you look at the right hand side you see that the relationship is flat. There is no faster growth globally for the period from 1970 to 2009 for countries that started with lower initial conditions. So, Europe in that sense is special: Europe has indeed been able to converge.

That it converged doesn’t mean that there was convergence in every sense of the word. Certainly, there was no convergence in some of the policy areas. Take two examples. We know that in Europe there is a diversity of financial systems. There is a German financial system, there is an Anglo-Saxon system, there are different ways that firms get financed, and the role of banks is different. There are also different social models in different countries. We heard yesterday morning in the discussion about the Netherlands or what the Dutch social model is. So, I want to say that although there was convergence in income, there wasn’t necessarily convergence in some of the fundamental elements of the socio-economic models.

I’ll give you an example because I’ve worked on these social models. I described before the crisis the fact that in Europe we do have different social models, and this is before the enlargement, so not including the Central and Eastern European countries. Some models are what I call efficient, some being equitable, some being either equitable or efficient, and some being neither. As it so happened, I found that the Mediterranean countries -- which I will discuss more thoroughly later in my presentation -- were in a bad equilibrium with poor social models. They were neither very efficient, having low employment rates and productivity, nor very equitable in terms of the risk of falling into poverty. In an opposite case, you have the Nordic countries, which in my classification do include Austria and the Netherlands, where there was both equity and efficiency. Then you had the Continentals and the Anglo-Saxons, where some were equitable but not efficient, and vice-versa, since there was this notion of a trade-off. That was in the mid-2000s.

I started to wonder whether there was a link with sustainability. I asked, ‘are some of those models sustainable?’ When I looked at sustainability, I needed a criterion for it. I thought a good criterion would be public debt. My feeling was that perhaps countries that have poor socio-economic models are also countries that also accumulated debt in order to try to overcome in a non-sustainable manner their difficulties. Interestingly, and I’ve given the numbers of the average debt to GDP in each of those groupings of countries, you see that the Nordic and the Anglo-Saxons, the models that I labelled as efficient, are the ones that had a low debt-to-GDP ratio. The Continentals and Mediterraneans, the low efficiency ones, were models that were not sustainable. They had only been sustainable by accumulating debt. It was only a question of time for them to need to change their social models.
I was curious to see what has happened to those numbers because of the crisis. In a sense, the non-sustainable Continental and Mediterranean countries, according to my term of using public debt as a criterion, have obviously not improved. They have been hit by the crisis, and the debt-to-GDP ratio increased, which is what we would have expected.

The surprise came from the Anglo-Saxon countries. They had low public debt in relative terms, but had lots of private debt. That’s what I missed. What many of us missed was the fact that sustainability is not just a question of public debt but also a question of private debt. We know what has happened. The private debt has been put on the books of the public sector, and public debt has increased. So, the Anglo-Saxon model that looked fine here only looked fine because the measurement included only public debt. If one had looked a bit more closely, one would have seen that they were not sustainable either. But, look at what happened to the Nordics. The Nordics have remained with low public debt. In a sense, only one model seems to have survived as a sustainable one. Again, my grouping here does include the Netherlands, so I was very interested in yesterday’s presentation -- there was a lot to learn from. There were lots of good elements that described the factors required to have a sustainable economic and social model. I think that a number of countries, including this one, have some of the elements that are required.

I think my view, and all our views probably, have been changed by the crisis in terms of what I described before, that is, the success of Europe in terms of convergence. We know what has happened: the crisis has hit much more the peripheral and lower income countries than the core countries. That is worrisome for Europe. Whereas before it was the periphery that was growing fast and catching up with the core, now we see that it’s the core that is much stronger. We shouldn’t be unhappy that the core is strong, but we would like the periphery to be strong as well, and continue on the convergence route that it was tracing before the crisis.
Remember what happened in 2008, after Lehman Brothers. The first countries to be hit in Europe are the *countries of Central and Eastern Europe*. They were hit extremely hard. Many of us got worried that their growth model, and their convergence, which had been magnificent since they entered the EU, was going to take a back-seat. In fact our worry only lasted until 2009. They took a very deep blow, but then recovered extremely quickly. In a sense, they’ve shown that they held the fundamentals and had a speedy adjustment and recovery even though they took this hard blow.

The problem has obviously been with the *countries of the southern periphery*. What the crisis has shown is that their growth model was flawed. We did not always see their growth model as flawed, but now that the crisis has hit them we can see they have a number of deep problems, and recovery is going to be problematic. Let me say a few words about the way I see the problems of the southern countries. What is their growth model? Of course, there are differences among the southern countries, but on the whole there are a number of common features. Usually you see an economy with small firms. Small can be beautiful sometimes, but small also has some problems. Those are often firms that don’t invest enough in human capital and in R&D. As economists, we are used to talking about the beauty of small, open economies. The Netherlands is one of those countries, and my country Belgium also has one of those small open economies. When you look at the south, they are in fact small closed economies. They are economies that are closed through different manners, through the structure of production. Also, their economies often have a very high level of business regulation. If you look at the World Bank indicators of *Doing Business*, you see that the countries of Southern Europe are singled out among all the EU27 as the group where business regulation is worst. And, there is as I mentioned before, these inefficient and inequitable social systems.
These models were flawed already before the crisis. If you look at the period just before they entered into the Eurozone in the late 1990s, those were countries that had very strong competition from new countries, new countries outside the EU in the global economy. The emerging countries were competing with some of our southern countries. What we probably did not pay enough attention to was the fact that the countries of Central and Eastern Europe that entered also proved to be very strong competitors for the countries of Southern Europe. In a sense, the easy growth model that the southern countries had needed to be changed probably back in the 1990s under the effect of increased global competition and increased competition from inside the EU. In a sense, their entry into the Eurozone served to shield them from the adjustment they needed to make. The hope had been that entry into the Eurozone would be an impetus for reform, but it turned out differently. It turned out that they were able to prolong their bad growth model being shielded by the euro. Now they find themselves with two problems. They have a problem of competitiveness, which in my view is not simply, and maybe not even mainly, one vis-à-vis Germany. One always sees charts of the countries of the south and how they lost competitiveness compared with France and Germany. But those countries do not compete with France and Germany. They compete much more with the countries of Central and Eastern Europe. When one looks at competitiveness – please look at the competitiveness of the south vis-à-vis the east. That’s what you should be really worried about, not the fact that they are not so competitive vis-à-vis Germany.

So, they’ve got strong competitors, but they’ve also got large accumulated debt. They don’t just have one problem, they have two problems. They had a problem before joining the euro, but in the meantime they got a second problem: the large accumulation of external debt with a large current deficit.
There is clearly a danger for those countries, and the danger that we know is the danger that we are living with today. It is this **vicious circle between low growth and high debt**. By the way, this danger was always going to be there for many of the countries in the EU, not just in the south, because of an aging population. What the crisis has done is the same kind of phenomenon which we are all going to live through **with the aging of populations: the lowering of potential growth**. This was going to happen, but it was going to happen slowly. The crisis has embodied those problems, and magnified and quickened them. But this issue of losing potential growth and at the same time increasing debt, and the vicious circle it creates - - one fostering the other -- is really the major problem, especially for the countries of Southern Europe.

**How do we avoid the prolongation of this danger? How do we avoid a whole decade of this problem?**

To me the term **“austerity”** is frankly the wrong term. There need to be lots of changes, but the right term -- what we need to seek -- is **“sustainability”**. Sustainability is what the aim must be, including sustainability in public finances, but really sustainability in general. Austerity is not an objective. When one is talking about debt sustainability, please remember that there is debt to GDP, there is a numerator and a denominator. There isn’t only the numerator: the debt. There is also the denominator: the growth. So, one needs policies that not only address public finances and make them more sustainable and growth oriented, but also growth policies. Hence, we have all these discussions about productivity. That will require, especially in the southern countries, a liberalisation of product markets, a reform of social models, and so on.
Let me show you a graph, again from the World Bank, which is very telling. It is **productivity growth in the EU27 for the period 2002 to 2007.** One group of countries that stands out is the group of southern countries: Italy, Spain, Greece, and Portugal. They are the worst performing countries in terms of productivity growth for that period. They really stand out. They stand out against, as one would expect, the countries of Central and Eastern Europe. They’re obviously new countries entering the EU, they have fast productivity growth, but they’re doing even worse than the countries of the core, the high income countries. When you see a graph like that you think, ‘gosh, we’ve really got a problem here,’ and that problem is what we read about those countries every day. That is why it is going to take time to fix those things. There is no quick fix to this kind of problem. But again, I think sustainability has got to be the word here, not austerity.

**What lesson do I draw from this for the topic we are discussing today? It is that economic diversity may not be a problem when I’m talking about the EU as a whole, but it is definitely a problem in some dimensions for those countries inside the EU that belong to the Eurozone.**

There are certain areas where diversity is indeed the core of our problem. I would also single out that public finance sustainability is both fiscal sustainability and financial sustainability. Let’s not only discuss fiscal sustainability. It is important, but one also needs to address the financial sustainability. Here I think we need more unity, that is, we need to have common policies that are much stronger than what we had before the crisis in the area of fiscal and financial sustainability.

European leaders have been addressing the fiscal sustainability through a number of elements and reinforcement of prevention mechanisms, which is good but does not go far enough in my opinion. One also needs a better crisis management mechanism, though we are getting some
of those as well. On the fiscal side, even though not enough has been done yet, there is a lot of good direction that has been adopted by countries.

Where I feel we have done much too little is on the side of financial sustainability, especially for the euro area. At the EU level, there have been a number of new institutions, including the European Systemic Risk Board, which I think is doing good work. But one would like to have, probably for the euro area, institutions that go much further: that pull together resources and that also have more power in terms of imposing decisions. I would like it if we moved to European supervisors with real authority, such as full authority in terms of supervision of the financial sector, certainly for banks. I would also like it if we introduced a European Deposit Insurance Corporation kind of system for crisis management and that we also create and put in place -- as the IMF has proposed a number of times -- a crisis resolution mechanism: a European banking resolution authority. All of this, both on the fiscal and financial side, means that one has to go beyond the current economic and financial institutional set-up.

Jean-Claude Trichet, during a recent speech in Aachen, proposed the notion of a Eurozone finance minister. I applaud that proposal. It is mostly about the authority of this finance minister over fiscal decisions by national governments. I think that it goes into the reinforcement of the fiscal sustainability, but again one needs a dimension here of financial sustainability. The FDIC, this euro zone bank resolution authority, all of those elements need to be the other leg of this finance minister. To me, one leg is the fiscal sustainability; the other leg is financial sustainability. This finance minister needs to have fiscal resources and needs to have democratic accountability. We are not going to have this finance minister intrude into the decisions of national governments or parliaments without some democratic accountability.

Now, all of this means that one needs a new treaty. I was disappointed by the decision taken by your heads of state in their summit on October 26, where I was hoping that besides the decisions related to Greece and Italy they would have at least made an indication that they are going to move towards a Convention that would pave the way to a new treaty. My view is that unless we succeed in having a new treaty -- unless we succeed in putting together pieces that correspond to what I’ve said more or less, elements that would ensure fiscal and financial sustainability -- it’s going to be very hard to solve the crisis. You’ll say that a treaty will take two years, and that’s much too long to solve the crisis. That’s right, but at least it would give a political framework to do a number of things.

The last element is the following: can we reduce diversity among the Eurozone countries and maintain EU unity? That’s all the discussion between the countries inside the Eurozone and outside of the Eurozone. One can see that the countries inside the Eurozone need to go further in the process of political integration. What about the countries outside of the euro area? Isn’t there a dangerous break between the two? That’s the discussion as to whether the treaty that I’m calling for should be an EU treaty or a Euro treaty. I’m leaving this as a question mark.

**JÜRGEN FITSCHEN**

I have to admit that when I saw the headline for today’s session I got a bit confused. It got worse when I was on the plane to Amsterdam because I saw an advertisement in the newspaper saying “Diversity Is Our Strength.” I thought I had to rewrite my comments, but then I found an escape. It’s probably true that diversity is one of the things we love most about our continent. When it comes to financial markets, unfortunately, it’s a bit different. So, a
contradiction in itself maybe, but I’ll try to explain how we may solve it. Then, based on the excellent framework that André Sapir already gave us, I’ll try to add a couple of comments on the political sphere.

Why is the financial market not served well with diversity? Participants -- investors in particular -- love transparency, comparability and predictability. That doesn’t leave a lot of room for diversity, I’m afraid to say. To be honest, they also want to have alternatives, so then we move back to diversity. But there are two meanings of diversity at stake. Let’s not confuse them. I maintain that this crisis, in its full consequence, has no need to be where it is today. I don’t want to sound overly optimistic, but I’m very confident that we’ll soon find out that we overreacted, including market participants.

Why is this so? I believe one of the turning points was the creation of what sounds very trivial, the creation of a new acronym called PIGS. It sounds great, is easy to use, and everybody claimed to understand when they used the term PIGS what the crisis was all about. People lumped together the debt exposure of the four countries. Some went a step further and applied an assumed haircut ratio, and then the world was in trouble. That was not necessary at all. So, when we talk about “diversity”, the one thing I would like to remind you of is that there is a definite need to “differentiate”. That is a slightly different term from diversity but it has the same meaning to me: never lose the capacity and the willingness to differentiate where differentiation is key. The moment we give this up we easily fall into a trap. This is what happened. This is why all the alarm bells are ringing in my mind.

Let me try to relate diversity to the financial sector a bit, as you would expect from an active banker, and then I’ll move back to the political implications.

At the beginning of this year, when the sovereign debt crisis emerged, it was easy to blame the banks. You couldn’t get it wrong when you started the finger pointing there. Everybody believed you. It was not right or justified, I believe, because a lot of things had happened since the crisis of 2008 had emerged. We were in the midst of rebuilding a stable banking sector. A lot of capital had flown into the sector, and then this new phenomenon that we didn’t have on the agenda in 2008 emerged.

Is it the fault of the banks that again they had to struggle with this crisis? To some extent the answer is yes, because nobody told them to have such big exposure. But, think about the prevailing rules under which this happened. Under Basel II and not even under revised rules which will be in place in the near future, there is not any requirement to underline the exposure to sovereign borrowers with capital. I think this is grossly wrong because it sends the message to everybody that sovereign-bonds are a risk-free asset that you have on your books. Reality has shown it’s different. That’s deplorable. It would be perfect if we could indeed say this is a risk-free asset. It would help the world if this would be the case because then we’d have a reserve medium here that could be trusted and banks wouldn’t need to take detours to manage their exposure in a credible manner. But that isn’t the case, and the question is how do we deal with this issue going forward? How do we make sure that we have a system in place where banks can trust their sovereign debtors and at the same time also conduct their business in a way that they are trusted by the participants of the real economy? Yesterday we heard already that trust got lost, and that’s part of the reason we are where we are. We have to overcome this situation as soon as possible because otherwise I do not believe the financial sector can serve the real economy.
First of all, I think we should all appreciate what has happened over the last couple of months on the regulatory framework that André briefly referred to: In my opinion concerning this regulatory framework there is no room for diversity. The more we have a united front here, the better it is, and the more trust will return from all over the world. We must not forget that the way the crisis was handled has thrown back Europe a long way in the perception of different partners in the global economy.

Actually, it’s worse than that. I think the perception of Europe is giving rise to other regions not to do what they were set to do, what they should have done. In the GCC, the Gulf Cooperation Council, there people believe it has thrown back their attempts to create a common currency of the union by at least five to ten years. In the ASEAN, they also looked at Europe as the poster boy to follow because we are the only region with such institutions. And now, the way we have conducted crisis management is not creating trust on their part in the effectiveness of these institutions and regional cooperation.

Leaving that aside, I think we are well advised to overcome national solutions because they will not serve us well in the long run. André mentioned that as well when he talked about unity, and it also applies to the financial framework. We in Germany, being the ones that many people look to right now to fix the crisis, have gone a long way in supporting various measures. But, we’ve also now embarked on an initiative that would single out my country – perhaps together with France - as the only one where something called a financial transaction tax would be introduced. I think that’s the wrong way to create stability in the Eurozone because it creates nervousness and attempts to escape and use other lending centres. That’s not what the EU should stand for.

Here again the appeal is very clear: let’s create a very transparent level playing field, ideally in tandem with our partners in the United States. There’s no room for competitive elements in setting a global framework for our industry because money truly has become a global medium. In that context I think you see very little criticism recently from the banking industry on individual items that were brought forward. We all agree, without any hesitation, that we are committed to a more stable financial framework under which we can freely compete. Many people believe that innovation is not a word that should be used in the finance industry. I think this is grossly wrong. There is no convincing reason why we should stop innovation, as long as this innovation serves a purpose: to allocate capital in the most efficient way, and reduce the capital not to a bare minimum but to a sustainable maximum. That in itself would serve the real economy better than anything else.

Here we have a big gap in communication between the political sectors and our industry. Market participants don’t understand enough how political processes work. Politicians haven’t tried hard enough to understand how market participants act. That is the dilemma we’ve had in the last couple of weeks, and explains the extreme volatility we’ve experienced. This is bad because this kind of volatility destroys, again, the trust of the less well informed person who wants to participate in financial markets on a reliable basis. This trust has been lost to a great extent, very unfortunately. Rest assured that a good dialogue between market participants and lawmakers can help to solve this in establishing trust again. As regards regulation for the financial sector there should be no competition, but trying to set a framework that allows us to work to be seen as a partner to the real economy, not a business that is completely de-linked, as some people erroneously maintain.
Back to what happened at the country level. At the end of the day I do not believe that the financial aspect of the crisis is going to bother us very long. We know that the reduction of the debt-to-GDP ratio cannot be done overnight, and the target of 60% set for the eurozone is not achievable over the next five to ten years -- it will probably take ten to fifteen years. So be it. Let’s recognize that we need to have the patience to get there. Trying to do this overnight would throttle the economy and would be socially unacceptable. But one day this will be over, and I believe we have to deal with a much more serious issue apart from purely financial aspects: competitiveness. It’s not good enough to achieve a 60% debt-to-GDP ratio, and it’s not good enough to recapitalize the banks, unless all of this results in a basis for the citizens of an economy to participate successfully.

