



The Future of Europe Summit III

November 27-28 in Andorra la Vella

Economic Sustainability: New Opportunities for Europe

Juli Minoves, the minister of economic development of Andorra, closed the two-day conference here by outlining the main themes and recommendations that emerged from the gathering.

- He warned that Europe is not doing enough to prepare a “sustainability agenda” and risks being overtaken by those who will seize the opportunity of new environmental technologies and make them a core part of their economic stimulus packages, e.g. the USA under Barack Obama and China.
- Minoves noted that participants had cited the need for much stronger global governance to establish rules to avoid another crisis.
- He said that more global policy cooperation is needed in areas from financial regulation to anti-crime initiatives and climate change.
- Delegates had mainly agreed that the financial crisis should be seen as an opportunity, especially to invest in clean technology, health, infrastructure and education for long-term gain, while lower taxes could free consumer and corporate spending.
- Policy makers should be much more aggressive with respect to near term fiscal stimulus, especially in Europe.
- He also highlighted the calls at the conference for better management of public institutions.
- Other sessions concluded that knowledge should be easily transferable.
- Financial rewards and incentives should be based on sustainable rewards, not risk-based rewards, he noted.
- Another summit conclusion was that bureaucracy is driving creative people away from Europe.
- The session on ageing agreed that the phenomenon presents opportunities for business and individuals. Workers should be encouraged to stay in the labour force for longer.
- Finally, Europe is now a leader in carbon trading and should retain and exploit this advantage; companies that take early action will profit significantly. There are great opportunities for innovation in carbon reduction; it can be one means of helping emerge from the financial crisis.

Earlier, the session on “**the future of the global financial system,**” discussed the outlook for financial regulation and governance.

Charles Wyplosz, director of the International Centre of Money and Banking Studies at the Graduate Institute of International Studies in Geneva, identified several key weaknesses that brought about or exacerbated the crisis:

- Flaws in the regulatory model used by supervisors, especially the Basel II accords on capital adequacy for banks.
- The pro-cyclical nature of bank lending: credit is easy during an upswing and restricted during downturns.

- Complete inadequacy of regulators, who “knew what was happening off balance sheet but failed to ring the alarm bell.”
- The failure of banks themselves to recognise that high return and low risk are incompatible over the medium term.
- The destructive bonus structure at banks.
- The withdrawal of banks from certain markets once the crisis had erupted.
- Critical flow of rating agencies whose role is at the centre of Basel II

He noted that while “everyone wants to change governance, it will be very hard.” For example, negotiating the reform of the IMF has been ongoing for years, but no real change has resulted. The best solution for banks is for shareholders to become empowered and to drive change internally.

Jordi Fabregat, associate professor at ESADE, Spain, noted that there is a danger of over-regulation that could lead to regulatory arbitrage. Still, some areas like rating agencies, derivatives, the over-the-counter market and so-called hybrid assets, need much closer scrutiny, he said.

Spain’s banks, he added, took steps earlier than most others to set aside higher levels of capital to prepare for a possible downturn.

Minoves, the Andorran minister, said he sees little chance of there being “wholesale reform” of the financial system, given the preoccupation of the United States on domestic issues.

“The approach needs to be bottom up, and not top down,” he said. A possible benchmark to follow would be the application of international voluntary codes that could be independently assessed.

“Europe is not yet integrated, but it is sufficiently harmonized to at least be able to start the conversation,” he said.

Mark Scott, a BusinessWeek correspondent, raised the question of how and when the government will remove itself from the financial sector “and get things back to normal.”

Concluding the discussion, the moderator, Claude Smadja, president of Smadja & Associates in Switzerland, suggested that the most likely path for supervision would be for individual countries to implement their own reforms, and come together to better harmonize those policies in a voluntary way.

There is little hope for a G20 March meeting and a “new” Bretton Woods. We should concentrate rather on the institutions we have and strengthen them.

We welcome you to the Future of Europe Summit IV, the theme for next year is: “**Europe inside the new international financial order**”, which will take place on 12 and 13 November 2009.

The Summit Organizer: OIE (www.oie.ad)

The Bureau for Business Innovation (Oficina per a la Innovació Empresarial, OIE) reports to the Prime Minister of Andorra. Its objectives are:

- Offer incentives for the creation and the development of companies that will promote the emergence of new economic activities
- Develop the “Invest in Andorra program” and guide investors through the entire process of coming to Andorra

Press contacts:

OIE
 Toni Pampliega
 Tel: +376 81 20 20 - Mob: +376 326 217
 Email: toni.pampliega@govern.ad

KREAB
 Strategic Communication
 Alix Dollfus - Mob: +33 6 78 96 89 00
 Anna Schoeffler - Mob: +33 6 66 25 58 60

Tel : + 33 1 42 25 09 31 - Email: europesummit@kreab.com