When we talk about diversity, this is the very key question because it drives the heart of the debate. You have to answer the question: are you willing to accept the rules under which you can compete successfully? The problem right now in Germany is not that we have to put up more money to come to the rescue of Greece. To some degree people are willing to do that, and the appeal to solidarity works quite well. But there is a limit as to what you can expect because solidarity has to start with the people within the country that asks for our support. That means they have to try hard first, and there are good examples that it works. Nobody these days talks about Ireland. I give all the Irish people a lot of credit for having woken up to reality, tightening their belt, and pulling together. No protests, a lot of pain, but the willingness to accept that as a consequence of their past mistakes, and as a requirement to create a better future.

Unfortunately in the southern periphery the attitude seems to be different. In Greece, 70% of the people want to stay in the Eurozone because they know that this is the only way they can change their country. But simultaneously 70% refuses to take the necessary pain: That doesn’t work! So here financial discipline does translate into a change of a culture’s attitude. If that cannot be accomplished, you have no reason to expect that mere membership in the Eurozone will guarantee the creation of wealth that you see in the better managed countries. That is very critical.

This kind of problem has created a new discussion in Germany, and I daresay in neighbouring countries. This is where I see great danger for all of us because the success of Germany right now is the result of something that happened overnight -- it had its beginning ten to twelve years ago. Now we’re all benefiting from that. Many people sacrificed over these last ten years. The real wages stagnated, and the unions in Germany deserve a lot of credit for having played a very vital role. They made an early decision, and that decision was very clear, that 'we value jobs more than nominal wage increases.'

Look at Greece. The unions there also had an option. Their decision was just the opposite. They raised salaries to an extent that the Greek economy turned non-competitive. As a result of that, the Greek government felt obliged to give its citizens jobs. The number of employees in the public sector increased significantly during the last decade. This is the problem that we have.

If you put this into a broader context, then you have to address very different questions from what we are discussing today. Unity in Europe is a precondition, but it’s not good enough. We have to see these dilemmas in context with global developments. I think we have no hope that other regions will have a lot of sympathy for our problems today because they have their own problems to deal with. They will not give up their chance to grow at rates that we
envy them for. They need these growth rates to compete, in the sense that their citizens are willing to support them. This is what we need to bear in mind.

All the solutions that we are talking about have to be compatible with the global competitive pressure we are exposed to. Two issues are at stake here, and I cannot talk about them in detail, but I believe they are the critical issues going forward:

A) The macro-economic imbalances that are not addressed in any meaningful way in my view. As a result we still see the imbalances that then translate into monetary flows that build up huge reserves that need to be recycled and are one of the reasons why the world is flooded with money, which is essentially excessively available and too cheap in my opinion.

B) The inequality of income distribution is very critical. When we see the problems of sovereign indebtedness today, for me it is part of the reflection of this second aspect. In the United States, the sub-prime crisis was not just due to some stupid bankers who didn’t know what to do with their time. It was also influenced by the public sector, by the governments, who encouraged banks very strongly to provide means to people who were never qualified to borrow in the first place. Why was this so? In my opinion it was an attempt to tell the citizens that there was something in it for them, that the global world has something in store for all of them. In Greece, as I told you, the government became a direct employer. Yesterday we talked about the Arab Spring. If you look at some countries, it’s not a question of money. There’s huge wealth accumulated, but it doesn’t trickle down. The wealth does not get distributed to the people who need it. These are the issues that have to be addressed because otherwise, at the end of the day, we’ll have distortions in the financial sector, and it will also burden the banking system.

Back to the debate in my home country: more funds are needed; Germany is supposed to come to the rescue. I think there is a preparedness to do that because we still have enough people who recognise that Germany has benefited -- perhaps more than any other country -- from the creation of the Eurozone. Yet, we’re reaching a point now where the ongoing debate leads to the populist question of whether or not hard work, long working hours, and high tax payments should be penalised “by the constant transfer to those who are not willing to work long hours, hard enough, and pay the government the taxes that they are owed.”

When we talk about diversity, we have to make sure there is a convergence in place. Otherwise, we won’t get there. At the end of the day it’s about being prepared to surrender sovereignty to those who are entrusted to manage the European economy better.

I will add one important aspect, and this I think is the crucial test whether or not political leaders are serious about it. We have to have a system that does not only repair damage, but a system that avoids damage in the first place. That means to do something that is well known to us in the private sector: you get a supervisory board that approves the budget of a corporation. So we need a competent body who can improve the national budgets, and that is the transfer of national sovereignty that we all have to agree to. In the absence of that, I think we all end up repairing the states whose economic mismanagement that we tolerated in the first place. And that is not good enough to build a stronger Europe.

You’ve got to do this because, most recently, I sense that something has come to debate which makes me very concerned. That people ask questions that are addressed to the very pillars of our society. There are two pillars left, in my view, that are important enough to be
discussed: **Capitalism and Democracy**. That is why we have to have a good process in place that doesn’t take power away from national parliaments and yet supports building **European unity**. That is no small undertaking. But if we ignore this as we are blinded by Basel III 9% capital rules, and all of these technical expressions, I think then we’ll miss the point.

In the Eurozone, is there too much diversity, not enough unity? Raising these two questions is a good introduction to our debate on a crisis that is dangerously gathering pace in each of its dimensions day after day.

The current systemic crisis results from the play of internal forces within the Eurozone. These forces involve not only governments and European and international institutions, but also banks and investors and, more recently, companies operating in the real economy, some of which are beginning to feel the effects of an emerging credit crunch. Stendhal, the author of “Le Rouge et le Noir” wrote that “Finding out why things happen helps us to identify the things that will happen in the future”. At this stage in the crisis, in line with Stendhal’s dictum, I would like to outline for you its characteristics. This is an essential first step, before we can determine the improvements to be made to the strategies being deployed to deal with its effects.

The crisis is related to the diversity of the Eurozone States. This is the subject of this session. All the figures show a growing North/South + Ireland divide. If you look at current account balances, you’ll see surpluses in the North and deficits in the South. These contrasts reflect differing trends in economic competitiveness. In particular, salaries have risen faster in the South than in the North. Along with these growing disparities, the countries with deficits have to make painful adjustments to bring their finances back under control. In Greece, but also in Portugal and other States, internal belt-tightening measures are threatening economic activity, driving up unemployment rates and reducing consumers’ purchasing power.
So to what extent is the euro to blame? This question goes to the heart of the debate on the single European currency. For my part, I believe that the common sense answer is that the main innovation represented by the introduction of the euro was the elimination of the external constraint for Eurozone States. On the face of it, they no longer had to worry about the consequences of a current account deficit. Under the pre-euro European monetary system, the exchange rate acted as a guard rail: whenever a country strayed from the path of discipline needed to keep its currency stable, it experienced a foreign exchange crisis that forced it to restore order to its finances and economy.

By eliminating this external constraint, the introduction of the euro allowed some countries to persistently live beyond their means, consuming more than they produced. They were able to continue growing their economies for a while by accumulating debt. But when the level of debt – both public and private – got too high, the party was over and the problems began.

So what was the euro’s role in all that? It’s worth remembering that Germany was one of the countries that joined the euro with a current account deficit and therefore a lack of competitiveness. However, by focusing on improving its competitiveness over the long term, in particular through a policy of wage restraint, and by giving priority to structural reform, Germany is now reaping the benefits of its supply-driven strategy. Those countries that chose to follow a demand-driven strategy by promoting consumer spending and also home building, continued to flourish for a time due to their membership of the Eurozone. But they were building up serious problems for themselves in the future, as we can see today.

The crisis has taught us that we underestimated the effect of the removal of the external constraint. It taught us that the discipline resulting from the external constraint needs to be replaced by discipline imposed within the Eurozone which must go much further than the Stability and Growth Pact. It has to cover each Eurozone State's economic policies and credit terms, in order to ensure that they don’t live beyond their means.

The systemic crisis that began two years ago is deepening, as Joschka Fischer recently wrote, for political, economic and financial reasons. It is being spread by interacting forces that are all rooted in the fear that certain States will default on their debt, starting with Greece. The banks are holding large quantities of sovereign debt, leading to fears that they may be undercapitalized. They are acting as the vector in spreading the crisis to the real economy. That’s because the banks risk having to cut back on their lending. Not only with the crisis, getting worse every day, they have to be sure that they will meet their liquidity needs, but they are also being asked to improve their capital adequacy ratios at a time when it is increasingly difficult to raise capital on the markets. Naturally, the phase now underway is the most dangerous one, because credit rationing by the banks could tip our economies into recession. This in turn would only aggravate sovereign risk and feed the vicious cycle that has already triggered a chain reaction of sovereign and financial institution rating downgrades.

To try to stop the process, the first step is to agree on the root cause of this chain reaction. Everything began when the financial markets started to have doubts about the ability of a Eurozone State to structurally meet its financial obligations. In this regard, remember that the single currency was created in line with the principle of free movement of capital within and outside the European Union. This means that if we don’t take into account market reaction, we could be in for serious trouble. When members of the public refer to the “financial markets”, all too often they are talking about speculative traders. However, most operators are in fact investors that manage other people’s savings and therefore attach as much
importance to risks as to returns. As a result, they may well decide to scale down their risk position on sovereign paper for the simple reason that they need to reduce the overall risk of their portfolio to keep within their prudential guidelines.

In this environment, it is important to stop supplying the market with the fodder that feeds the selling of these Sovereign Bonds. This mechanism has two sources: first, the poor financial management of certain member States themselves. That’s what makes markets doubt. It’s why everything must obviously be done by the country itself with the support of the Eurozone to restore confidence by getting its public finances back in order, as well as its economy. This is why it is so important to see new credible leaders at the helm of their country economy. But there is another aspect of this mechanism that is today overlooked. We need to avoid fanning the flames of market fear of payment default and haircuts. This only creates distrust and therefore the unloading of Sovereign bonds. And here the harsh reality is that the constraints are particularly severe in a monetary zone where approaches, sensitivities and analyses are different from country to country.

The logic that prevails in a period of normalcy can be very destabilizing when it is applied once a systemic crisis has hit. The balance to be found requires a lot of dexterity and steadfastness of analysis and consistency of action. On the one hand, truth be told, if one considers that Greece is in fact insolvent, it’s just dangerous to pretend otherwise. We’ve probably waited too long to apply the necessary haircut to Greece. On the other hand, once you’re convinced that a country must not default, you must avoid at all costs leaving the impression that it is even within the realm of possibility. In other words, if we consider that neither Italy nor Spain must under any circumstances default, because then the whole of the Eurozone would sink, then we must clearly and unambiguously tell investors that there is absolutely no risk for them to invest in these bonds. And we must provide proof not only by obtaining from these countries the implementation of a credible financial policy, but also by publicly affirming that under all scenarios European institutions, the European Central Bank foremost amongst them, will do their duty when necessary to prevent it.

Putting a stop to this systemic dynamic depends fundamentally on a clearer view of responsibility-sharing amongst each of the States and the Eurozone as a whole. Which leads us in concluding to the issue of the reforms needed to finalize the Economic and Monetary Union, and therefore to address our session’s second question.

To put a stop once and for all to this systemic crisis as we know it today, there are two schools of thought. There are those who consider that it is enough to institute a set of rules that will be absolutely adhered to, by the adoption of constitutional measures if necessary, with the imposition of sanctions, including legal sanctions, the whole accompanied by stronger coordination of economic policies within the current institutional framework. This school of thought relies first of all on the responsibility of each Member State to get its finances and economy in order and respect the common rules.

And there are those, the second school of thought, who think that a genuine, quantum political leap forward is needed, establishing federal structures together with economic power at Eurozone level under democratic control by parliamentary institutions. This second school of thought thinks that part of State-level prerogatives should be transferred to the Federal level and that Euro Bonds should be issued to cover part of these Federal expenses.
From the foregoing analysis, it becomes clear that it will be hard to **find the right balance between the responsibilities of the States on the one hand and the solidarity of the Eurozone on the other**, thanks to the more constraining rules which would be imposed on the States. We’ve already seen how difficult it was to force countries to comply with the Stability and Growth Pact rules. But here we’re talking about the whole economic policy of the States and as long as there is no **democratic accountability** at the level of the Eurozone itself, it will be difficult, because of the lack of **political legitimacy**, to impose on member States policies that they do not want to follow.

Certainly, it’s fairly obvious that there is little appetite today in Europe to open a debate on a **new treaty**. It is not at all clear either that public opinions burned by the crisis and by the discord between States and whose commitment to Europe has been worn down, are even ready to go forward in **strengthening European institutions**. But a **window of opportunity has been opened by the crisis**. It’s probably necessary to proceed step-by-step and to put in place the structure and the functions necessary to the gradual construction of these Federal structures. In any event, it is high time we thought this through with the vision and ambition that the seriousness of the crisis commands.

**Q&A SESSION**

A U.S. PARTICIPANT highlights a saying that states, ‘if you do today what you did yesterday, you will be tomorrow where you are today.’ There is a corollary that if you don’t like where you are today, don’t do today what you did yesterday. Now, that’s very important because it means we clearly don’t like where we are today, and it also means therefore that it will not be speeches or anything of that type, but fundamental changes that are needed. The question is “changes” in what?

Those of us who were in on the creation of the euro, and this was some years ago, remember that it was very clear to everyone that if you give up exchange rate policy, and if you give up interest rate policy on the part of each participant, you must make sure that the other policy instruments -- in particular, the fiscal ones -- are being harmonised under the control of some rules. This is still true today. The mistake was that the Stability and Growth Pact, which was supposed to bring about that kind of fiscal coherence, did not have teeth. The crisis of today really started as a fiscal crisis, with the euro manifestation. The euro manifestation will not be solved unless we have a fundamental, credible, long-lasting and sustainable solution to the fiscal crisis. Hence, the institutional settings have to be changed.

The Stability and Growth Pact up to now has focused primarily on the stability side, but we know now that without **growth** it won’t work. That is why the information about **competitiveness** was so critical. But we do not have a mechanism or a pact that will bring this about. Let’s just look at two statistics. If in 2001 **unit labour costs** were calibrated to be 100 across the board, in 2011 unit labour costs -- which are a measure of competitiveness -- is 133 in Italy. To produce the same product, you need 33% more cost! In Germany, it started at 100 and now is 98, a gap of 35%. I’m not going to argue at all whether the two countries belonged to the same bed in 2001, but if they did, now there is diversity. Some diversities are not sustainable, such as Spain at 123.

We have a **fundamental issue of competitiveness and it is underscored further by the issue of aging**. We know generally that an aging and aged population is less innovative. If we look at Europe, it is going to shrink within the next twenty years. We know that. The more fundamental point is that the cohorts under 40 are going to shrink dramatically. In twenty years, the cohort up to 40 will experience a fifty million person drop from today’s numbers. The cohorts from 40 to 70 are going to expand by about the same amount. On the whole Europe will shrink by fifteen million people, but there will be fifty million less young people. Therefore, that’s an issue we need to focus much more on.
One more point. Since the creation of the euro, in the first ten years, Germany raised its saving rate by 2.5%. Greece and Portugal lowered their saving rate by more than 10%. This is reflected in the situation that Germany runs a 5% of GDP current account surplus and the countries called GIPSI -- I don’t like PIGS -- are running a deficit of about 5%. It is true that Europe as a whole has been relatively balanced, but the gaps within Europe are so wide that we need to question ourselves. We also say that some of the vulnerability about the macro context in the international arena arose from the neglect of current account imbalances that were allowed to prevail in China on the one side and in the US on the other side. If you don’t like this, then you should not like the idea of the intra-European long-standing imbalances because they provide the cover for expanding debt, which was really the source of the vulnerability. To conclude: you need fiscal rules; for competitiveness you need innovation. These are structural measures which cannot be solved by a magic wand, but by a strategy.

**A Dutch Participant**, on a need a new treaty for the euro area or for the whole European Union, agrees with those who say there is no appetite for a new treaty. We all know for what reasons it would take many years, apart from the disagreements that could arise. The question is: how much could we achieve without a new treaty based on the current treaties and enhanced corporations, etc.? There are some who believe that would be very helpful. It’s possible to opt for more discipline based on decisions from the current treaty. But the question remains of whether that will lead to enforceability, to enough discipline, binding decisions, etc., and sanctions. That will lead to a situation of continuation of a lot of solidarity without achieving the necessary discipline because then Europe will continue with too high a degree of intergovernmental decisions leaving too many decisions in the hands of the European Council of Ministers, with the danger that there will not be enough discipline.

**A British Participant** sees two processes happening in parallel, but on very different timescales. One is the process about how to you fix the institutions or the rules so as to avoid a repetition of the fiscal mistakes that were made in terms of structural reform or the lack of it. The other is the situation in the markets, the loss of confidence i.e. the fact that even as we speak banks are dumping large amounts of European sovereign debt because of their need to shrink their balance sheets to meet the requirements of the new capital adequacy rules, and because of the perception that it’s no longer risk-free and that they have prudential responsibilities. The question is what is the circuit breaker in this? How do you actually stop this crisis from actually -- really quite soon -- getting out of control? It would have to be the Central Bank and it would have to be by behaving, even if it wasn’t declared that way, as a lender of last resort.

**A German Participant** with a background in industry on creating a “European finance minister” observed with great distress that the instruments in the Stability Pact -- meant to discipline people to follow that pact -- did not work and is sceptical of whether this minister should be democratically accountable: Mediterranean countries had democratically accountable finance ministers! So how can one be sure that the future European democratically accountable finance minister will follow a sustainable economic policy? This Participant would suggest that we introduce something that has worked, at least in the economic world of industry: strong incentives. Strong incentives, to be sure, don’t mean we put additional burdens on the already burdened budgets of countries which misbehaved. The only thing that will work is that they simply have to leave, whether it is the Eurozone or the Community as such. Only a massive threat which really imposes a danger for that country is really convincing.

**Responses from the Speakers:**

**André Sapir**

Let me start from the end. I think the proposal of having countries leave the Eurozone is a terrible proposal. Not only from a political viewpoint. It would inflict so much pain on the whole group of countries. Thinking that expelling countries -- assuming it were possible -- would only inflict pain on those countries that would leave and improve the situation of those
that would remain would be to disregard the financial interconnectedness that we spoke of before. I’ll leave aside this idea that the way to solve problems is by threats, or putting in place different elements so that countries must leave.

I very much see a connection between the two processes mentioned: how to fix the institutions and the situation in the markets. If you want one which is of the longer term, because fixing the institutions is not something that can be done in the next two months, it’s not something that will happen on four o’clock in the morning on a Sunday, like other things that have been done. This is something that will require a Convention, something that will require a long discussion involving the people of Europe, before one will get to a new treaty. It will take time. At the same time, it’s clear one needs a solution for the short term. On the role of the ECB, it has done a great deal of innovative action during the crisis. Were it not for the ECB, I don’t think we would be here discussing the future of the euro. But I think it’s clear that more still needs to be done. My view on this is that it would be so much easier for the ECB to do so were we to be able politically to give a framework. This would not necessarily be a new treaty in the short term, but at least make the political declaration that indeed: in the end it’s going to be politics. It will be about what kind of message one is receiving from the political authorities of the member states at the European level as to the future of the euro area. What does it mean? What conclusion are we drawing from the crisis as to the elements that need to be put in place? The two can go together. Give a signal that we are launching this reflection. We don’t need to get to the answer, but we need to at least define the direction in which we are going. I would like a political declaration that does that, and then I think it will give the ECB room, the space, to do more.

I don’t see how the current treaty can handle the kind of requirement that is needed. The discussions that exist about changing the treaty are fine, but they are minor elements. The kind of elements that people are putting forward is that we need to make a quantum leap: That cannot be done within the current treaty. Again, this element of political accountability is crucial; hence, the need for a convention. It is something that will take months, and needs to take months.

I’ve always viewed it that Germany did give up a lot when it entered the euro area in terms of sovereignty. In a sense, one could say that the only country that really gave up sovereignty to enter into the euro is Germany. All the others, they gained sovereignty. By adopting the euro, and misusing it, we saw some of space they got from it. But Germany is the only country that gave up sovereignty. When I look at the problem ahead of us now, it’s not Germany I see. Germany is part of the solution. It is the other countries, with a modicum of sovereignty, that are the problem. The countries that are too small to have any sovereignty aren’t the issue. I’m looking at the big countries in the euro area. Are those countries now willing to do what Germany did 15 years ago? Are they willing to give up sovereignty? I hope that the discussion of fundamentals in Germany today -- which despite covering both good and bad topics is still a quality discussion -- will go to other countries, and in particular to France. Is France ready for that? France got a lot in terms of sovereignty, but is it willing today to pay its part of the bargain? Then, of course, other countries would follow in a similar way.

JÜRGEN FITSCHEN

If you take the numbers on unit labour costs, you know very well it’s not only about fiscal policy: It’s also about collective bargaining inside the countries. It’s about a host of different activities that determine the competitiveness at the local level. Here, countries and citizens
have to make a choice. You cannot have pension systems that diverge the way they do today. That’s where it starts. This is a political issue, and I’m afraid that this is going to be the biggest obstacle that stands in the way of the answer to this very important question.

On the banks dumping sovereign bonds: What are banks supposed to do? We have been posed with an accelerated deadline. By June 30th, 2012, we have to be compliant with the new capital requirements based on the EBA stress test results. Now, there are two options: either you raise more capital or you reduce your balance sheet. Both initiatives are on their way. At the same time, politicians have already been warning, ‘don’t you dare cut lending!’ If you exclude that you have to ask yourself, ‘where is all the capital coming from?’ I’ll ask you, ‘what are banks supposed to do?’ You told us to do so, now we’re executing accordingly. And we don’t want to do it in an irresponsible way. It’s a tough issue, by the way. I’m not saying we are heading for a credit crunch, but it’s the totality of the measures whose consequences we don’t yet see ourselves in a position to assess. I just don’t want to do too much too fast because the price will be paid by others. You have to ask yourself who is going to invest in the stock of a bank if the banks are not allowed to make decent returns. Please look at the full circle to make sure that banks can compete in order to be attractive for investors and to attract enough capital to support growth. I’m afraid that if economic growth is gaining speed, it could be easily choked by the lack of capital in the financial sector. That is why it all needs to fit together. This doesn’t mean pleading for a convenient life for bankers, but you have to bear in mind that without the ability to compete, to innovate, to be successful, and attract capital from the marketplace, banks will not play the role they are supposed to play.

EDMOND ALPHANDÉRY

We must keep in mind that when you look at Spain or Ireland, they were completely respecting the Stability and Growth Pact. That was a problem because they had various serious private debts due to a housing bubble, and so on. That raises a question in the Eurozone about the necessity to go beyond the Stability and Growth Pact. It’s not enough. That’s absolutely obvious. And this, then, raises the question of some control over the role economic policies of member states play. As far as monetary policy is concerned, some economists raised the idea that maybe we could use different required reserve ratios in various countries in order to have a better grip on control over private credit. It is not only public borrowing, but it is also about private credit. That could be one of the answers to diversity in the Eurozone.

On a new treaty: there is no such appetite for a new treaty. It is very unfortunate because I think we need it. The right answer to the crisis should be to show that we are willing to create the fellow institutions we need in Europe because it’s very difficult to have a “uni-currency” without more and deeper integration among member states. It’s a very difficult situation because it raises the question of a two-speed Europe, and so on. I think that we should give a signal that we understand that we have to go in this direction and that we are doing our best to improve the federal institutions in Europe, which exist, by the way, through the ECB. I would favour some kind of Delors Committee. We had them in the late 1980s, which inspired the European currency. I think if the European currency decided to ask a few independent people to think about what should be done to enhance federal institutions in Europe, it would be a good start and would be very well appreciated. It is part of the answer to the markets that we understand the problem at the heart of the crisis, and we are ready to solve it.
Obviously, the crisis is deepening every day from very simple market forces: Investors get rid of sovereign debt bonds and that has increased spreads. What we need is **credibility**. That is absolutely key: credibility and the way the economy and fiscal stance are managed in the countries that are not under attack because there are speculators who are under the pressures of investors. It is as simple as that. This is the reason why it is so important that we have this change of government in two of the main countries under pressure. Will it be enough? I doubt it. It’s very difficult because the mandate of these governments will be austerity, or it is austerity. I don’t see how you can avoid it in light of the situation of the Eurozone, which is unfortunately entering a recession and a credit crunch. I think we have to do more. This is why I think it would be **necessary to enhance the role of the EFSF**, which is extremely difficult. This raises the question of the lender of last resort -- the European Central Bank. Take, for example, the United Kingdom. When you look at the ratio of public debt to GDP, it is actually worse than in the Eurozone. Despite that, there is absolutely no problem with gilts. The rate of interest is even lower. Triple A is in no trouble in the UK. Why not? The answer is simple: everybody knows the Bank of England is ready to buy bonds with, for the time being, no problem. This raises a very serious question in Germany, but not only there. We are all aware that it is not the mandate of the ECB. It was not written down in the Maastricht Treaty. It was even forbidden by the Maastricht Treaty. We have to be aware of that and understand that. That’s a very big question. I have no answer to that, and I think it may be dangerous to take this decision now because it might fit the speculation.

**Q&A CONT.**

**AN AUSTRIAN PARTICIPANT** thinks, first of all, that the Trilateral Commission is a relatively dangerous place because Lucas Papademos and Mario Monti should be here. But now they are running their countries as Prime Ministers who are already sworn in, or will be tomorrow, and everyone is applauding. This shows an underlying problem because these are experts and outsiders, and now everyone is looking for even more experts and outsiders. **This will undermine parliamentary and representative democracy. It can work, and should work, for an interim period, but it isn’t a solution.** In my opinion it is absolutely necessary to talk about the responsibility of the political process, about re-politicising the policy and parties, so to speak. This is an important question, and I think without that there will be no accountability or responsibility in the future.

About the necessity for **more institutions, treaty changes**, etc. this Participant warned about their **illusions**: We had treaty changes in the past. Are we better off today with Catherine Ashton as the high representative for foreign policy? Is it better than in the days with Javier Solana and Benito Ferrero-Waldner? Honestly, there is a lack of action within the European institutions. The only institution which worked was the ECB: this was the only positive reaction from the European side. The question is **why is the Commission so reluctant?** Why is she not proactive, cooperating and proposing a lot of things? It has been more than one and a half years since Mario Monti proposed a very specific package for implementing the Single Market in a full and appropriate way. This would add 1.5% to 2% additional growth to the whole area of Europe. It has not been implemented up to now. I think this is a lack of action within the European institutions. If you open Pandora’s Box with a Convention, then it will be a full-fledged Convention with the participation of European parliamentarians, national parliamentarians, and will not end within six months. It will create a lot of problems, and we will invest a lot of energy which might be needed in other areas, like the Arab Spring or the international scene, etc. **A lot can be done within the treaty**, like, for instance, pooling competences in the Commission for monitoring into the hands of one commissioner, or the enhanced corporation which is already enshrined in the treaty could be done with countries which are eager and willing to do more. We should not exclude a treaty change, but it is not a solution at all.

**A DUTCH PARTICIPANT** carried on the remarks a little bit further. A new treaty risks rejection in a number of member states by referendums. Referendums usually answer not the question that is raised,
but they show dislike for foreigners and for present political leaders. Why not use the European Growth and Stability Pact and other available treaties and agreements, interpret them better, and most of all apply them better than in previous years?

A Spanish Participant, which is one of the countries in the first line of danger, shared some thoughts regarding his country. First of all, he agrees with the diagnosis: The problem of the Spanish economy is a problem of competitiveness. Our social model after democracy has been based on wages growing above inflation. The result is a clear lack of competitiveness at the end of the period. The second problem, which has been mentioned, is that with the euro we thought the main constraint of the Spanish economy in the last 50 years -- which was the current account deficit -- had disappeared. Now we have to cope with reality: our lack of competitiveness and our current account deficit. The current account deficit in Spain only represents 3% of GDP, down from 10%. From an energy standpoint, we are in a surplus in some situations. Second, productivity, which is a brutal matter, but with 2½ million more unemployed people and GDP growing at point something percent, productivity is increasing a lot. When we are doing our jobs -- because our problem is more related with the private sector, the leveraging of the private sector is something around 70 billion in the last two years -- then we are doing our jobs because it’s more related with the private sector. Nevertheless, our economy has been submitted for the last ten years to negative real interest rates. It is very difficult for any government to develop a fiscal policy towards 8-10% of surplus, trying to moderate these expensive measures, with negative interest rates for ten years. Spain needs European institutions to run economic policy as a whole, at least for the Eurozone. Of course, Spain’s problem is competitiveness. At the end of the day, we need a common economic policy. For the Eurozone, we have a common currency and we have to share not only the three conditions of the Stability Pact because at the end of the day, and from the very beginning, Spain has been comfortably within the limits of the Stability Pact.

A Swedish Participant coming from the private sector, and forced from time to time to go to markets to borrow money had the following question for the panel. Does it think that this crisis will lead to a change of behaviour from the sovereigns? We who are in the private sector and go to the market, we have to “undress” completely; We have to present the proper balance sheets, assets, liabilities, and a host of other information. We don’t get that from the sovereigns, at least not in the same way. Will we see a day when the sovereigns will present us with a proper balance sheet with liabilities on one side, not only nominal, but real liabilities, and even more importantly the asset side? Because on the asset side, the sovereigns tell us, ‘we have the right to tax our own people.’ That is the only thing that is on the asset side. I think there is much more to tell. We all know that states own land, corporations, etc. I think it would be very interesting to see if states started to undress a little bit and tell us the real balance sheet. Maybe the situation would be a little bit different.

A French Participant asked how we get to first base and start the process of overcoming this crisis and pointed out two ideas. The first is in banking -- let's get back to basics. The first is that risk must be properly assessed. He is struck, coming from US banks for 15 years, by the extent to which country risk and bank risk have been inadequately analysed over the last few years. We’ve taken for granted the statement that a country from Europe could not default which is a sort of partly professional mistake.

Then there are the positive things which can be done. He was surprised yesterday that while discussing innovations we didn’t look at Israel, Singapore, and Korea, and the way they do it i.e. by putting together scientific know-how, technological know-how, banking, entrepreneurs, and marketing: we must bet as bankers and better assess risk, and as bankers better stimulate growth. And look at what other countries do best.

His second point has to do with strengthening European economic institutions. When I hear that we should re-draft a treaty, and have it approved, I have to agree with those who say it is almost “une mission impossible”. What is such a mission is something that happens that is a little bit different between Germany and France. There’s a change in mood in France in political awareness and in the realisation that we have to sacrifice our “art de vivre in the French way” and realise it is going too far.
That’s a fact. The Germans know it, and we know it. It is also a fact that the relationship between France and Germany is not and has never been easy. We see this when we intervened in Libya, and we see it on other occasions when we got closer to Great Britain on nuclear matters. So, if that is difficult, it becomes imperative that perhaps there be an agreement between France and Germany that certain facilities be made available such as to prop up French banks by European institutions if France were to reduce its social expenses. In other words, if for one or two or three years, the French -- thanks to the Germans, and triggered by them -- were to give the example, this could start a new trend in Europe and nothing succeeds like success. The results we would obtain could become contagious.

A BRITISH PARTICIPANT underlined that one of the common themes that have emerged from the discussion -- not only in this room but in the wider world -- is that to deal with the kind of problems we have seen recently: European countries must be following policies that are fiscally sustainable. And, by implication, that there must be a more united fiscal policy in the eurozone. Nobody has underestimated the difficulty of achieving that, but making the heroic assumption that it is actually possible to achieve that, nobody has really discussed the fact that if you were to succeed in doing that, that would undoubtedly, almost by definition, accentuate the existence of a two-speed Europe. This has been touched upon, but not dwelt on. The question to ask the panel on this issue is: does that matter? Is that acceptable? I don’t ask it merely because I come from a country which, in spite of my protestations to the contrary, is likely to be on the wrong side of the two-speed Europe. I don’t say it as something that should be automatically rejected, but has the panel thought through the implications of a two-speed Europe, the desirability of a two-speed Europe, as well as the inevitability of a two-speed Europe, if this fiscal problem is generally addressed?

CLOSING REMARKS FROM THE SPEAKERS

EDMOND ALPHANDÉRY

I will give very brief comments on the two subjects which have been raised. On the first question should we prefer the first school of thought which is to enhance the rules which exist and improve the equation of the Eurozone within the existing rules, or should we do a quantum leap at the federal level, I should say that the first school is much more realistic, much easier, and we are obviously going in this direction. We have taken many steps in this direction, to enhance the procedures of control, the Stability and Growth Pact, and so on. It’s much more realistic.

I doubt that it is enough. I think that the heart of the issue is to go in the direction of a more federal institution, at least in the Eurozone. Is it realistic? There is no appetite at all for this. I understand that public opinions are not ready, and the political class all over Europe is not ready. Even in Germany there is a debate. This is probably the country where the debate is most open on this question, but even in my country there is not a lot of appetite within the entire spectrum of political parties. So the question is open, but I think that we have to raise it, lest we think that we missed something by not opening the debate at a time when we should have.

In respect to a two-speed Europe, I have to remind that when we created the euro it was supposed to be the currency for all the members of all the countries of the European Union. But two countries fought to opt out. These two countries, we know, are the UK and Denmark. In Europe you’re allowed either to be in the Eurozone or to be out. It was not the original plan. The original rule was that everybody who was entitled to enter had to adopt the euro. If we continue like this -- more for the researchers of the Eurozone -- it will raise the question of a two-speed Europe, which is a very serious one.
About the other question on transparency and the reaction of investors to sovereign debt bonds, I want to raise something beyond the question which is more important. When we created the euro, sovereign bankruptcy was out of the picture. Investors really believed there was no question of any country being bankrupt -- that was out of the picture. I will give you one proof of that. The prudential rules for investors, for life insurance companies for example, were such that you had an incentive to buy sovereign debt bonds from Greece, Ireland, and other countries. The impact on your prudential rules of having sovereign debt bonds was much lower than shares, for example. The fact that we now have entered a world where some countries may go bankrupt, or get a haircut, is a very serious problem for investors.

**JÜRGEN FITSCHEN**

On re-politicising the political processes: what do you want at the end of the day? You want the best people to run a country. I don’t care whether they are called “technocrats”, or not. I am very optimistic that only a few public appearances of trusted leaders are required to change the perception of the marketplace.

The numbers, in the case of Spain and Italy, do not cause me sleepless nights. If we carefully analyse the situation, we should be more confident. We must stop listening to those people who only know doom and gloom, and make money out of publishing books about that. Let the best people get there, and hopefully the people in the countries know what they have to do.

We talked about competitiveness, and I think we agreed it is key. It’s not about pumping money. It’s not about debt forgiveness if the countries that are benefiting from it are not regaining competitiveness. One thing we haven’t addressed in this group is education. To me, that’s where it starts. When you think about it, it doesn’t require tons of money to get there. We just have to make sure that we lay the foundation for people to become employable. I recently visited a country in the Middle East that spends huge amounts of money in one year to do what? Not to regain competitiveness, but to buy time. This is not the solution for the problem of this country. The biggest problem we have is the employability of people who want to participate. The best people in Spain and in Greece have no problem. They can move. German language courses in these countries are sold out. Why? People want to prepare to take a job in Germany because we need skilled people. Is that the solution for Europe? Definitely not! The best people are needed in Greece to regain competitiveness in Greece. This is a bit of a dilemma. Hence, we should direct a lot of emphasis into that particular area -- call it education -- at all kinds of levels.

Back to the basics, the appeals from the banking side, I couldn’t agree more. What does this mean? Does it mean we go back to the Stone Age? In Japan somebody said lets go back to the Meiji Restoration. That was in 1868. I don’t know what the banking system looked like back in those days. I’m sure that this is definitely not the right answer. If we agree that banks have to support the real economy, and cannot de-link their activities, then I think we are on the same page. This is what is needed, and this is on the way. I don’t know of any case where so far lending has been cut back to an extent that the real economy did not get the support it needed. But when we talk about basics, I don’t think we should associate that with a limit on growth and innovation where it makes sense to support the real economy. Otherwise, the real economy is bound to pay a price. We should be very careful when you get engaged in a discussion about what are called toxic activities. It is very popular to say that all derivatives are dangerous, “nuclear stuff” we have to avoid. Ask yourself: what’s behind that? The real
The economy is benefiting from the existence of these products if handled properly because it helps them to manage all sorts of risk that we have in the global world more so than ever before. My appeal is: let’s differentiate. Let’s do away with those things that don’t serve the real economy but support the others that are needed. Most of the balance sheet activities we have today in the field of derivatives originate from members of the so-called real economy.

My final comment is if the Eurozone reform is successful, what happens then? Yes, I would see the risk that we could have a two-speed Europe. Am I bothered by it? Not necessarily, because it is optional. You can join the club if you want to. If you don’t, stay out of it. But once you are in it, you have to observe the rules. I think if the euro is attractive, it will have a built-in incentive to drag others into the club.

**André Sapir**

If I want to summarise, in my view, what is the source of the crisis -- looking at both the past few years and today -- then there’s only word that I would use: incoherence. What has happened? There has been analytical incoherence, and there has been political-institutional incoherence.

Let me start with the analytical incoherence because, as an economist, I take part of the blame for this. We have said that indeed we did not see the implications of the euro in terms of the current account matters and in terms of sovereign debt bankruptcy. Many of us repeated that the euro is a shield with which we guard against foreign-exchange problems -- against this and that. We did not see that behind the shield there were tremendous weaknesses, that there can be current account imbalances and those imbalances have increased; that they can be a fundamental weakness of sovereign debt because countries have lost their monetary autonomy; and that they cannot do what the UK can do, they cannot do this “lender of last resort”. So, there were a number of analytical problems that we didn’t analyse correctly, and they were incoherent.

But there were also institutional incoherencies. We did not put together any mechanisms for financial stability. The reason why we created the euro -- as we repeat it over and over again - - is the “monetary trilemma”. Once we had free capital movement we had to make a choice. We could not maintain monetary autonomy and fix the exchange rate. Most countries -- not the UK or Denmark -- made the choice to opt for monetary union. But it is amazing that we forgot that the root of the decision was financial, about financial markets. Yet, we did not create any institution for financial stability, or European supervision, or European bank resolution mechanisms. Nothing! That was incoherent and that needs to be corrected. We need to learn from the crisis.

If we look at what has happened during the past year and a half, with Greece for instance, this was incoherence. We refused to accept the idea that restructuring would eventually come. The more we delayed that, the more the markets got nervous. What markets don’t like is incoherence, and political leaders need to accept that at some stage, you need to fix it in one way or another.

About a two-speed Europe, in a sense you could say that the UK was coherent. Mrs. Thatcher was coherent from the start. She understood rightly that monetary union would one day lead to fiscal union. You could say that’s the reason why she didn’t want monetary union because she didn’t want to give up sovereignty -- not on the currency, but on the fiscal side. In that
sense she was coherent. But we can be coherent also. I think what the UK’s problem will be that the issue is not just fiscal, but also financial which has a fiscal component. For the UK this will be a major issue. We need to reinforce the financial stability institutions of the euro area, or create them. And we need to create new rules because at the same time we have a single market with all 27 countries -- including the UK -- whose financial centre is London. This raises a very difficult question for the UK about how to deal with that, but eventually we will have to cross that bridge.

**Session III on Europe and the Crisis**

**Part II**

Paul Volcker, Vladimir Dlouhy, Jean-Claude Trichet, Antonio Borges

**Panagis Vourloemis**

Yesterday, a lot of people were commiserating with me with a gleam in their eye. I must say that I had to replace Lucas on very short notice. As a result I had the temptation to put myself outside the problem – outside Greece – and speak as if Greece was a third country. I was tempted to give you a presentation more or less on the scientific side saying that if Greece did A, B and C while other things remained equal, by year D it would have a primary surplus and be able to start servicing its loan. In reality, it’s not like that and I cannot put myself outside my country. I cannot detach myself, especially when many people have very credible criticisms.

Ten years ago, I was one of the people very much in favour of the euro. Already at that time it was clear our borrowing was getting out of hand and the hope was that the euro would impose discipline on us. We were in favour of the euro because we wanted to put on a kind of corset. Instead of that, by coming into the euro we encouraged borrowing. We piggy-backed on the credibility of this new club we entered and continued borrowing and misspending the money. This led us to where we are now. We cannot blame anybody for this, and I think we should highlight certain unique characteristics of the Greek scene.
We like to say that we are not the only ones and that everyone has a problem, but our problem is quite unique. Over the last 30 years, we built a huge public sector. We now have “two Greeks”: We have a private sector Greece which is quite hardworking, successful, and in certain sectors has been very competitive. And then we have a public sector Greece, which is bloated and which is sucking all the vitality and energy out of the private sector. How did we get there? We got there because our political system is based on patronage. It’s based on hiring people. And where do you hire people? Where do you give jobs? You give jobs in the public sector. The money which we borrowed went mostly into this game of borrowing money in order to hire people, and to enlarge the public sector. Our political establishment today relies on this structure. We heard before that 1 in 4 Greeks works for the state in some form, either for the local or central government, or state companies, etc. That is correct. There are two more figures. There are about 1.1 million people who work for the state out of a working population of less than 5 million. Another million are mostly illegal immigrants who do a lot of work in Greece. Finally, there is another million who are unemployed. These are all from the private sector, not from the public sector. So we have a very difficult problem on our hands, and it is a problem which we knew all along was coming but did very little to correct.

In 2008-2009, when the crisis hit, it became much more difficult to borrow. In 2010, we could no longer borrow any more money, and had to go to our partners – the European Union and the IMF – and ask: “please help”. They were very generous and very accommodating. I think they were too generous and accommodating. To the people who governed Greece, they gave the impression that they were afraid that if Greece had a very serious problem, this could bring the whole house down. I think our Government misread the situation and did not comply with the conditions which were attached to the financial help which we were given. They dragged their feet and found all kinds of excuses not to do what should be done, even 1 ½ to 2 years ago. There is another reason. The public service in Greece does not function properly. Therefore it is extremely difficult to implement anything even if you want to do so.

We were in this situation, and we were drifting. Then something happened. I think our government went too far. This referendum issue was an eye-opener. Europe suddenly realized it was not dealing with totally rational human beings. I’m sorry to say that, but it also shocked the Greeks, despite how inured we had become to such behavior. The only positive aspect of this adventure – and what preceded it and came after it - was to get rid of certain people in government, to eventually bring in Lucas Papademos. I would even go so far as to say that we really only entered the European Union last week! But it is a different European Union, unfortunately, with its own problems and where our own role is looked at with some suspicion and not as tolerant or as rich a European Union as it used to be. Be that as it may, now we are there.

I would say something very cynical about the political establishment. I do not differentiate between the two big parties. Although they are discredited, they are still in power. Why did they get Papademos in? They got him in so that Greece could get the sixth instalment of the help which we were promised – 8 billion euros – and hopefully the seventh instalment that is due in February, which is 80 billion, because large repayment obligations are then due. They do not see further than that. In my opinion, they expect that after using the credibility of Lucas they will ditch him and resume as if nothing had happened. Somehow they hope they will muddle through. This is indicated by the proposed election on the 19th February. They expect Lucas to pass the budget now, to sign an agreement with the Troika, and then quietly to hang back and fade away. This cannot be serious. Handing back the government to the
same people who brought the country to this humiliation and mess is not just a nightmare, it’s very dangerous. Nothing lasting can be built in three or even six months. The country and its creditors need strong leadership and a strong government which will last long enough to reorganize the state, to reorganize the civil service, and to not just pass laws which remain only in the books, but to implement the necessary reforms.

Papademos is an ideal head for such a government, but he will need all the help he can get. In the last few weeks, we learned a lesson. Doctor Johnson was right: a death sentenced concentrates the mind! The risks of losing the sixth instalment made the politicians cave in and agree to a new Prime Minister…

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The session was interrupted by a live video link with
Mario Monti in his Senate Office in Rome

**Peter Sutherland**: Mario, we are honoured and delighted that you are with us, and we’re also delighted that you’ve assumed a very difficult role. We wish you the very best of good fortune with it, but we are really privileged to have you with us today, as we have been to have had you as president and chairman of the European group.

**Mario Monti**: I am very grateful to you who have been able to run the perfect conference despite the absence of the person who I invited you to the conference. The reason why I am not standing there, and I completely apologise is that at this time, I am linked to you from the palace in Rome where I was three days ago given the honour of being a Senator for life. It is not excluded that, depending on political parties, I will be asked to do a bit more for the country. In that case, you can imagine that I am aware of the difficult position of my country, but I think we are also both aware of this. So I am confident we will be able to overcome this difficult moment. Also I am happy to give back to Italy a more active role alongside Europe towards and let me receive the procedure and outcome of your discussions. So how can I say, if I am in a “hedged position”, it will be an interesting challenge. Thank you very much.

**Peter Sutherland**: To conclude, let me on behalf of everybody here congratulate you on your appointment as a Life Senator. It’s a signal honour and one that is richly deserved. We wish you bonne chance in the difficult times ahead. You know that you have the whole-hearted support of everybody here that very few could muster in the same way that is borne out of our great respect for you as a man and as a European.

**Mario Monti**: Thank you so much; all the best to you.

**Vladimir Dlouhy**: All the best to you, Mario, thank you.

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I was really glad to hear the applause which we provided to Mario, and the support which we all are giving him. Nevertheless, from five minutes of celebration, let’s get down to the realities. Panagis, if you would be kind enough to conclude your remarks.

… Thank you very much for this welcome interruption. I will now resume the thread of my thoughts.
What I was saying is that this threat of not paying the next instalment, which would immediately lead to the inability to pay salaries and pensions in the civil service, made the government cave in and appoint Lucas Papademos as Prime minister. However, as we say in Greece, ‘one swallow does not bring the spring’, and he will need all the help he can get. Ultimately, the problem is ours. It is the problem of the Greeks, the 70% who want the euro, but also the same 70% who do not want to make the necessary accommodation in order to belong there. But, together with whatever we can do ourselves in our own country, it was proven that the Troika holds a very big stick. This stick has to be used. I’m sorry to say, but the threat has to be kept alive. Monitoring has to be very strict, and there has to be guidance.

Last, but not least, we have to continue borrowing on the credibility of our partners. Our credibility is shot for now. Following the recipes of the Troika is the minimum requirement in order to stabilize things and gradually take the long road to recovery. And it will be a long way because by bleeding the patient all the time you do not achieve that. We need development and growth. That’s the only viable way in which we are going to come out of the crisis. To do that we will also need help in this area.

We are not at the end of the tunnel. We are at the beginning. But things are much better now that we have somebody at the helm who is credible, intelligent, and knows how the mechanisms work. Unfortunately he doesn’t have the instincts of a Genghis Khan. We also need a bit of that to get things moving. In the short run, we should not be expected to change our culture. This culture has deep roots. In the short term, we need some imposition and some strong arming to get back onto the right track. Whether you call it austerity or sustainability – all of these are words and you know what I mean.
ANTONIO BORGES

I will focus on the areas in which my opinions differ, and the areas in which I think we should go a step further. That will also help make things more concise.

First of all, let me give you an idea of what is at stake, what I still think deserves a bit of attention. I want to go a little further on what is really the nature of the crisis, and maybe I’ll surprise you by disagreeing. It takes a great deal of courage to disagree and say this isn’t a sovereign debt crisis but a much deeper and more problematic situation. We do have an incomplete monetary union. We’re trying to put together a monetary union where some very important pieces are missing, and that is a big obstacle. We’ll then talk about some key elements of the solution. There are a lot of wrong ideas circulating, which are causing a lot of damage. I’ll speak about them, and then focus on some concrete steps that we might take in the future.

First, let me talk for a moment about the euro and what’s at stake here. I’m concentrating only on the economic side of things and not the political side. We, at the IMF, have a very optimistic view about Europe. If you read our documents -- our latest reports -- we think there is enormous potential in Europe for economic growth and prosperity. I fully agree with André when he mentioned this morning that there has already been a lot of convergence in Europe, and that a lot more may happen. But we have to understand why this is happening. This is happening to a very large extent because of the success of economic integration. There are problems in a few countries, but the bulk of the project has been incredibly successful, and there’s still a lot of potential to go. When you see what happens in countries like Poland, Slovakia, Slovenia, and many other countries in Central and Eastern Europe -- the enormous amount of progress that has taken place there -- it is essentially because of successful economic integration.

Let me go a step further. When you see the success of Germany, you cannot disconnect it from economic integration. The reason why Germany has made so much progress, in particular in terms of competitiveness, certainly there is an element of very strong domestic discipline. There is very good behaviour on the part of unions, a lot of moderation in wages, and more besides. But, there is also a very important point: the ability of German companies to actually take enormous advantage of the diversity of conditions that exist throughout Europe. They have reorganised. They have redistributed their supply chains throughout the continent. They can very quickly shift activity from one country to another, depending on where the costs and conditions are better, and they gain a lot in terms of global competitiveness by taking advantage of this diversity that exists in Europe. This is very visible in manufacturing, but it’s also true in many services -- in call centres, in back offices, and even in research organisations -- where, today, the gains in inefficiency, competitiveness, productivity, etc., don’t only come from your own country, but come from adopting a European approach to your position in the world. This is of course what we’ve seen happening in the United States for decades and decades. It’s happening in Europe as well. That is at the centre of our gains and competitiveness on a global basis.

To take this a step further, this even means that for Germans, it may be even more efficient to invest outside of Germany than in Germany. It may be in German interests not to invest so much in Germany. It may be more productive to invest outside of Germany because from the point of view of the whole supply chain and of the value that remains in Germany, then that may be the more productive investment. This puts the whole issue of current account
surpluses and deficits, and whether levels of investment are sufficient or insufficient, in a whole new framework. We have to look at this beyond the normal borders of each country.

What does this have to do with the euro? Because, this could never happen in the extraordinary environment of very volatile exchange rates that used to happen before the euro. This is a key point. Without the euro there is a factor of the crisis that isn’t talked about so much, which is the impact of this extraordinary flight to quality. Today, as investors get more concerned, they move from bonds in risky countries to bonds in safe countries, and this creates all this volatility in interest rates that we observe. We see that Italian interest rates are probably much higher than they should be. We also see German interest rates much lower than they probably should be. But think about what would happen if there wasn’t the euro. All of this flight to quality would be reflected in very, very volatile exchange rates. Under that environment, we would have a very, very inefficient way of managing Europe as a whole, of taking advantage of this diversity to gain competitiveness, and of improving the position of Europe throughout the world.

This is also valid for countries which are outside the Eurozone, like Poland, the Czech Republic, or Sweden, whose management of their exchange rate is so much easier because they have an anchor to which they refer. The best example of this is Switzerland, who was suffering so much from the flight to quality and decided to do a pact with the euro. When you have that kind of anchor, it makes life a lot easier for everybody. Britain is a case apart. They choose to have a very volatile exchange rate, and it’s their choice. Personally, I think they pay a high price for that, but that’s a different story altogether.

For the rest, I think the value of the euro as a source of efficiency gains throughout the world is not sufficiently understood. And then there’s a lot more than that, but I won’t spend too much on this. Europe is still far behind the United States in terms of the development of its financial markets. That will never happen, unless it is at the level of the whole continent, which is why the euro is so important. And also, we will never have a more balanced international monetary system unless there is a good competitor to the US dollar. Only the euro can perform that role.

Let me go a step further, and talk about the nature of the crisis, and why I think this isn’t really a sovereign debt crisis. The sovereign debt problem is only the tip of the iceberg. There’s a lot more to it than that. Spain, for example, had a wonderful fiscal policy for many years, and to this day has a very low debt-to-GDP ratio, but it is one of the countries in deep trouble. Britain has worse fiscal accounts than Portugal, and Italy has a better primary budget than Germany. Very few people know this, but it is true. Yet, you know who is in trouble and who isn’t. So, it’s not just the sovereign debt itself. It’s much more than that.

Let’s for a minute try to understand what happened. The Monetary Union was put in place so that capital could flow easily throughout Europe to where it was most needed. Most of the time, this was very well done. In a few cases, in the ones that are in trouble, it was very seriously mismanaged. These countries borrowed, and borrowed massively, not to invest efficiently, not to generate strong sustainable long-term growth, but to create these big bubbles of consumer spending, real-estate spending, investments, or at worst very unproductive investments, which I’ll elaborate on. If you borrow quite a bit, especially if you borrow from abroad, and spend the money in ways that do not generate any kind of return, you’re going to have very serious problems. Everybody knows this. You know this from your
own domestic finances. But some countries did forget this, and domestic politics re-emphasised this problem. Why?

What happened in most of these countries? Let’s take Greece, Spain, or Portugal. These are very good examples. There was for a moment the illusion of growth. You borrowed abroad a lot. That generated a lot of consumer spending, investment spending, and so forth. GDP accounts seemed to be going up, you seemed to be doing better. Certain sectors of the economy were doing extremely well and therefore demanding more of the same. As long as it was possible to finance this, governments kept on borrowing. It was only when we hit the wall that the process stopped. Why is this the case? Keep in mind that in every country, you have two very different sectors, or two very different halves of the economy. One is what I call the competitive sector, which economists call the tradable sector, and the other one is the protected sector which does not suffer from foreign competition. They are in most cases 50-50. Of course, this whole spending boom did not help the competitive sector at all, which is very much constrained by competition from abroad, which has to operate at market prices and so forth. But the protected sector, the non-tradable sector -- all the services, all the regulated industries and so forth -- was doing extremely well. They were prospering massively, had very high rates of profitability, and they wanted more and more. And, as they wanted more and more, they actually put more and more pressure on the government to keep on along the same lines. They captured many of these governments, and forced the maintenance of a policy that was in their interest but was certainly going to ruin the country.

The reason why this is so particularly problematic now is that this led to what I call a very entrenched loss of competitiveness. Because, when we look at the problems of competitiveness of these countries, you cannot only look at labour costs. That, by itself, is already a serious issue. The loss of competitiveness goes beyond this. If you look at the relative prices, the prices of non-tradables relative to the prices of tradables, you see a much worse picture. These prosperous industries that were protected became bloated, very profitable, very inefficient, and very often highly over-manned. The extreme cases of this were the bubbles in the real-estate sector, but even apart from those many other sectors of services and regulated industries had the same experience. This is how all these additional prices became a cost for the rest of the economy. So, when you measure competitiveness in terms of relative prices, you get to numbers which are much more worrisome than those which simply compare labour costs.

This is a problem that’s very serious because it does take some time to reverse. It will take a massive shift of resources from this protected sector to the competitive sector. It will take a re-opening of the economies. It will take a change in politics because all those people that were prosperous before were the ones that were supporting the governments and that are still trying to control the governments and are resisting this change very dramatically. This is why, even in a country like Greece, where you see wages going down a lot, you don’t see any gain in competitiveness. You see some, but not enough. You see some industries prospering, but the bulk of the economy is still suffering. So there is this deeply entrenched competitiveness problem, with which we will never be able to solve the debt sustainability issue because, as André said, there will never be debt sustainability unless we go back to economic growth.

What makes the problem somewhat worse? I will spend a minute on this issue of incomplete integration. We tried to open up the markets. We tried to create this free flow of capital, but in fact the only thing that is really free is the flow of credit, and that has now stopped. We didn’t go a step further. We didn’t really open capital markets. If you look at what a proper
monetary union does, when in the United States you have one part of the country that’s not doing so well, there is a lot of capital that comes -- not to lend, but to buy. There is an arbitrage mechanism that is very important, which is that you take advantage of inexpensive assets -- take them over -- and take that opportunity to generate substantial capital gains. This has not been happening in Europe. We have not wanted this. There are still too many barriers across Europe in many different industries where cross-border takeovers, mergers, and acquisitions don’t happen. So we eliminated one of the fundamental aspects of re-balancing and of introducing discipline in the way we operate.

We also did not allow the internal market to operate well. In all of these countries, what happened was that governments tried to keep on stimulating their protected sector, and thereby led their protected sector to want to be more and more protected. We saw these economies becoming more and more closed, in the sense that the segment of the economy opened to foreign competition became smaller and smaller. One number that is absolutely staggering is that after twelve years of monetary integration, Greece exports only 5% of its GDP to the Eurozone! This is shocking, and in absolute contrast with all the other countries of Central and Eastern Europe like Slovakia, Slovenia, and, of course, Poland, the Czech Republic, and so forth. Their degree of openness has increased dramatically, and they have gained so much from it. So, countries became more closed by violating the single market rules and introducing all kinds of barriers to competition which should not be there. I must say, there was a lot of complacency here. We let them do this, even though this is completely against the spirit and the letter of European law. Now, we’re paying quite a price for this.

Furthermore, we’re also running a monetary union with banking organised on a country-by-country basis. This is a contradiction. We cannot have countries operate a bank operating throughout the union and then still be focused strictly on their domestic country’s regulator and support system. I think this is one of the areas where progress has to be made shortly. We need to go a lot further from what exists already. I’m not saying this is a simple problem -- it’s a complex problem -- but it is a contradiction to try to have a monetary union with banks that are regulated on a national basis and whose source of support comes from their own Treasuries alone. Banks in Europe have a huge importance compared to the US as they represent 70-80% of all finance against the 25% or so in the US. Banks are very large compared to the size of the economies all over Europe. Therefore, very often the Treasuries are not in a position to support them. They are too big for their domestic resources. We have to move more and more rapidly to a European approach to banking, and I know this is not a simple process and will take time, but it is necessary.

And, eventually, we have to find ways of moving towards more fiscal integration. Politically, this is a very difficult problem. We’re not prepared. We cannot have complete fiscal union in the sense that some central authority will determine how much taxes I pay and how much taxes each of you pays. A lot of democratic legitimacy is necessary before we can make those kinds of steps. It will probably take a few generations. The limited degree of risk sharing, e.g., moving towards more European management of debt instruments and so forth, may be possible even within the current treaty. That would be a step in the right direction that would introduce a lot of additional efficiency and would bring a lot of investment from outside Europe.

What would be the key elements of a solution? Many people talk about the circuit-breaker, the miracle solution, the silver bullet, the one measure that would solve every problem. This does not exist. We have to operate on several fronts at the same time, and we have to make
things happen little by little on every one of these fronts. As long as we’re moving in the right direction, I think we can hope to succeed.

First of all, there has to be a lot **more emphasis and focus on competitiveness and growth.** Just tightening fiscal budgets is not sufficient. It’s necessary, but not sufficient. Unless these countries -- Greece, Portugal, Italy, Spain -- can get back to growth, this problem cannot be solved. The reason why we’re so hopeful about Ireland is that Ireland is already growing. It’s already exporting and has regained competitiveness. It’s a different world altogether. This is a fundamental priority.

We have to **recover investor confidence.** To a very large extent, the problems in Italy and Spain are problems of confidence. These are countries that under normal conditions would be solvent, but if their own investors don’t buy their own government’s debt, something is very, very seriously wrong. In that sense, these steps that we’re now observing towards a more credible government that commands more confidence from everybody will be crucial.

We have to put a lot more emphasis on **the discipline that the single market enforces.** Some people have already mentioned this today. That will be a very key component of the **competitiveness process.** Countries have to accept that the industries which are not efficient have to be “competed away,” and that can only happen through **more integration and more openness.** And, we have to make whatever limited progress is possible and viable in terms of **fiscal integration.**

Now let me elaborate a bit on some **more mythical and very often dangerous ideas.**

First of all, **the idea that we can abandon austerity,** which is now very popular in certain circles, in particular, certain academics and certain policy circles in other parts of the world. This vicious circle of imposing more budget consolidation and therefore generating deeper recessions, creating even further problems for the budget, you can easily portray this as a disastrous process in the medium term. But the reality is that in most of these countries, e.g., Greece, Portugal, and Spain, the core of the problem is that they have been spending too much. They have been living above the income that they can generate. That’s why they’ve been borrowing so much abroad, and nothing can be resolved until they go back to the normal balance. Here, we’re not talking about imposing dramatic austerity on people, or about huge sacrifices, but indeed only talking about reversing something that should not have happened. The wages that grew a lot more than they should have over the last few years, and had no sustainability, have to be reversed. We’re not condemning these people to starvation. We’re just going back to normal. We’re reversing something that should never have existed. This is a necessity, but I also agree is a totally insufficient condition to solve the problem.

The second very dangerous idea is: **if all of the ECB did what they had to do, the problem would be solved.** This is something you see all over the US. Many very serious academics talk about this solution. People go as far as to say that the European problem would be solved in no time if only Europe’s inflation rate goes up to 4 or 5%. These are sensible people making these kinds of statements. I think this is totally beyond reality. I was at the start of this whole project, when the Maastricht Treaty was being drafted and the statutes of the European Central Bank were being written up. This was all based on an understanding of the **mandate of the Central Bank,** and what the Central Bank existed for. This was not a matter of practical, expedient questions. It was a fundamental matter which was then put in the treaties, ratified, and is the base on which the monetary union was constructed. We cannot simply say, ‘now,
because it’s more expedient, let’s change the mandate of the ECB.’ How could we go back to our electorates and tell them we don’t care about the Treaty, what we ratified, and what was the basis for our monetary union, and that we’ll change everything now because it’s convenient! I’m completely convinced that there would be no support for this. I can even predict that the monetary union would end before we would convince Europeans to have a higher inflation target, or a different mandate for the ECB. Furthermore, it is probably not necessary, which is the more important issue, and I’ll have more to say about this in a minute.

On debt restructuring, we’re going to have debt restructuring now in Greece. It will be fairly severe, and very substantial. It is inevitable. André already said, it became inevitable, and it did so for political reasons, in particular, because of the whole issue of burden sharing, i.e., who’s going to pay for all of this? Many people and voters felt that there had to be burden sharing, and the financial sector has to pay its part of the cost, as if the financial sector was not all of us with our deposits and savings, but that’s a different story, and a very political one. The key point is that debt restructuring does give -- the Greeks in this case -- some time to breathe. There are quite a few payments they have to make in the medium term that will be postponed, but it does not solve the problem at all. It brings the Greek debt down somewhat, whereas before the Greek debt relative to GDP was growing quite rapidly. It brings it down a bit, but if nothing else changes it will keep on growing. So, it cannot be regarded as the solution, unless of course we were to forgive all of their debt, including to the IMF or all these countries that lent and so forth, which is a far more problematic statement. Debt restructuring cannot be regarded as the solution, although now we are going to have it.

The other solution that many people talk about is this huge EFSF -- this multi-trillion euro EFSF -- that would be able to take Italy out of the markets, Spain out of the markets, and all of a sudden we don’t depend on the markets anymore. This is not going to happen either. It cannot happen. We’ve seen many efforts that have been put in place over the last few years and show that investors throughout the world, including governments, may be prepared to put some money into this, but not that much. They may want to cooperate and be helpful, but nobody’s going to say, 'we will solve your problem for you.' Therefore, this idea of the big bazooka, as the Americans call it, is not something that we can count on, or that we should count on.

So, we are left with the key, or the core, of the issue: good policies. We have to go back to good policies. There is not much that we can say beyond that. First of all, we have to change the nature of the programs that we put in place. The programs in all of these countries, including now in Italy, they have to focus on fiscal consolidation. I’m not talking only about IMF or European Union programs, but talking in general about the policies that are put in place. They have to focus on fiscal consolidation, but also go beyond that. They have to generate investor confidence that these countries will go back to growth, will go back to competitiveness, and will restore their ability to participate in the European prosperity in a healthy and sensible manner. This is not impossible.

Many economists are quite pessimistic about this, and are saying this might take 10 or 20 years. I don’t think so. In the old days, when we could devalue currencies, this could be done in a matter of months. Nowadays, we cannot devalue currencies within the euro, but we can change relative prices, which is exactly the same. If many of these prices are actually regulated prices, this can be done rather quickly. The problem is political. As you change these situations, you’re actually diverting resources from certain sectors to other sectors, and that is why there is massive resistance. The vested interests are very, very well entrenched,
and quite capable of mobilising for whatever they consider to be their vital interests. What we did with devaluation was easy because it was hidden and done by stealth. Now we have to do it explicitly and openly. But it can be done, and it should be done. Furthermore, if it’s not done, the problem will not be solved.

Second, we do have a very serious concern about the credit crunch. There are a few countries in Europe where the credit crunch today is very severe. These economies are starved for credit, and if they have a fiscal adjustment plus a credit crunch they will be devastated. So, we have to go back to normal financing of the economies. And, throughout Europe, not just in the problem countries, the situation of the banks today is sufficiently difficult that the fear of a reduction in balance sheets, and therefore less financing of the economy, remains quite serious. Maybe normal credit to companies is not being cut in countries like Germany or France, but many activities, e.g., worldwide trade finance, which is funded in dollars, are being cut back by banks because the shortage of dollar funding is forcing them to. This has very negative long term consequences for Europe and for the rest of the world.

More importantly perhaps, we are now facing what is called the “prisoners’ dilemma” situation. Everyone throughout Europe is focusing on their own immediate problem. Every bank is focusing on its own situation. Every regulator is focusing on the situation of its banks and its insurance companies. This is why regulators throughout Europe are now saying to their companies, banks, and insurance companies that they have to get out of Italy and Spain. This is the unravelling of the monetary union, but they think they are solving their own problem which has priority over everything else. In every prisoners’ dilemma, we know that if we solve our own problem, we create a collective outcome which is disastrous for everybody and that’s what we have to avoid first of all. To achieve this, we actually have to have a far more cooperative approach to things. We have to sit people around the table. We have to agree among us what is in the best interest of the collective good, and then we have persuade people to behave according to that. It’s very difficult to do, but it’s the only possible outcome.

This will not happen without restoring investor confidence; without persuading people that Italian bonds deserve buying, and have a lot of value, or Spanish bonds the same thing. Investors are already buying quite a bit of Irish bonds. This requires good policies. This requires that the EFSF, which will always be limited in its size, invests its resources in a very targeted and careful manner so as to protect investors and persuade them to move in the right direction.

And maybe here the ECB does have a role to play, which I think they are willing to play, and which is to create stable markets, eliminate volatility, and persuade investors that if the countries are on the right track, and the policies are the right ones, the ECB will be there to stabilise the situation and make investment more tranquil.

In this context I think that the solution exists, and is not beyond reach. Markets will react very quickly, as we see in Ireland and maybe to a certain extent even in Spain when they see good policies in place. We have to abandon any idea of a single silver bullet that will solve every problem and work on a broad front of many different actions to generate this cooperative solution.
It occurred to me last night that there may be people here that thought I could bring good news from America, and that things would look better. I assure you this is not the case. Any problems that you see in the European economy, which is substantial, I can match with problems in the American economy. We will be fortunate if each of these economies gets through the next year without a relapse into at least a quarter or two of decline.

The fact is, we’re both caught up with over indebtedness. We’re all caught up with over leveraging. We are in a problem, and a long de-leveraging process that inevitably takes time. It can hardly be rushed. The biggest evidence of that in the United States is the mortgage market, which is by far the biggest part of the capital market in the United States, and is totally out of business except for government purchases of mortgages. It is an endless process of trying to clean up the debris from the sub-prime crisis. You might say that for those who like financial innovation, in the old days when mortgages were made by a bank or a savings & loan -- when the bank knew what the mortgage was, and they could deal with the customer -- things moved in a more orderly way. When there is no relationship between the borrower and the lender, and there are four different intermediaries there, the market gets pretty clogged up to say the least. You’ve had similar problems in Europe with housing booms in Spain, Ireland, and elsewhere.

There’s a lack of savings in some of these countries. They run big current account surpluses -- somebody was running the surpluses, but the worry was about running the deficits. You asked how this could go on for so long. There was an irresistible temptation in the United States to balloon our consumption expenditures to all time records on the basis of cheap borrowing from China. China was very happy to lend us the money, and send us the exports, while we were very happy to borrow and get ourselves in trouble.

It’s not very different to what happened in Greece. Here’s this country that is not the strongest country, I think, in Europe, but they’re able to borrow at German interest rates. That was a pretty irresistible temptation for Greece. You had the same kind of end product that we had on a bigger scale in the international markets. So, whatever I say about dealing with this European matter, I don’t want to let you forget that we have the potential for an even bigger crisis in the United States down the road. We have certain flexibility to take care of it, but I
think we’re going to have to take care of it, and the political situation is not ideal, to say the least, for forceful action in the United States.

I was reminded in thinking about this European problem that there was a similar situation in the United States just exactly 210 years ago. When the United States was created, there was a Constitution. It wasn’t quite clear what the Constitution meant in all its detail, but every colony at the time, or every constituent state of the United States, had its own debts, mostly in repaying the soldiers in the Revolutionary War. There was great conflict between, let’s call them the Pennsylvania Dutch on the one side and the Georgian rebels on the other, as to who should pick up the debts. And then we had Alexander Hamilton come along, the first Secretary of Treasury, who said that the United States Government should repay all the debts of all the states. At the same time, he said that couldn’t be done unless the federal government had more authority than the constitution explicitly provided for. Somehow, after two or three years in office, both of those things were accomplished. The federal government took over all the debts, and the basis for a stronger federal government and federal taxation was set out. This worked pretty well.

You can ask what the difference is between Europe and the United States in the present problem or historically. I think the difference is it isn’t getting enough emphasis here. The European construct is a political construct. Mr. Kohl had something to do with the euro, and I don’t think he was talking about balance of payment differences and the advantages of a common currency. He was talking about political unity in Europe. If the euro fails, I think you have a problem of meeting the basic political challenge that gave rise to the euro in the first place. I think that really is what you ought to worry about.

In that same vein, I will say that I was also reminded yesterday that after Alexander Hamilton straightened out the debt, credit poured forward and the prosperity of America began. The first large lenders to the United States were the Dutch. Six million dollars came across the Atlantic as an expression of confidence in this new country, and it proceeded quite effectively from then on. Now as I see it, which is a little bit different from how some other people see it, Europe is at an Alexander Hamilton moment, but there is no Alexander Hamilton in sight.

So, what do we do? I think it’s fair to say that progress has been made, particularly in recent months, on some basic points. Perhaps the first one is protecting the banks, getting the banks recapitalised. Is that going to happen as fast as it should happen? No. But it is basic to get the banks recapitalised with, in my opinion, government help if necessary. If this crisis becomes worse, you need to have a banking system operate during the crisis and not have the whole continent break down.

I believe you want to protect the countries that you feel can manage this adjustment process, and the two big ones of course are Spain and Italy. But to protect them, you have to have some feeling that there is some money around in case the market goes against them, as it obviously is. That is going to take a large amount of money. This is not Greek money, not Ireland money, nor Portugal money -- this is real money. We need to put something together to deal with that contingency. Are we willing to permit defaults in cases where ultimate solvency doesn’t seem possible? Well, we’re making a hesitant step in that direction with Greece. There may be a need for others, and that is one reason why you need to protect the banks.
Then, and I call this the “big bazooka,” it’s not money but the reconstruction of economic governance in Europe. Everybody has been talking about that. I agree that it’s essential if you want to keep the euro over time, but it’s not going to happen in the short run as far as I can see. There is too much difference of opinion, reasonably. That is something that is important to work on, but I don’t think that is going to answer the problem.

When I looked at this, listening to myself, an expression came to mind that grew out of the American Wild West. In the early days when it got in trouble and they failed, they said, ‘a day too late, and a dollar short.’ I think Europe is in the position of ‘three months too late, and a trillion dollars short.’ How are you going to deal with that, and provide the kind of protection that is necessary?

I could not agree less with the one point that was just made that this is a question of little by little. We were at a Trilateral Commission meeting in Dublin in May 2010 when this crisis first broke with Ireland. This was an Irish problem. It had some other implications, but we thought we could take care of it with Ireland. But what has happened since then? Greece, Portugal -- and Iceland before -- Spain...I was really surprised when suddenly the sentiment last summer jumped right over Spain, which I thought was the vulnerable country, to Italy, which has been said here by many to be in reasonably good shape. Italy obviously had a government, but it didn’t have a lot of confidence. Economically, I would not have thought Italy was the most vulnerable country.

I don’t think we want to wait around scraping by one G8 or G20 meeting just to get us to the next meeting. I understand that this is a very difficult problem, but expecting the Greeks, and the Spanish, and the others to continue with the kind of austerity that they are imposed with does create some problems. I think we have to recognise that we need to find a solution for this that doesn’t provide ever more grinding down of economies that are already in deep trouble.

Where does that lead me? We have one big institution in Europe: a very strong Central Bank. It has strong central bankers, which is important. It has a very strong Central Bank, but no government to accompany the Central Bank. I think that has been a weakness from the start. It wasn’t very apparent, but it is apparent now. Why do I say that? The Central Bank is very strong, but was given a very restrictive mandate. People were suspicious that its big powers would be abused, mainly because of inflation concerns, but because of other concerns as well. It was not a democratically responsible institution to the degree that one normally thinks about and had no counterpart of a strong government to deal with it and persuade it.

Now, it does have money. Central Banks can create money. Let’s not forget that. But they want to do it with some danger and care. If we are reduced temporarily -- and I would hope it would only be temporarily -- to heavily rely on Central Bank financing under certain circumstances, then it would only be possible to do that responsibly if the governments at the same time came to the conclusion that they need to support that policy and that they would undertake measures to transfer that responsibility to themselves, and consider the Central Bank as only a temporary but necessary façade. That is exactly what happened in the United States. The Central Bank went to the extreme of its legal authority. The extreme of its legal authority was something that had been unimaginable to me. I can’t say it was constrained by the law, but it was done as part of national policy. The government was very active in providing funds to the market, to banks, and otherwise. The Federal Reserve picked up some things; the Treasury picked up other things, and along the way, the whole program was
approved by the US Congress. The sooner the Federal Reserve can retreat from the extraordinary measures it has taken, the better off we will be. But thank God they were there when it was necessary to take strong measures, and there was no other possibility of getting that kind of money marshalled in a very short period of time. This is a tough and I don’t think you can escape a consideration of this sort, and of course the Central Bank is already doing some things that are extraordinary in terms of its own mandate.

JEAN-CLAUDE TRICHET

Let me elaborate on five points.

The first one is to echo what Paul just said: this is a global crisis. The epicentre of the global crisis moves. This can be fully understood.

We had a first episode with financial turbulences which were triggered by the sub-prime problem. The epicentre of that episode of the crisis was clearly in the United States of America. This first episode ended with the collapse of Lehman Brothers. Then we had a dramatic intensification of the crisis with all private institutions in the advanced economy, like in the banking sector and financial sector, which were put in a very, very challenging situation. That was again an episode of the crisis where the epicentre was in the United States. It was clearly a global crisis, and it was a terrible mistake in the first days after the collapse of Lehman Brothers for Europeans, for instance, to think that it was only a US problem. It was obviously a global problem.

I consider that what we are experiencing now, which is the combination of a big crisis with a sovereign signature as well as problems in the financial sector at the same time -- the two being correlated -- is itself a global crisis. I think Paul was very eloquent in telling us that there is a problem on other continents. But clearly the epicentre of the crisis is now in Europe. I remember that your successor, Ben Bernanke, summed up the situation admirably well when after the start of the third episode of the crisis, he turned to me and said, 'now, Jean-Claude, it's your turn.' It was, unfortunately, a fairly accurate summing up.

So, we are the epicentre of the global crisis. This crisis which is developing is of extreme importance. We have been asked dozens of times, 'is this the end of the crisis; now, do you
think things will get better? The response that was always given, at least on the part of central bankers, was that it is a process that is extremely challenging and demanding and we have to be permanently alert. We have to be as alert as possible, as required by the structural adaptation at the level of the global economy which we are experiencing.

The second point I wanted to make after the global aspect of the crisis is monetary union. I differentiate between monetary union and economic union. Even, in terms of semantics, very often EMU is summed up as a monetary union. But EMU doesn’t mean European Monetary Union: It means Economic and Monetary Union. As far as the Central Bank is concerned, it was responsible for the monetary part of the Union, not for the economic part of the Union. I will not insist too much on that.

I think that the monetary union is undoubtedly a success, having in mind only some figures. We were given the primary mandate of delivering price stability. We were looked at with extreme scepticism thirteen or fourteen years ago when we started. The idea that the new currency could be as credible as the best national currency before, the idea that we could indeed be a good store of value and deliver price stability, was considered more or less a fairy tale. Thirteen years afterwards, I can say, and Mario Draghi can say, the average inflation rate in the euro area for the 332 million people is 2% when our definition of price stability was less than 2% but close to 2%. In Germany, many people particularly feared that the new currency would be a less credible store of value than the deutsche mark. I can tell in Germany if you take one decimal, you have 1.6% average yearly inflation over the 13 years, which is better than what was achieved in the previous 50 years. It is true for Germany and for Europe as a whole.

In terms of the external value of the euro, you see clearly that four years after the start of the crisis the credibility of that currency is there, visible, and confirmed by market participants. You will regularly hear about 'the euro crisis, the euro crisis, the euro crisis.'! This is a simplification. The euro as a currency is not in crisis. The fact that the Swiss have decided to asymmetrically peg the Swiss franc to the euro is something which might be an additional demonstration of what I say. We have a crisis of sovereign risk coupled with financial instability in the euro area: This is very serious, but let’s not confuse the issue.

Now let me turn precisely to the economic union itself. We were not that blind. We were not practicing benign neglect. With the monetary union came the Stability and Growth Pact on top of the Single Market and all of what was to be decided and implemented at the level of the 27. But for those who were inside the euro area, there was the Stability and Growth Pact. It was very serious, this Pact. I remember myself being asked by the French Constitutional Court how it was possible to impose fines on a country that would behave improperly on the fiscal side. ‘We are already abandoning sovereignty, as regards to currency, but on top of that you want sovereignty as regards the fiscal policy?’ The response was of course very natural in sharing the currency: ‘we are creating a level of interconnectedness which calls for strict mutual surveillance.’ This was accepted, voted, and ratified by all countries.

Very unfortunately, I have to say this fundamental feature of the EMU, the E being Economic Union, the SGP being the core of the Economic Union -- was not sufficient in our own opinion, and in my opinion, but I will come back to that -- but nevertheless, we were plunged into a universe of benign neglect. The most striking feature of that period was in 2003-2004 when Germany, France, and Italy, and particularly Germany and France, decided that the Stability and Growth Pact was too tight a jacket, that it had to be weakened, and that it was
unacceptable that it would function against the major countries in Europe in the euro area. This was a very sad episode, I have to say. I expressed myself, on behalf of the Governing Council, grave concern. There was conflict between the Commission and the Council. The conflict was even put before the Court of Justice, so it was very serious. Undoubtedly, at that time, there was a formidable weakening of the surveillance framework. I do not suggest that had this episode not been observed, we would have had the marvellous implementation of the Stability and Growth Pact. By the way, because of the defence of small and medium-sized countries -- and since we are in the Netherlands, I can say that because of the defence of the Netherlands, Belgium, and others -- we saved most of the letter of the treaty, even if it was weakened. But we didn’t save the spirit of the Stability and Growth Pact.

To be absolutely fair, I have to say that markets were practicing benign neglect in a way which is hard to believe ex-post. Greece was borrowing at the same interest rate as Germany. I also have to say that the global consensus was totally wrong believing at the time that there was no more problem of sovereign financing to the extent that the instruction which was given to Rodrigo de Rato, the Managing Director of the IMF, was dismantle your lending wing! 'Don’t be too shy and timid, vis-à-vis the Union, dismantle.' And Dominique Strauss-Kahn, when he came to replace Rodrigo de Rato, was also told to dismantle the lending wing of the IMF. 'There is no problem now. Every sovereign which would have problems would have no difficulty to be financed by the private sector.' That was what the global consensus of the main shareholders of the IMF believed. It was plain wrong. We see that we were in a universe that was practicing generalised benign neglect.

Let me also say that at least since 2005 the ECB was telling governments, and also the Commission, that it is not acceptable that you do not follow more closely the competitive indicators and imbalances inside the euro area. I myself had the usual behaviour, which was to wave the growth of wages and salaries in the public sector at the various countries of the euro area, telling them something which was as simple as possible. 'You have a chance to know in advance what the inflation will be at the level of the euro area as a whole.' We have a definition: it is less than 2%, or close to 2%. It is what is called the primary mandate of the Treaty. We deliver. You have to know that we will deliver. You have the chance of knowing what the benchmark should be for nominal growth. So, when -- and I’ve given you figures up until 2009 -- in Greece wages and salaries in the public sector and the civil service increased by 117% from the start of the euro and the average increase in the euro area was 35%, the message was very clear. You have to correct that immediately. It is absurd to behave so improperly. Of course, I’m oversimplifying. You have to look at unit labour costs as well. You have to look at unit labour costs in the tradable sector and nominal evolution in the non-tradable sector, as was already very eloquently put by André and Antonio.

My own understanding is very clear now. We have clearly a decisive role that is played by the culture of each country, the social and political cultural mix. In countries which are open, the values, the culture, is a culture of those who participate in enterprises that export. It is clear that competitiveness is of the essence. This is perceived by society as a whole because in this open society domination is exerted by those in the export sector. In those countries which are very closed, and are necessarily inward looking, the combination of the public sector and the non-tradable sector creates a particular culture which has to be clearly countered by the surveillance of its peers. In that sense, I fully agree with the fact that the Stability and Growth Pact is insufficient.
Very fortunately, we now have **two major pillars of surveillance**: one, a **reinforced Stability and Growth Pact**, and, two, the new pillar that we called for in the ECB for a long period, which is the surveillance of competitive indicators and imbalances, in particular inside the **euro area**. But there is an extreme attention that is necessary, particularly -- I would not say the north and the south, I would say -- in open and closed economies. A closed economy is extremely dangerous in a single currency area if you don’t observe all nominal evolutions.

Where do we stand in regard to the necessary quantum leap in terms of governance?

I have to say that, very fortunately we didn’t mention that too much until now, but there has been a **functioning of the legislation in Europe**. We now have the **Six-Pack**. It’s been adopted and now it is new legislation. We have a **reinforced Stability and Growth Pact**, which was absolutely overdue. I have to say that the lessons have been learned the hard way. We also now have a **new pillar for the surveillance of competitive indicators and imbalances**, and a number of other elements that clearly change the picture without changing the treaty. We called ourselves for a quantum leap in terms of governance. I think that we are short of a quantum leap because a **real quantum leap calls for a change of the treaty**.

I myself have expressed some ideas for tomorrow and the day after tomorrow. For tomorrow, I really think that as soon as possible we should have the capacity, in the euro area, to oblige a country which does not follow the recommendations and which is persistent in not following recommendations, to take a couple of decisions, not only in the fiscal domain, but also in the domain of competitiveness, and especially the competitive indicators in question. It should be possible to impose that from the centre. It seems to me that we have learned the hard way to what extent the full body of financial stability in the euro area as a whole could depend on erratic behaviour by one country, two countries, three countries. This is in my view necessary to have. I must say that at the last meeting of the European Council, the idea that the euro area countries were reflecting on a change of the treaty was mentioned. It isn’t something I heard. I understand pretty well that in a number of countries the idea of a change in the treaty appears as something extraordinarily dangerous, with referendums that would conclude with a “No!” I do not underestimate the drama that there would be a wave a referendum or ratification process that could fail, as we have seen in the past. Nevertheless, I really trust that it’s very important that the Heads themselves sign that and say that they are reflecting on improving governance through a change of the treaty.
The day after tomorrow citizens might have ideas. As a citizen, I had ideas, and it seems to me that I would not necessarily follow Paul Volcker, Hamilton and Churchill, which called for the United States of Europe. But it’s clear that we must have a vision of what is our historical medium- and long-term future. I won’t elaborate on that. What is clear is that for tomorrow, and the day after tomorrow, we not only have to have a much more powerful centre able to impose some decisions -- through procedures, of course -- on countries who are members of the euro area, but it seems to me we also need to have a united financial sector. It is absolutely clear that the financial sector as a whole should be much more integrated. In the United States of America, there is no correlation between the problem of California and the problem of a bank in California. It seems clear to me that we should aim for this, but that also calls for dramatic changes that are not easy to perform and to implement.

You will not be surprised that I don't elaborate too much on crisis management. Let me only say that the ECB itself, if my memory is correct, was the first Central Bank to see that we had a major problem: It was on the 9th August 2007. This was the real start of the financial turbulences as seen by a Central Bank. We, at that time, supplied liquidity worth 95 billion euros to our commercial banks. This was the first time we utilised the concept of the full allotment at a fixed rate, or the unlimited supply of liquidity at a fixed rate. This was the most extraordinary non-standard measures that we took.

In this respect, I’m a little bit surprised because these non-standard measures, the full allotment at a fixed rate, which means that the commercial banks in Europe have all the liquidity they asked of us, provided that they delivered the appropriate collateral. To give you an idea of the dimension of the collateral in question, we have approximately between 570 and 600 billion, though it depends on a week to week basis, of supply of liquidity. The collateral which is in our hands after a haircut is of the dimension of 1.7 trillion, so a multiple of the liquidity we are supplying. And in the banks' balance sheets, you have approximately 4 trillion. That is eligible collateral on the balance sheets of banks. So, what we are doing, and what we are displaying as a Central Bank, is considerable.

We had other non-standard measures, as you know, to cope with the exceptional situation, including the purchase of private securities, covered bonds issued by banks, and also some securities issued by countries. Let me only say on this front that the governing council of the ECB has considered until now -- as you know, I am now not part of the decisions, so it is up to the governing council of the ECB -- that it was for monetary policy reasons, and not for financial stability reasons, that we activated these non-standard measures in order to help restore better transmission of our monetary policy. We are the Central Bank of 332 million people in 17 countries, and we have, and have had, a real issue in terms of monetary policy transmission in these extraordinary circumstances with the heat of the global crisis, which I mentioned at the very beginning.

I would say that for us what we are doing is considerable in terms of non-standard measures, but they are all inspired decisively by monetary policy considerations, the transmission of monetary policy, and our standard measure -- our interest rates -- have always been designed to deliver price stability. That is the reason I trust we are extremely credible on that front, but we considered that the worst possible attitude of the Central Bank would be to forget its primary mandate in a time of decisive challenges of all sorts, a time of financial instability. If we had added to the general instability, the instability of the credibility of the currency itself, we would have dramatically complicated the situation. So being faithful to our mandate was, in our view, the best way to contribute to the solution of the problem. But we really think that
governments have a separate role that is decisive and that the Central Bank cannot be a substitute for this. That would be a very bad way to behave.

Now let me conclude. I was struck by some remarks which were made previously on the various European countries and the four categories. I noted that the Nordics had learned the hard way before. When you look not from the European perspective, but from the global perspective, what do you see? You see that Latin America has been fantastically resilient in the circumstances, but they had a dramatic crisis in the 1980s and the beginning of the 1990s. You see that the Asians have been remarkably resilient, but they had their crisis at the end of the 90s and beginning of the 2000s. The Nordics had their problem at the beginning of the 1990s. The various countries or continents learned their lessons the hard way. And we are learning our lesson the hard way right now. That is the reason why it’s so important we draw the right lesson from the present crisis with a lucid perspective.

Q&A SESSION

A BRITISH PARTICIPANT recalled: don’t be fooled by Paul Volcker! Alexander Hamilton got shot. That’s the really important thing to remember! I have heard four things that worry me as a Dutchman. The first is the term “inter-governmental,” I’ve heard “Élysée Treaty,” I’ve heard “if France and Germany succeed, success breeds success.” If I were a Dutchman, I would say, ‘hang on, we do need to do something, but let’s do it together.’ Let’s all be involved in the exercise. Secondly, if I were a Dutchman, I would say: let’s not throw overboard the institutional structure which has developed rather well. We may need to add to the structure, but let’s not have a competing structure. Third, if I were a Dutchman or even if I were British, I would say that a two-tier EcoFin is a dreadful thought. It’s awful when you think of financial regulation being made in a two-tier EcoFin. But it would be a hell of a lot worse to have another structure outside without the involvement of the Commission trying to make financial regulation for the seventeen.

Last, be careful of what you wish for when you talk about Conventions: it is very easy to start a convention, but it’s not so easy to end one. Remember, the rules of the game in a Convention -- unless you change the rules -- are that there as many delegates from Malta as there are from Germany. Remember that you can’t vote for that reason because a vote would have no meaning. You could have a 90% majority rule, and the governments of the six largest economies in Europe could be outvoted. That would be absurd. So you need to think about the nature of the Convention. The Treaty imposes on you a requirement for a Convention, if you go for a big treaty change, but it doesn’t say what kind of Convention. Learn from the mistakes made in the last. I would say that it is rather important this time round not to have an open-ended convention. I think you need a mandate for the convention, which means, I think they were very wise, who mentioned the Delors Report of 1988 and 1989, and I would mention the Guigou Group in 1989 and 1990. You can’t, of course, because it is open-ended in nature, but try and corral the Convention.

A last point: we should read Heine -- Heine is the key, so Jean-Claude Trichet was telling us. I agree. Remember, don’t despair of the Brits! Heine, when asked where he would like to be when the world came to an end, said, ‘in London, of course, everything always happens there a 100 years late.’

A U.S. PARTICIPANT was struck by the sort of smugness of the IMF because the problem is it’s not just an economic crisis but it is an intensely political crisis. The window is rapidly coming down because Italy is at the core of Europe and core of the Eurozone and Italy is in play. I’m not sure that the answer is simply replacing democratic governments with technocratic governments for a short period of time. I just don’t buy that in a Europe that’s supposed to be democratic and giving a model to the world. His second question to Jean-Claude Trichet: One, does he believe that the advice of the German “wise ones” -- Chancellor Merkel -- makes sense? Is this one way to move to try to neutralise the debt around the treaty? Two, if we believe Italy is solvent, was it a mistake for the ECB to be
buying bonds and then say, 'no, no, no, we just want to buy it temporarily,' giving the markets a chance to test it over and over again. And, if you would have continued buying bonds, Italian ones in particular, what kind of cover would you have wanted from the political leaders to make you comfortable in doing that?

**CLOSING RESPONSES FROM THE SPEAKERS**

**ANTONIO BORGES**

Let me clarify that I made the points on the American view of things, which I think was very well illustrated by Paul Volcker, and the way I think things are done in Europe. I live in Washington. I am very much subject to the American view of things, and many of my colleagues in the front are of the same view, and there is sense of urgency which was very well communicated by Tim Geithner at the EcoFin meeting in Poland a couple of months ago, when he said, 'you are facing a tremendous and catastrophic risk. You need to have a very determined, comprehensive and full-fledged approach to the problem.'

The difficulty is that this is not so easy to put in place in Europe. I sense the American impatience here. They will, of course, suffer if things go really wrong in Europe. This is an election year in the US, so everything gets tense. Let me, however, say that there is a very clear parallel with the US debate on the debt ceiling, which was a devastating event this last summer, with very far reaching consequences throughout the world. I am personally convinced that the increase in risk aversion on the part of investors over the last few months is not unrelated to the debate about the debt ceiling in the US. So, the US also faces its own political constraints, its own difficulties in moving forward, and even its own inability to deal rationally with some very fundamental issues.

Now, why is it that we have to be patient in Europe? Because not having this one weapon that will solve every problem, we have to build on whatever credibility still exists. Let me say, there is still a lot of credibility in Europe. Why don’t the Greeks take all their money out of the banks? Why isn’t there a bank run in Greece? Isn’t this amazing? Well, it is because there is still a degree of credibility in place that people still think that we’ll make it through, and pull through.

Therefore, in spite of all these failures, the steps we’re taking, little by little, will take us there. That’s the conviction of most people. Then we say, ‘well, all these summits failed, and all these occasions were missed opportunities.’ Let’s keep that in mind. Take the last two, the euro summit and the G20, which if you read the press were generally not considered to be very successful. Both contributed to radical changes in policy, or so we hope, in Greece and in Italy. I don’t think this would have happened without those summits. When we look at the impact of those summits, it’s not altogether as dramatically poor as one might think. We in Europe move little by little and step by step. Sometimes these steps are not so little, but they’re not the big solution that people think of.

**JEAN-CLAUDE TRICHET**

I have one remark on the difficulty of preventing events -- catastrophic events -- in democracies. I was struck in the US to see that the first TARP presentation to Congress after Lehman Brothers, and after the global tsunami had started, was refused by Congress. It was only after an appropriate meditation that there was the possibility of getting a positive vote. It’s clear that the time of democracies does not correspond to the time of markets at a certain
moment. That is one of the reasons why the ECB, on top of its own role in delivering a credible currency -- a currency that would inspire confidence -- had to step in communication, communication with all governments, to try to explain what was right in front of our eyes, what was happening, and why it was necessary to make such and such decisions. I have to echo what Antonio says. It is clear that if you look at all the decisions that have been made by our democracies in Europe since the start of the crisis you see things that were totally unthinkable at the start of the crisis. We should not underestimate that.

But it is true that it’s a permanent race between the markets on the one hand and their own time, and the democracies on the other hand. It’s true everywhere. Of course, it is more complicated when you have 27 democracies, or 17 democracies, which is the case in the euro area. It calls on all of us -- I mentioned the ECB, I would say all members of the Trilateral Commission, all those who have an influence -- to be as active as possible in trying to obtain from our own decision-making processes the appropriate decision more rapidly than would perhaps be the case. I very much insist on that because in a time of crisis urgency is absolutely of the essence.

CONCLUSION BY SESSION CHAIRMAN - VLADIMIR DLOUHY

It seems to me, especially after this morning, that we are approaching the time when we begin to understand the cornerstones of overcoming this difficult period in Europe, and how to find the solutions. Save for two potential problems: one, will we have enough time to impose these solutions? And, two, will they be politically feasible, again, within a reasonable period of time.

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** LIST OF PARTICIPANTS **

(*) Executive Committee Member;
(**) Triennium Participant from other Areas
(***) Honorary Member
(****) Former Member in Public Service
(s) With Spouse

EUROPEAN MEMBERS & “TRIENNIUM PARTICIPANTS”

*Peter Sutherland (s) **EUROPEAN HONORARY CHAIRMAN**
Chairman, Goldman Sachs International; Chairman of the London School of Economics; UN
Special Representative for Migration and Development; former Chairman, BP p.l.c.; former
Director General, GATT/WTO; former Member of the European Commission; former Attorney
General of Ireland; *spouse: Maruja Sutherland*

*Vladimir Dlouhy (s) **EUROPEAN DEPUTY CHAIRMAN**
International Advisor, Goldman Sachs; former Czechoslovak Minister of Economy; former Czech
Minister of Industry & Trade, Prague; *spouse: Eliska Brizova*

*Eli Leenaars (s) **EUROPEAN TREASURER**
Member, ING Management Board Banking; Member and Treasurer, Confederation of the
Netherlands Industry and Employers (VNO-NCW), Amsterdam; *spouse: Caroline Leenaars*

Alexandre Adler
Scientific Director for Geopolitics, University of Paris-Dauphine; Journalist and Commentator,
Paris

Urban Ahlin
Member of the Swedish Parliament and Deputy Chairman of the Committee on Foreign Affairs,
Stockholm

*Esko Aho
Executive Vice President, Nokia, Helsinki; former Prime Minister of Finland

*Edmond Alphandéry (s) **EUROPEAN DEPUTY CHAIRMAN**
Chairman, CNP Assurances, Paris; former Chairman, Electricité de France (EDF); former Minister
of the Economy and Finance; *spouse: Laurence Alphandéry*

Jacques Andréani (s)
Ambassadeur de France, Paris; former Ambassador to the United States; *spouse: Donatella Andréani*

Jerzy Baczyński
Editor-in-Chief, Polityka, Warsaw

Estela Barbot
former Director, AGA; Director, Bank Santander Negocios; Member of the General Council, AEP --
Portuguese Business Association, Porto; General Honorary Consul of Guatemala, Lisbon

*Erik Belfrage
Chairman of the Board, Consilio International AB; Senior Vice President, Skandinaviska Enskilda
Banken; Director, Investor AB, Stockholm

Nils Bernstein (s)
Governor by Royal Appointment, Chairman of the Board of Governors, National Bank of
Denmark, Copenhagen; *spouse: Ulla Bernstein*

Manfred Bischoff
Chairman of the Supervisory Board, Daimler AG, Munich; former Member of the Board of
Management, Daimler AG; former Chairman, EADS

Antonio Borges
Director of the European Department, International Monetary Fund (IMF), Washington D.C.;
former Chairman, Hedge Fund Standards Board, London

125
Tzvetelina Borislavova  
Founder, Owner and Chairperson, CSIF; former Chairperson of the Supervisory Board, CIBANK, Sofia

*Jorge Braga de Macedo  
President, Tropical Research Institute, Lisbon; Professor of Economics, Nova University at Lisbon; Chairman, Forum Portugal Global; former Minister of Finance

*Lord Brittan of Spennithorne (s)  
Vice Chairman, UBS Investment Bank, London; Trade Adviser to the Prime Minister; former Vice President, European Commission; 
spouse: Lady Diana Brittan

Jean-Louis Bruguière  
Representative of the French Presidency of the Republic on the EU Equivalent TFTP Project; former EU High Representative to the United States on the Terrorism Finance Tracking Programme (TFTP/SWIFT); Judge, Paris

Robin Buchanan (s)  
Senior Adviser, Bain & Company, London; former Dean and President, London Business School; 
spouse: Diana Buchanan

Patrick Buffet  
Chairman and Chief Executive Officer, ERAMET, Paris

*François Bujon de l’Estang (s)  
Ambassadeur de France; Senior International Adviser, Citi France; Former Chairman, Citi France, Paris; former Ambassador to the United States; 
spouse: Anne Bujon de l’Estang

Richard Burrows (s)  
Chairman, British American Tobacco, London; former Governor, Bank of Ireland; former President, IBEC (The Irish Business and Employers Confederation), Dublin; 
spouse: Sherril Burrows

Hervé de Carmoy (s)  
Chairman of the Supervisory Board, ETAM, Paris; Honorary Chairman, Banque Industrielle et Mobilière Privée, Paris; former Chief Executive, Société Générale de Belgique; 
spouse: Roseline de Carmoy

Luc Coene  
Minister of State; Governor, National Bank of Belgium, Brussels

Patrick Combes  
Chairman and Chief Executive Officer, Compagnie Financière Tradition and Viel & Cie., Paris

Iain Conn  
Managing Director and Chief Executive of Refining & Marketing, BP, London

*Richard Conroy  
Chairman, Conroy Gold and Natural Resources, Dublin; Member of Senate, Republic of Ireland

Enrico Tomaso Cucchiani (s)  
Member of the Board of Management, Allianz SE, Munich; Chairman, Allianz S.p.A., Trieste; 
spouse: Petra Cucchiani

Pedro Miguel Echenique  
Professor of Physics, University of the Basque Country; President, Foundation Donostia International Physics Center (DIPC); former Basque Minister of Education, San Sebastian

Gabriel Eichler (s)  
Founder, Benson Oak, Prague; 
spouse: Tatiana Eichler

Anna Ekström  
Director General, The Swedish National Agency for Education, Skolverket, Stockholm

Guy Elliott  
Finance Director, Rio Tinto, London

Nemesio Fernandez-Cuesta (s)  
Executive Director of Upstream, Repsol-YPF; former Chairman, Prensa Española, Madrid; 
spouse: Gloria Penafiel
Jürgen Fitschen (s)
Member of the Management Board and Member of the Group Executive Committee, Deutsche Bank, Frankfurt-am-Main; spouse: Friederike Lohse

Klaus-Dieter Frankenberger
Foreign Editor, Frankfurter Allgemeine Zeitung, Frankfurt am Main

**Jacob Frenkel (s)**
Chairman of J.P. Morgan Chase International, J.P. Morgan Chase & Co., New York; Chairman and Chief Executive Officer, Group of Thirty; former Vice-Chairman, AIG; former Governor, Bank of Israel; spouse: Iris Lavy

Louise Fresco
University Professor, University of Amsterdam; Member of the Board of non-executive Directors, RABO Bank, Utrecht; former Assistant Director-General, Head of Agriculture Department, Food and Agriculture Organization of the United Nations in Rome

*Antonio Garrigues Walker*
Chairman, Garrigues Abogados y Asesores Tributarios, Madrid

Clara Gaymard (s)
President and Chief Executive Officer, GE France, Paris; City Initiative Leader for GE International; spouse: Hervé Gaymard

Dermot Gleeson (s)
Chairman of the Governing Body of University College Cork, and of Travelport Jersey Ltd.; former Chairman, AIB Group, Dublin; spouse: Darine Gleeson

Elisabeth Guigou
Deputy Chairperson and Member of the French National Assembly; former Minister for European Affairs, Paris

General The Lord Guthrie (s)
Former Director, N M Rothschild & Sons, London; Member of the House of Lords; former Chief of the Defence Staff, London; spouse: Lady Kate Guthrie

**H.R.H. Prince El Hassan bin Talal**
Chairman, Arab Thought Forum; Chairman, WANA Forum; Former President, The Club of Rome; Former Moderator of the World Conference on Religion and Peace Amman, Hashemite Kingdom of Jordan; spouse: HRH Princess Sarvath El Hassan

Nigel Higgins
Chief Executive, The Rothschild Group, London

*Mugur Isarescu, Governor, National Bank of Romania, Bucharest; former Prime Minister

Baron Daniel Janssen
Honorary Chairman, Solvay, Brussels

**Sergei Karaganov (s)**
Dean of the School of International Economics and Foreign Affairs of the State University—Higher School of Economics; Chairman of the Presidium of the Council on Foreign and Defense Policy; Chairman of the Editorial Board of “Russia in Global Affairs”, Moscow; spouse: Ekaterina Karaganova

*Lord Kerr of Kinlochard (s)*
Deputy Chairman, Royal Dutch Shell plc; Member of the House of Lords, London; former British Ambassador to the United States; former Secretary General, European Convention; Chairman of the Advisory Group to the Trilateral Commission (Europe); spouse: Lady Elizabeth Kerr

Arpad Kovacs
Chairman of the Supervisory Board, Hungarian Power Companies; Professor, Szeged University; former President, State Audit Office of Hungary, Budapest

Gabor Kovacs (s)
Chairman and Chief Executive Officer, Bankar Holding; Founder, KOGART (the Kovacs Gabor Art Foundation), Budapest; spouse: Timea Kalmar
Jiri Kunert (s)
Chairman and Chief Executive Officer, UniCredit Bank Czech Republic; President of the Czech Association of Banks, Prague; spouse: Jitka Hosprova

Meglena Kuneva
Chairman of the Board, European Policy Center; former Member of the European Commission (Consumer Policy); former Minister of European Affairs and European Commission Chief Negotiator, Sofia

Ulysses Kyriacopoulos (s)
Chairman, S&B Industrial Minerals; former Chairman, Federation of Greek Industries, Athens; spouse: Nicole Kyriacopoulos

Kurt Laenk
Former Member of the European Parliament (EPP Group-CDU); Chairman, Globe Capital Partners, Stuttgart; President, Economic Council of the CDU Party, Berlin; Former Member of the Board, DaimlerChrysler, Stuttgart

Enrico Letta (s)
Member of the Italian Chamber of Deputies; former Under State Secretary in the Office of Prime Minister Prodi; former Minister of European Affairs, Industry, and of Industry and International Trade, Rome; spouse: Gianna Fregonara

*Thomas Leysen (s)
Chairman of the Board, Umicore, Brussels; spouse: Nancy Leysen

*Bo Lidegaard
Executive Editor-in-Chief, Politiken, Copenhagen

Rachel Lomax, Director, HSBC; Director, BAA; former Deputy Governor of the Bank of England, London

Miroslav Majoroš (s)
Chairman of the Board of Directors and Chief Executive Officer, Slovak Telekom; Chief Executive Officer, T-Com T-Mobil (Deutsche Telekom), Bratislava; spouse: Lydia Majorosova

Friedrich Merz (s)
President, Atlantik-Brücke, Berlin; Partner, Mayer Brown, Berlin; former Member of the German Bundestag; former Member of the European Parliament; former Chairman of the Parliamentary Group of the CDU/CSU in the Bundestag, Berlin; spouse: Charlotte Merz

Sir Mark Moody-Stuart (s)
Chairman Hermes EOS; former Chairman Royal Dutch Shell Group and Anglo American; Chairman, The Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria; spouse: Lady Judy Moody-Stuart

*Andrzej Olechowski (s)
Founder, Civic Platform; former Chairman, Bank Handlowy; former Minister of Foreign Affairs and of Finance, Warsaw; spouse: Irena Olechowska

Alexander Papachelas
Editor-in-Chief, Kathimerini, Athens; Secretary General of the Hellenic Foundation for European & Foreign Policy; Leading Correspondent, The Files

Volker Perthes
Executive Chairman and Director, German Institute for International and Security Affairs, Stiftung Wissenschaft und Politik (SWP), Berlin

*Ursula Plassnik
Ambassador of Austria to France; former Member of the Austrian Parliament; U.N. Special Envoy for International Women Issues; former Federal Minister for European and International Affairs, Vienna

Ignacio Polanco
Chairman, Grupo Prisa including El Pais and Timon, Madrid
**Itamar Rabinovich** (s)
Ettinger Chair of Contemporary Middle Eastern History, Tel Aviv University, Israel; Charles and Andrea Bronfman Distinguished Fellow at the Saban Center, Brookings Institution; Distinguished Global Professor at New York University; Visiting Professor at the Kennedy School of Government at Harvard University; former Ambassador to the United States;
*spouse: Efrat Rabinovich*

Rasvan Radu
Chief Executive Officer, UniCredit Tiriac Bank, Bucharest

Dieter Rampl
Chairman, UniCredit Group, Milan

Luigi Ramponi
Member of the Italian Senate; former Chairman of the Defence Committee of the Chamber of Deputies, Rome; former Deputy Chief of the Defence Staff (Italian Army)

Denis Ranque (s)
Chairman, Technicolor, Paris; former Chairman and Chief Executive Officer, Thales, Paris;
*spouse: Monique Ranque*

Heinz Riesenhuber (s)
Member of the German Bundestag; former Federal Minister of Research and Technology, Berlin; Chairman of the Supervisory Boards of Kabel Deutschland and of Evotec;
*spouse: Beatrix Riesenhuber*

Alexander Rinnooy Kan (s)
Chairman, Social and Economic Council of the Netherlands (SER), The Hague;
*spouse: Eva van der Dussen*

Fernando Rodés Vilà
Chief Executive Officer, Havas Group, Barcelona & Paris

Count Jacques Rogge (s)
President, International Olympic Committee, Lausanne; former President of the Belgian Federal Committee and of the European Olympic Committees;
*spouse: Anne Rogge*

H. Onno Ruding (s)
Chairman, Centre for European Policy Studies (CEPS), Brussels; former Vice Chairman, Citibank; former Dutch Minister of Finance;
*spouse: Renée Ruding*

Marcello Sala
Executive Vice Chairman of the Management Board, Intesa Sanpaolo Group, Milan

*Ferdinando Salleo* (s)
Vice Chairman, MCC (Mediocredito Centrale), Rome; former Ambassador to the United States;
*spouse: Anna Maria Salleo*

***Guido Schmidt-Chiari** (s)
Former Chairman of the Supervisory Board, Constantia Group; former Chairman, Creditanstalt Bankverein, Vienna;
*spouse: Stéphanie Schmidt-Chiari*

Henning Schulte-Noelle (s)
Chairman of the Supervisory Board and former Chief Executive Officer, Allianz, Munich;
*spouse: Renate Schulte-Noelle*

Karel Schwarzenberg
Member of the Czech Senate; Deputy Prime Minister and Minister of Foreign Affairs; Founder and Director, Nadace Bohemiae, Prague; former Chancellor to President Havel

*Carlo Secchi*
Professor of European Economic Policy and former Rector, Bocconi University; Vice President, ISPI, Milan; former Member of the Italian Senate and of the European Parliament

Tomasz Sielicki (s)
Vice Chairman, Sygnity, Warsaw; *spouse: Beata Baran*

Slawomir S. Sikora
Chief Executive Officer and Citigroup Country Officer for Poland, Bank Handlowy w Warszawie, Warsaw
Stefano Silvestri  
President, Institute for International Affairs (IAI), Rome; Commentator, Il Sole 24 Ore;  
former Under Secretary of State for Defence, Italy

Ivan Šramko (s)  
Advisor for the CEE & SEE Regions, Intesa Sanpaolo Group; Former Governor of the National  
Bank of Slovakia, Bratislava; spouse: Lubica Sramkova

Petar Stoyanov (s)  
Former President of the Republic of Bulgaria; Member of the Bulgarian Parliament  
and Chairman of Parliamentary Group of United Democratic Forces; Chairman of Union of  
Democratic Forces, Sofia; spouse: Antonina Stoyanova

György Surányi (s)  
Regional Head of Central Eastern Europe, Intesa Sanpaolo Group; Chairman, Central European  
International Bank (CIB), Budapest; former President of the National Bank of Hungary;  
spouse: Judit Marmoly-Surányi

Mihai Tanasescu (s)  
Senior Adviser and Member of the Executive Board, International Monetary Fund (IMF); former  
Minister of Public Finance of Romania, Bucharest; spouse: Daniela Tanasescu

Niels Thygesen (s)  
Danske Bank Professor of International Economics, University of Copenhagen; Chairman, OECD  
Economic Development and Review Committee; Chairman, MTS, Copenhagen;  
spouse: Irene Thygesen

Elisbeth Tronstad (s)  
Executive Vice President, SN Power; former Executive Director, Confederation of Norwegian  
Enterprise (NHO); former Executive Vice President, ABB, Oslo;  
spouse: Bjørn-Erik Lønn

Jens Ulltveit-Moe  
Founder and Chief Executive Officer, UMOE Group; former President, Federation of Norwegian  
Industry; former President, Norwegian Shipowners Federation, Oslo

Raivo Vare  
Owner, Live Nature Eesti OÜ; Partner, Sthenos Group and OÜ RVVE Group; Chairman of the  
Council of the Parliament’s Development Fund, Member of the President’s Academic Advisory  
Board; former Minister of State and former Minister of Transport and Communication, Tallinn

Marko Voljc (s)  
Chief Executive Officer, Central and Eastern Europe and Russia Business Unit and Member of the  
Executive Committee, KBC Group, Brussels; former Chief Executive Officer, Nova Ljubljanska  
Banka, Ljubljana; spouse: Branka Mauhler

Joris Voorhoeve (s)  
Chair, Oxfam Novib, The Hague; Professor of International Organisations, Leiden; former Member  
of the Council of State; former Member of the Dutch Parliament; former Minister of Defence;  
spouse: Willemien Tromp

Panagis Vourloumis (s)  
Senior Adviser, N.M. Rothschild; former Chairman and Chief Executive Officer, Hellenic  
Telecommunications Organization (O.T.E.), Athens; spouse: Ediana Vourloumis

Heinrich Weiss (s)  
Chief Executive Officer, SMS, Düsseldorf; former Chairman, Federation of German Industries,  
Berlin; spouse: Susan Weiss

Nout Wellink (s)  
Former President, Dutch Central Bank, Amsterdam; spouse: Monica Wellink-Volmer

Hans Wijers (s)  
Chairman and Chief Executive Officer, Akzo Nobel, Arnhem; spouse: Edith Sijmons
GUEST SPEAKERS

H.M. Queen Beatrix of The Netherlands (At Royal Palace)
H.R.H. Willem-Alexander, Prince of Orange

Jozias van Aartsen
   Mayor of The Hague; Former Minister of Foreign Affairs
Agnes Jongerius
   Chairperson of the Dutch Labour Union FNV
Mustapha Kamel Nabli
   Governor of the Central Bank of Tunisia
Bernardo León
   European Union Special Representative for the Southern Mediterranean Region, Brussels
Bjørn Lomborg
   Director, Copenhagen Consensus Centre; Adjunct Professor, Copenhagen Business School
Uri Rosenthal
   Minister of Foreign Affairs
Mark Rutte
   Prime Minister
André Sapir (s)
   Professor ULB, Senior Fellow, BRUEGEL, Brussels; spouse: Debarati Guha
Jean-Claude Trichet (s)
   Former President, European Central Bank; spouse: Aline Trichet
Maxime Verhagen
   Deputy Prime Minister, Minister of Economic Affairs, Agriculture and Innovation
Paul A. Volcker (s)
   Honorary NA Chairman, The Trilateral Commission, NY; spouse: Anke Dening Volcker
Bernard Wientjes
   Chairperson of the Confederation of Netherlands Industry and Employers

GUESTS

Shlomo Avineri (s) Professor of Political science at the Hebrew University of Jerusalem;
   Former Director-General of Israel’s Foreign Ministry; spouse: Dvora Avineri
Stephen Erlanger
   Senior Correspondent, New York Times, Paris
Stanley Fischer (s)
   Governor, Bank of Israel; Former Deputy Managing Director, IMF; spouse: Rhoda Fischer
Jean-Louis Guigou
   Delegate-General of IPEMED (Economic Foresight Institute for the Mediterranean Region), Paris;
   WANA/TC Workshop participant
Pentti Hakkarainen (s)
   Deputy Governor, Bank of Finland, Helsinki; spouse: Hannele Ranta-Lassila
Victor Halberstadt (s)
   Professor of Public Economics at Leiden University; former President of the International
   Institute of Public Finance; spouse: Masha Trebukova
Charles B. Heck (s)
   Senior Advisor and former North American Director, Trilateral Commission; former Associate
   Professor of History and Global Perspectives, Principia College;
   spouse: Gwendolyn Solmssen Sommer
Jovan Kovacic (s)
   President, East-West Bridge, Belgrade, Serbia; spouse: Jagoda Kovacic
Ján Kubiš
Executive Secretary, UN Economic Commission for Europe (UNECE), Geneva; Former Minister of Foreign Affairs, Slovak Republic

Countess Otto Lambsdorff
Bonn

Vladimir Mau (s)
Rector of the Russian Presidential Academy of National Economy and Public Administration (RANEPA), Moscow; spouse: Victoria Ashrafyan

Giles Merritt (s)
Secretary General, “Friends of Europe”, Brussels; spouse: Brigid Grauman

Michael J. O’Neil
North American Director, Trilateral Commission; Partner, K&L Gates LLP, Washington, DC; Former Legal Counsel of the CIA

Hisashi Owada
President, International Court of Justice, The Hague; Former Japanese Ambassador to UN

Raja Rabia
Political Advisor of the European Union Special Representative for the Southern Mediterranean Region, Brussels

Magnus Schöldtz
Senior Advisor on International Affairs attached to the Wallenberg Foundations; Senior Advisor to the Chairman of Investor AB, the Chairman of SEB and FAM, Stockholm

Wolfgang Schüssel,
Chairman, Dialog Europe Russia (DER), Vienna; Former Chancellor of Austria

Serge Schmemann (s)
Editor of the Editorial Page, International Herald Tribune, Paris; spouse: Mary Schmemann

Tobby Simon
Chairman and CEO, Synergia (Business Beyond Borders), Bangalore, India

Paul Taylor (s)
European Affairs Editor, Thomson Reuters, Paris; spouse: Catherine Taylor

Jan Tombinsky (s)
Permanent Representative of the Republic of Poland to the European Union (EU Chair); spouse: Agnieszka Tombinska

Ernesto Vellano
Senior Adviser to and former Secretary-Treasurer of the Italian Group, Trilateral Commission; Chairman, SGN S.p.A., Turin

Karsten D. Voigt
Former Coordinator of German-American Cooperation, Foreign Ministry, Berlin

Norbert Wieczorek
Former Member of the German Bundestag

Igor Yurgens
Chairman, Institute of Contemporary Development (RIO Center), Moscow
WEST ASIA-NORTH AFRICA (WANA) FORUM PARTICIPANTS
And attending the joint TC/WANA Workshop on Sunday lunch/afternoon 13 November

Leena Al Olaimy
Co-Founder and Managing Director of 3BL ‘Triple Bottom Line’ Associates, Bahrain
Bakhtiar Amin
Former Minister, Founder and Director of the International Alliance for Justice, Iraq
Shahira Amin
Journalist and freelance contributor to CNN’s Inside Africa
Hanif Atmar
Former Minister of the Interior, Afghanistan
Khalid Aziz (s)
Chairman of the Institute of Policy Research and Training, Pakistan; spouse: Nilofar Aziz
H.H. Abdul Aziz Al Nuaimi
CEO of Al Ihsan Charity Centre, UAE
Hüseyin Gun
Managing Director of Avicenna Capital, Turkey
Labiba Habash (s)
Chief Technical Advisor, Public Administration, Institutional Strengthening and Capacity Development Programme, UNDP-PAPP, Palestine; spouse: Karim Chilal
Nadine Toukan,
Executive Producer of films and Program Producer & Curator - Film Culture, The Arab Foundation for Sustainable Development – RUWWAD, Jordan
Omar Rifai
Executive Director, WANA Forum, Jordan

FORMER DUTCH TRILATERAL MEMBERS & GUESTS
Attending the Ridderzaal official Saturday 12 November dinner event

Dick Benschop (s)
President-CEO, Shell Netherlands B.V.; spouse: Elisabeth Minnemann
Jean-Francois M.L. van Boxmeer (s)
CEO/Chairman of the Executive Board, Heineken; spouse: Donatienne van Boxmeer
Cees van Lede (s)
Chairman of the Supervisory Board Heineken; Former CEO, Akzo Nobel NV; spouse: Vanessa van Lede
Cees Maas (s)
Former CFO ING Group; spouse: Rita Maas
Anthony Ruys (s)
Chairman van de Schiphol Group NV; Chairman van het Rijksmuseum; Member of the board of British American Tobacco PLC in London, former CEO Heineken NV; spouse: Melanie van Haaften
Willem Scherpenhuijsen Rom (s)
Former Chairman of the Executive Board ING Groep NV, former Chairman of the Board of the Royal Concertgebouw Orchestra; spouse: Nolda Scherpenhuijsen Rom
Jeroen van der Veer (s)
Chairman of the Supervisory Board ING Group, Chairman of the Supervisory Board Royal Philips Electronics, Non-Executive Director Royal Dutch Shell; spouse: Mariette van der Veer
Karel Vuursteen (s)
Chairman of the Supervisory Board of Akzo Nobel, Chairman of the Supervisory Board TomTom NV, Member of the Board of Directors Heineken Holding, Member Gesellschafter Ausschuß Henkel KGaA; spouse: Juliëtte Vuursteen
Gerrit Zalm (S)
Chairman of the Managing Board ABN AMRO Bank; spouse: Lydia Zalm
EUROPEAN OFFICE

Paul Révay
  European Director, Trilateral Commission, Paris
Karine Fargier
  Assistant to the European Director, Trilateral Commission, Paris

NATIONAL GROUP SECRETARIES

Paolo Magri
  Secretary General and Treasurer of the Italian Group, Trilateral Commission; Director, ISPI, Milan
Bernhard May (s)
  Secretary General and Treasurer of the German Group, Trilateral Commission, Berlin;
  spouse: Beate May
Charles Ratte
  Secretary General and Treasurer of the French Group, Trilateral Commission, Paris
Mary Valder
  Executive Assistant of the North American Director, Trilateral Commission, Washington, DC

THE HAGUE CONFERENCE STAFF

Caroline Dekkers
  Event Director Executive Board and Supervisory Board, ING Corporate Events - spouse programme
Rutger Hamelynck
  Head of Sponsorships, ING Group – Publicity & Communications
Alette Heida
  Assistant to Eli Leenaars, ING Management Board Banking and CEO Retail Banking Direct & International – spouse programme
Myles ten Hoorn Boer
  Knowledge-Sharing Manager, ING Retail Banking Direct & International – overall coordination
Pierre Kaagman
  Senior Corporate Security Officer, ING Corporate Operational Risk Management – Security coordination
Myriam Nauta
  Interim Event Manager at 2Watt - conference logistics
Barbara Rutgers
  Public Affairs Manager, Public & Government Affairs, ING Group - programme
Sander Stoepker
  Photographer
THE TRILATERAL COMMISSION
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PAUL RÉVAY
European Director

MICHAEL J. O’NEIL
North American Director

TADASHI YAMAMOTO
Pacific Asian Director

The European Union, North America (U.S., Canada, Mexico) and Pacific Asia (with Japan, Korea, the ASEAN 5, Australia and New Zealand and CHINA AND INDIA) -- the three major democratic industrialized regions of the world -- constitute the three "sides" of the Trilateral Commission. The Commission’s members total 400 distinguished private citizens (170 from Europe; 120 from North America; 110 from Asia), with a variety of leadership responsibilities in business, politics, academia and the press & media.

When the first triennium of the Trilateral Commission was launched in 1973, the most immediate purpose was to draw together, at a time of considerable friction among governments, the highest level unofficial group possible to look together at the common problems facing our three regions. At a deeper level, there was a sense that the United States was no longer in such a singular leadership position as it had been in earlier post-World War II years, and that a more shared form of leadership -- including Europe and Japan in particular -- would be needed for the international system to navigate successfully the major challenges of the coming years. These purposes continue to nourish the Commission’s programme which decides, every three years, on the continuation of its work. The Commission is in its 13th 2010 – 2012 triennium. The rise of Japan and progress of the European Community over the past twenty years -- particularly in the world economy -- have validated the vision of the Commission’s founders. At the same time, the end of the Cold War calls for a fresh vision of what this outward-looking partnership can accomplish in the coming years. The opportunities are remarkable and yet, part of the “glue” holding our regions together has dissolved. Helping meet that leadership challenge is at the heart of today’s Trilateral Commission effort with the active presence -- since 1998 -- of a group of selected leaders as Triennium Participants from Other Areas (Latin America, Turkey, Russia, Ukraine, Middle East, Africa…) who share our vision and goals: strong democracies and open market economies. This also led the Commission to enlarge itself country-wise in 2000: The Pacific Asian Group -- beyond Japan -- has been constituted integrating Korea, ASEAN countries and Australia/New Zealand, with China and India joining in 2009. Mexico joined the North American Group.


These TRIENAL REPORTS are generally the joint product of authors from each of the three regions who draw on a range of consultants in the course of their work, from both within and outside the Trilateral countries. Publication follows discussion in the Commission’s annual meeting. The authors are solely responsible for their final text. The Spring 1998 meeting in Berlin marked the Commission’s 25th Anniversary, Globalization & Governance, and strengthening multilateralism in international affairs were and remain since the central focus of the Commission’s work programme, inaugurated at the London 2001 meeting. Task forces reported in 2006 on Engaging with Russia, on Nuclear Proliferation including Iran and North Korea, on Energy Security & Climate Change in 2007. A Task Force on Engaging Iran and Building Peace in the Persian Gulf reported at the Washington 2008 meeting. Task forces reported in Dublin in 2010 on The Global Economic Crisis and its Geopolitical Implications, and on Nuclear Non-proliferation and Disarmament Issues. Task Forces reported at the 2011 meeting on the RENOVATION OF GLOBAL MULTILATERAL INSTITUTIONS INCLUDING OF THE G8/G20 and on THE ROLE OF THE BUSINESS COMMUNITY IN GLOBAL AFFAIRS. Specific REGIONAL REPORTS are commissioned such as in Europe on the Israeli-Palestinian Peace Process (1997 in The Hague; on the Future of Europe and the Constitutional Convention (2002 in Prague) or on “Reinventing the West” (2003 in Porto); on Europe and Russia (updating the 2006 Report for the 2007 Vienna meeting); on “Europe’s Response to the Arab Spring” in The Hague in 2011; on “Credible European Governance” in Helsinki in 2012.


Each regional group has a Chairman and Deputy Chairmen, who together constitute the leadership of the Commission. The Executive Committee draws together a few individuals from the wider membership. The Commission has three permanent regional offices in Washington, D.C., in Tokyo and in Paris.